

**EXECUTIVE
BOARD
MEETING**

EBS/21/36
Supplement 1
Correction 1

April 27, 2021

To: Members of the Executive Board

From: The Secretary

Subject: **Colombia—Review Under the Flexible Credit Line Arrangement—
Supplementary Information**

Board Action: The attached correction to EBS/21/36, Sup. 1 (4/26/21) has been provided by the staff:

**Factual Errors Not
Affecting the
Presentation of Staff's
Analysis or Views**

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Questions: Mr. Faruquee, WHD (ext. 37332)

- *Income taxes:* As the main source of new tax collections, personal Income tax (PIT) thresholds, rates and definitions would be modified to broaden the tax base and raise revenues by 1.4 percent of GDP (see Figure 1). In terms of progressivity, this includes making high pensions taxable.² Additionally, tax rates are also raised on dividend income (from 10 to 15 percent) with an increased minimum threshold. Meanwhile, exemptions and deductions on Corporate Income Taxes (CIT) are reduced.

3. Other tax reforms include new environmental taxes and some temporary transition taxes. In terms of environmental taxes to fight climate change, new carbon, plastic-packaging, pesticide, vehicle, and gasoline taxes are established. To help the transition from COVID-induced deficits, a series of temporary transition taxes are also levied. These include a 3 percent CIT surcharge and a temporary net wealth tax of 1-2 percent for 2022-2023.³ In addition, a temporary high-income 10 percent tax applicable to 2021H2 is proposed for monthly incomes above COP 10 million.

4. Social transfers are strengthened, and new employment programs are established. The unconditional transfer program implemented during the pandemic, Ingreso Solidario, is made permanent with more targeted coverage of households at a cost of 0.4 percent of GDP. The reform also includes measures to improve the targeting of other transfer programs, including energy subsidies. To promote employment during the recovery, the emergency payroll subsidy program (PAEF) would be extended to June 2021, and new employment subsidies would include those who hire young workers, elder workers without a pension, and women over 40 years old without employment contracts.⁴

5. A modified fiscal rule and strengthened fiscal framework are proposed. The reform reinstates the fiscal rule as an anchor and reinforces the fiscal framework to stabilize public debt in the medium-term. A transition path for maximum fiscal deficits is outlined during the post COVID-19 recovery period (2022-2024) before a debt-target driven framework is fully installed. Main reform elements include:

- *Fiscal rule coverage, target, and definition changes:* The new fiscal rule would target the net structural primary balance of the general government. This is a shift from the current rule, which focuses on the overall structural balance of the central government. The new structural target would take account of an oil cycle adjustment based on oil revenue deviations from past data and correct for one-off transactions.⁵ A new debt

² Monthly pensions above COP 4.87.0 million would be taxed.

³ Authorities expect to raise 0.1 percent of GDP per year from net wealth tax.

⁴ Additional temporary employment subsidies, up to a global limit established by the Finance Ministry, are made available for those who hire previously unemployed workers without a demographic target.

⁵ The new method does not include output gaps and projections that influence current target calculations and focuses only on observable measures mainly related to the oil cycle in adjusting the structural target. After the debt target becomes operational, there will be a mechanism to account for other macroeconomic shocks.