DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

FOR AGENDA

EBS/83/163
Correction 1

CONFIDENTIAL

August 29, 1983

To: Members of the Executive Board

From: The Acting Secretary

Subject: Guatemala - Request for Stand-By Arrangement

The following corrections have been made in EBS/83/163 (8/4/83):

Page 22, Table 8, Column 1983, line 13: for "69" read "9"

Page 50, Table 3, line 1: for "July 1, 1983 - September 30, 1983"
read "July 1, 1983 - August 31, 1983"

Corrected pages are attached.

Att: (1)

Guatemala: The Reform of the Tax System

This appendix summarizes the main features of the tax reform which was enacted July 12 and entered into effect on August 1, 1983. The fiscal package involves the introduction of new taxes, the replacement of existing taxes, and the elimination of a number of outmoded taxes. A key objective of the tax reform is to increase revenue yields. By and large, the most important measure contemplated in this area is the replacement of the sales (stamp) tax by a new value added tax. The reform also aims at making the tax system more efficient and includes measures to improve tax administration and control procedures. In addition, the tax reform envisages changes in the structure of incentives for production and export with a view to stimulating domestic activity and providing additional balance of payments support.

1. Value added tax

As of August 1, 1983, the current 3 per cent cascading stamp tax on sales was substituted by a new value added tax. The traditional stamp tax on specified legal documents remains operative. The new value added tax will apply to all goods and services sold in the domestic market irrespective of country of origin, with the exception of the following: wages and salaries, a basket of basic consumer goods;1/ petroleum and selected petroleum derivatives; selected inputs into agricultural production; banking, insurance, and financial services as well as sales of low-income housing financed with government financial aid or otherwise built under a cooperative arrangement. Exports of goods and services are exempt from the tax since by definition they are sold abroad. The abolition of the stamp tax on wages and salaries and on financial transactions such as bank loans and interest-bearing accounts and their exclusion from the new value added tax is noteworthy.

The new value added tax is expected to generate revenue in excess of the projected yield of the stamp tax which it replaces amounting to Q 58 million in 1983 and Q 199 million in 1984 (Table 8). The increase in revenue will stem mainly from two factors. First, the 10 per cent rate established for the new tax represents a higher fiscal burden than the stamp tax equivalent currently in force. Secondly, the rationalization process that will accompany the introduction of the value added tax, together with the administrative procedures that have been devised for its implementation, are expected to reduce significantly the amount of underinvoicing of tax obligations and other forms of tax evasion

---

1/ The basket of basic consumer goods is made up of more than 80 items including food products such as: corn, flour, bread, fresh vegetables, dairy products, fresh fish, all meats, cooking oils, edible fats, salt and vinegar; hygenic products such as: soap, toothpaste, and toothbrushes; medicines; orthopaedic aids; selected educational expenses; all publications; ground transportation, rents paid on family housing; and the use of up to 150 kw of electric energy and 30,000 liters of drinkable water per month.

under the stamp tax. Under the new scheme, at each stage of the production and marketing process a tax credit is granted against the tax obligation generated in that stage for an amount equal to the tax charged by suppliers. Hence, it is in the interest of taxpayers to demand a tax invoice from their respective suppliers, thereby enabling the implementation of a double control procedure on tax declarations.

Table 8. Guatemala: Net Effect of Tax Reform Measures

(In millions of quetzales)

	1983	1984
Net additional revenue	48	163
Revenue increases	118	393
Value added tax	110	369
Income tax: financial institutions	2	5
Soft drinks	--	--
Alcoholic beverages	2	6
Beer	2	7
Wine and cider	--	1
License fees (patente)	1	2
Exit tax	1	2
Revenue decreases	70	230
Stamp tax on sales	52	170
Stamp tax on credit	9	24
Export taxes	9	20
Income tax	--	15
Minor taxes	--	1
Revenue-neutral measures	--	--
Cigarette tax law	--	--

Source: Fund staff estimates.

2. Changes in the income tax law: corporate income

Corporate income has been taxed according to a progressive rate scale which discouraged increases in the volume of operations of enterprises.1/ The new tax reduces the number of tax brackets from 60 to 5

1/ Details on the corporate income tax as it operated prior to the reform are provided in SM/83/71 (Appendix A).

Table 2. Guatemala: Ceilings on the Net Domestic Assets of the Monetary Authority 1/

(Outstanding balances in millions of quetzales)

Period	Ceiling
July 1, 1983 - September 30, 1983	775
October 1, 1983 - December 31, 1983	780
January 1, 1984 - March 31, 1984	775
April 1, 1984 - June 30, 1984	770
July 1, 1984 - September 30, 1984	775
October 1, 1984 - December 31, 1984	810

1/ Adjusted downwards for any difference between actual and projected level of arrears as shown in Table 3.

Table 3. Guatemala: Limits on the Outstanding Balance of Payments Arrears 1/

(In millions of quetzales)

Period	Limit
July 1, 1983 - August 31, 1983	400
September 1, 1983 - September 30, 1983	385
October 1, 1983 - December 31, 1983	350
January 1, 1984 - March 31, 1984	325
April 1, 1984 - June 30, 1984	300
July 1, 1984 - September 30, 1984	275
October 1, 1984 - December 31, 1984	250

1/ Adjusted downwards for difference between projected and actual level of arrears outstanding as of August 31, 1983, and adjusted upwards for any of that same difference which is converted into bonds after Augut 31, 1983 until December 31, 1983.