By Commission for the Reform of International Corporate Taxation
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Progressive tax reforms

Sources: The rocket to the moon [Image: Joseph Stiglitz, at the panel on the future of tax reforms in Latin America that took place last Thursday.

Latin America must follow the example of Chile and Colombia and tax wealth and overprofits

Latin America and the world face multiple crises. The pandemic, the war in Ukraine and climate collapse have left the world on the brink of recession, with poverty and inequality skyrocketing, a cost-of-living crisis and high levels of debt. In this context, countries such as Chile and Colombia are proposing progressive tax reforms, including new taxes on net wealth, which have the potential to both generate additional fiscal resources and reduce inequalities.

These reforms were discussed on Thursday, October 13 in Washington DC during the high-level panel "Winds of Change: The Future of Fiscal Reforms in Latin America," on the sidelines of the World Bank-IMF Annual Meetings. The panelists were Colombian Finance Minister José Antonio Ocampo, Chilean Undersecretary of Finance Claudia Sanhueza, Nobel laureate and ICRICT co-chair Joseph Stiglitz, Oxfam International Executive Director Gabriela Bucher, and IMF Western Hemisphere Department Director Ilan Goldfajn. Patricia Arce, a journalist for the EFE news agency, moderated the debate.

All panelists agreed on the sense of urgency and the need to implement solutions to protect the most vulnerable and mitigate the impacts of inflation through progressive fiscal reforms, such as those proposed by Chile and Colombia. Failure to take action, panelists say, risks contributing to greater inequality and social unrest.

Both Colombian Finance Minister José Antonio Ocampo and Chilean Undersecretary of Finance Claudia Sanhueza defended the need to raise additional revenue to ensure fiscal sustainability, specifically by taxing the richest. For both, closing the loopholes in multinationals' tax evasion and avoidance and tackling tax evasion remains a high priority and, in the short term, capturing the overprofits of mining and extractive industries.

ICRICT co-chair Joseph Stiglitz and Oxfam International Executive Director Gabriela Bucher said the time has come to tax overprofits in all sectors. These taxes are easy to apply and can generate revenue quickly to help mitigate the impacts of inflation.

Professor Stiglitz stressed that the OECD/G20 global tax reform, which includes a minimum rate of 15% on corporate income taxation, is a step in the right direction, but falls short of the required level of ambition, as it is not enough to stop tax competition or profit shifting to tax havens (ICRICT advocates a 25% rate).). Minister Ocampo agreed that the OECD and the G20 must keep negotiations open to reach a fairer agreement.

Jose Antonio Ocampo

Colombian Finance Minister José Antonio Ocampo said: "The tax reform proposal in Colombia is a response to the enormous inequality that our country suffers, and to the social demands that were reflected in last year's popular protests and this year's presidential election. Therefore, we must go in three directions: first, introduce a wealth tax and eliminate tax benefits for people with higher incomes. Secondly, tax the over-profits of the oil and coal sectors: when the coffee boom occurred in the past, the sector had to contribute more, now it is up to the extractive sector to do the same. And, finally, we must fight against tax evasion and avoidance, which is still too high in Colombia."

"For Colombia, the OECD agreement on international taxation and a minimum rate is insufficient, and also adds a great level of complexity. We would like to push for a better deal for Latin America with Chile's support, which can make things better."

Claudia Sanhueza

Chilean Undersecretary of Finance Claudia Sanhueza said: "It's always a challenge to make an agreement that changes the *status quo*, but we must do it. There are incentives to compete with each other by lowering income tax rates. But the possibility of regional coordination is and is now."

"We need inclusive growth, less inequality, and that comes at a price. That is why we need tax reforms. We also need coordination and cooperation. We need to stop competing among countries in the region and stop offering inefficient tax incentives to companies. There is no winner in this."

Joseph Stiglitz

Nobel laureate and ICRICT co-chair Joseph Stiglitz said: "I want to say that both Colombia and Chile are moving in the right direction with very important fiscal reforms. For emerging markets, especially in the current international situation, it is difficult to finance themselves and they need more fiscal space. The only way to achieve this is more progressive taxation. That means taxing wealth, making sure multinationals pay their fair share of taxes, and taxing overprofits."

"For decades, the public sector has lost resources, not just in developing countries. The tax structures we have today are not progressive and in some countries are even regressive. This provokes a lot of resentment, undermines our democracy and our solidarity. So we cannot apply the old recipes of austerity. We need more progressive taxation, and Chile and Colombia are showing the way."

"A well-designed corporate overprofits tax does not affect employment or investment. This is even more true in the case of extraordinary profits. We know how to design a tax that actually captures these over-profits, and resources like that would be absolutely essential to address the multiple crisis facing the world today."

Gabriela Bucher

Gabriela Bucher, Executive Director of Oxfam International, said: "We must recognise that we have the means to recoup the huge profits among the have-most. There is enormous scope to tax wealth and capital income more efficiently. We need taxes on overprofits permanently, and for all sectors, not just energy. And we need that money to be invested in vital public services to reduce inequality, such as universal healthcare and social protection."

"A progressive tax system is essential to raise more and avoid the path of austerity, but it is more than that. They are also fundamental to reduce the disproportionate power of the super-rich, and to curb the emissions of the richest 1%, who are also the biggest polluters and therefore responsible for the climate crisis. It is also a feminist policy, as it addresses a redistribution of the tax burden that today falls disproportionately on poor women."

Ilan Goldfajn

Ilan Goldfajn of the IMF's Western Hemisphere Department said: "The fiscal reforms in Chile and Colombia are moving in the right direction. In a context of high inflation, public policies must prioritize the most vulnerable people."

"It is no coincidence that such progressive fiscal reforms are emerging in countries such as Chile and Colombia. It is a response to social unrest and the voices of citizens. Achieving fiscal sustainability cannot be at the expense of social sustainability."

The most unequal region

Latin America is the most unequal region in the world with highly regressive tax systems.

Latin America and the Caribbean (LAC) remains the most unequal region in the world. In 2019, the richest 20% of the population had almost half of total income, while the poorest 20% had less than 5% of total income. The richest 1% of the region owns almost a quarter of total income.

Since the start of the pandemic, 27 new billionaires have emerged in the region. Currently, some 100 billionaires in Latin America and the Caribbean concentrate more wealth than 392 million people, representing 60% of the region's population. According to Oxfam, a wealth tax on LAC's billionaires could raise at least $20 billion.

In 2020, tax collection in the region was 21.9% of GDP, varying greatly in the region, from 12.4% in Guatemala to 37.5% in Cuba. With the exception of Barbados and Cuba, all LAC countries had a tax-to-GDP ratio below the OECD average of around 33.5%.

Inequality Reduction Commitment Index 2022: 95% of countries did not raise tax rates for the richest during the pandemic, and even 11 of them reduced them. At the same time, half of low- and middle-income countries reduced their share of health spending.

Civil society organizations are calling on the governments of Chile and Colombia to lead a new fiscal compact in the region and coordinate efforts to combat tax havens.

Chile's tax reform proposal

In Chile, inequality between the richest 1% and the rest of the population remains the highest in Latin America (the top 1% concentrates around 30% of the country's wealth). State revenues only reach 20.7% of GDP, compared with an average of 33.8% in OECD countries. In addition, tax collection depends mainly on Value Added Tax (VAT). According to Jorrat and Martner, between 2013 and 2018 the country lost between 7.5 and 7.9 points of GDP annually due to tax avoidance and evasion.

The Chilean government presented to Congress in early July a more progressive tax reform bill that aims to increase tax collection by 4.3% of GDP when fully implemented.

A new net worth tax would be levied on 1 per cent of individuals with assets ranging from $4.9 million to $14.7 million, and 1.8 per cent for those with assets above $14.7 million.

– Personal income tax: the new maximum marginal rate would be 43% for monthly taxable income around US$8,000/month (previously it was 40%).

– Overprofit tax: to tax super profits in the copper and mining sectors, and free zone privileges would be reconsidered.

Capital gains and dividends: introduction of a new 22% tax on capital gains.

– Measures against tax evasion: creation of a new register of beneficial owners and final beneficiaries, and strengthening of rules against tax evasion and avoidance; The reform implies the non-deductibility of transfers to tax havens with regard to the payment of services.

– A feminist approach: introduction of new exemptions for care (for children under 2 and large dependents), and deduction of housing rental expenses from the tax base.

Colombia's tax reform proposal

The Colombian tax system is also very regressive, dependent on VAT and with a very low taxation on capital. Due to low tax collection (18.7% of GDP, compared to an average of 33.8% in OECD countries), reforms have occurred more frequently in Colombia, with an average of one reform every 2 years, none of which addresses structural defects.

Colombia announced a tax reform proposal aimed at raising 22 trillion pesos ($4.8 trillion) by 2023 to finance anti-poverty programs, mainly by taxing the country's richest on capital gains and curbing tax evasion.

– Wealth and personal income tax: a permanent wealth tax for individuals with a net worth equal to or greater than US$ 652,991, from 0.5% to 1.5% and a capital gains tax of 20%.

– Tax on extraordinary profits: temporary additional tax on super profits in the financial sector and in the sector of 3% and 10%, respectively.

– Business income tax: abolition of tax incentives for companies, a withholding tax of 20% for the purchase of goods and services from companies operating from abroad.

– Tax evasion and avoidance: strengthening controls, introduction of a "significant economic presence" mechanism to tax multinationals without tax presence in the country and a minimum tax of 15%.

The OECD/G20 agreement of October 2021

After years of negotiations involving 140 countries, in October 2021, the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) announced a two-pillar agreement. A global minimum tax makes more sense than ever. Tax evasion by multinationals costs countries between $240 billion and $600 billion a year in lost revenue. With close to 40% of its international profits accounted for in tax havens, a fairer reallocation of "tax rights" also seems essential, based on actual activities, including sales.

However, what was supposed to be "the historic deal", led by the G20 and the OECD, already lacked ambition and fell short in both requirements and possibilities. But, surprisingly, even this limited effort is now locked in a political *impasse* at the level of the rich countries (the United States and the European Union). The ICRICT (Independent Commission for the Reform of International Corporate Taxation) encourages countries not to wait. Rather, they should move forward and consider their own alternative measures, formulated where possible in a coordinated manner, to be actively implemented without any delay. These measures will provide the resources desperately needed now and create the pressure to force a shift towards a truly fair international tax architecture, which will require multilateral discussions that go far beyond the current process.

Ambitious fiscal measures by governments in the short term could avert the worst. It would also pave the way for more transformative tax systems in the medium term, as the international community overcomes political gridlock over how to better tax large multinational companies in a digitalized world.

The Independent Commission for the Reform of International Corporate Taxation (ICRICT**) seeks to promote debate on international corporate tax reform, through a broader and more inclusive discussion of international tax rules than is possible through any other existing forum, consider reforms from the perspective of the public interest rather than from national advantage, and seek fair, effective and sustainable fiscal solutions for development.*

Source: https://www.elcohetealaluna.com/reformas-fiscales-progresivas/

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