The capacity to tax their citizens is one of governments' core attributes. Revenues collected from taxes represent the most important source of public funds and are crucial to provide public goods and services, guarantee government operations, undertake public investments and a higher or lower degree of income redistribution. As a general trend, during the last two decades, LAC countries increased their tax collection, strengthened tax administrations and attempted to curb tax evasion (OECD/ECLAC/CIAT/IDB 2016).

Taxation in the LAC region is very uneven ranging from 33.4% of GDP in Brazil to 12.6% of GDP in Guatemala. Despite recent efforts to increase tax collection, LAC countries still collect considerably less revenue as a share of GDP than OECD countries, 21.7% and 34.4% respectively in 2014. As a result, governments from OECD countries generally play a more active role in the provision of public goods and services than LAC governments.

Between 2009 and 2014, general government tax revenues in LAC increased on average by 1.9 percentage points in terms of GDP. This increase is slightly higher than the one achieved by OECD countries (1.8 p.p.). However, there are large fluctuations across LAC countries. For instance, Jamaica experienced the strongest decrease (0.7 p.p.) in tax revenues since the crisis. During the same period Ecuador (4.1 p.p.) and Venezuela (4.0 p.p.) experienced the largest increases in tax revenues.

In LAC countries, taxes on goods and services represent on average 49.5% of total tax revenues. This is mainly due to the significant use of the value added tax (VAT) as a source of government revenues. Taxes on income and profits account for approximately 27.9% of total tax revenues, while social security contributions represent 16.4%. Revenues from property tax and taxes on the payroll account for 3.3% and 0.5% of total taxation respectively. In contrast, in OECD countries, goods and services, and income and profits contributed roughly around one third each to government tax revenue, whereas social security contributions represented about a quarter. Similarly, property and payroll taxes represent higher shares of revenues in OECD countries, amounting to 5.6% and 1.1% respectively.

The composition of tax revenues in the LAC region experienced some changes between 2007 and 2014. The largest reductions occurred in taxes on goods and services and taxes on property, decreasing by 1.6 and 0.7 p.p. respectively. Conversely, social security contributions and taxes on income and profits increased on average by 2.0 p.p. and 0.2 p.p. respectively.

Methodology and definitions

Data are drawn from the OECD Revenue Statistics in Latin America database, whose classification of tax revenue is almost equivalent to that of the *Government Finance Statistics Manual* (GFSM). The GFSM provides a comprehensive conceptual and accounting framework suitable for analysing and evaluating fiscal policy. It is harmonised with the other macroeconomic statistical frameworks, such as the overarching *System of National Accounts* (SNA). The GFS and SNA frameworks have been recently revised and several statistical standards were implemented by the countries. However, there are some differences between the definitions of tax revenues used in the OECD Revenue Statistics in Latin America database and the SNA. In the SNA, taxes are compulsory payments, in cash or in kind, made by institutional units to the general government. Social contributions are actual or imputed payments to social insurance schemes to make provision for social insurance benefits that may be compulsory or voluntary. The OECD Revenue Statistics in Latin America database treats compulsory social security contributions as taxes, while the SNA considers them social contributions because the receipt of social security benefit depends, in most countries, upon appropriate contributions having been made.

Further reading

OECD/ECLAC/CIAT/IDB (2016), *Revenue Statistics in Latin America and the Caribbean 2016*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/rev_lat-2016-en-fr*.

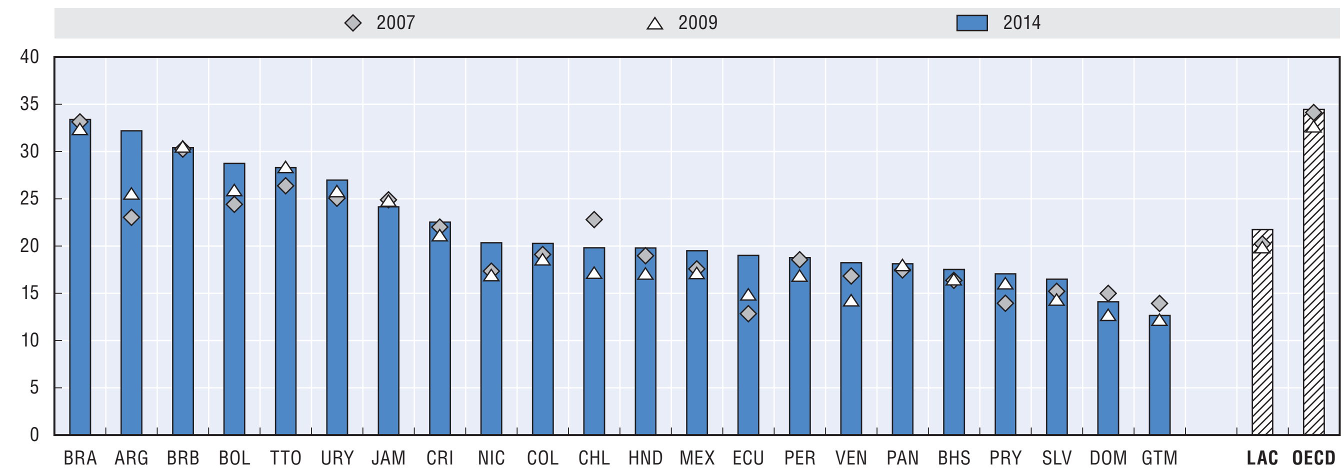
Stein, E. and L. Caro (2013), "Ideology and Taxation in Latin America", Working Paper Series No. IDB-WP-407, Inter-American Development Bank, Washington, DC.

Ter-Minassian, T. (2012), "More than Revenue: Main Challenges for Taxation in Latin America and the Caribbean", Policy Brief No. IDB-PB 175, Inter-American Development Bank, Washington, DC.

Figure notes

2.10: 2014 data for Barbados, Bolivia, Jamaica, Paraguay and Venezuela are estimated. The figures exclude local government revenues for Argentina (but include provincial revenues), Bahamas, Barbados, Dominican Republic, Ecuador, El Salvador, Honduras, Jamaica, Nicaragua, Paraguay and Venezuela. Data for Mexico are for 2013 for payroll, property, goods and services and others.

2.9. Tax revenues as a share of GDP, 2007, 2009, 2014



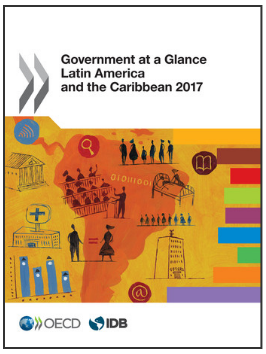
Source: OECD (2016), Revenue Statistics in Latin America (database).

StatLink http://dx.doi.org/10.1787/888933430964

2.10. Breakdown of tax revenues as percentage of total taxation, 2007 and 2014

Source: OECD (2016), Revenue Statistics in Latin America (database).

StatLink http://dx.doi.org/10.1787/888933430790



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