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USAID'S STRENGTHENING PUBLIC FINANCIAL MANAGEMENT IN LATIN AMERICA AND THE CARIBBEAN (PFM-LAC)

Overview of the Tax Systems of Selected Countries in Latin America and the Caribbean:

Colombia, Dominican Republic, Guatemala, Haiti, Honduras, Jamaica, Paraguay, and Peru

Prepared by: Luis F. Paniagua and Anton Kamenov

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Authors	
Luis F. Paniagua Revenue Specialist Deloitte Consulting, LLP lupaniagua@deloitte.com	Anton Kamenov Senior Advisor Deloitte Consulting, LLP akamenov@deloitte.com

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Summary Report

Purpose

This report summarizes country-specific revenue briefs developed by the Strengthening Public Financial Management in Latin America and Caribbean (PFM-LAC) Project. Each individual brief provides a high-level overview of the current tax system in a specific country; thus, readers should reference the individual briefs for more detailed information on a particular country. Each country brief contains three sections, as follows:

- The first section discusses the evolution of revenue during the past decade and analyzes revenue handles, such as taxes on income and profits, goods and services, international trade, and other taxes[1] as a percentage of GDP.
- The second section outlines fiscal reforms during the past decade and highlights changes in tax rates and other policy measures, enacted tax reform packages, and changes in tax administration.
- The third section provides high-level comparisons of the performance, structure, and productivity of the tax system with averages across countries in the Latin American and the Caribbean (LAC) region, countries with similar levels of income, and the world as a whole.

Selected Countries

This study provides an overview of the tax systems of the following eight countries.[2]

- **Colombia**
- **Dominican Republic**
- **Guatemala**
- **Haiti**
- **Honduras**
- **Jamaica**
- **Paraguay**
- **Peru**

Summary

Total tax revenue as a percentage of GDP increased in six out of the eight countries between 2003 and 2012. Relatively significant increases of 4.2% and 3.6% of GDP, respectively, occurred in Haiti and Paraguay, while Guatemala and Jamaica experienced decreases of less than one percent of GDP. The composition of revenue changed in all eight countries, with typical changes including: increased revenue from taxes on income and profits as a percentage of GDP

[1] Other taxes primarily include revenue from taxes levied on bases other than the ones covered by the other categories mentioned, as well as revenues that cannot be attributed to a single tax category. According to IMF's Government Finance Statistics Manual 2001, examples include taxes on persons that are not based on income (e.g., "head" taxes) and stamp duties that do not apply primarily to a single class of transactions or activities covered by the other tax categories (http://www.imf.org/external/pubs/ft/gfs/manual/pdf/all.pdf).

[2] The PFM-LAC project developed seven of the eight subject country revenue briefs. This summary also includes information on Haiti from a prior revenue brief developed under the E3 LPFM project, which ended in 2013.

(except in Jamaica); increased revenue from taxes on goods and services (except in Guatemala, Honduras, and Peru); decreased revenue from taxes on international trade (except in Haiti); and increased revenue from other taxes (in four of the eight countries). A recent study[3] estimated the average tax effort of surveyed LAC countries to be at 61.1% of tax capacity,[4] with Jamaica and Colombia showing the highest tax effort (92.2% and 69.2% of tax capacity, respectively) and Guatemala and the Dominican Republic showing the lowest tax effort (35.8% and 45.3%).

Over the past decade, and especially in the last two years, all eight countries enacted tax policy and tax administration reforms. These reforms included selective changes in tax rates, efforts to expand the tax base and rationalize rates, and actions to address evasion, enable inspections, and improve collections.

The data used to compare the tax systems of the selected eight countries with LAC and world averages, as well as the averages of countries with similar levels of income, are from the 2012-2013 release of USAID's Collecting Taxes database.[5] The most recent comparative data in this section are from fiscal year 2011 and do not reflect the most recent reforms and data discussed below. Total tax revenue as percent of GDP in the eight countries averaged 14.6% in 2011 and was lower than the LAC and world averages (19.5% and 17.9%) in all countries, with the exception of Jamaica (at 22.6%). This low revenue effort typically stemmed from low levels of personal income tax revenue as a percentage of GDP (2.2% of GDP on average in the eight countries versus 4.1% and 5.5% in LAC and the world, respectively) and somewhat low levels of VAT revenue as a percentage of GDP (5.6% of GDP on average versus LAC and world averages of 6.4% and 6.1%, respectively). The revenue effort from the corporate income tax, at 3.9% on average in the eight countries, was slightly higher than the LAC and world averages (3.7% and 3.3%, respectively).

The maximum personal income and value added tax rates in the assessed countries (averaging 26.1% and 13.9%, respectively) were comparable to the LAC and world averages, with the exception of personal income tax rates in Paraguay (10% maximum) and VAT rates in Haiti[6] and Paraguay (both at 10%), which were significantly lower. The average corporate income tax rate in the assessed countries (27.7% on average) was on par with the LAC average (27.2%) and above the world average (24.1%).

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[3] 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.

[4] "Tax capacity" is the estimated maximum amount of tax revenue that can be generated given a country's economic, social, institutional, and demographic characteristics. "Tax effort" is the ratio of actual revenue to tax capacity. The definition of "tax effort" employed in the aforementioned study differs than the definition of revenue effort employed further below in this paper.

[5] USAID's Collecting Taxes Database, http://egateg.usaid.gov/collecting-taxes.

[6] Haiti's 10% turnover tax operates somewhat similarly to a value added tax as it allows deductions for inputs to production.

The revenue productivity[7] of the personal income tax in the examined countries, at 0.09 on average, was lower than the LAC and world averages (0.15 and 0.22, respectively). An exception was Honduras (0.22). The VAT productivity in the assessed countries (0.41 on average) was slightly lower than the LAC and world averages (0.47 and 0.42), with the exception of Guatemala, Honduras, and Paraguay (0.51, 0.48, and 0.62, respectively). The productivity of the corporate income tax (0.22 on average) was typically higher than the LAC and world averages (both at 0.15), with the exception of Colombia (0.04), the Dominican Republic (0.04), and Honduras (0.12).

Major Developments and Features of the Tax Systems

Evolution of Revenue

Total Tax Revenue over the Period
(% of GDP)

Country	2003	2012	Difference
Colombia[1]	12.1%	14.5%	**2.4%**
Dominican Republic[2]	11.9%	13.5%	**1.6%**
Guatemala[3]	11.4%	10.6%	**-0.8%**
Haiti[4]	8.5%	12.7%	**4.2%**
Honduras[5]	14.5%	14.8%	**0.3%**
Jamaica[6]	23.4%	22.7%[7]	**-0.7%**
Paraguay[8]	8.7%	12.3%	**3.6%**
Peru[9]	12.9%	15.7%	**2.8%**
Average			**1.7%**

Source: [1] IMF Article IV Staff Reports; [2] National Tax Authority, IMF GFS and WEO Database; [3] CEPALSTAT; [4] World Economic Outlook, IMF FAD Database; [5] CEPALSTAT; [6] IMF GFS Database; [7] Figure from 2011; [8] CEPALSTAT; [9] CEPALSTAT

Between 2003 and 2012, total tax revenue as a percent of GDP increased in six out of the eight countries, with significant increases observed in Haiti and Paraguay, and decreases observed in Guatemala and Jamaica. The composition of revenue changed in all eight countries, shifting away from taxes on international trade to taxes on income and profits and on goods and services, reflecting in part the coming into force of regional trade agreements.

Total tax revenue increased by 1.7% of GDP on average over the period.

As shown in the table above, Haiti, Paraguay, Peru, and Colombia experienced the largest percentage point changes in total tax revenue between 2003 and 2012 (4.2%, 3.6%, 2.8%, and 2.4% of GDP, respectively). The Dominican Republic experienced moderate revenue growth of 1.6% of GDP. Tax revenues in Honduras remained relatively stagnant, increasing only by 0.3% of GDP. Total tax revenue in Guatemala and Jamaica decreased by -0.8% and -0.7% of GDP, respectively.

Revenues from taxes on income and profits increased by 1.3% of GDP on average.

Revenues from taxes on income and profits in Peru and Colombia experienced the largest increases as a percentage of GDP over the decade (3.5% and 2.2% respectively). Honduras, Haiti, and Paraguay showed moderate increases of 1.7%, 1.3%, and 1.1% of GDP. The Dominican Republic and Guatemala remained relatively stagnant, with increases of only 0.7%

[7] See glossary in Annex 2 for definitions of indicators.

Taxes on Income and Profits over the Period
(% of GDP)

Country	2003	2012	Difference
Colombia[1]	4.5%	6.7%	**2.2%**
Dominican Republic[2]	3.3%	4.0%	**0.7%**
Guatemala[3]	3.0%	3.4%	**0.4%**
Haiti[4]	1.7%	3.0%	**1.3%**
Honduras[5]	3.1%	4.8%	**1.7%**
Jamaica[6]	10.5%	9.6%[7]	**-0.9%**
Paraguay[8]	1.5%	2.6%	**1.1%**
Peru[9]	4.0%	7.5%	**3.5%**
Average			**1.3%**

Source: [1] IMF Article IV Staff Reports; [2] National Tax Authority, IMF GFS and WEO Database; [3] CEPALSTAT; [4] World Economic Outlook, IMF FAD Database; [5] CEPALSTAT; [6] IMF GFS Database; [7] Figure from 2011; [8] CEPALSTAT; [9] CEPALSTAT

and 0.4% of GDP, respectively. Revenues from taxes on income and profits in Jamaica decreased by -0.9% of GDP over the period.

Revenues from taxes on goods and services increased by 0.5% of GDP on average.

Taxes on Goods and Services over the Period
(% of GDP)

Country	2003	2012	Difference
Colombia[1]	5.5%	5.8%	**0.3%**
Dominican Republic[2]	5.6%	7.6%	**2.0%**
Guatemala[3]	6.7%	6.2%	**-0.5%**
Haiti[4]	3.3%	4.0%	**0.7%**
Honduras[5]	10.1%	9.0%	**-1.1%**
Jamaica[6]	10.0%	10.3%[7]	**0.3%**
Paraguay[8]	5.4%	8.2%	**2.8%**
Peru[9]	7.4%	7.2%	**-0.2%**
Average			**0.5%**

Source: [1] IMF Article IV Staff Reports; [2] National Tax Authority, IMF GFS and WEO Database; [3] CEPALSTAT; [4] World Economic Outlook, IMF FAD Database; [5] CEPALSTAT; [6] IMF GFS Database; [7] Figure from 2011; [8] CEPALSTAT; [9] CEPALSTAT

Revenues from taxes on goods and services in Paraguay and the Dominican Republic experienced the largest increases as a percentage of GDP over the decade (2.8% and 2.0% respectively). Haiti demonstrated a moderate increase of 0.7% of GDP. Colombia and Jamaica remained relatively stagnant with increases of only 0.3% of GDP. Revenues from taxes on goods and services in Honduras, Guatemala, and Peru decreased over the period by -1.1%, -0.5%, and -0.2% of GDP, respectively.

Revenues from taxes on international trade decreased by -0.4% of GDP on average.

Taxes on International Trade over the Period
(% of GDP)

Country	2003	2012	Difference
Colombia[1]	0.8%	0.5%	**-0.3%**
Dominican Republic[2]	2.8%	1.0%	**-1.8%**
Guatemala[3]	1.5%	0.6%	**-0.9%**
Haiti[4]	2.3%	4.2%	**1.9%**
Honduras[5]	1.1%	0.8%	**-0.3%**
Jamaica[6]	2.5%	2.0%[7]	**-0.5%**
Paraguay[8]	1.6%	1.5%	**-0.1%**
Peru[9]	1.2%	0.3%	**-0.9%**
Average			**-0.4%**

Source: [1] IMF Article IV Staff Reports; [2] National Tax Authority, IMF GFS and WEO Database; [3] CEPALSTAT; [4] World Economic Outlook, IMF FAD Database; [5] CEPALSTAT; [6] IMF GFS Database; [7] Figure from 2011; [8] CEPALSTAT; [9] CEPALSTAT

Haiti was the only country out of the eight with an increase in revenues from taxes on international trade as a percentage of GDP over the decade. Jamaica, Colombia, Honduras, and Paraguay remained relatively stagnant, with decreases of -0.5%, -0.3%, -0.3%, and -0.1% of GDP, respectively. The Dominican Republic, Guatemala, and Peru experienced decreases of -1.8%, -0.9%, and -0.9% of GDP, respectively.

Other Taxes over the Period
(% of GDP)

Country	2003	2012	Difference
Colombia[1]	1.3%	1.5%	**0.2%**
Dominican Republic[2]	0.0%	0.0%	**0.0%**
Guatemala[3]	0.1%	0.2%	**0.1%**
Haiti[4]	N/A	N/A	**N/A**
Honduras[5]	0.0%	0.0%	**0.0%**
Jamaica[6]	0.4%	0.7%[7]	**0.3%**
Paraguay[8]	0.3%	0.1%	**-0.2%**
Peru[9]	0.4%	0.7%	**0.3%**
Average			**0.1%**

Source: [1] IMF Article IV Staff Reports; [2] National Tax Authority, IMF GFS and WEO Database; [3] CEPALSTAT; [4] World Economic Outlook, IMF FAD Database; [5] CEPALSTAT; [6] IMF GFS Database; [7] Figure from 2011; [8] CEPALSTAT; [9] CEPALSTAT

Revenues from other taxes increased by 0.1% of GDP on average.

Revenues from other taxes as a percentage of GDP increased slightly over the period in Jamaica, Peru, Colombia, and Guatemala (increases of 0.3%, 0.3%, 0.2%, and 0.1% of GDP respectively). The Dominican Republic and Honduras showed no change over the decade. Paraguay experienced a decrease of -0.2% of GDP.

Tax Capacity and Tax Effort

Tax Effort and Tax Capacity

	Tax Effort	Tax Capacity	Defined
Colombia	69.2%	28.3%	
Dominican Republic	45.3%	31.3%	***Tax Capacity*** *is the maximum tax revenue that can be generated given the country's economic, social, institutional, and demographic characteristics.*
Guatemala	35.8%	29.9%	
Haiti	N/A	N/A	
Honduras	59.0%	30.3%	
Jamaica	92.2%	35.2%	
Paraguay	59.3%	25.8%	***Tax Effort*** *is the ratio of actual revenue to tax capacity.*
Peru	53.4%	28.7%	
LAC Average	**61.1%**	**33.5%**	

Source: 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

A recent study[8] estimated the tax effort and tax capacity of 96 countries across the world based on economic, social, institutional, and demographic characteristics. The average tax effort of the surveyed LAC countries was 61.1% of tax capacity. Jamaica and Colombia ranked highest among the eight countries, with tax efforts of 92.2% and 69.2%, respectively.

Overview of Reforms

Over the past decade, the eight countries assessed in this report pursued far-reaching tax policy and tax administration reforms. The table below provides an overview of recent key fiscal reforms across the eight countries assessed.[9]

[8] 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.

[9] For detailed information and sourcing, please refer to each individual revenue brief.

Country	Changes in Rates	Expansion of the Tax Base	Administrative Reforms
Colombia	• 2012; Consolidated multiple VAT rates to three: a 16% standard rate, 5% on specific goods and services, and 0% for zero-rated and exempt goods • 2012; Introduced a Minimum National Alternative Tax and new graduated rates for personal income taxes • 2012; Reduced corporate income tax from 33% to 25%	• 2013; Introduced a 33% charge on assets moved to tax haven countries on individuals and businesses • 2010; Eliminated VAT zero-rating on hydrocarbon and mining exports	• 2005; Implemented a new electronic system to verify taxes owed against data from the financial sector and other government agencies
Dominican Republic	• 2012; Temporarily increased the VAT rate from 16% to 18% • 2012; Temporarily lowered the CIT rate from 29% to 28% (effective 2014) • 2012; Removed certain VAT exemptions and reduced rate on basic food items	• 2011; Introduced a 1% tax on performing financial assets of financial institutions	• 2012; Introduced a tax amnesty program for personal, corporate, VAT, and inheritance tax on unpaid debts owed for taxes from 2009-2011 • 2007; Established more severe sanctions for violations of the tax law and increased inspection powers of tax examiners
Guatemala	• 2012; Reduced corporate income tax rates from 31% to 25% (optional regime), and raised the gross income rate from 5% to 7% (standard regime) • 2012; Reduced the minimum and maximum personal income tax rates from 15% to 5%, and from 31% to 25%, respectively	• 2008; Re-established a 1% solidarity tax for companies/individuals that carry out mercantile or agricultural activities[10]	• 2012; New Anti-Evasion Law increased authority and resources of the tax administration to conduct audits • 2012; Established mandatory receipt issuance for all purchases over 50 Quetzals.
Haiti	• 2014 (planned); Raise import tariffs and align duties to CARICOM regional averages • 2012; Increased targeted taxes on tobacco, alcohol, and gambling	• 2011; Introduced taxes on foreign remittances and long-distance calls	• 2013; Launched e-declarations • 2012; Established Medium-Size and NGO Taxpayer Units • 2012; Drafted legislation to reorganize the tax administration along functional lines (planned 2014) • 2012; Improved control and analysis of customs duty exemptions
Honduras	• 2013; Increased the general VAT rate from 12% to 15% and the VAT rate on alcohol and tobacco from 15% to 18%; introduced a capital gains tax of 10% • 2010; Reduced social contributions rates • 2010; Reintroduced a flat 10% tax on dividends • 2010; Increased taxes on excises, vehicles, and telecommunications • 2010; Temporarily raised the solidarity tax to 10%, reducing it annually before a phase out in 2015	• 2012; Enacted Population Security Act, which introduced a tax on mining, bank transactions, telephone, and other industries	• 2012; New Anti-Evasion Law granted more legal rights to the tax administration, allowing it to supervise the banking system and cross reference deposits • 2004; Established a new organizational structure within the tax administration to include customs, compliance, and large taxpayer units.
Jamaica	• 2015 (planned); Simplify the tariff structure, reduce tax rates, and introduce a minimum income tax on business activity • 2012; Reduced the VAT rate from 17.5% to 16.5% • 2009; Increased income tax thresholds • 2009; VAT special rates on telephone and departure taxes were raised	• 2015 (planned); Eliminate the VAT zero-rating on government purchases; streamline exemptions	• 2015 (planned); Limit the imposition of incentives and discretionary waivers • 2013; Granted the tax administration Semi-Autonomous Revenue Authority Status • 2011;Consolidated the Inland Revenue Department, the Taxpayer Audit and Assessment Department, and the Tax Administration Services Department to establish a new Tax Administration Jamaica
Paraguay	• 2012; Enacted the long-delayed personal income tax bill, establishing the 10% rate on taxable income • 2004; Lowered corporate income tax rates from 30% to 20%, and to 10% in 2006	• 2012; Agriculture reform extended the VAT to primary production and introduced a 10% profit tax on commercial farmers, as well as new agricultural taxes • 2004; Abolished tax holidays on	• 2004; Administration reform to improve collections and prevent corruption, which included establishing the rotation of officers, collections and inspections campaigns, and performance pay for lawyers representing the government in

[10] On the contrary, Guatemala introduced a number of relatively significant tax privileges in November of 2013.

Country	Changes in Rates	Expansion of the Tax Base	Administrative Reforms
		first time investments, and eliminated dividend, profit, and bond exemptions • 2004; Established a new small business tax of 10% and a 1% property tax	court actions (10% of tax debts collected through court actions)
Peru	• 2011; Lowered the VAT rate from 19% to 18% • 2011; Lowered customs duty rates from 8% to 6.5%; lowered tariffs for over 3,000 items • 2010; Introduced a new flat 5% tax to standardize capital gains taxes for local and foreign investors • 2011; Passed new tax laws to increase tax revenues from mining companies	• 2012; Abolished tax exemptions on interest and capital gains, and expanded the withholding tax to include dividends • 2012; Tightened transfer pricing rules and introduced tax rules for foreign-owned companies • 2011; Introduced fuel excise taxes	• 2012; Tax reform package passed to strengthen compliance and enforcement. Granted tax authorities power to initiate partial tax audits to examine specific liabilities • 2012; Introduced harsher penalties for customs and tax law infractions

Tax System Profile (2010-11)

The table in Annex 1 provides a high-level description of the tax systems for the assessed eight countries and draws comparisons with the Latin America and Caribbean (LAC) region, the Caribbean Community (CARICOM), upper and lower-middle-income (UMI, LMI) countries,[11] and the world as a whole. The data in this section are from the 2012-2013 release of USAID's Collecting Taxes database. **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.**[12]

Revenue Effort

- "Revenue Effort" is the amount of revenue as a share of GDP.
- The average tax revenue effort in the eight-country group is 14.6%, which is significantly below the LAC, CARICOM, and UMI averages by roughly five percentage points. It stands modestly below the world and LMI averages, which are in the 16%-18% range.
    - **Jamaica has the highest overall tax revenue effort at 22.6% of GDP, while Guatemala has the lowest effort with 11%.**
- The average personal income tax revenue effort for the eight-country group is 2.2%. It is significantly below all comparator groups, for which averages range between 4.1% and 5.5%.
    - **Honduras has the highest personal income tax revenue effort at 5.2% of GDP, while Guatemala and Paraguay have the lowest effort with 0.4% and 0.0%, respectively.**

[11] Derived from the World Bank's Country and Lending Group classifications, http://data.worldbank.org/about/country-classifications/country-and-lending-groups.

[12] A primary source for USAID's Collecting Taxes database are IMF's Government Finance Statistics data. More recent values for the assessed countries were often obtained from the Economic Commission for Latin America and the Caribbean (ECLAC). The two sources differ on occasion.

- The average corporate income tax revenue effort for the eight-country group is 3.9%. It is below the CARICOM regional average of 4.9% and modestly above the LAC region, income group, and world averages, which are between 3.3% and 3.7%.
    - **Haiti and Jamaica have the highest corporate income tax revenue effort at 7.9% and 7.3% of GDP, respectively. The Dominican Republic has the lowest effort with 1.1% of GDP.**
- The average revenue effort from the VAT for the eight-country group is 5.6%. It is modestly below all comparator group averages.
    - **Jamaica and Peru have the highest VAT revenue effort at 7.0% and 6.6% respectively. The Dominican Republic and Haiti rank lowest with 4.2% and 3.2%.**

Tax Structure

- The average minimum personal income tax rate for the eight-country group is 15.3%, while the average maximum personal income tax rate is 26.1%. The average minimum rate is above the LAC regional, income group, and world averages, and broadly in line with the CARICOM average. The average maximum rate is on par with all comparator group averages, except for the UMI average, which is moderately lower.
    - **Jamaica and Colombia have the highest minimum tax rates of 25% and 19%, respectively, while Haiti and Paraguay have the lowest rates at 10% and 8%, respectively. Colombia has the highest maximum tax rate, at 33%, while Paraguay's 10% maximum rate is the lowest.**
- The average corporate income tax rate for the eight-country group is 27.7%. It is on par with the LAC and CARICOM regional averages of 27.1% and modestly above the income group and world averages, which are in the 23%-24% range.
    - **Jamaica and Colombia have the highest corporate income tax rates of 33.3% and 33%, respectively. Paraguay's rate is the lowest at 10%.**
- The average VAT rate for the eight-country group is 13.9%. It is modestly above the CARICOM average of 11.5% and broadly in line with the remaining comparator group averages, which are in the 13%-14% range.
    - **Peru and Jamaica have the highest VAT rates at 18% and 17.5%, while the rates in Paraguay and Haiti are the lowest at 10%.**

Revenue Productivity

- "Revenue productivity" measures the revenue share of GDP mobilized for each point of the tax rate.
- The average personal income tax productivity for the eight-country group is 0.09, which is well below all comparator groups and significantly below the world average of 0.22.

- **Honduras has the highest personal income tax productivity of 0.22. Guatemala and Paraguay have the lowest productivity of 0.1 and 0.0, respectively.**

- The average corporate income tax productivity for the eight-country group is 0.22, which is modestly above all comparator groups.
  - **Guatemala has the highest corporate income tax productivity of 0.61. Colombia[13] and the Dominican Republic have the lowest productivity values, both at 0.04.**
- The average VAT productivity for the eight-country group is 0.41, which is below all comparator averages.
  - **Paraguay and Guatemala have the highest VAT productivity, at 0.62 and 0.51, respectively. Haiti and the Dominican Republic have the lowest productivity of 0.32 and 0.26, respectively.**

Tax Administration Structure

- All countries studied (for which data were available) organize their tax administrations along functional lines and include a Large Taxpayer Unit (LTU).
- The average ratio of active taxpayers to staff for the eight-country group (where data were available) is 285, which is significantly below the LAC and world averages of 981 and 677, respectively.
  - **Peru and Paraguay have the highest ratio of active taxpayers per staff, at 690 and 478, respectively. The Dominican Republic and Honduras have the lowest ratios, at 55 and 50 taxpayers per staff, respectively.**

Taxpayer Burden and Corruption Evidence

- On average, the 2010 World Bank Enterprise Surveys indicated that the percentage of business taxpayers "expected to give gifts in meeting with tax officials" was 8.7% for the eight-country group (those with available data), which is above the LAC regional average of 6.1% and well below the world average of 14.1%.
  - **According to this measure, the evidence of corruption is highest in the Dominican Republic, at 15.3% of business taxpayers, and lowest in Colombia, at 1.5%.**
- On average, the 2014 World Bank Doing Business survey estimates that the average time to pay taxes expended by a medium-sized company amounted to 288 hours per year in for the eight-country group, which is slightly below the LAC regional average of 369 hours, and in line with the world average of 285 hours per year.

[13] The productivity of Colombia's corporate income tax is calculated from an estimate of Colombia's corporate income tax as a share of GDP. Colombia's corporate income tax as percentage of GDP is calculated as the difference between tax on income and profits as a share of GDP and personal income tax revenue as a share of GDP.

- **According to this measure, taxpayer burden is highest in Paraguay, averaging 384 hours and lowest in Haiti, averaging 184 hours.**

ANNEX 1: Revenue Structure and Performance Measures

	Tax Revenue Effort				Tax Rate Structure					Revenue Productivity			Tax Administration						
Country	TAXY	PITY	CITY	VATY	PITMINR	PITMAXR	CITR	VATR	WEDGE	PIT-PROD	CIT-PROD	VAT-PROD	TAXSTAFF	PAYER-TO-STAFF	FUNCTION	LTU	CUSTOMS	CORRUPTION EVIDENCE	TAXPAYER BURDEN
Units	*Revenue as a % of GDP (%)*				*Percentage Tax Rate (%)*					*Productivity in terms of collection*			*Ratio*		*1 = Yes, 0 = No*			*Percentage (%)*	*Hours*
Colombia	13.6	3.8	N/A	5.3	19.0	33.0	33.0	16.0	47.6	0.13	N/A	0.33	0.20	N/A	1.00	1.00	1.00	1.5	203
Dominican Republic	13.8	3.1	1.1	4.2	15.0	25.0	29.0	16.0	34.3	0.14	0.04	0.26	0.27	55	1.00	1.00	0.00	15.3	324
Guatemala	11.0	0.4	3.1	6.1	15.0	31.0	31.0	12.0	11.5	0.01	0.61	0.51	0.30	154	1.00	1.00	1.00	3.9	326
Haiti	12.8	2.5	7.9	3.2	10.0	30.0	30.0	10.0	18.1	0.08	0.26	0.32	N/A	N/A	N/A	1.00	0.00	N/A	184
Honduras	15.4	5.2	3.1	5.8	15.0	25.0	25.0	12.0	10.7	0.22	0.12	0.48	0.31	50	1.00	1.00	1.00	2.8	224
Jamaica	22.6	1.2	7.3	7.0	25.0	25.0	33.3	17.5	19.5	0.05	0.22	0.40	N/A	N/A	1.00	N/A	0.00	14.3	368
Paraguay	12.1	0.0	2.4	6.2	8.0	10.0	10.0	10.0	23.0	0.00	0.24	0.62	0.14	478	1.00	1.00	0.00	14.6	384
Peru	15.8	1.7	5.2	6.6	15.0	30.0	30.0	18.0	22.6	0.06	0.17	0.37	0.25	690	1.00	1.00	1.00	8.4	293
Average	**14.6**	**2.2**	**4.3**	**5.6**	**15.3**	**26.1**	**27.7**	**13.9**	**23.4**	**0.09**	**0.24**	**0.41**	**0.25**	**285**	**1.00**	**1.00**	**0.50**	**8.7**	**288**
LAC Countries Avg[1]	19.5	4.1	3.7	6.4	13.4	27.5	27.2	13.5	20.1	0.15	0.15	0.47	0.33	981	0.80	0.78	0.30	6.1	369
CARICOM Countries Avg[2]	21.3	4.6	4.9	6.9	15.9	25.9	27.1	11.5	13.0	0.17	0.17	0.54	0.77	N/A	0.44	0.33	0.14	N/A	N/A
Low-Mid-Income Economies Avg[3]	16.4	4.6	3.6	6.0	10.4	27.3	24.7	13.1	19.0	0.17	0.17	0.44	0.35	349	0.91	0.89	0.22	N/A	N/A
Upper-Mid-Income Econ. Avg[4]	19.4	4.8	3.7	6.4	11.5	24.2	23.5	13.7	24.1	0.23	0.16	0.45	0.57	588	0.88	0.82	0.37	N/A	N/A
World Average	17.9	5.5	3.3	6.1	10.9	27.8	24.1	13.8	22.4	0.22	0.15	0.42	0.65	677	0.88	0.81	0.30	14.1	285

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. **Caribbean Community (CARICOM) countries** include: Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, Saint Lucia, St. Kitts and Nevis, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago.

3. **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..

4. **Upper-Middle-Income Countries** include: Albania, Algeria, Angola, Azerbaijan, Belarus, Belize, Bosnia and Herzegovina, Botswana, Brazil, Bulgaria, China, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, Ecuador, Fiji, Gabon, Grenada, Hungary, Iran, Iraq, Jamaica, Jordan, Kazakhstan, Lebanon, Libya, Macedonia, Malaysia, Maldives, Marshall Islands, Mauritius, Mexico, Montenegro, Namibia, Palau, Panama, Peru, Romania, Serbia, Seychelles, South Africa, St. Lucia, St. Vincent and the Grenadines, Suriname, Thailand, Tunisia, Turkey, Turkmenistan, and Venezuela.

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.

CUSTOMS indicates whether the domestic tax and customs administrations operate as a single, integrated institution (a value of 1) or separately (a value of 0).

FUNCTION shows whether the tax administration is organized by function (a value of 1) or otherwise (a value of 0).

LTU indicates whether the tax administration has a large taxpayer unit of office (a value of 1) or not (a value of 0).

PAYERTOSTAFF is the ratio of the number of active taxpayers in the country to the number of tax administration staff.

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

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

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.

TAXSTAFF is the total number of staff of the tax administration per 1,000 of the national population

TAXY is total tax revenue as percentage of GDP.

VATR is the general rate at which most goods and services are taxed under the VAT. 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.

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

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.

Colombia

Summary

- Tax revenues in Colombia increased by 2.4% of GDP for the period from 2003 to 2012. This was largely due to an increase of 2.2% of GDP in the last two years of the period. Tax revenues prior to 2010 remained generally stable, with an uptick of 1.3% of GDP during 2003-2008 and a decline of 1.1% of GDP during 2008-2010. The composition of tax revenue changed over the past ten years as revenues from taxes on income and profits and on goods and services increased by 2.2% and 0.3% of GDP respectively, while revenue from taxes on international trade declined by 0.3%.
- A recent study[14] found Colombia's tax effort[15] to be relatively high as compared to other countries in Latin America and the Caribbean (LAC). Colombia's tax effort is 69.2% of tax capacity, whereas the average of the surveyed LAC countries is 61.1%. Colombia's tax capacity, at 28.3% of GDP, however, is lower than the tax capacity of all other surveyed LAC countries, the average of which is 33.5%.
- During the past decade, Colombia has undertaken tax policy and administration reforms to simplify its tax system and improve its tax administration. Most notably, Colombia's far-reaching tax reforms of late 2012 are expected to have an impact on the entire fiscal framework and increase the country's revenue effort.
- Personal income tax revenue effort and productivity figures in Colombia are broadly in line with the regional averages, but modestly below the income group and world averages. Personal income tax rates are well above the regional, income group, and world averages.
- Colombia's corporate income tax revenue effort and productivity figures are well below the corresponding regional, income group, and world averages. Colombia's corporate income tax rate is significantly above the regional, income group, and world averages.
- Colombia's value added tax (VAT) revenue effort and productivity figures are moderately below the regional, income group, and world averages. Colombia's VAT rate is slightly above the regional, income group, and world averages.
- Suggested areas for further investigation include:
    - The impact of 2012 VAT and income tax reforms.
    - Colombia's relatively low tax capacity.
    - Colombia's low corporate income tax productivity.

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[14] 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.

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

- o The relationship between the 2011 mining tax changes and the 2012 revenue increase and the sustainability of recent revenue gains.

Major Developments and Features of Current Tax System

Evolution of Revenue

Colombia's total tax revenue has increased by 2.4% of GDP between 2003 and 2012. Largely, however, this is due to an increase of 2.2% of GDP in the last two years of the period. Although revenues rose by 1.3% between 2003 and 2006, they declined following the financial crisis by 1.1% of GDP between 2008 and 2010. The recent revenue gains are primarily from taxes on income and profits (1.9% of GDP in 2010-2012) and other taxes[16] (0.4% of GDP in the last two years).

During the past decade, the composition of revenue has changed. Taxes on income and profits, taxes on goods and services, and other taxes increased as percent of GDP (by 2.2%, 0.3%, and 0.2% respectively), while taxes on international trade decreased (0.3%).

Colombia Government Current Revenue
(% of GDP)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Taxes on Income & Profits	4.5%	5.3%	5.2%	5.6%	5.6%	5.1%	5.6%	4.8%	5.4%	6.7%
Taxes on Goods and Services	5.5%	5.3%	5.5%	5.8%	5.7%	5.9%	5.4%	5.6%	6.0%	5.8%
Taxes on International Trade	0.8%	0.7%	0.8%	1.0%	1.0%	0.9%	0.8%	0.9%	0.7%	0.5%
Other Taxes	1.3%	0.9%	1.0%	1.0%	1.2%	1.5%	1.1%	1.1%	1.5%	1.5%
Total Tax Revenue	**12.1%**	**12.3%**	**12.6%**	**13.4%**	**13.4%**	**13.4%**	**12.9%**	**12.3%**	**13.6%**	**14.5%**

Source: IMF Article IV Staff Reports (2004, 2008, 2012, 2013)

Summary of Reforms

Colombia has a long history of tax regime changes, and governments over the past two decades have amended the tax laws regularly since 1992.[17] Highlights of recent reforms include the following:

- Reforms in the early 2000's helped to increase tax revenues with the introduction of a standard VAT rate of 16% and with a series of one-time taxes. Prior to these reforms, VAT exemptions allowed for nearly 10 different rates that undermined the tax base and the productivity of the tax.

[16] Other taxes includes primarily revenue from taxes levied on bases other than the ones described in other categories or revenues that cannot be attributed to a single tax category. According to IMF's Government Finance Statistics Manual 2001, examples include taxes on persons that are not based on income (e.g., "head" taxes) and stamp duties that do not apply primarily to a single class of transactions or activities covered by the other tax categories (http://www.imf.org/external/pubs/ft/gfs/manual/pdf/all.pdf).
[17] Economist Intelligence Unit. Colombia: Tax Regulations, 2013.

- In 2005, the government implemented a new electronic system to verify taxes owed against data from the financial sector and other government agencies. By 2008, the new system reduced evasion by 25-30% across various tax types.[18]
- The 2005 Law of Legal Stability to Investors offered certain investors the opportunity to lock in tax terms with the intent of spurring growth and job creation.
- Corporate income tax reforms in 2006 reduced the nominal corporate income tax rate from 38.6% in 2006 to 33% by 2008. Reforms in 2012 reduced the 33% rate further down to 25% for Colombian-resident entities, although the reduction was effectively offset by a new 8% 'fairness tax.'[19] [20] The rate for non-Colombian entities remains at 33%.
- Reforms in 2010 eliminated the VAT zero-rating on hydrocarbon and mining exports.
- In 2011, the government passed two key fiscal reforms – a bill to balance oil and mining royalties, and legislation amending the constitution to require the state to be fiscally sound.[21]
- In 2012, Congress enacted a major reform – Law 1607, effective January 1, 2013. The law eliminated many of the VAT rates (from 1.6% to 35%) that undermined the tax base and the productivity of the tax. Only three rates remain – a 16% standard rate, 5% for specific goods and services, and 0% for exempt goods with new refund procedures.[22] Within the personal income tax, the law also introduced an alternative minimum tax and introduced new graduated rates that made the system more progressive, while at the same time reducing the 29.5% employer portion of payroll taxes to 16%. In addition, a new Minimum National Alternative Tax (IMAN) was introduced to curb deductions and loopholes and create a progressive tax rate.[23]
- In 2013, the government put in place a 33% charge on assets moved to tax havens in any of the 44 countries on the government's tax haven list by both individuals and businesses.[24]

Tax System Profile (2010-11)

The tables in Annex 1 provide a high-level description of Colombia's tax system and comparisons with the Latin America and Caribbean (LAC) region, upper-middle-income (UMI)

[18] Ibid.
[19] PriceWaterHouseCoopers Latin American Tax News Alert, January 22, 2013, http://www.pwc.com/en_US/us/tax-services-multinationals/newsletters/latin-american-tax/assets/pwc-colombian-tax-reform.pdf.
[20] The new 8% levy on profits, referred to as CREE, is designed to finance some of the government's social programs and pension system.
[21] IMF 2012 Article IV Consultation, Country Report No 13/35, February 2013.
[22] Reforma Tributaria 2012, KPMG Colombia, January 2013, https://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/taxnewsflash/Documents/colombia-jan10-2012.pdf.
[23] Ernst & Young Global Tax Alert, "Colombia's President signs new tax reform law", January 8, 2013, http://tmagazine.ey.com/wp-content/uploads/2013/01/2013G_CM3124_Colombian-tax-reform-Law-1607.pdf.
[24] "Colombia minister says tax haven 'party over' with 33 percent charge", Reuters, October 8, 2013.

countries,[25] and the rest of the world. The data in this section are from the 2012-2013 release of USAID's Collecting Taxes database.[26] **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.
- Colombia's overall tax revenue effort, at 13.6%, is below the world average of 17.9%, and significantly below the LAC regional and income group averages of 19.5% and 19.4% respectively.
- Colombia's revenue effort from personal income tax, at 3.8%, is slightly below the LAC regional average of 4.1% and below the income group and world averages of 4.8% and 5.5% respectively.
- It is estimated that the revenue effort from the corporate income tax is 1.4%.[27] This number is well below the corresponding regional, income group, and world averages, which are 3.7%, 3.7%, and 3.3% respectively.
- The revenue effort from VAT, at 5.3%, is below the regional and income group average of 6.4% and below the world average 6.1%.

Tax Structure

- The maximum personal income tax rate in Colombia, at 33%, is above the income group, regional, and world averages, which are in the 24% to 28% range.
- Colombia's corporate income tax rate, at 33%,[28] is well above the LAC regional average of 27.2% and significantly above the income group and world averages by roughly 10 percentage points.
- The VAT rate, at 16%, is slightly above the regional, income group, and world averages, which are in the 13.5% to 14% range.
- The tax wedge on labor income, at 47.6%, is more than two times the regional, income group, and world averages, which range between 20-24%. A major factor is Colombia's comparatively high social contribution rate of 45%.

Revenue Productivity

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

[25] Derived from the World Bank's Country and Lending Group classifications, http://data.worldbank.org/about/country-classifications/country-and-lending-groups.
[26] USAID's Collecting Taxes Database, http://egateg.usaid.gov/collecting-taxes.
[27] Data on the revenue effort from Colombia's corporate income tax are not available. The value shown is the difference between Colombia's revenue from taxes on income and profits and the revenue effort from the Colombia's personal income tax.
[28] The 33% rate includes the 25% regular rate and the 8% fairness tax introduced in 2012.

- Personal income tax productivity, at 0.13, is broadly in line with the LAC regional average of 0.15 and significantly below the income group and world averages of 0.23 and 0.22 respectively.
- The productivity of Colombia's corporate income tax, at 0.04, is significantly below the regional, income group, and world averages at 0.15, 0.16, and 0.15 respectively.
- Colombia’s VAT productivity, at 0.33, is well below the regional, income group, and world averages of 0.47, 0.45, and 0.42 respectively.

Tax Administration Structure

- The *Direccion de Impuestos y Aduanas Nationales* (DIAN) is responsible for administration of all taxes and customs in Colombia.
- The DIAN is organized along functional lines and includes a Large Taxpayer Unit (LTU).
- The DIAN’s ratio of active taxpayers to staff is not available.

Taxpayer Burden and Corruption Evidence

- The 2010 World Bank Enterprise Survey indicated that the percentage of Colombian business taxpayers “expected to give gifts in meeting with tax officials” was 1.5%, which was well 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 Colombia is 203 hours per year, which is well below the LAC regional average of 369 hours and moderately below the world average of 285 hours per year. Colombia has improved significantly since reaching 456 hours in 2007.

ANNEX 1: Colombia's Collecting Taxes Indicators

Total Tax Revenue	TAXY[29]
	Tax Revenue as % of GDP (%)
Colombia	13.6
Latin America and the Caribbean[1]	19.5
Upper-Middle-Income Economies[2]	19.4
World	17.9

Company Income Tax	CITR	CITY	CITPROD
	Tax Rate (%)	Revenue as % GDP (%)	Revenue Productivity
Colombia	33.0	1.4	0.04
Latin America and the Caribbean[1]	27.2	3.7	0.15
Upper-Middle-Income Economies[2]	23.5	3.7	0.16
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)
Colombia	19.0	33.0	0.13	0.50
Latin America and the Caribbean[1]	13.4	27.5	0.52	3.58
Upper-Middle-Income Economies[2]	11.5	24.2	0.29	2.63
World	10.9	27.8	0.40	6.38

[29] 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 (%)
Colombia	3.8	0.13	45.1	47.6
Latin America and the Caribbean[1]	4.1	0.15	17.1	20.1
Upper-Middle-Income Economies[2]	4.8	0.23	22.2	24.1
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)
Colombia	16.0	5.3	53.4	0.33	37,210
Latin America and the Caribbean[1]	13.5	6.4	66.2	0.47	34,149
Upper-Middle-Income Economies[2]	13.7	6.4	69.8	0.45	61,098
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)
Colombia	0.20	N/A	1.00	1.00	1.00
Latin America and the Caribbean[1]	0.33	982	0.80	0.78	0.30
Upper-Middle-Income Economies[2]	0.57	589	0.88	0.82	0.37
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. Upper-Middle-Income Countries include: Albania, Algeria, Angola, Azerbaijan, Belarus, Belize, Bosnia and Herzegovina, Botswana, Brazil, Bulgaria, China, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, Ecuador, Fiji, Gabon, Grenada, Hungary, Iran, Iraq, Jamaica, Jordan, Kazakhstan, Lebanon, Libya, Macedonia, Malaysia, Maldives, Marshall Islands, Mauritius, Mexico, Montenegro, Namibia, Palau, Panama, Peru, Romania, Serbia, Seychelles, South Africa, St. Lucia, St. Vincent and the Grenadines, Suriname, Thailand, Tunisia, Turkey, Turkmenistan, and Venezuela.

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.

Colombia Highlights

Currency: Peso (COP)

Foreign exchange control: Foreign exchange that is to be used for foreign direct investment may enter the country without central bank registration. However, the exchange market in Colombia comprises authorised exchange intermediaries through which most foreign currency transactions by foreign investors must be transferred. Foreign capital investments, the import of goods, exports and currency used to repatriate profits must be directed through the exchange market. "Foreign residents" (a category distinct from foreign investors) in Colombia also must use the authorised exchange market for investments outside the country.

Accounting principles/financial statements: Colombian GAAP. Financial statements must be prepared annually. Colombia has accepted IFRS, with those standards expected to apply as from 2014.

Principal business entities: These are the joint stock corporation, limited liability company, partnership, simplified stock corporation and branch of a foreign company.

Corporate taxation:

Residence – A corporation is resident if it is organised under Colombian law or has its main domicile in Colombia.

Basis – Colombia taxes resident companies on worldwide income. Foreign companies and entities and branches of foreign companies are taxed only on their Colombia-source income.

Taxable income – Taxable income is defined as gross income less returns, rebates, discounts, all ordinary costs incurred in obtaining net income and all allowable deductions. Corporate taxpayers may deduct costs that are "necessary and proportionate to the activities performed" in computing taxable income.

Taxation of dividends – Dividends are taxed at the 33% corporate rate if the profits from which the dividends are paid were not subject to tax at the corporate level. Otherwise, the dividends are exempt.

Capital gains – Capital gains derived from the sale of assets held for 2 years or more are subject to capital gains tax. Otherwise, gains are treated as ordinary income.

Losses – Losses may be carried forward without limitation. No carryback is allowed.

Rate – 33%

Surtax – No

Alternative minimum tax – A presumptive minimum income is calculated annually at a rate of 3% on the taxpayer's net worth held in the year immediately preceding the taxable year. Certain assets, such as shares in Colombian companies, may be excluded from this calculation.

Foreign tax credit – A taxpayer may credit tax paid on foreign-source income, provided the foreign tax does not exceed the Colombian tax that would have been due on the same income received from abroad. For the credit to apply, the taxpayer must be a company resident in Colombia, its foreign income must be taxable in Colombia and the income tax paid abroad may not exceed the Colombian tax attributable to the income.

Participation exemption – See under "Taxation of dividends" for the treatment of domestic dividends. The participation exemption does not apply to foreign dividends; foreign dividends distributed or credited to a Colombian resident company are includible its taxable income.

Holding company regime – No

Incentives – Incentives include a special free trade zone regime with a corporate income tax rate of 15%; a 40% tax deduction for investment in fixed assets; the availability of legal stability agreements; and deductions for environmental and scientific investment.

Withholding tax:

Dividends –Dividends paid to a foreign company or entity not domiciled in Colombia may be remitted abroad free of tax if the profits from which the dividends are paid have been taxed at the corporate level. Otherwise, tax is imposed at the 33% corporate tax rate.

Interest – Interest paid to a nonresident is subject to a final withholding tax of 33%. Interest derived from the following, however, is exempt: short-term import credits and overdrafts; credits to finance or pre-finance exports; credits obtained by financial corporations and authorised banks; credit for trade transactions obtained through financial corporations or authorised banks; and credits obtained by foreign, mixed or domestic companies whose activities are considered beneficial to national economic development under guidelines set by the National Council on Economic and Social Policy.

Royalties – Royalties paid made to a nonresident company are subject to a final withholding tax of 33%. Royalties derived from the exploitation of software are subject to the 33% tax, but only on 80% of their amount.

Branch remittance tax – No

Other taxes on corporations:

Capital duty – No (but see registration tax under "Other", below).
Payroll tax – An employer must contribute 4% of its monthly payroll to a family subsidy and 3% to the Institute of Family Welfare, together with an additional 2% contribution to the National Apprenticeship Service. The contribution is deductible and may be reduced if the company operates its own training program.

Real property tax – Real estate is subject to municipal taxation, usually levied at rates within a band based on the value of property without regard to the number of owners or the taxpayer's personal wealth.

Social security – The employer's contribution for pay-related social insurance is 8.5% of salary for health insurance, 11.625% for the general pension scheme and a percentage (which varies by job type) for work accident insurance. The employer also must withhold and remit the employee's share of the social security contributions.

Stamp duty – 0%

Transfer tax – See under "Stamp duty".

Other – Registration tax applies to documents (e.g. legal acts, bylaws, etc.) registered with the Chamber of Commerce (0.3% to 0.7%) or the Registry of Public Deeds (0.5% to 1%), calculated on items such as subscribed capital, transaction amounts stated in the document to be registered or the appraisal value of immovable property. Relief is available if a document or act is subject to both registration tax and stamp duty (stamp duty will not be levied) or to registration in both the Chamber of Commerce and the Registry of Public Deeds (the public deeds levy is imposed).

A municipal industry and trade tax ranging from 0.2% to 1% is levied on gross receipts derived from carrying out industrial, commercial and service activities within a municipal territory. A taxpayer with assets valued above COP 3 billion is assessed a 1.2% assets tax.

A 0.4% financial transactions tax is imposed on withdrawals from checking and savings accounts, including accounts with the central bank.

Anti-avoidance rules:

Transfer pricing – The transfer pricing regime is based on the OECD transfer pricing guidelines, with the arm's length principle applying in setting base prices and profit margins on transactions with foreign related parties. Taxpayers engaged in related party transactions must file an annual return and, as a general rule, prepare a study.

Advance pricing agreements may be negotiated with the local tax authorities.

Thin capitalisation – No

Controlled foreign companies – No

Other – No

Disclosure requirements – No

Administration and compliance:

Tax year – Calendar year

Consolidated returns – Consolidated returns generally are not allowed (except for the transfer pricing return).

Filing requirements – A self-assessment system applies, under which a company must complete a tax return and compute its own liability. The return must be filed by a deadline that is set annually (generally April-May) and that varies depending on the type of taxpayer and the last digit of the taxpayer's tax ID number.

Penalties – Late filing penalties amount to 5% per month of delay up to 100% of the tax or withholding tax due. The penalty increases to 10% per month, with a 200% ceiling for late filing and a summons by the tax authorities. Late payment interest also is charged. The penalty for amendments is 10% of the additional tax per month.

Rulings – A ruling is available on direct tax issues and APAs may be negotiated under the transfer pricing rules.

Personal taxation:

Basis – A resident individual is taxed on worldwide income; a nonresident is taxed only on Colombia-source income. A foreign resident individual will be taxed on worldwide income as from the 5th year residing in the country.

Residence – An individual is resident for tax purposes if he/she is present in Colombia for more than 6 months in the tax year (continuous or otherwise) or, if outside Colombia, the individual's family is in Colombia (this does not apply to foreigners).

Filing status – Joint filing is not permitted; each individual must file his/her own tax return if so required.

Taxable income – Most income, including capital gains, is subject to taxation. Pension fund contributions, however, are not taxed and 25% of all labour income is exempt.

Capital gains – Capital gains (e.g. inheritances, gifts and proceeds from the sale of real estate) are subject to tax. However, gains derived from the sale of shares through a stock exchange are not considered occasional earnings and are thus tax exempt.

Deductions and allowances – Colombia provides deductions and allowances related to education and health expenditure and the purchase (and related interest) of a residence. Health allowances are solely available for employees earning less than COP 96 million, while deductible mortgage interest is limited to COP 25 million.

Rates – Taxable income ranges are based on the UVT (tax value unit) and are 0% for UVT 0 to 1,090; 19% for UVT 1,091 to 1,700; 28% for UVT 1,701 to 4,100; and 33% for UVT 4,101 and above.

Other taxes on individuals:

Capital duty – No (but see discussion on registration tax under "Other" in the corporate tax section).

Stamp duty – 0%

Capital acquisitions tax – Capital gains derived from an inheritance or a gift are treated as ordinary taxable income.

Real property tax – Real estate is subject to municipal taxation, which is usually levied at rates within a band based on the value of property without regard to the number of owners or the taxpayer's personal wealth.

Inheritance/estate tax – Gifts are treated as capital gains and subject to tax as ordinary income.

Net wealth/net worth tax – A presumptive minimum income is calculated annually at the rate of 3% on the taxpayer's net worth held in the year immediately preceding the taxable year at issue. Certain assets may be excluded from this calculation, such as shares in Colombian companies and the individual's residence (up to a certain maximum value). Taxpayers with assets valued at more than COP 3 billion also are assessed a 1.2% assets tax.

Social security – An employee contributes 3.875% and 4% of salary for pension and health contributions, respectively. The employer withholds and remits the employee's share of the social security contributions.

Administration and compliance:

Tax year – Calendar year

Filing and payment – Tax on wages is withheld by the employer and remitted to the tax authorities. A resident is required to file an income tax return unless his/her income or total net assets do not exceed a limit set annually by the government.

Penalties – The penalty for late filing is 5% per month of delay up to 100% of the tax or withholding tax due. The penalty increases to 10% per month, with a 200% ceiling in the case of late filing and a summons by the tax authorities. Interest for late payment also is charged. The penalty for amendments is 10% of the additional tax per month.

Value added tax:

Taxable transactions – VAT is imposed on the sale of goods, the rendering of services in Colombia and on imports.

Rates – The standard rate is 16%, with a preferential rate of 0% applying to exports and certain domestic supplies. Higher rates apply, e.g. to recreational and sport boats and vehicles and mobile phone services. Lower rates apply to certain essential mass consumption goods and services.

Registration – VAT taxpayers must register with local tax authorities and obtain a VAT ID number. There is no threshold for registration purposes.

Filing and payment – VAT is computed in bimonthly periods using the subtraction method, crediting taxes paid on purchases against tax liabilities arising from sales. Special rules are provided for small taxpayers.

Source of tax law: Statutory Tax Code covers income, VAT, asset and stamp taxes. Others taxes are covered by special laws, decrees or local ordinances.

Tax treaties: Colombia has double taxation agreements with Bolivia, Ecuador and Peru in accordance with Andean Community (CAN) provisions and Spain.

Tax authorities: National Tax and Customs Office (DIAN)

International organisations: CAN (Andean Community), Latin America Integration Association and WTO

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

Dominican Republic

Summary

- From 2003 to 2012, total tax revenue in the Dominican Republic increased by 1.6% of GDP. Components of tax revenue exhibited significant changes during the period. Taxes on goods and services increased from 5.6% of GDP in 2003 to 9.4% of GDP in 2007, and then declined to 7.6% in 2012. Taxes on international trade declined by 1.8% over the decade.
- The Dominican Republic undertook a number of reforms over the decade to respond to internal and external developments.
- A recent study[30] found the Dominican Republic's tax effort[31] to be relatively weak as compared to other countries in Latin America and the Caribbean (LAC). The Dominican Republic's tax effort is 45.3% of tax capacity, whereas the average of the surveyed LAC countries is 61.1%. The country's tax capacity, at 31.3% 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 the Dominican Republic are slightly below the regional average and moderately below the comparator income group and world averages. The maximum personal income tax rate is in line with the income group average and below the regional and world averages.
- The Dominican Republic's corporate income tax revenue effort and productivity figures are significantly below the regional, income group, and world averages. The corporate income tax rate is moderately above the regional, income groups, and world averages.
- Revenue effort and productivity figures for the value added tax (VAT) are moderately below the regional, income group, and world averages. The VAT rate is slightly above all comparator groups.
- Suggested areas for further investigation include:
    - The very low productivity of the corporate income tax in the Dominican Republic, especially in light of the country's relatively high corporate income tax rate.
    - The low overall revenue effort.
    - The future impact of the sweeping 2012 tax reforms.

[30] 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.

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

Major Developments and Features of Current Tax System

Evolution of Revenue

The Dominican Republic's total tax revenue has increased by 1.6% of GDP from 2003 to 2012. Revenues reached a peak of 16.0% of GDP in 2007, but declined after 2007 due to tax reforms, natural disasters, and the financial crisis. Over the period, the Dominican Republic's revenue mix shifted toward an increased reliance on domestic sales taxes and decreased reliance on taxes on international trade.

- Revenue from taxes on income and profits increased by 0.7% of GDP over the decade.
- Revenue from taxes on goods and services increased by 2% of GDP.
- Revenue from taxes on international trade decreased by 1.8% of GDP.

Dominican Republic Government Current Revenue
(% of GDP)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Taxes on Income & Profits	3.3%	2.7%	2.9%	3.3%	4.1%	3.7%	3.2%	2.8%	3.1%	4.0%
Taxes on Goods and Services	5.6%	5.9%	7.6%	8.7%	9.4%	8.9%	7.9%	8.0%	7.9%	7.6%
Taxes on International Trade	2.8%	4.1%	3.7%	2.3%	1.7%	1.6%	1.3%	1.2%	1.1%	1.0%
Other Taxes	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Tax Revenue	**11.9%**	**12.9%**	**14.6%**	**14.8%**	**16.0%**	**15.0%**	**13.1%**	**12.8%**	**12.9%**	**13.5%**

Source: Dirección General de Impuestos Internos (DGII), IMF Government Finance Statistics Data and WEO Database

Summary of Reforms

Over the last decade, the Dominican Republic has implemented several tax policy and administrative reforms, resulting in a complex tax system and fueling low tax morale through constant changes.[32] The current Dominican tax system is highly fragmented, leading to greater tax evasion and avoidance. Although there is a tax code, which dates from 1992, the majority of the tax legislation lies outside of it.[33] In 2005, a Tax Reform Act increased rates through Selective Consumption Taxes (SCT) and widened the tax base with the introduction of new taxes and the removal of exemptions. In March 2007, the country ratified and entered into the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR) and soon after enacted the Law of Fiscal Reform discussed below. Most recently, in November 2012, a new tax reform made broad changes to the income tax and VAT rules as described further below.

Over the period:

[32] Fiscal Policy for Development in the Dominican Republic, OECD Development Centre, 2013.
[33] Ibid.

- The 2005 Tax Reform Act gradually lowered the personal income tax and withholding rates from 30% to 25%, increased the general VAT rate from 12% to 16%, restricted the VAT zero-rate to exports, and added several new item-specific consumption taxes.[34]
- The 2007 Law of Fiscal Reform lowered the corporate income tax rate from 29% to 25%. The law included measures to increase excise tax rates, such as those on alcohol, cigarettes, vehicles, and fuel. It also established more severe sanctions for violations of the tax law and increased the inspection powers of tax examiners.
- Tax reforms in 2011 raised the corporate income tax back up to 29% and established a 1% tax on performing financial assets of financial institutions.[35]
- Tax reforms in 2012 included changes to the VAT, personal income tax, and corporate income tax regimes. The country introduced a temporary VAT rate increase from 16% to 18% for 2013 and 2014, scheduled to return to 16% in 2015. Certain VAT exemptions and zero-rating were removed and a reduced rate on basic food items was applied.[36] The personal exemption under the income tax was raised and the corporate income tax rate was temporarily lowered – from 29% to 28% starting in 2014, down to 27% in 2015.[37]
- In 2012, Congress also approved a tax amnesty program for personal and corporate income tax, VAT, and inheritance tax on unpaid debts owed for taxes from 2009-2011. To encourage participation, no surcharges, interest, or penalties were to be charged.[38]

Tax System Profile (2010-11)

The tables in Annex 1 provide a high-level description of the Dominican Republic's tax system and comparisons with the Latin America and Caribbean (LAC) region, upper-middle-income (UMI) countries,[39] and the rest of the world. The data in this section are from the 2012-2013 release of USAID's Collecting Taxes database.[40] **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.

[34] Pellerano & Herrera (2011), Tax Reform of the Dominican Republic Law No. 557-05, http://www.phlaw.com/pubs/rejec/en/ren_557-05_Tax_Reform_Law.pdf.
[35] Comisión Económica para América Latina (2013), Economic Survey of Latin America and the Caribbean, Dominican Republic, http://www.eclac.org/publicaciones/xml/3/50483/EEI-DominicanRepublic.pdf.
[36] Deloitte Global Services Limited (2012), World Tax Advisor, http://newsletters.usdbriefs.com/2012/Tax/WTA/121214_7.pdf.
[37] Comisión Económica para América Latina (2013), Fiscal Panorama of Latin America and the Caribbean, http://www.eclac.org/publicaciones/xml/7/49287/2013-106_Fiscal_Panorama_WEB.pdf.
[38] Deloitte Global Services Limited (2012), World Tax Advisor, http://newsletters.usdbriefs.com/2012/Tax/WTA/121214_7.pdf.
[39] Derived from the World Bank Country and Lending Group classifications, http://data.worldbank.org/about/country-classifications/country-and-lending-groups
[40] USAID's Collecting Taxes Database, http://egateg.usaid.gov/collecting-taxes.

- The Dominican Republic's overall tax revenue effort is 13.8% – well below the regional and income group averages of 19.5% and 19.4%, respectively, and below the world average of 17.9%.
- The Dominican Republic's revenue effort from personal income tax, at 3.1%, is slightly below the LAC regional average of 4.1% and well below the income group and world averages of 4.8% and 5.5%, respectively.
- Corporate income tax revenue effort, at 1.1%, is significantly below (roughly one third) that of the regional, income group, and world averages, which range between 3.3% and 3.7%.
- The revenue effort from VAT, at 4.2%, is below the LAC regional, income group, and world averages of 6.4%, 6.4%, and 6.1%, respectively.

Tax Structure

- The maximum personal income tax rate in the Dominican Republic, at 25%, is on par with the income group average of 24.2% and slightly below that of regional and world averages of approximately 28%.
- The Dominican Republic's corporate income tax rate, at 29%, is moderately above the regional, income group, and world averages, which are within the 23-27% range.
- The VAT rate, at 16%, is above the regional, income group and world averages, which are in the 13-14% range.
- The tax wedge on labor income, at 34.3%, is significantly above with the regional, income group and world averages, which are in the 20-24% range. Social contribution rates, at 20.1%, are on par with the income group and world averages of 22.2% and 20.8%, respectively, and above the regional average of 17.1%.

Revenue Productivity

- "Revenue productivity" measures the revenue share of GDP mobilized for each point of the tax rate.
- Personal income tax productivity, at 0.14, is broadly in line with the LAC regional average of 0.15, but significantly below the income group and world averages of 0.23 and 0.22, respectively.
- The Dominican Republic's corporate income tax productivity, at 0.04, is significantly below (roughly one fourth) that of the regional, income group, and world averages, which are 0.15, 0.16, and 0.15, respectively.
    - Given the high corporate income tax rate, at 29%, the tax produces very little revenue due in part to widespread use of preferential treatment and special tax regimes for selected sectors, such as tourism, manufacturing, agriculture, retail, banks, etc.
- VAT productivity, at 0.26, is well below the regional, income group, and world averages of 0.47, 0.45, and 0.42, respectively.

Tax Administration Structure

- The *Dirección General de Impuestos Internos* (DGII) is responsible for administration of taxes in the Dominican Republic. A separate directorate, the General Directorate of Customs (DGA), is responsible for administration of taxes on imports.
- The DGII is organized along functional lines and includes a Large Taxpayer Unit (LTU).
- The DGII's ratio of active taxpayers to staff, at 55 taxpayers per staff, is significantly below the LAC regional, income group, and world averages of 982, 589, and 677 taxpayers per staff, respectively.

Taxpayer Burden and Corruption Evidence

- The 2010 World Bank Enterprise Surveys indicated that the percentage of Dominican Republic business taxpayers "expected to give gifts in meeting with tax officials" was 15.3%, which was significantly above the LAC regional average of 6.1% and above the world average of 14.1%.
- The 2014 World Bank Doing Business survey estimates that the average time required to pay taxes by a medium-sized company in the Dominican Republic amounts to 324 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: Dominican Republic's Collecting Taxes Indicators

Total Tax Revenue	TAXY[41]
	Tax Revenue as % of GDP (%)
Dominican Republic	13.8
Latin America and the Caribbean[1]	19.5
Upper-Middle-Income Economies[2]	19.4
World	17.9

Company Income Tax	CITR	CITY	CITPROD
	Tax Rate (%)	Revenue as % GDP (%)	Revenue Productivity
Dominican Republic	29.0	1.1	0.04
Latin America and the Caribbean[1]	27.2	3.7	0.15
Upper-Middle-Income Economies[2]	23.5	3.7	0.16
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)
Dominican Republic	15.0	25.0	0.95	1.92
Latin America and the Caribbean[1]	13.4	27.5	0.52	3.58
Upper-Middle-Income Economies[2]	11.5	24.2	0.29	2.63
World	10.9	27.8	0.40	6.38

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

Income Taxes on People	PITY	PITPROD	SSR	WEDGE
	Revenue as % GDP (%)	Revenue Productivity	Mandatory Combined Social Contribution Rates (%)	Combined Rate of Personal and Labors Taxation (%)
Dominican Republic	3.1	0.14	20.1	34.3
Latin America and the Caribbean[1]	4.1	0.15	17.1	20.1
Upper-Middle-Income Economies[2]	4.8	0.23	22.2	24.1
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)
Dominican Republic	16.0	4.2	30.1	0.26	174,026
Latin America and the Caribbean[1]	13.5	6.4	66.2	0.47	34,149
Upper-Middle-Income Economies[2]	13.7	6.4	69.8	0.45	61,098
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)
Dominican Republic	0.27	55	1.00	1.00	0.00
Latin America and the Caribbean[1]	0.33	982	0.80	0.78	0.30
Upper-Middle-Income Economies[2]	0.57	589	0.88	0.82	0.37
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. Upper-Middle-Income Countries include: Albania, Algeria, Angola, Azerbaijan, Belarus, Belize, Bosnia and Herzegovina, Botswana, Brazil, Bulgaria, China, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, Ecuador, Fiji, Gabon, Grenada, Hungary, Iran, Iraq, Jamaica, Jordan, Kazakhstan, Lebanon, Libya, Macedonia, Malaysia, Maldives, Marshall Islands, Mauritius, Mexico, Montenegro, Namibia, Palau, Panama, Peru, Romania, Serbia, Seychelles, South Africa, St. Lucia, St. Vincent and the Grenadines, Suriname, Thailand, Tunisia, Turkey, Turkmenistan, and Venezuela.

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: Dominican Republic Tax Highlights

Dominican Republic *Highlights*

Currency: Dominican Republic Peso (DOP)

Foreign exchange control: The foreign exchange regime is based on the free exchange of national currency against foreign currency.

Accounting principles/financial statements: IFRS applies.

Principal business entities: These are the limited liability company (LLC), corporation and branch of a foreign company.

Corporate taxation:

Residence – A company is resident if it is incorporated under the laws of the Dominican Republic or if it performs a permanent establishment in the Dominican Republic.

Basis – The Dominican Republic taxes primarily on a territorial basis, whereby business income derived from activities performed in, property situated or economically used in, or economic rights used in the Dominican Republic are taxed, regardless of the nationality, domicile or residence of the participants or the contracting location.

Taxable income – Corporate tax is levied on the aggregate net income of various sources of business income, including capital gains derived from the transfer of capital assets (generally land and shares). Certain items of investment income derived by resident corporate taxpayers from foreign sources also are subject to Dominican tax, including dividends, interest on loans and bank savings, gains from banking or financial operations, bonds, shares in capital companies, bills of exchange and other movable capital or securities on the capital markets.

Taxation of dividends – Local corporations must withhold at 25% on cash dividends paid or credited to shareholders (individuals or legal entities), regardless of the place of residence of the shareholders. If the company fails to withhold tax on a payment to a nonresident, the foreign recipient will be obliged to pay the tax due. The withholding acts as a credit against income tax and may be used to offset any further tax payment if, and when, income tax is paid on the amount distributed. Dividends paid in shares are not subject to withholding. Branches of foreign companies are not obliged to withhold when repatriating profits to their headquarters.

Capital gains – Capital gains derived from the sale of assets, immovable property or shares, are included in gross income and subject to corporate income tax at a rate of 25%. The capital gain is calculated by deducting from the sale price the acquisition cost adjusted for inflation and adding the accumulated earnings/losses.

Losses – Net operating losses may be carried forward for 5 years. Carryback is not allowed. The deduction is limited to 20% of the annual total net losses carried forward. For the fourth year, the 20% deduction may not exceed an amount equivalent to 80% of taxable income and, for the 5th year, the 20% deduction may not exceed 70% of taxable income. For newly formed entities, losses from the first year of operations should be fully deducted in the second year.

Rate – 29%

Surtax – No

Alternative minimum tax – A 1% asset tax paid in two instalments applies to the value of a corporation's total assets as it appears in the company's financial statements. The asset tax is considered a minimum tax payable when it is higher than the company's corporate income tax liability. Some deductions apply.

Foreign tax credit – Taxes paid abroad corresponding to foreign source income that is taxable in the Dominican Republic may be credited up to the amount of Dominican tax payable on the same basis.

Participation exemption – No

Holding company regime – No

Incentives – Various tax incentives are available and include regimes (e.g. those for free trade zones, tourism and renewable energy) that may provide a 100% exemption from national taxes and contributions.

Withholding tax:

Dividends – See under "Taxation of dividends".

Interest – Interest paid to a foreign financial institution is subject to a 10% withholding tax; the rate is 25% for non-financial institutions.

Royalties – Royalties and management fees paid to nonresidents are subject to a final 25% withholding tax.

Branch remittance tax – No

Other taxes on corporations:

Capital duty – Capital duty is levied on the formation of a corporation at a rate of 1% of the capital amount.

Payroll tax – Employers must pay a monthly tax equal to 1% of the regular payroll to finance "INFOTEP", a special training fund. The fringe benefits tax is levied at a 25% rate and is payable by the employer on a monthly basis.

Real property tax – Real estate tax is levied on residential and commercial property valued at more than DOP 5 million, at a rate of 1% on the value exceeding this amount.

Social security – Both employers and employees are required to make monthly contributions to the social security system. The system is comprised of the pension funds and family health insurance (financed 70% by employers and 30% by employees), and labour risk insurance (financed completely by employers). Contributions are calculated on the employee's earnings - i.e. the daily salary as increased by any additional payment of bonuses and holiday allowances. The upper limits for calculating theses contributions are based on multiples of the minimum salary (USD 180) and are 20, 10 and 4, respectively.

Stamp duty – Stamp duty is levied on most written contracts; the registration and renewal of trademarks; documents evidencing loans, debts, shares and guarantees; and all documents prepared or registered by notaries and registrars. The rates vary depending on the taxable event.

Transfer tax – All transfers of real property located in the Dominican Republic are subject to a transfer tax at a rate of 3% on the price of the property declared in the purchase and sale agreement.

Other – No

Anti-avoidance rules:

Transfer pricing – Transfer pricing rules/regulations are based on the OECD guidelines. The following transfer pricing methodologies are accepted: (1) cost plus method; (2) comparable uncontrolled price method; (3) transactional net margin method; (4) profit split method; (5) residual profit split method; and (6) resale price method. An annual information return must be submitted, starting with the 2011 tax year. Advance pricing agreements are possible in the hotel, pharmaceutical and energy sectors.

Thin capitalisation – No

Controlled foreign companies – No

Other – No

Disclosure requirements – No

Administration and compliance:

Tax year – There are four possible tax year ends: 31 March, 30 June, 30 September and (most popular among entities) 31 December.

Consolidated returns – Consolidated returns are not permitted; each company must file its own return.

Filing requirements – All entities operating in the Dominican Republic must file a tax return within 120 days after the fiscal year closes. A request for an extension to file may be made to the tax authorities (at least fifteen days before due date).

Penalties – Penalties may be imposed for late filing, failure to file and tax avoidance or evasion. Surcharges are 10% for the first month or fraction thereof and 4% thereafter. Interest of 1.73% applies for each month or fraction thereof.

Rulings – Taxpayers may request rulings from the tax authorities on the tax treatment of specific transactions. Such rulings are binding on the tax Administration with respect to the taxpayer that filed the request.

Personal taxation:

Basis – The Dominican Republic primarily operates a territorial system of taxation, although resident individuals are subject to tax on certain foreign investment income. Nonresident individuals are taxed only on Dominican-source income.

Residence – An individual is considered a resident if he/she remains in the country for more than 182 days in a fiscal year, whether or not continuous. Foreign individuals who become resident are subject to tax on their foreign-source income as of the third taxable year or period in which they become resident. For tax purposes, partnerships are treated as separate taxable persons from their members.

Filing status – Individuals are required to file separate returns.

Taxable income – The Dominican Republic applies a broad concept of income, which includes all income constituting earnings or profits resulting from goods or activities, all benefits and earnings accrued or collected, and capital gains, whatever their nature, origin or description. For resident taxpayers, business income includes foreign-source investment income.

Capital gains – Capital gains derived from the disposal of capital assets located in the Dominican Republic, whether the sale is of an occasional nature or otherwise, are subject to a 25% tax. Gain must be reported in the personal tax return for the same period in which the disposal took place.

Deductions and allowances – Resident individuals who carry out activities other than employment activities may deduct all expenses incurred that are necessary to obtain, maintain and preserve the taxable income or its source.

Subject to documentation requirements, an individual may deduct up to 10% of his/her net taxable income for educational expenses incurred for his/her benefit or that of self-employed direct dependents. The expenditure will not be considered additional remuneration in the case of employees if the compensation granted to employees is exempt from the income tax on salaries.

Rates – The following progressive rates apply to net taxable income (NTI) for FY 2010: 0% up to USD 9,291; 15% on NTI of USD 9,291 to USD 13,936; 20% on NTI of USD 13,936 to USD 19,355; and 25% on NTI of USD 19,355 and up. These amounts are adjusted for inflation at the beginning of each year according to the Central Bank inflation index.

Other taxes on individuals:

Capital duty – No

Stamp duty – Stamp duty is levied on most written contracts; the registration and renewal of trademarks; documents evidencing loans, debts, shares and guarantees; and all documents prepared or registered by notaries and registrars. The rates vary depending on the taxable event.

Capital acquisitions tax – No

Real property tax – Real estate tax is levied on residential and commercial property valued at more than DOP 5 million, at a rate of 1% on the value exceeding DOP 5 million.

Inheritance/estate tax – Inheritance and gift tax is levied on personal and real property that forms part of the gross estate of a deceased person, a gift of property located in the Dominican Republic and foreign-situs personal property of a deceased person who had Dominican nationality or whose last domicile was in the country. The rate is a flat 3% of the amount of the inherited estate.

Net wealth/net worth tax – See under "Real property tax".

Social security – Dominicans and foreigners residing in the Dominican Republic must contribute to the social security system. Contributions are calculated on the basis of each employee's earnings - i.e. the daily salary increased by any additional payment in cash or in kind, although certain deductions apply. The employee rates for 2010 are 3.04% for family health insurance, 2.87% for the pension fund. The upper limits for calculating theses contributions are based on multiples of the minimum salary (USD 180) and are 20, 10 and 4, respectively. Contributions are deductible for calculating the employee income tax due.

Administration and compliance:

Tax year – Calendar year

Filing and payment – The tax return must be filed by 31 March of the year following the taxable year. Taxpayers whose only source of income is salary are not required to file (withholding serves as the final tax payment).

Penalties – Penalties and interest apply for late filing or failure to file. Surcharges are 10% for the first month or fraction thereof and 4% thereafter. Interest of 1.73% applies for each month or fraction thereof.

Value added tax:

Taxable transactions – VAT is levied on the supply of goods and services within the Dominican Republic and upon the import of goods.

Rate – 16%

Registration – VAT registration is included in the general registration as a taxpayer.

Filing and payment – Filing is required on a monthly basis by the 20th day of the month.

Source of tax law: Tax Code of the Dominican Republic, Law 11-92

Tax treaties: The Dominican Republic has 1 treaty (with Canada).

Tax authorities: *Dirección General de Impuestos Internos* (DGII)

International organisations: None

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

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[42] found Guatemala's tax effort[43] 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.
    - 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.

[42] 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.

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

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 Commission 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.[44] 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.

- In 2001, Guatemala increased its VAT rate from 10% to 12% and restricted zero-rating to exports.[45]

[44] United Nations Conference on Trade and Development (UNCTAD) Investment Policy Review: Guatemala, 2010. http://unctad.org/en/docs/diaepcb201009_en.pdf
[45] 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

- 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.[46]
- 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.[47] Starting in 2014, the law reduces the corporate income tax rate[48] 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.[49] It is expected that these measures will generate additional revenue of 1.5% of GDP in 2012-2015.[50]
- 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.

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)

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[46] KPMG Tax Flash, "Guatemala's Tax Reform comes into effect", http://us.kpmg.com/microsite/tax/ies/2004_Flash_Alerts/fa04-160.pdf
[47] IMF 2012 Article IV Consultation, Country Report No 12/146, June 2012.
[48] 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.
[49] Economist Intelligence Unit. Guatemala: Tax Regulations, 2013.
[50] Economic Commission for Latin America and the Caribbean (ECLAC) Estimate

countries,[51] and the rest of the world. The data in this section are from the 2012-2013 release of USAID's Collecting Taxes database.[52] **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.
- 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.

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

- 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**[53]
	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

[53] 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.

Honduras

Summary

- From 2003 to 2012, total tax revenue in Honduras remained relatively stable, increasing by only 0.3% of GDP, despite continued focus on improving tax administration, particularly for addressing tax evasion and enhancing the collection capacity of the system.
- Over the period, taxes on income and profits increased by 1.7%, which was effectively offset by a decrease of 1.1% on taxes on goods and services and a decrease of 0.3% from taxes on international trade.
- A recent study[54] found that Honduras' tax effort[55] is on par with other countries in Latin America and the Caribbean (LAC). Honduras' tax effort is 59% of tax capacity, whereas the average of the surveyed LAC countries is 61.1%. The country's tax capacity, at 30.3% 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 for Honduras are above the regional and income group averages and in line with the world average. The maximum personal income tax rate is slightly below the regional, income group, and world averages.
- Honduras' corporate income tax revenue effort and productivity figures are below the regional, income group, and world averages. The corporate income tax rate is broadly in line with the regional, income group, and world averages.
- Revenue effort for the value added tax (VAT) is below the regional, income group, and world averages; while productivity figures are slightly above the comparator groups. The VAT rate is slightly below all comparator groups.
- Areas for further investigation include:
    - The very low ratio of taxpayer to staff in the national tax administration (DEI).
    - The impact of the 2012 Anti Evasion Law regarding data sharing between banks and the DEI.

[54] 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.
[55] The definition of "tax effort" employed in the aforementioned study differs from the definition of revenue effort employed below in this paper.

Major Developments and Features of Current Tax System

Evolution of Revenue

Honduras' total tax revenue increased by 0.3% of GDP between 2003 and 2012. Tax revenue peaked at 16.3% of GDP in 2007, but declined by 2.1% of GDP between 2007 and 2009. Shifts in the composition of revenue over the past decade include an increased reliance on revenue from income and profits and moderate declines in revenue from taxes on goods and services and taxes on international trade.

- Revenue from taxes on income and profits increased by 1.7% of GDP over the period.
- Revenue from taxes on goods and services decreased by 1.1% of GDP.
- Revenue from taxes on international trade decreased by 0.3% of GDP.

Honduras Government Current Revenue
(% of GDP)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Taxes on Income & Profits	3.1%	3.6%	3.8%	4.3%	5.1%	5.0%	4.5%	4.3%	5.0%	4.8%
Taxes on Goods and Services	10.1%	9.5%	9.3%	9.4%	9.8%	8.8%	8.8%	8.9%	8.8%	9.0%
Taxes on International Trade	1.1%	1.1%	1.2%	1.1%	1.2%	1.1%	0.7%	0.8%	0.8%	0.8%
Other Taxes	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Tax Revenue	**14.5%**	**14.5%**	**14.5%**	**15.1%**	**16.3%**	**15.2%**	**14.2%**	**14.2%**	**14.8%**	**14.8%**

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

Summary of Reforms

The Honduran tax system is characterized by the predominance of taxes on goods and services, with a lesser emphasis on income and assets. Similar to other countries in the region, tax evasion and a range of exemptions, zero rated goods, and special regimes (export processing, tourism) significantly reduce the tax base and lower the collection capacity.[56] Major fiscal reforms occurred early in the decade, with three fundamental laws (described below) aimed at improving distributional equity, expanding the tax base, and reducing fiscal fraud.[57] These reforms also included the restructuring and streamlining of the tax administration, which has continued to strengthen in numbers and specialist knowledge since 2004.[58]

- The 2002 Financial Equilibrium and Social Protection Law introduced a series of changes in taxes on income and profits. The law unified the 25% rate across personal and

[56] IADB Fiscal Reform Support Program for Honduras (HO-L1030)
[57] Gasparini and Montenegro, "Evaluation of the Distributional Impact of the Honduran Tax Reform" World Bank, April 2004. http://siteresources.worldbank.org/INTPSIA/Resources/490023-1120841262639/Honduras_PSIA_Fiscal_Reform.doc
[58] PWC Country Study, "Transfer pricing and developing countries – Honduras" http://ec.europa.eu/europeaid/what/economic-support/taxation/documents/appendix_b_country_study-honduras.pdf

corporate income taxes, established a 5% solidarity tax on corporate earnings, and included end-of-year salary bonuses in the tax net.

- In 2003, the Tax Equity Law increased the range of goods subject to sales tax, improved the auditing of small businesses and large taxpayers, and defined valuation for the property tax.
- In 2004, the DEI implemented a new organizational structure to include customs, compliance, and large taxpayer units. It also introduced new measures to improve tax collection through the launch of an Internet-based system to increase reporting efficiency.
- In 2010, the Law for Enhancement of Revenues, Social Equity, and Rationalization of Public Expenditure affected the social contribution rates (progressively decreasing through 2015), reintroduced a flat 10% tax on dividends, increased taxes on excises, vehicles, and telecommunications, and temporarily raised the solidarity tax to 10%, reducing it annually before phasing it out in 2015.[59] [60]
- In 2012, a new Anti-Evasion Law granted more legal rights to the DEI and allowed the DEI to supervise the banking system by cross-referencing deposits and making it harder for companies to under-report and underpay tax obligations.[61]
- In 2012, a new Population Security Act introduced a tax on mining, bank transactions, telephone, and other industries, specifically intended to pay for improving security and crime fighting efforts in the country. While expected to collect $79 million a year, revenues from the tax were lower than expected in 2012.[62] The tax has faced opposition from the private sector and has been controversial since enactment due to concerns over transparency.
- In December of 2013, Honduras enacted a reform package intended to reduce the large government deficit of 2013. The general VAT rate increased from 12% to 15%. The VAT rate on alcohol and tobacco products increased from 15% to 18%. New excises on fuel were introduced. A new capital gains tax of 10 percent was introduced. The number of electricity consumers that would be eligible for subsidies and the number of goods that would enjoy tax-free status were reduced. The package became effective on January 1, 2014.

Tax System Profile (2010-11)

The tables in Annex 1 provide a high-level description of the Honduran tax system and draw comparisons with the Latin America and Caribbean (LAC) region, low-middle-income (LMI)

[59] KPMG Tax Flash, "Honduras", June 2010. http://www.us.kpmg.com/microsite/TNF-Americas/2010/TNA10_18Honduras.html
[60] Economic Survey of Latin America and the Caribbean, ECLAC, Honduras, http://www.eclac.cl/publicaciones/xml/4/40254/Honduras.pdf
[61] Economist Intelligence Unit. Honduras: Tax Regulations, 2013.
[62] ECLAC, Honduras

countries,[63] and the rest of the world. The data in this section are from the 2012-2013 release of USAID's Collecting Taxes database.[64] **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.
- Honduras' overall tax revenue effort, at 15.4%, is broadly in line with the income group average of 16.4%, but below the world average of 17.9%, and significantly below the LAC regional average of 19.5%.
- Honduras' revenue effort from personal income tax, at 5.2%, is above that of the regional and income group averages, which lie at 4.1% and 4.6% of GDP, and broadly in line with the world average of 5.5%.
- Corporate income tax revenue effort, at 3.1% of GDP, is broadly in line with the regional, income group, and world averages of 3.7%, 3.6%, and 3.3%, respectively.
- The revenue effort from VAT, at 5.8%, is broadly in line with the income group and world averages of 6.0% and 6.1%, respectively, and slightly below the LAC regional average of 6.4%.

Tax Structure

- The maximum personal income tax rate in Honduras, at 25%, is slightly below that of regional, income group, and world averages, which are in 27-28% range.
- Honduras' corporate income tax rate, at 25%, is broadly in line with the regional, income group, and world averages, which are within the 24-27% 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 10.7%, is roughly half the amount of the regional, income group, and world averages, which range between 19-22%. This figure is in line with Honduras' relatively low social contribution rate.

Revenue Productivity

- "Revenue productivity" is the portion of GDP that is mobilized for each point of tax rate.
- Personal income tax productivity, at 0.22, is equal to the world average and well above the LAC regional and income group averages of 0.15 and 0.17, respectively.
- Corporate income tax productivity, at 0.12, is slightly below the regional and world averages of 0.15 and moderately below the income group average of 0.17.

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

- VAT productivity, at 0.48, is on par with the regional average of 0.47, and slightly above the income group and world averages of 0.44 and 0.42, respectively.

Tax Administration Structure

- The *Dirección Ejecutiva de Impuestos* (DEI) is responsible for administration of taxes in Honduras. The Adjunct Directorate for Customs, supervised by DEI, is responsible for administration of taxes on international trade.
- Tax administration in Honduras is organized along functional lines and includes a Large Taxpayer Unit (LTU).
  - According to the IMF, the Large Taxpayer Unit is responsible for collecting close to 80% of central government revenue.[65]
- The DEI's ratio of active taxpayers to staff, at 51 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 Honduran business taxpayers "expected to give gifts in meeting with tax officials" was 2.8%, which was significantly below both the LAC regional average of 6.1% and 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 Honduras amounts to 224 hours per year - significantly below the LAC regional average of 369 hours, and moderately below the world average of 285 hours per year.

[65] Honduras: First Review under the Stand-by Arrangement Staff Report, IMF Country Report 11/101, May 2011.

ANNEX 1: Honduras' Collecting Taxes Indicators

Total Tax Revenue	TAXY[66]
	Tax Revenue as % of GDP (%)
Honduras	15.4
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
Honduras	25.0	3.1	0.12
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)
Honduras	15.0	25.0	1.33	6.02
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

[66] 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 (%)
Honduras	5.2	0.22	10.7	10.7
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)
Honduras	12.0	5.8	62.2	0.48	9,705
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	56,880
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)
Honduras	0.31	51	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: Honduras Tax Highlights

Honduras *Highlights*

Currency: Honduran Lempiras (HNL)

Foreign exchange control: The exchange rate is subject to a “crawling band” regime, with the rate determined daily in foreign exchange auctions. The Honduras Central Bank is responsible for the exchange auctions and for setting monetary policies.

Accounting principles/financial statements: IAS. Financial statements must be prepared annually.

Principal business entities: These are the corporation, limited liability company, general and limited partnership and branch of a foreign company.

Corporate taxation:

Residence – A company is resident in Honduras if is incorporated according the Honduran Commercial Code.

Basis – Resident companies are taxed on worldwide income; nonresident companies are taxed only on Honduran-source income.

Taxable income – Taxable income for corporate income tax purposes includes all income and gains that increase the taxpayer's net worth, less deductions for expenses related to the production of income.

Taxation of dividends – Dividends are not subject to tax and are not included in taxable income.

Capital gains – Capital gains are taxed as ordinary income at a rate of 10%.

Losses – Tax losses generally may not be carried forward or back. However, tax losses for manufacturing, agribusiness and tourist companies may be carried forward for 3 years.

Rate – The rate is 25%, plus a 5% temporary social contribution tax.

Surtax – No

Alternative minimum tax – No

Foreign tax credit – No

Participation exemption – No

Holding company regime – No

Incentives – The tourism sector and companies operating in free zones are subject to favourable tax treatment, as are mining companies.

Withholding tax:

Dividends – Dividends are not subject to withholding tax.

Interest – Interest paid to a nonresident is subject to a 5% withholding tax.

Royalties – Royalties paid to a nonresident are subject to a 25% withholding tax.

Branch remittance tax – No

Other taxes on corporations:

Capital duty – No

Payroll tax – No

Real property tax – Real property tax is levied annually by the local governments, with the rates depending on the location of the property.

Social security – Employers must pay 7% of salaries for state welfare.

Stamp duty – No

Transfer tax – A transfer tax equal to 1.5% of the transfer value is levied.

Other – District and municipal governments impose various levies.

Anti-avoidance rules:

Transfer pricing – No

Thin capitalisation – While there are no thin capitalisation rules per se, interest paid to shareholders is not deductible for corporation tax purposes.

Controlled foreign companies – No

Other – No

Disclosure requirements – No

Administration and compliance:

Tax year – The tax year corresponds to the calendar year, but a different accounting year may be authorised by the Honduran tax authorities.

Consolidated returns – Consolidated returns are not permitted; each company must file a separate return.

Filing requirements – The tax return and payment must be made within the first 4 months of the year following the tax year. Alternatively, 3 advance payments may be made during the tax year (in June, September and December), with any balance due paid before 30 April of the year following the tax year. Excess tax paid will be credited against the next fiscal period’s tax liability.

Penalties – Various penalties apply for failure to file a tax return.

Rulings – No

Personal taxation:

Basis – Residents are taxed on worldwide income; nonresidents are taxed only on Honduran-source income. For 2009, the ceiling for tax-exempt income is HNL 110,000, plus HNL 40,000 of medical expenses without supporting documents.

Residence – An individual is resident in Honduras if he/she lives in the country and, in the case of foreigners, if he/she obtains the required permit from the immigration office.

Filing status – Married couples are not required to file a joint return.

Taxable income – Taxable income is comprised of income earned from employment, the carrying on of a business or profession, investment income and any other gains.

Capital gains – Capital gains are generally subject to a 10% tax.

Deductions and allowances – Individual taxpayers are entitled to various deductions, but no personal allowances are granted.

Rates – Rates are progressive up to 25%.

Other taxes on individuals:

Capital duty – No

Stamp duty – No

Capital acquisitions tax – No

Real property tax – Real property tax is levied annually by the local governments, with the rates depending on the location of the property.

Inheritance/estate tax – No

Net wealth/net worth tax – No

Social security – An employee must contribute 3.5% of his/her salary to social security.

Administration and compliance:

Tax year – Calendar year

Filing and payment – The personal income tax return must be filed by 30 April of the year following the tax year and any tax due must be paid at that time.

Penalties – Penalties for nonpayment of tax range from 5%-60% of the tax due.

Value added tax:

Taxable transactions – Honduras imposes a sales tax on the provision of goods and services.

Rates – The rate is 12% on goods and services and 15% on alcoholic beverages and tobacco. Farm produce, basic food products and pharmaceuticals are exempt.

Registration – No

Filing and payment – The sales tax return must be filed by the 10th of each month.

Source of tax law: Tax Code

Tax treaties: Honduras has a tax information exchange treaty with the U.S.

Tax authorities: Direccion Ejecutiva de Ingresos (Executive Directorate of Revenue)

International organisations: WTO, World Customs Organisation

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

Jamaica

Summary

- Tax revenues in Jamaica increased by 0.9% of GDP between 2003 and 2008, but declined after the global financial crisis, by 1.6% of GDP between 2008 and 2011. The composition of revenue changed only slightly over the past decade, with a decrease in revenue from taxes on income and profits and international trade, and an increase in revenue from taxes on goods and services and other taxes.[67]
- A recent study[68] found Jamaica's tax effort[69] to be one of the highest in Latin America and the Caribbean (LAC). Jamaica's tax effort was 92.2% of tax capacity, whereas the average of the surveyed LAC countries was 61.1%. Jamaica's tax capacity, at 35.2% of GDP, was comparable to the average tax capacity of surveyed LAC countries, which was 33.5%.
- Jamaica's tax policy reforms during the past decade focused on simplifying the tax system and raising additional revenue. Far-reaching tax reforms, expected to further simplify the tax system and reduce distortions and discretion, were recently proposed and are expected to go into effect in fiscal year 2015.
- Until 2011, tax administration reforms were somewhat cautious, seeking to improve the collection of arrears and electronic payment and filing. Tax Administration Jamaica (TAJ) was established in 2011, consolidating three tax departments under one national administration. The administration's action plans include sweeping changes to audit and collections, electronic taxpayer services, and information technology. In 2013, the government passed legislation to grant TAJ semi-autonomous revenue authority status.
- Personal income tax effort and productivity figures in Jamaica are significantly below regional, income group, and world averages. The personal income tax rate is comparable to the regional, income group, and world averages.
- Corporate income tax effort and productivity figures are well above regional, income group, and world averages. Jamaica's corporate income tax rate is also well above the regional, income group, and world averages.

[67] Other taxes includes primarily revenue from taxes levied on bases other than the ones described in other categories or revenues that cannot be attributed to a single tax category. According to IMF's Government Finance Statistics Manual 2001, examples include taxes on persons that are not based on income (e.g., "head" taxes) and stamp duties that do not apply primarily to a single class of transactions or activities covered by the other tax categories (http://www.imf.org/external/pubs/ft/gfs/manual/pdf/all.pdf).

[68] 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.

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

- Jamaica's value added tax (VAT) effort is above that of the regional, income group, and world averages. Productivity figures are in line with the world average, but slightly below other comparators. Jamaica's VAT rate is above the regional, income group, and world averages.
- Suggested areas for further investigation include:
  - The very low productivity of the personal income tax.
  - The impact of expected tax reforms to be implemented in fiscal year 2015.

Major Developments and Features of Current Tax System

Evolution of Revenue

Jamaica's total tax revenue increased by 0.9% of GDP between 2003 and 2008, but decreased steadily following the global financial crisis, by 1.6% between 2008 and 2011. The composition of revenue changed only slightly over the past decade. Taxes on income and profits and taxes on international trade declined by 0.9% and 0.5% of GDP respectively, while taxes on goods and services and other taxes each increased by 0.3% of GDP respectively.

Jamaica Government Current Revenue
(% of GDP)

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Taxes on Income & Profits	10.5%	10.9%	10.3%	10.6%	11.3%	11.8%	12.0%	10.0%	9.6%
Taxes on Goods and Services	10.0%	8.8%	8.7%	9.0%	9.1%	9.3%	9.4%	10.6%	10.3%
Taxes on International Trade	2.5%	2.3%	2.4%	2.3%	2.3%	2.2%	1.9%	2.1%	2.0%
Other Taxes	0.4%	1.4%	1.2%	1.2%	1.2%	0.9%	0.7%	0.6%	0.7%
Total Tax Revenue	**23.4%**	**23.5%**	**22.7%**	**23.2%**	**24.0%**	**24.3%**	**24.1%**	**23.4%**	**22.7%**

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

Summary of Reforms

During the past decade, Jamaica introduced incremental policy reforms to strengthen the collection of arrears and to facilitate voluntary compliance. The following are highlights.

- In 2003, the General Consumption Tax (GCT) base was expanded to most goods and services.
- In 2005, Jamaica increased the GCT rate (from 15% to 16.5%) and threshold (from 300,000 JMD to 1,000,000 JMD), raised the basic personal exemption, simplified the estate tax and property tax regime, reformed the taxation of the gaming industry, and simplified the corporate income tax.
- In 2009, the GCT rate and threshold increased again (to 17.5% and 3,000,000 JMD). The income tax threshold was increased from 220,272 JMD to 320,736 JMD. Residential electricity consumption above a threshold of 200 kilowatt hours was subjected to the standard GCT rate. An advance GCT payment of 5% on imports by commercial

importers was imposed. Excise taxes on gasoline and cigarettes, GCT special rates on telephone services, and the departure tax were raised. A freeze was imposed on the discretionary waivers of duties and taxes.

- In 2012, in mid-year, the GCT rate returned to 16.5%.
- In May 2013, the government tabled the "Green Paper 1-2011 Tax Reform for Jamaica"[70] proposing reforms to simplify the tax system, reduce economic distortions, and reduce the discretionary powers of the Ministry of Finance. A tax reform action plan was developed with support from donors. The new tax system will be effective in fiscal year 2015 and, according to the Ministry of Finance,[71] will reduce tax expenditures by an estimated 3.5% of GDP. The proposed tax reform includes:
  - The simplification of the tariff structure;
  - The elimination of zero rating under the GCT for government purchases;
  - The streamlining of exemptions, including the potential imposition of the GCT on petroleum products;
  - The reduction in time required for GCT refund disbursements, especially for startup companies;
  - A reduction in tax rates, while maintaining revenue neutrality;
  - Convergence of the income tax rates over the medium term (selected sectors – regulated entities, building societies, and life insurance companies – are subject to different rates);
  - A limit on loss carry-forwards; and
  - A minimum income tax on business activity.
- In September 2013, the government announced plans to introduce a tax incentive act to impose rules that limit the imposition of incentives and discretionary waivers.[72] A number of existing incentives will be grandfathered.

Measures to improve tax administration include:

- In 2004, the tax administration was reorganized along functions and an integrated tax administration IT system was introduced.
- A program for arrears clearance started in 2005 to strengthen return filing, audit, and assessment.
- In 2007, the tax administration took steps to improve electronic payment and filing.
- In 2008, a tax amnesty program was introduced to address arrears estimated at 6% of GDP.

[70] Jamaica Ministry of Finance and the Public Service (2011), "Green Paper No. 1-2011. Tax Reform for Jamaica", http://jis.gov.jm/media/tax-reform.pdf.
[71] Jamaica Ministry of Finance and Planning (2013), Supplementary Memorandum of Economic and Financial Policies, http://www.mof.gov.jm/sites/default/files/publications/Supp_mem_econ_fin_pol.pdf, p. 3.
[72] Ibid.,

- Effective May 1, 2011, Tax Administration Jamaica (TAJ) was established, consolidating the Inland Revenue Department, the Taxpayer Audit and Assessment Department, and the Tax Administration Services Department.
- In 2013, TAJ expanded the staffing of its large taxpayer office (LTO).
- In March 2013, the Jamaica Parliament passed legislation establishing TAJ as a Semi-Autonomous Revenue Authority (SARA).[73]

Tax System Profile (2010-11)

The tables in Annex 1 provide a high-level description of Jamaica's tax system and comparisons with the Latin America and Caribbean (LAC) region, the Caribbean Community (CARICOM), upper-middle-income (UMI) countries,[74] and the rest of the world. The data in this section are from the 2012-2013 release of USAID's Collecting Taxes database.[75] **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.
- Jamaica's overall tax revenue effort, at 22.6%, is above the Caribbean Community (CARICOM), LAC regional, income group, and world averages of 21.3%, 19.5%, 19.4%, and 17.9%, respectively.
- Jamaica's revenue effort from personal income tax, at 1.2%, is significantly below the CARICOM, LAC regional, income group, and world averages of 4.6%, 4.1%, 4.8%, and 5.5%, respectively.
- Jamaica's revenue effort from the corporate income tax is 7.3%. It is significantly above the corresponding averages of 4.9%, 3.7%, 3.7%, and 3.3%.
- The revenue effort from VAT, at 7.0%, is above the corresponding averages of 6.9%, 6.4%, 6.4%, and 6.1%.

Tax Structure

- The maximum personal income tax rate in Jamaica is 25%. It is in line with the CARICOM, LAC regional, income group, and world averages, which are in the 24% to 28% range.
- Jamaica's corporate income tax rate, at 33.3%, is well above the CARICOM, LAC regional, income group, and world averages of 27.1%, 27.2%, 23.5%, and 24.1%, respectively.

[73] "Tax Administration Jamaica Act Passed in the Senate", Jamaica Information Service, March 23, 2013.
[74] Derived from the World Bank's Country and Lending Group classifications, http://data.worldbank.org/about/country-classifications/country-and-lending-groups.
[75] USAID's Collecting Taxes Database, http://egateg.usaid.gov/collecting-taxes.

- The VAT rate, at 17.5% in 2011 and 16.5% since 2012, is above the corresponding averages, which are in the 11.5% to 14% range.
- The tax wedge on labor income, at 19.5%, is below the regional, income group, and world averages, which range between 20-24%, but well above the CARICOM average of 13.1%. Jamaica has a relatively low rate of mandatory social security contributions (5%).

Revenue Productivity

- "Revenue productivity" measures the revenue share of GDP mobilized for each point of the tax rate.
- Personal income tax productivity, at 0.05, is significantly below the CARICOM, LAC regional, income group, and world averages of 0.17, 0.15, 0.23, and 0.22, respectively.
- The productivity of the corporate income tax, at 0.22, is well above the CARICOM, LAC regional, income group, and world averages, which are 0.17, 0.15, 0.16, and 0.15.
- Jamaica's VAT productivity, at 0.42, is below the CARICOM average of 0.54, slightly below the LAC regional and income group averages of 0.45 and 0.47, and in line with the world average of 0.42.

Tax Administration Structure

- *Tax Administration Jamaica* (TAJ) is responsible for the administration of all domestic taxes in Jamaica. Jamaica Customs Agency (JCA) is responsible for the administration of taxes on international trade.
- TAJ is organized along functional lines and includes a Large Taxpayer Office (LTO).
- TAJ's ratio of active taxpayers to staff, at 32, is significantly lower than the LAC regional, income group, and world averages.[76]

Taxpayer Burden and Corruption Evidence

- The 2010 World Bank Enterprise Survey indicated that the percentage of Jamaican business taxpayers "expected to give gifts in meeting with tax officials" was 14.3%, which was well above the LAC regional average of 6.1%, and in line with 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 Jamaica is 368 hours per year, which is in line with the LAC regional average of 369 hours, but above the world average of 285 hours per year. Since 2012, Jamaica has registered improvements in the number of tax payments (from 72 to 36) and in the hours expended on complying with the tax system

[76] Jacobs, Arturo, James Wooster, Luis F, Paniagua and Ronald T. McMorran (2012), "Status of Recent Tax Reform in Jamaica & Benchmarking Tax System Performance", USAID.

(from 414 to 368). However, the number of payments, at 36, remains higher than the LAC and OECD averages, which are 30 and 12, respectively.

ANNEX 1: Jamaica's Collecting Taxes Indicators

Total Tax Revenue	TAXY[77]
	Tax Revenue as % of GDP (%)
Jamaica	22.6
Caribbean Community[1]	21.3
Latin America and the Caribbean[2]	19.5
Upper-Middle-Income Economies[3]	19.4
World	17.9

Company Income Tax	CITR	CITY	CITPROD
	Tax Rate (%)	Revenue as % GDP (%)	Revenue Productivity
Jamaica	33.3	7.3	0.22
Caribbean Community[1]	27.1	4.9	0.17
Latin America and the Caribbean[2]	27.2	3.7	0.15
Upper-Middle-Income Economies[3]	23.5	3.6	0.16
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)
Jamaica	25.0	25.0	0.58	-
Caribbean Community[1]	15.9	25.9	0.25	3.18

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

Latin America and the Caribbean[2]	13.4	27.5	0.52	3.58
Upper-Middle-Income Economies[3]	11.5	24.2	0.29	2.63
World	10.9	27.8	0.40	6.38

Personal Income Tax	**PITY**	**PITPROD**	**SSR**	**WEDGE**
	Revenue as % GDP (%)	**Revenue Productivity**	**Mandatory Combined Social Contribution Rates (%)**	**Combined Rate of Personal and Labor Taxation (%)**
Jamaica	1.2	0.05	5.0	19.5
Caribbean Community[1]	4.6	0.17	10.3	13.1
Latin America and the Caribbean[2]	4.1	0.15	17.1	20.1
Upper-Middle-Income Economies[3]	4.8	0.23	22.2	24.1
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)**
Jamaica	16.5	7.0	46.5	0.42	35,600
Caribbean Community[1]	11.5	6.9	75.4	0.54	43,082
Latin America and the Caribbean[2]	13.5	6.4	66.2	0.47	34,149
Upper-Middle-Income Economies[3]	13.7	6.4	69.8	0.45	61,098
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)
Jamaica	N/A	32	1.00	1.00	0.00
Caribbean Community[1]	N/A	N/A	0.44	0.33	0.14
Latin America and the Caribbean[2]	0.33	982	0.80	0.78	0.30
Upper-Middle-Income Economies[3]	0.57	589	0.88	0.82	0.37
World	0.65	677	0.88	0.81	0.30

Footnotes:

1. Caribbean Community (CARICOM) countries include: Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, Saint Lucia, St. Kitts and Nevis, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago.
2. LAC countries include: Anguilla, Antigua and Barbuda, Argentina, Bahamas, Barbados, Belize, Bermuda, Bolivia, Brazil, Chile, Jamaica, 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.
3. Upper-Middle-Income Countries include: Albania, Algeria, Angola, Azerbaijan, Belarus, Belize, Bosnia and Herzegovina, Botswana, Brazil, Bulgaria, China, Jamaica, Costa Rica, Cuba, Dominica, Dominican Republic, Ecuador, Fiji, Gabon, Grenada, Hungary, Iran, Iraq, Jamaica, Jordan, Kazakhstan, Lebanon, Libya, Macedonia, Malaysia, Maldives, Marshall Islands, Mauritius, Mexico, Montenegro, Namibia, Palau, Panama, Peru, Romania, Serbia, Seychelles, South Africa, St. Lucia, St. Vincent and the Grenadines, Suriname, Thailand, Tunisia, Turkey, Turkmenistan, and Venezuela.

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.

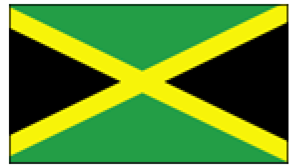
Functional Organization is a binary indicator where 1 indicates that the tax administration is organized along functional lines.

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: Jamaica Tax Highlights

Jamaica Highlights



Currency: Jamaican Dollar (JMD)

Foreign exchange control: No, and there are no restrictions on the import or export of capital. Both residents and nonresidents can hold bank accounts in the major currencies, e.g. U.S. dollar, Euro, pounds sterling and Canadian dollar.

Accounting principles/financial statements: IAS/IFRS. Financial statements must be prepared annually.

Principal business entities: These are the public and private limited liability company, partnership, sole proprietorship and branch of a foreign corporation.

Corporate taxation:

Residence – A corporation established under the Companies Act of Jamaica is normally deemed to be resident in Jamaica. This also applies to branch operations of foreign corporations.

Basis – Residents are taxed on worldwide income. Nonresidents are taxed on their Jamaican-source income. Branches are taxed on the same basis as subsidiaries.

Taxable income – Corporation tax is imposed on a company's profits, which consist of business/trading income and interest, but excluding capital gains. Normal business expenses may be deducted in computing income.

Taxation of dividends – Dividends paid by a company are generally subject to withholding tax at 33⅓% if paid to a corporate body. Subsidiaries of resident companies that are incorporated in overseas territories are taxed on dividends, received in Jamaica. No income tax is levied on dividends paid by resident companies (whether or not listed on the stock exchange); the exemption does not apply to preference dividends or dividends paid to a nonresident, however.

Capital gains – Capital gains are generally exempt. However, where circumstances indicate that the gain should be treated as business income, the exemption will not apply.

Losses – Losses may be carried forward indefinitely. The carryback of losses is not permitted.

Rate – The general rate is 33⅓%, which applies to both subsidiaries and branches. Building societies are taxed at 30% and life insurance companies pay tax at 15% of net investment income. Life insurance companies also pay 1.5% on premium income.

Surtax – No

Alternative minimum tax – No

Foreign tax credit – A foreign tax credit for Commonwealth taxes paid is granted at 50% of the applicable Jamaican income tax rate for residents and at 50% of the Commonwealth rate for nonresidents or 50% of the Jamaican income tax rate where the Commonwealth rate is higher. (Special rules apply for tax paid to the U.K.) The credit is available only for taxes paid to Commonwealth jurisdictions with which Jamaica does not have a tax treaty.

Participation exemption – No

Holding company regime – No

Incentives – Special tax regimes apply for insurance, venture capital and international finance companies, and there are incentives for taxpayers operating in free zones or investing in the manufacturing, tourism, petroleum refining and agricultural industries.

Withholding tax:

Dividends – Dividends are taxed at 25% if received by individuals and 33⅓% if received by a corporate body. Exemptions apply to dividends paid by a company listed on the Jamaican stock exchange to an individual recipient and on franked (i.e. redistributed) dividends received by a company and its shareholders. Rates on payments to nonresidents may be reduced under a tax treaty.

Interest – Interest paid to an individual is subject to a 25% withholding tax and that paid to a company is 33 1/3%. The rate may be reduced under a tax treaty.

Royalties – Although the rates are 25% (individuals) and 33⅓% (companies) on the gross amount before any applicable tax treaty reduction, a nonresident may file a return of net income, claiming related deductions and receive a refund on excess tax paid.

Branch remittance tax – No

Other taxes on corporations:

Capital duty – No

Payroll tax – Compulsory statutory contributions based on salary include social security (see below under "Social security"), the National Housing Trust (3%), an education tax (3%) and the Human Employment and Resource Trust contribution (3%).

Real property tax – An annual property tax (payable by the "person in possession") is levied at a flat rate of JMD 1,000 on the unimproved value up to JMD 300,000 and at 0.75% over JMD 300,000.

Social security – The employer and employee each contribute 2.5% (5% for the self-employed) based on the first JMD 1 million annually of the employee's earnings.

Stamp duty – The stamp duty is 3% on the transfer of real property and 1% on the transfer of shares, based on the sales value.

Transfer tax – A 4% tax is imposed on the sales value of real property and shares. The sale of shares on the local stock exchange is exempt from transfer tax.

Other – A flat tax ranging from JMD 1,000 to JMD 35,000 is levied annually on companies and certain other listed entities on the basis of the aggregate value of their assets.

Anti-avoidance rules:

- Transfer pricing – Limited transfer pricing concepts apply where there is a close connection between a resident and a nonresident. The Commissioner is authorised to assess profits in "connected" party transactions (i.e. treating the resident as an agent of the nonresident). Nonresidents may also be subject to tax on a percentage of turnover if the actual profits of the nonresident cannot be determined.

Thin capitalisation – No

Controlled foreign companies – No

Other – Residents continue to be subject to tax on income generated from assets transferred abroad if the resident has the right (even if shared) to enjoy such income.

Disclosure requirements – No

Administration and compliance:

Tax year – The tax year is either the calendar year or is based on the annual financial statements (which fall on any date in the calendar year).

Consolidated returns – Consolidated returns are not permitted; each company must file a separate return.

Filing requirements – Returns are due by 15 March following the year of assessment.

Penalties – In addition to interest for late payments, penalties may include fines or imprisonment.

Rulings – No

Personal taxation:

Basis – Jamaican residents are taxed on their worldwide income in excess of JMD 441,168. Nonresidents are taxed only on Jamaican-source income.

Residence – An individual is resident if he/she spends more than 183 days in Jamaica in any year of assessment.

Filing status – Married couples may elect to be assessed in the husband's name.

Taxable income – Income arising from profits and gains from a trade, business, profession, employment or vocation is subject to tax, with employment income taxed under a Pay-As-You-Earn system.

Capital gains – Capital gains are generally exempt. However, the exemption will not apply where circumstances indicate that the gain should be treated as business income.

Deductions and allowances – Deductions and allowances include contributions to an approved pension fund (limited to 10% of salary), National Insurance Scheme, and donations to an approved charitable organization (limited to 5% of statutory income).

Rates – A flat rate of 25% applies (for Jamaican residents, the rate is imposed on income in excess of JMD 441,168).

Other taxes on individuals:

Capital duty – No

Stamp duty – The stamp duty is 3% on the transfer of real property and 1% on the transfer of shares, based, in both cases, on the sales value.

Capital acquisitions tax – No, but a transfer tax may apply in certain instances.

Real property tax – An annual property tax (payable by the "person in possession") is levied at a flat rate of JMD 1,000 for unimproved value up to JMD 300,000 and at 0.75% over JMD 300,000.

Inheritance/estate tax – No

- Net wealth/net worth tax – No

Social security – The employer and employee each contribute 2.5% (5% for the self-employed) based on the first JMD 1 million annually of the employee's earnings, plus a nominal flat weekly contribution. A prorated monthly amount may also be paid.

Administration and compliance:

Tax year – Calendar year

Filing and payment – Jamaica operates a PAYE system; however, persons on the PAYE system normally are not required to file an income tax return even if the income exceeds the tax threshold of JMD 441,168.

Penalties – In addition to interest for late payments, penalties may include fines or imprisonment.

Value added tax:

Taxable transactions – General Consumption Tax (GCT) is levied on certain goods, services and imports.

Rates – The standard rate is 17.5%, with some items (generally basic foods) exempt or zero-rated.

- Registration – Registration is mandatory where annual turnover exceeds JMD 3 million.

Filing and payment – For imports, GCT is due when the goods "enter" into Jamaica under the Customs Act. Otherwise, GCT generally is due at the earlier of the supplier's invoice being issued, payment or upon the rendering of services or availability of goods.

Source of tax law: Income Tax Act, General Consumption Tax Act, Contractors' Levy Act, Stamp Duty Act and Transfer Tax Act

Tax treaties: Jamaica has concluded 12 tax treaties in addition to the Caricom income tax treaty.

Tax authorities: Taxpayer Audit and Assessment Department

International organisations: IMF, WTO, Caricom, World Bank

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

Paraguay

Summary

- Over the 2003 to 2012 period, Paraguay's total tax revenue increased by 3.6% of GDP due to an ambitious government reform program to address public sector weaknesses, including improving tax collections and strengthening the tax administration. Paraguay's tax structure shifted to rely more heavily on taxes on income and profits and on goods and services, which increased by 1.1% and 2.8%, respectively.
- A recent study[78] found Paraguay's tax effort[79] to be on par with other countries in Latin America and the Caribbean (LAC). Paraguay's tax effort is 59.3% of tax capacity, whereas the average of the surveyed LAC countries is 61.1%. The country's tax capacity, at 25.8% of GDP, is moderately lower than the average tax capacity of all other surveyed LAC countries, which is 33.5%.
- Personal income tax (PIT) revenue effort and productivity figures in Paraguay are not available, as the PIT regime was only established in 2012. The maximum personal income tax rate is well below the regional, income group, and world averages.
- Paraguay's corporate income tax revenue effort is modestly below the regional, income group, and world averages, while its productivity figures are significantly above the averages. The corporate income tax rate is significantly below 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 significantly above the regional, income group, and world averages. The VAT rate is slightly below all comparator groups.
- Suggested areas for further investigation include:
    - The impact of the newly implemented personal income tax of 2012.
    - The impact of the agriculture fiscal reform of 2012.
    - The high productivity of corporate and value added taxes.

[78] 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.

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

Major Developments and Features of Current Tax System

Evolution of Revenue

Paraguay's total tax revenue increased by 3.6% of GDP between 2003 and 2012. This was primarily due to comprehensive tax reform in the mid-2000's. Revenue from taxes on income and profits, as well as on goods and services, both showed gains over the past decade.

- Revenue from taxes on income and profits increased by 1.1% of GDP over the period.
- Revenue from taxes on goods and services increased by 2.8% of GDP.
- Revenue from taxes on international trade decreased by 0.1% of GDP.

Paraguay Government Current Revenue
(% of GDP)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Taxes on Income & Profits	1.5%	1.8%	1.8%	1.6%	1.8%	1.9%	2.8%	2.2%	2.4%	2.6%
Taxes on Goods and Services	5.4%	6.2%	6.4%	6.5%	7.0%	7.3%	7.5%	8.1%	8.1%	8.2%
Taxes on International Trade	1.6%	1.9%	1.5%	1.5%	1.2%	1.3%	1.2%	1.6%	1.6%	1.5%
Other Taxes	0.3%	0.4%	0.5%	0.8%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%
Total Tax Revenue	**8.7%**	**10.3%**	**10.1%**	**10.5%**	**10.1%**	**10.7%**	**11.6%**	**12.0%**	**12.1%**	**12.3%**

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

Summary of Reforms

Over the past decade, Paraguayan tax reforms have attempted to increase tax revenues by favoring taxes that are easier to collect and have larger tax bases, reducing the corporate income tax rate, and addressing internal aspects of the tax administration.[80] Major reforms in 2004 simplified the system by reducing the number of taxes from approximately 150 to 9, rearranging tax legislation, and shifting the focus of taxation toward indirect taxation.

- In 2004, the Fiscal Adjustment Law broadened the VAT tax base by introducing a tax on services, rentals, and transportation, and reduced exemptions on basic goods and oil products.
- The 2004 reforms introduced a new personal income tax and lowered the corporate income tax rate from 30% in 2004 to 20% in 2005, and to the current rate of 10% by 2006. The reform also established a new small business tax of 10% and a 1% property tax.[81] The law's passage was controversial and spurred protests, prompting the government to postpone implementation until 2013.

[80] Ferrario, Caterina. Tax Systems and Tax Reforms in Latin America: Paraguay. Società Italiana di Economia Pubblica, August, 2006. http://www-3.unipv.it/websiep/wp/548.pdf
[81] Ibid.

- In addition, several special tax regimes were abolished through the 2004 reform, such as the elimination of a five-year tax holiday on first-time investment, and elimination of dividend, profit, and bond exemptions.
- Following the 2004 reform, the tax administration focused on modernizing procedures and operations, improving control over goods and revenue collection, and addressing key human resource issues.
- In August 2012, the government enacted the long-delayed personal income tax bill, instituting a 10% rate on taxable income in excess of 10 times the monthly minimum wage. A differential tax rate of 8% is applied when income is below 10 times the minimum monthly wage.
- In 2012, the government approved a major fiscal reform directed toward the dominant agriculture sector, which in 2011 accounted for 20% of GDP, but only 0.5% of total revenue collection. The reform extended the VAT to primary production and introduced a 10% profit tax on commercial farmers, as well as new agricultural taxes.[82]

Tax System Profile (2010-11)

The tables in Annex 1 provide a high-level description of Paraguay's tax system and draw comparisons with the Latin America and Caribbean (LAC) region, low-middle-income (LMI) countries,[83] and the rest of the world. The data in this section are from the 2012-2013 release of USAID's Collecting Taxes database.[84] **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.
- Paraguay's overall tax revenue effort is 12.1% of GDP, which is below the income group and world averages of 16.4%, and 17.9%, respectively, and significantly below the LAC regional average of 19.5%.
    - While tax revenues have been growing in recent years, Paraguay's overall tax revenue effort remains one of the lowest in Latin America.
- An estimate of Paraguay's personal income tax revenue effort is not available, as Paraguay's personal income tax regime took effect only recently, in August 2012.[85]
- Corporate income tax revenue effort, at 2.4% of GDP, is below the LAC regional, income group, and world averages of 3.7%, 3.6%, and 3.3% respectively.

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[82] Economist Intelligence Unit, Paraguay Country Report, 2013.
[83] Derived from the World Bank's Country and Lending Group classifications, http://data.worldbank.org/about/country-classifications/country-and-lending-groups.
[84] USAID's Collecting Taxes Database, http://egateg.usaid.gov/collecting-taxes.
[85] KPMG Flash: Paraguay. http://www.kpmg.com/US/en/IssuesAndInsights/ArticlesPublications/flash-international-executive-alert/Documents/flash-international-executive-alert-2012-213-nov.pdf

- The revenue effort from VAT, at 6.2% of GPD, is in line with the corresponding comparator group averages, which lie between 6.0% and 6.4%.

Tax Structure

- The maximum personal income tax rate, at 10%, is significantly below the LAC regional, income group, and world averages, which are in the 27% to 28% range.
- Paraguay's corporate income tax rate, at 10%, is significantly below the LAC regional, income group, and world averages, which are in the 24% to 27% range.
- The VAT rate, at 10%, is moderately below the regional, income group, and world averages, which are in the 13% to 14% range.
- The tax wedge on labor income, at 23%, is broadly in line with the world average of 22.4% and slightly above the regional and income group averages of 20.1% and 19%.

Revenue Productivity

- "Revenue productivity" measures the revenue share of GDP mobilized for each point of the tax rate. An estimate of Paraguay's personal income tax productivity is not available, as Paraguay's personal income tax regime became effective only recently, in August 2012.
- Corporate income tax productivity, at 0.24, is well above the regional, income group, and world averages, which range from 0.15 to 0.17.
- Paraguay's VAT productivity, at 0.62, is significantly above the regional, income group, and world averages of 0.47, 0.44, and 0.42, respectively.

Tax Administration Structure

- The *Subsecretaría de Estado de Tributación* (SET) is responsible for administration of taxes in Paraguay. SET is a division of the Ministry of Finance. Customs duties are collected by the General Customs Service.
- Tax administration in Paraguay is organized along functional lines and includes a Large Taxpayer Unit (LTU).
- The SET's ratio of active taxpayers to staff, at 478 taxpayers per staff, is above the income group average of 349 taxpayers per staff, but significantly below the LAC regional and world averages of 982 and 677, respectively.

Taxpayer Burden and Corruption Evidence

- The 2010 World Bank Enterprise Surveys indicated that the percentage of Paraguayan business taxpayers "expected to give gifts in meeting with tax officials" was 14.6%, which was significantly above the LAC regional average of 6.1%, and in line with 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 Paraguay amounted to 384 hours per year, which is in line with the LAC regional average of 369 and above the world average of 285 hours per year.

ANNEX 1: Paraguay's Collecting Taxes Indicators

Total Tax Revenue	TAXY[86]
	Tax Revenue as % of GDP (%)
Paraguay	12.1
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
Paraguay	10.0	2.4	0.24
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)
Paraguay	8.0	10.0	4.51	5.63
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

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

World	10.9	27.8	0.40	6.38

Personal Income Tax	PITY	PITPROD	SSR	WEDGE
	Revenue as % GDP (%)	Revenue Productivity	Mandatory Combined Social Contribution Rates (%)	Combined Rate of Personal and Labor Taxation (%)
Paraguay	N/A	N/A	23.0	23.0
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)
Paraguay	10.0	6.2	79.1	0.62	0
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)
Paraguay	0.14	478	1.00	1.00	0.00
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: Paraguay Tax Highlights

Paraguay Highlights

Currency: Paraguayan Guaraní (PYG)

Foreign exchange control: No

Accounting principles/financial statements: Paraguayan GAAP, based on IAS/IFRS. Financial statements must be prepared annually.

Principal business entities: These are the corporation, limited liability company, partnership and branch of a foreign corporation.

Corporate taxation:

Residence – Residence is determined in order of priority according to: (1) the place of a company's management or direction; (2) the place where a company's main activities are carried out; and (3) the location of a company's representative address.

Basis – Corporate income tax is levied on a territorial basis. Tax is due, with some exceptions, on business income derived from activities performed, property situated or economic rights used, in Paraguay, regardless of the domicile, residence or nationality of those participating in the operations or where contracts are concluded.

Taxable income – Taxable income is the difference between total earnings from commercial, manufacturing and service activities less expenses incurred to derive the income.

Taxation of dividends – Dividend distributions are subject to a 5% corporate income tax.

Capital gains – Capital gains derived from the sale of fixed assets, immovable property and securities are taxed as ordinary income at the standard corporate rate.

Losses – The carryforward and carryback of losses is not permitted.

Rate – 10%

Surtax – No

Alternative minimum tax – No

Foreign tax credit – No

Participation exemption – No

Holding company regime – No

Incentives – Companies operating in free zones benefit from reduced taxation. A maquiladora regime also exists.

Withholding tax:

Dividends – Dividends distributed to a nonresident are subject to a 15% withholding tax.

Interest – Interest paid to a nonresident is subject to a 30% withholding tax, which is imposed on 50% of the payment, resulting in an effective rate of 15%. The rate on payments to a financial institution is 6%.

Royalties – Royalties paid to a nonresident are subject to a 30% withholding tax imposed on 50% of the payment, resulting in an effective rate of 15%.

Branch remittance tax – Profits remitted to a head office are subject to a 20% withholding tax, in addition to the 10% corporate tax, resulting in an effective rate of 30%.

Other taxes on corporations:

Capital duty – There is no capital duty per se, but certain fees (e.g. registration and publication) are levied on the formation of a company.

Payroll tax – No

Real property tax – Real property is subject to an annual tax collected by the local authorities at a rate of 1% (0.5% for certain rural property) of the cadastral value. Various real estate surtaxes also apply for specific types of property, and there is a 0.3% tax on the transfer of immovable property (calculated on the higher of the transaction price or the cadastral value of the property).

Social security – The employer's contribution to social security is 16.5% of an employee's total salary (including bonuses, premiums, etc.). The employer also must withhold the employee portion (9%).

Stamp duty – No

Transfer tax – No

Other – Some small and agricultural businesses fall under special regimes other than the corporate income tax regime.

Anti-avoidance rules:

Transfer pricing – No

Thin capitalisation – No

Controlled foreign companies – No

Other – No

Disclosure requirements – No

Administration and compliance:

Tax year – The tax year generally coincides with the calendar year, but certain industries are required to use specific tax years.

Consolidated returns – Consolidated returns are not permitted; each company must file a separate return.

Filing requirements – A company must make 4 advance payments based on the previous tax year's liability. A return and balance sheet, at a minimum, must be filed for corporate income tax purposes. In general, the return is due within 4 months of the end of the taxpayer's tax year, but the taxpayer's identification number determines the exact due date.

Penalties – Penalties range from 4% to 14% of the total tax due, plus monthly interest at 1.5%.

Rulings – A taxpayer may request a ruling from the tax authorities on the tax consequences of a proposed transaction.

Personal taxation:

Basis – Tax is levied on Paraguayan-source (net) income from services and certain investments, provided the taxpayer's income exceeds the monthly minimum wage by a certain amount (i.e.108 times for 2011, to be reduced by 12 per year until the factor reaches 36 in 2017). The personal income tax, however, is suspended until 1 January 2013.

Residence – An individual is resident in Paraguay if he/she is in the country for more than 120 days in a calendar year or in the previous 12-month period.

Filing status – Joint filing is not permitted. Each person is subject to tax if his/her individual income exceeds the relevant threshold.

Taxable income – Income from services and certain investments are taxable. These items include: personal services income; benefits in kind; dividends, profits and share price surplus (50% if derived from a resident company/enterprise subject to corporate or agricultural income tax and 100% if the resident company/enterprise is not subject to corporate or agriculture income tax); certain capital gains (see under "Capital gains"); and interest, commissions and other income that has not been subject to the corporate or agriculture income tax. A nonresident that derives business or professional income in Paraguay is subject to withholding tax at an effective rate of 15% (30% of 50%) on the gross amount.

Capital gains – Capital gains from the disposal of real property located in Paraguay and shares of Paraguayan companies are subject to individual income tax if they are occasional; otherwise, the gains are subject to the corporate, agricultural business tax or small business tax. Capital gains derived by a nonresident are subject to tax at an effective rate of 15% (30% of 50%) on the gross amount.

Deductions and allowances – If directly related to the taxable activity generating domestic-source income, both domestic and foreign-source expenses are deductible. The taxpayer and his/her dependents are also entitled to personal deductions (education, health, clothing, recreation, charitable, etc.). A deduction of 15% of annual gross income is allowed if invested in certain entities where the taxpayer does not contribute to the social security system.

Rates – The rate is 10% if the income exceeds 120 times the minimum wage; otherwise, the rate is 8%.

Other taxes on individuals:

Capital duty – No

Stamp duty – No

Capital acquisitions tax – No

Real property tax – Real property is subject to an annual tax collected by the local authorities at a rate of 1% (0.5% for certain rural property) of the cadastral value. Various real estate surtaxes also apply to specific types of property and there is a 0.3% tax on the transfer of immovable property (calculated on the higher of the transaction price or the cadastral value of the property).

Inheritance/estate tax – No

Net wealth/net worth tax – No

Social security – The employee contribution is 9% (3% applicable to pension and retirement), based on total remuneration (including bonuses, premiums, etc.) and is withheld by the employer.

Administration and compliance:

Tax year – Calendar year

Filing and payment – The annual income tax liability must be paid when the annual tax return is filed (i.e. in June of the year following the tax year).

Penalties – Penalties range from 4% to 14% of total tax due, plus monthly interest at 1.5%.

Value added tax:

Taxable transactions – VAT is levied on the supply of goods and services, and the import of taxable goods and services.

Rates – The standard rate is 10%, with a lower 5% rate applying to supplies of basic foodstuffs, pharmaceutical products, interest and commissions on loans, and the transfer of the right to use goods or immovable property. Exports are zero-rated. Exemptions include raw farm products, some fuels, foreign currency, books and newspapers.

Registration – VAT registration is compulsory for all companies and unincorporated businesses whose taxable turnover exceeds a certain amount.

Filing and payment – VAT filing and payments are due monthly, with the due date determined according to the taxpayer's registration number.

Source of tax law: Law No. 125/91 on Tax Reform (including all fiscal taxes), Law No. 2421/04 of Administrative Reordering and Fiscal Adequacy

Tax treaties: Paraguay has 1 tax treaty.

Tax authorities: *Subsecretaría de Estado de Tributación*

International organisations: Union of South American Nations, Mercosur, OAS (Organization of American States)

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

Peru

Summary

- Tax revenues in Peru increased by 2.8% of GDP between 2003 and 2012. Revenues from taxes on income and profits nearly doubled as a percentage of GDP over the period, increasing from 4% to 7.5%, but were offset slightly by a decreased reliance on tax revenue from international trade. The increase in total tax revenue is attributed to strong economic growth and improved tax policy and administration over the period.
- A recent study[87] found Peru's tax effort[88] to be moderately below that of other countries in Latin America and the Caribbean (LAC). Peru's tax effort was 53.4% of tax capacity, whereas the average of the surveyed LAC countries was 61.1%. Peru's tax capacity, at 28.7% of GDP, was slightly below the average tax capacity of surveyed LAC countries, at 33.5%.
- Personal income tax effort and productivity figures in Peru are significantly below regional, income group, and world averages. The personal income tax rate is slightly above the regional, income group, and world averages.
- Peru's corporate income tax effort and productivity figures are above regional, income group, and world averages. The corporate income tax rate is slightly above the regional average and well above the income group and world averages.
- Peru's value added tax (VAT) effort is slightly above that of the regional, income group, and world averages. Productivity figures are below the comparators. The VAT rate is significantly above the regional, income group, and world averages.
- Suggested areas for further investigation include:
    - The low productivity figures from the personal income tax,
    - The impacts of the administrative reforms of 2012.

Major Developments and Features of Current Tax System

Evolution of Revenue

Peru's total tax revenue increased by 2.8% of GDP between 2003 and 2012. Over the period, the composition of revenue has changed significantly to reflect an increased reliance on taxes on

[87] 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.

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

income and profits, and from other taxes,[89] and a decreased reliance on revenue from international trade. Taxes on goods and services remained relatively stable over the period. Total revenue suffered a sharp decline after the 2008 financial crisis, declining by 2% in 2009; however, revenue figures have been increasing steadily since.

- Revenue from taxes on income and profits increased by 3.5% of GDP over the period.
- Revenue from taxes on goods and services decreased by 0.2% of GDP.
- Revenue from taxes on international trade decreased by 0.9% of GDP.
- Revenue from other taxes increased by 0.3% of GDP.

Peru Government Current Revenue
(% of GDP)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Taxes on Income & Profits	4.0%	4.0%	4.7%	6.5%	7.2%	7.0%	5.8%	6.4%	7.4%	7.5%
Taxes on Goods and Services	7.4%	7.3%	7.0%	7.1%	7.0%	7.4%	6.8%	7.3%	7.2%	7.2%
Taxes on International Trade	1.2%	1.2%	1.2%	0.9%	0.7%	0.5%	0.4%	0.4%	0.3%	0.3%
Other Taxes	0.4%	0.4%	0.4%	0.4%	0.3%	0.3%	0.4%	04%	0.4%	0.7%
Total Tax Revenue	**12.9%**	**13.1%**	**13.6%**	**15.2%**	**15.6%**	**15.6%**	**13.6%**	**14.7%**	**15.3%**	**15.7%**

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

Summary of Reforms

Peru has benefitted significantly from strong economic growth and the rise in the banking, manufacturing, and mining sectors, which has accounted for a considerable share of collected taxes over the past decade. Tax reform efforts have focused on increasing transparency, enhancing the taxpayer registration system, simplifying procedures, and rationalizing tax rates.

- In 2002, Peru underwent a major decentralization reform, which divided the country into macro regions with regional governments and limited taxing authority to the central government and municipalities.[90]
- In 2004, the Mining Royalties Law introduced a monthly royalty assessed on the value of the mining extract. The law was then amended to permit revenue from royalties to be distributed to provinces and municipalities. Later in the same year, a new Mining Tax was introduced that applied progressive rates (between 1-3%) on operational profit.[91]
- In 2006, a new Single Simplified Regime was adopted, allowing micro and small-sized enterprises to remit tax on a monthly basis according to their tax bracket based on gross

[89] Other taxes includes primarily revenue from taxes levied on bases other than the ones described in other categories or revenues that cannot be attributed to a single tax category. According to IMF's Government Finance Statistics Manual 2001, examples include taxes on persons that are not based on income (e.g., "head" taxes) and stamp duties that do not apply primarily to a single class of transactions or activities covered by the other tax categories (http://www.imf.org/external/pubs/ft/gfs/manual/pdf/all.pdf).
[90] Bustad, Erik, and Glimeus, Linn, Evaluating Fiscal Decentralization in Peru, Lund University, 2011.
[91] KPMG Peru Country Mining Guide, 2013. http://www.kpmg.com/Ca/en/industry/Mining/Documents/Peru.pdf

income. The new regime simplified the taxation system and replaced both the income and VAT tax for small businesses.[92]

- In an effort to promote industry growth, three new laws were passed in 2008-09. The laws permitted accelerated depreciation on renewable energy products, petrochemical plants, and new buildings.
- In 2010, a new 5% flat tax was introduced to standardize capital gains taxes for local and foreign investors.
- In 2010 and 2011, various tax rates were adjusted. The VAT rate was lowered by one percentage point from 19% to 18%. The tax on financial transactions was lowered first from 0.06% to 0.05%, and then to 0.005%. Customs duty rates were lowered from 8% to 6.5%, and tariffs were lowered for over 3,000 items, reducing the average tariff rate to 3.4%.[93] A fuel excise tax was also introduced, while the tax on natural gas was lowered.[94]
- In 2011, three additional laws aimed at increasing tax revenues from mining companies were passed, expected to increase tax revenues by $5.5 billion in five years.[95]
- In June 2012, the government enacted a broad tax reform package focused on strengthening compliance and enforcement. Administrative measures included granting tax authorities the power to initiate partial tax audits to examine specific aspects of a taxpayer's tax liability and introducing harsher penalties for customs and tax law infractions.[96]
- The 2012 reform also abolished tax exemptions on interest and capital gains, and expanded the withholding tax to include dividends.[97] The 2012 reform also tightened transfer-pricing rules and introduced tax rules for foreign-owned companies.

Tax System Profile (2010-11)

The tables in Annex 1 provide a high-level description of Peru's tax system and draw comparisons with the Latin America and Caribbean (LAC) region, upper-middle-income (UMI) countries,[98] and the rest of the world. The data in this section are from the 2012-2013 release of

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[92] Inter-American Development Bank, Recommendations and Best Practices on Taxation of SMEs in Latin America.
[93] Economic Survey of Latin America and the Caribbean 2010-2011, Peru. http://www.eclac.org/publicaciones/xml/2/43992/1-2011_Peru.pdf
[94] Comisión Económica para América Latina (2013), Fiscal Panorama of Latin America and the Caribbean, http://www.eclac.org/publicaciones/xml/7/49287/2013-106_Fiscal_Panorama_WEB.pdf.
[95] KPMG Peru Country Mining Guide, 2013.
[96] Deloitte Global Services Limited 2012. World Tax Advisor. Peru: Broad Tax Reform Package Enacted. August 24, 2012. http://newsletters.usdbriefs.com/2012/Tax/WTA/120824_6.pdf
[97] CEPAL 2013, Fiscal Panorama of Latin America and the Caribbean.
[98] Derived from the World Bank's Country and Lending Group classifications, http://data.worldbank.org/about/country-classifications/country-and-lending-groups.

USAID's Collecting Taxes database.[99] **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.
- Peru's overall tax revenue effort, at 15.8%, is below the world average of 17.9%, and well below the LAC regional and income group comparator averages of 19.5% and 19.4%, respectively.
- Peru's revenue effort from personal income tax, at 1.7%, is significantly below – less than one half – that of the LAC regional, income group, and world averages of 4.1%, 4.8%, and 5.5%, respectively.
- Corporate income tax revenue effort, at 5.2% of GDP, is well above all corresponding comparator averages, which are in the 3.3% to 3.7% range.
- The revenue effort from VAT, at 6.6%, is in line with the LAC regional and income group averages of 6.4% and slightly above the world average of 6.1%.

Tax Structure

- The maximum personal income tax rate in Peru, at 30%, is above the LAC regional, income group, and world averages, which are in the 24% to 28% range.
- Peru's corporate income tax rate, at 30%, is above the LAC regional average of 27.2%, and significantly above the income group and world averages of 23.5% and 24.1%, respectively.
- The VAT rate, at 18%, is well above the regional, income group, and world averages, which are in the 13.5% to 14% range.
- The tax wedge on labor income, at 22.6%, is in line with the regional, income group, and world averages, which range between 20% and 24%.

Revenue Productivity

- "Revenue productivity" measures the revenue share of GDP mobilized for each point of the tax rate.
- Personal income tax productivity, at 0.06, is significantly below the LAC regional, income group, and world averages of 0.15, 0.23, and 0.22 respectively.
- Corporate income tax productivity, at 0.17, is slightly above the regional, income group, and world averages, which are 0.15, 0.16, and 0.15.
- VAT productivity, at 0.37, is below the regional, income group, and world averages of 0.47, 0.45, and 0.42, respectively.

[99] USAID's Collecting Taxes Database, http://egateg.usaid.gov/collecting-taxes.

Tax Administration Structure

- The *Superintendencia Nacional de Aduanas y de Administración Tributaria* (SUNAT) is responsible for the administration of all taxes in Peru. SUNAT operates as a semi-autonomous revenue authority under the Ministry of Finance. In 2002, SUNAT absorbed the National Customs Superintendency, which administers taxes on international trade.
- Tax administration in Peru is organized along functional lines and includes a Large Taxpayer Unit (LTU).
- SUNAT's ratio of active taxpayers to staff, at 691 taxpayers per staff, is above the income group average of 589 taxpayers per staff, and in line with the world average of 677. It remains significantly below the LAC regional average of 982.

Taxpayer Burden and Corruption Evidence

- The 2010 World Bank Enterprise Surveys indicated that the percentage of Peru business taxpayers "expected to give gifts in meeting with tax officials" was 8.4%, which was slightly above the LAC regional average of 6.1%, but 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 Peru amounted to 293 hours per year, which is below the LAC regional average of 369 hours, and broadly in line with the world average of 285 hours per year. Peru has improved significantly from its 2009 average of 424 hours per year.

ANNEX 1: Peru's Collecting Taxes Indicators

Total Tax Revenue	TAXY[100]
	Tax Revenue as % of GDP (%)
Peru	15.8
Latin America and the Caribbean[1]	19.5
Upper-Middle-Income Economies[2]	19.4
World	17.9

Company Income Tax	CITR	CITY	CITPROD
	Tax Rate (%)	Revenue as % GDP (%)	Revenue Productivity
Peru	30.0	5.2	0.17
Latin America and the Caribbean[1]	27.2	3.7	0.15
Upper-Middle-Income Economies[2]	23.5	3.7	0.16
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)
Peru	15.0	30.0	0.00	7.10
Latin America and the Caribbean[1]	13.4	27.5	0.52	3.58
Upper-Middle-Income Economies[2]	11.5	24.2	0.29	2.63
World	10.9	27.8	0.40	6.38

[100] 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 (%)
Peru	1.7	0.06	22.6	22.6
Latin America and the Caribbean[1]	4.1	0.15	17.1	20.1
Upper-Middle-Income Economies[2]	4.8	0.23	22.2	24.1
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)
Peru	18.0	6.6	57.4	0.35	N/A
Latin America and the Caribbean[1]	13.5	6.4	66.2	0.47	34,149
Upper-Middle-Income Economies[2]	13.7	6.4	69.8	0.45	61,098
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)
Peru	0.25	691	1.00	1.00	1.00
Latin America and the Caribbean[1]	0.33	982	0.80	0.78	0.30
Upper-Middle-Income Economies[2]	0.57	589	0.88	0.82	0.37
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. Upper-Middle-Income Countries include: Albania, Algeria, Angola, Azerbaijan, Belarus, Belize, Bosnia and Herzegovina, Botswana, Brazil, Bulgaria, China, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, Ecuador, Fiji, Gabon, Grenada, Hungary, Iran, Iraq, Jamaica, Jordan, Kazakhstan, Lebanon, Libya, Macedonia, Malaysia, Maldives, Marshall Islands, Mauritius, Mexico, Montenegro, Namibia, Palau, Panama, Peru, Romania, Serbia, Seychelles, South Africa, St. Lucia, St. Vincent and the Grenadines, Suriname, Thailand, Tunisia, Turkey, Turkmenistan, and Venezuela.

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: Peru Tax Highlights

Peru Highlights

Currency: Nuevo Sol (PEN). Peru also uses the "tax unit", a figure set annually by the tax authorities to determine applicable rates and deductions, among other uses.

Foreign exchange control: No restrictions are imposed on the import or export of capital. Funds may be repatriated in any currency, and both residents and nonresidents can hold bank accounts in any currency.

Accounting principles/financial statements: IAS/IFRS. Financial statements must be prepared annually.

Principal business entities: These are the corporation, closed corporation, public corporation, limited liability company and branch of a foreign company.

Corporate taxation:

Residence – An entity is considered domiciled for tax purposes if it is incorporated in Peru.

Basis – Domiciled corporations are taxed on worldwide income. Non-domiciled corporations and branches of foreign entities are taxed only on Peruvian-source income. Foreign-source income derived by residents is subject to corporation tax in the same way as Peruvian-source income, but it is calculated separately. Branches are taxed at the corporation tax rate, plus a remittance tax. Subsidiaries are taxed at the normal corporation tax rate.

Taxable income – Taxable income is comprised of all profits derived by a company, including capital gains. Normal business expenses may be deducted in computing taxable income.

Taxation of dividends – Dividend distributions between resident entities are not taxed. Foreign dividends received by a Peruvian entity are included in taxable income and subject to the normal corporate tax rate, but with a tax credit for foreign tax paid on the dividends. Dividends and other profit distributions, as well as a branch remittance of net profits abroad, are subject to a 4.1% withholding tax when paid to resident and nonresident individuals and nonresident entities.

Capital gains – Capital gains are generally included as income and taxed at the normal corporate rate.

Losses – A taxpayer has the option to carry forward all net operating losses for 4 years or carry the losses forward indefinitely, but only up to 50% of the taxpayer's taxable income of each subsequent year. Loss carryback is not permitted.

Rate – 30%

Surtax – No

Alternative minimum tax – No

Foreign tax credit – A tax credit is available for income tax paid on foreign-source income equal to the actual foreign tax paid or the Peruvian tax liability on the income, whichever is less. Excess credits may not be carried forward.

Participation exemption – No

Holding company regime – No

Incentives – Investors in large mining and oil or gas operations may conclude tax law stability agreements with the government for periods of 10 to 15 years.

Withholding tax:

Dividends – Dividends paid to nonresident entities (companies) and to resident and nonresident individuals are subject to a 4.1% withholding tax.

Interest – Interest payments to a nonresident related party that satisfies certain requirement are subject to a 4.99% withholding tax; otherwise, the rate is 30%.

Royalties – Royalties paid by a Peruvian resident are considered Peruvian-source income and, consequently, subject to a 30% withholding tax.

Branch remittance tax – The remittance of net profits abroad is subject to a 4.1% withholding tax. Branches of foreign companies are subject to the 30% standard rate of corporate income tax, plus the 4.1% tax on the remittance.

Other taxes on corporations:

Capital duty – No

Payroll tax – No

Real property tax – The municipal authorities levy real estate property tax at progressive tax rates of 0.2%, 0.6% and 1%, depending on the value of the property. The tax is a deductible expense for income tax purposes.

Social security – An employer pays a 9% social security contribution for its employees.

Stamp duty – No

Transfer tax – The transfer of buildings (real estate property) are subject to a 3% transfer tax, with the first 10 tax units being exempt.

Other – A Temporary Net Assets Tax (TNAT) is imposed on the value of total assets exceeding PEN 1 million at a rate of 0.4%. A "Financial Transactions Tax" is imposed primarily on debit and credit transactions with Peruvian bank accounts at a rate of 0.05% before (0.005% from) 1 April 2011.

Anti-avoidance rules:

Transfer pricing – Transactions between related parties or between a Peruvian person and an entity in a tax haven jurisdiction must be carried out at arm's length prices. If the price agreed upon is not arm's length, the tax authorities may adjust the price. Jurisdictions that are deemed to be tax havens are set out in a list issued by the tax authorities. Transfer pricing documentation is required.

Thin capitalisation – Interest paid by resident taxpayers to economically related or associated enterprises may not be deducted if a debt-to-equity ratio of 3:1 is exceeded.

However, the interest is not recharacterised as a dividend.

Controlled foreign companies – No

Other – A transaction that exceeds USD 1,000 must be paid via check or other means of verifiable payment.

Disclosure requirements –No, other than transfer pricing documentation.

Administration and compliance:

Tax year – Calendar year

Consolidated returns – No

Filing requirements – Companies are required to make 9 monthly advance payments of income tax based on a percentage of net assets (TNAT) and 12 payments on account based on monthly taxable income. An annual self-assessment tax return must be filed, and final tax must be paid by the first week in April following the end of the tax year.

Penalties – Penalties apply for late filing or failure to file.

Rulings – No

Personal taxation:

Basis – Residents are taxed on worldwide income and nonresidents are taxed only on Peruvian-source income.

Residence – Peruvian individuals living in the country and foreign individuals who are in Peru for more than 183 calendar days in any 12-month period are deemed to be resident for tax purposes. All individuals who qualify as resident on 1 January are subject to income tax for that fiscal year; any changes in residence status after that date will take effect for the next fiscal year.

Filing status – Spouses can choose which spouse will file the return.

Taxable income – Taxable income is divided into specific categories: labour income (derived from employment), income from independent personal services) and capital income (interest, royalties, capital gains and income from the leasing of assets). Business income earned by an individual is subject to the corporate tax regime.

Capital gains – Capital gains are taxed at a rate of 6.25%. Gains derived by nonresident individuals from the transfer of securities outside the country are taxed at a 30% rate. Transfers in Peru are taxed at a 5% rate. Gains derived by nonresident individuals from the transfer of real property are taxed at a 30% rate.

Deductions and allowances – An individual is allowed a deduction from capital income and labour income.

Rates – Progressive rates apply to employment income according to the following schedule: 15% up to the first 27 tax units, 21% for 27-54 tax units and 30% on the excess. Nonresident individuals are subject to different rates depending on the type of income. Capital gains tax is levied at a flat rate of 6.25%.

Other taxes on individuals:

Capital duty – No

Stamp duty – No

Capital acquisitions tax – No

Real property tax – Tax is imposed on the total value of real property owned by a person.

Inheritance/estate tax – No

Net wealth/net worth tax – No

Social security – Only the employer is required to contribute. The employer pays a 9% social security contribution for its employees.

Administration and compliance:

Tax year – Calendar year

Filing and payment – An annual income tax return must be filed within 3 months of the end of the tax year.

Penalties – Penalties apply for late filling or failure to file.

Value added tax:

Taxable transactions – VAT is levied on the sale of goods, the provision and use of services, the first sale of real estate by a contractor and imports.

Rates – 18% (reduced from 19%) effective 1 March 2011.

Registration – Taxpayers are required to keep accounting books (such as purchase and sales books).

Filing and payment – VAT returns must be filed on a monthly basis.

Source of tax law: Income Tax Law, VAT Law

Tax treaties: Peru has 3 bilateral agreements (Canada, Chile, Brazil) and an agreement with the Andean Community (Colombia, Ecuador and Bolivia).

Tax authorities: Tax Administration (SUNAT), Tax Court (Tribunal Fiscal)

International organisations: Andean Community

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