

RETHINKING AND REDUCING TAX EXPENDITURES IS URGENT

THE PANDEMIC IS COMPELLING US TO REVIEW AND ELIMINATE PRIVILEGES THAT DISPROPORTIONATELY BENEFIT THOSE WHO HAVE THE MOST

The planet is facing a global crisis for which it is difficult to find precedents. The WHO's declaration of the pandemic not only entails having to face a very complex context in health matters, but it also involves immense economic and social challenges. The public policy measures that are necessary for facing the crisis pose significant funding challenges in the short, medium, and long term. Governments' limited fiscal capacity is worsened by the indiscriminate concession of fiscal privileges to individuals and companies.

Tax expenditures are the exemptions, exonerations, differentiated rates, or other special treatments that States grant to certain economic sectors through their tax frameworks. These types of expenditures reduce tax collection and are implemented to reach certain economic and/or social objectives. In addition to constituting an exception to the general principle of equality that should govern public responsibilities and the cost that they represent for the State, the lack of clear objectives and adequate evaluation mechanisms regarding their advantages and disadvantages gives way to the implementation of fiscal privileges.

In Latin American countries, tax expenditures reduce government revenues by between 10 and 20 percent, and this is without carrying out a proper evaluation of their impacts. Governments from the entire region do not collect a significant percentage of revenues due to different types of tax reductions and exemptions. These are resources that have a high opportunity cost and that could be used to increase public spending on health and to fund social protection policies in an extreme setting of social and economic crisis.

This crisis deepens preexisting inequalities and creates greater impacts on lower-income individuals, primarily those who depend on their daily work to survive. For this reason, the current priority should be to strengthen public systems aimed at protecting and promoting human rights, guaranteeing the well-being of the most disadvantaged groups in view of the pandemic's threats.

Our comparative analysis on the policies and practices of tax expenditure in the region examined their impact on inequality and concluded that: 1) public information about the concession of tax exonerations and benefits is often inadequate, 2) the decision-making processes are closed and prone to abuse and corruption, and 3) the impact, in the few cases that it is measured, tends to be negative or unsatisfactory, which contributes to inefficiency and inequality.

This scarcity of public information and the closed nature of the decision-making processes that surround tax expenditure create opportunities to use them in benefit of just a few powerful groups, thereby generating costs for the rest of society.

In the current context of the crisis, one of the measures that international bodies and many national governments promote in order to face the economic impacts of the pandemic is the implementation of additional tax expenditures. While certain tax expenditures or tax exemptions may have commendable aims—for example, when they intend to relieve individuals and families who are in low-income situations—others tend to benefit high-income sectors. In no case should they be implemented hastily and without significant technical evaluation of their potential effectiveness, but rather their transparency and proper accountability should be guaranteed.

Representing the signatory organizations below, joined together by a regional initiative for tax expenditure transparency and for the elimination of tax privileges in Latin America (Lateral), we request that, in the face of the global COVID-19 pandemic, the Latin American Governments and Parliaments make all of their existing tax expenditures transparent and review them, and that they limit the introduction of new tax expenditures with the exception of urgent cases and those with proven effectiveness, thus eliminating tax privileges and redistributing the tax burden onto the wealthiest sectors of the population. Specifically, we request:

- That the existing tax exemptions be evaluated to determine which should be eliminated for being unjustified, innocuous or ineffective, unjust, and unequitable;
- That an agreement be made on the non-approval of new tax privileges, except in cases of urgency and proven effectiveness, and preferably in benefit of vulnerable populations and small businesses;
- That the approval and review process for tax expenditure be reformed and streamlined, thus increasing transparency, identifying beneficiaries, including an impact evaluation, and subjecting them to an independent examination;
- That measures and mechanisms be implemented to establish a tax system that is progressive as a whole.

To face the pandemic, mitigate the impacts of the crisis in the most vulnerable sectors, and guarantee a future in which human rights are carried out in conditions of equality for all people without distinction, we cannot allow for only a few to benefit at the cost of the rest of society.

We need a State with sufficient resources and more egalitarian policies, without tax privileges!

Signatory Organizations



Argentina



Peru



International



Colombia



Ecuador



Dominican Republic



Mexico



El Salvador



Central America



Brazil



International