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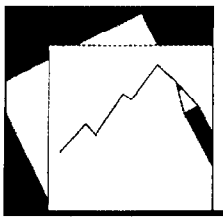

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Central American Tax Reform: Trends and Possibilities

Janet Stotsky and Asegedech WoldeMariam

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Central American Tax Reform: Trends and Possibilities

Prepared by Janet G. Stotsky and Asegedech WoldeMariam[1]

Authorized for distribution by Michael Keen

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Abstract

Central American tax systems are modern in their orientation, though there remains scope for beneficial reform. Value-added taxes are the mainstay of collections, but their performance varies. Income and property taxes remain relatively underused and should apply to higher-income taxpayers more comprehensively. Tax reform needs to be mindful of global competition. Continuing improvement in administrative performance is also essential.

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Keywords: Tax Reform, Central America

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I. Introduction

Central America economic performance improved markedly in the 1990s.[2] But there remain many challenges for this region, especially in strengthening the public finances and revenue yields. Achieving and maintaining a sound fiscal position is essential for macroeconomic stability and for creating the appropriate conditions for sustained economic growth. Key issues are to reform the system of taxation to achieve a sound structure that is buoyant in generating revenue, distorts economic decisions as little as possible, and achieves the degree of redistribution that is consistent with equity goals. Because Central American countries are small, open economies, another goal is harmonization of their tax systems with each other to better enable producers to compete with surrounding, larger neighbors, such as Mexico or Colombia, and to avoid harmful tax competition for scarce resources such as capital and skilled labor. Harmonization can also facilitate tax and customs administration. Harmonization of the domestic tax system is complementary to harmonization of trade regimes, through efforts such as those made by the Central American Common Market.

Central American tax systems are modern in their orientation, especially now that every country has a value-added tax (VAT). However, there remain a number of significant challenges for countries in the region with regard to tax policy. First, revenue collections and tax productivities in many countries are still relatively weak. The causes underlying this weakness appear to be a combination of tax policies that have eroded tax bases as well as continuing weaknesses in tax and customs administration. Second, harmonization of taxes on domestic goods and services, primarily VAT and excises, would enhance efforts at strengthening both revenue collections and tax productivity. The European Union (EU) model could usefully be adapted to Central America. Third, property taxes and other, more locally-based charges or taxes are currently minimal but could contribute to strengthening both the budget and efforts at fiscal decentralization.

There is an extensive literature on taxation in developing countries, including Latin America. Tanzi and Zee (2000) present general reflections on tax policy for developing countries. Bird (1992) and Shome (1999) offer a review of recent developments in Latin America. This paper examines recent trends in tax systems in Central America. Section II lays out some general principles of taxation; Section III offers some general reflections on recent trends in taxation in the region; Section IV discusses domestic taxes on goods and services; Section V discusses income taxes; Section VI reviews administrative trends; Section VII examines tax harmonization in the region; and Section VIII concludes.

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[2] In this paper, Central America refers to Costa Rica, the Dominican Republic, El Salvador, Honduras, Guatemala, Nicaragua, and Panama.

II. General Principles of Tax Reform

The most important economic principles underlying sound tax reform are:

- The tax system should be efficient in that private consumption, saving, production, and investment decisions should differ as little as possible from what they would be in the absence of taxes. However, in the presence of market imperfections, such as externalities some distorting taxes may improve efficiency and enhance growth. The tax system should thus support efforts to increase economic growth.

- The tax system should be fair or equitable in the distribution of the tax burden. Vertical equity implies that those with greater ability to pay tax should pay a larger proportion of their income or wealth in taxes while horizontal equity implies that those with equal ability to pay tax should pay the same proportion in taxes.

- The tax system should facilitate tax administration and reduce taxpayer compliance costs.

- The tax system should be stable, often with phasing in of significant changes, to ensure that taxpayers can make rational economic decisions. It should also match tax instruments to tax objectives.

- The tax system should be transparent and rules-driven, with scope for discretion on the part of administrators minimized, to reduce uncertainty and the incentive for corruption. The legal framework should be clear and applied in a uniform manner.

Efficiency considerations suggest that, for a given revenue requirement, the degree to which economic decisions are altered by taxes should be minimized, unless the purpose is to address externalities (distortions not taken into account by the market) and other market imperfections. This implies that tax bases should be broad-based and the tax rate should be as low as possible to achieve revenue goals. Income taxes should have relatively few tax rate brackets and corresponding rates, and few deductions or allowances. VATs are best levied at one rate, and should have few exemptions. Only exports should be subject to zero rating. Luxury or excise taxes serve certain purposes, like discouraging certain activities (for example, excise taxes on alcohol or cigarettes) or adding progressivity to indirect taxes (for example, excise taxes on cars) but should not apply to a wide range of activities.

In addition, efficiency considerations mean that production decisions should not be distorted in the presence of externalities and other market imperfections. Tax incentives, such as tax holidays, should not be used to encourage particular activities because such incentives tend to distort economic decisions and lead to revenue losses that require higher tax rates overall to achieve revenue goals.

Equity considerations suggest that taxes should be based on taxpayers' ability to pay, though it is also appropriate to base tax payments on the principle that those who benefit from a

public service should pay for it. Achieving equity goals based on ability to pay requires reliance on a broad measure of income, which is the best indicator of underlying ability to pay, or else consumption, which is closely related to income but excludes the saving component. An income tax can be made more progressive through a schedule of increasing marginal tax rates (the tax rate applied to each bracket of income), or through a general allowance or one for family members and high expenses on necessities, such as medical care. Similarly, a VAT can be made more progressive by exempting certain goods or taxing them at a lower than standard rate, such as basic foodstuffs largely consumed by poorer households. A few luxury excises and targeted spending in the budget can also help achieve the desired progressivity of the fiscal structure.

The goal of administrability requires that the tax system be simple (or as simple as necessary to account for the complexity of economic decision-making). This goal can be accomplished by using final withholding for certain forms of income tax, making the tax system schedular to some extent, and relying on a limited number of rates under the different taxes. Finally, the goals of stability and transparency require that tax laws and regulations be clear and comprehensive. Judicial reform is critical in this regard. Tax liabilities should be determined in accordance with the tax law and not negotiated. The tax administration should have sufficient powers to enforce the tax laws. Taxpayers should have recourse through the legal system to challenge or clarify the tax laws.

III. Structure of Tax System in Central America

Central American countries have modern tax systems. However, they still differ in certain respects. One notable feature of Central American tax systems is the variation in the overall revenue and tax revenue to GDP ratio (Tables 1, 2, 15, and 16).[3] The average tax yield for Central American countries differ little from the average tax yield for Latin America overall (including Central America) despite the lower average level of income in Central America (Figure 1). Whether Central American countries should strengthen their revenues depend on the purposes for which that revenue would be spent, for example, on worthwhile government programs or used to reduce budget deficits rather than on propping up or subsidizing poorly run parts of the public sector or on public expenditures with little social value. Many of these countries have faced significant fiscal imbalances, and this has led to pressures to increase the revenue yield.

Between 1990–94 and 1995–99, tax revenues to GDP rose on average in Central America from 14.5 percent of GDP to 16.5 percent of GDP, paralleled by a similar change in total

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[3] The data come from *Government Finance Statistics* (IMF); *International Financial Statistics* (IMF); and *World Economic Outlook* (IMF). Only years for which revenue data are available are included. These data are provided by the government to the IMF. For regional averages, the simple average is used. Tables 15 and 16 provide a comparison of GFS and Recent Economic Developments (RED) data.

Table 1. Consolidated Central Government: Tax Structure for Latin American Countries, 1990–94

(In percent of GDP)

	Sample Size	Total Revenue	Tax Revenue	Other Revenue	Taxes on Income, Profits, and Capital Gains			Social Security Taxes	Payroll Taxes	Domestic Taxes on Goods and Services			International Trade Taxes			Property taxes
						Of which:					*Of which:*			*Of which:*		
					Total	Individual	Corporate			Total	General sales, turnover, or VAT	Excises	Total	Import duties	Export duties	
Latin America																
Argentina 1/	1990–94	12.8	11.6	1.2	0.7	0.2	...	5.3	0.0	3.7	2.4	1.2	1.1	0.5	0.2	0.4
Bolivia	1990–94	15.3	9.9	5.4	0.7		0.4	1.2	0.0	5.7	3.9	1.7	1.0	1.0	0.0	1.2
Brazil	1990–94	29.1	18.0	11.1	3.9	0.2	1.1	7.3	1.2	5.1	1.6	2.4	0.5	0.5	0.0	0.0
Chile	1990–94	22.2	18.4	3.8	3.8	...	...	1.6	0.0	10.0	8.1	1.9	2.2	...	...	0.0
Colombia 2/	1990–94	13.2	11.5	1.8	5.0	0.2	3.9	0.0	0.0	4.8	4.0	0.7	1.6	1.5	0.1	0.0
Costa Rica	1990–94	20.2	17.5	2.7	1.9	1.5	0.5	5.7	0.0	6.3	3.6	2.4	3.6	2.8	0.7	0.1
Dominican Republic	1990–94	14.6	13.2	1.4	2.4	1.1	1.3	0.6	0.0	3.9	...	3.1	6.1	5.7	0.0	0.1
Ecuador 2/	1990–94	16.3	15.5	0.8	9.3	...	7.9	0.0	0.0	3.9	3.1	0.8	2.0	1.7	0.0	0.2
El Salvador 2/	1990–94	10.6	9.8	0.8	2.2	0.9	1.3	0.0	0.0	5.1	3.8	1.1	1.9	1.6	0.3	0.6
Guatemala 2/	1990–94	8.7	7.4	1.3	1.7	0.2	1.4	0.0	0.0	3.6	2.5	1.0	1.7	1.7	0.0	0.1
Honduras	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Mexico	1990–94	15.1	13.5	1.6	5.0	...	...	1.8	0.0	8.4	3.0	1.5	1.1	1.0	0.0	0.0
Nicaragua	1990–94	19.1	17.6	1.5	2.2	...	...	2.2	0.0	8.5	2.1	6.4	3.6	3.6	0.0	0.2
Panama	1990–94	31.3	21.4	9.9	5.5	0.3	1.9	6.2	0.0	5.3	2.1	2.2	3.3	3.1	0.2	0.5
Paraguay	1990–94	13.1	9.3	3.8	1.3		1.3	0.0	0.1	3.5	1.7	1.4	2.1	1.8	0.0	0.8
Peru	1990–94	14.6	13.4	1.2	1.6	0.4	1.1	1.6	0.3	7.4	3.9	3.5	1.7	1.5	0.2	0.5
Uruguay	1990–94	27.2	25.7	1.6	1.8	0.5	1.3	8.0	0.2	8.9	5.5	3.1	1.8	1.5	0.1	1.3
Venezuela	1990–94	20.2	15.9	4.3	11.2	...	...	0.9	0.0	1.8	0.6	0.6	1.8	1.7	...	0.3
Unweighted regional average 3/		17.9	14.7	3.2	3.6	0.5	1.9	2.5	0.1	5.6	3.2	2.1	2.2	1.9	0.1	0.4
Central America																
Costa Rica	1990–94	20.2	17.5	2.7	1.9	1.5	0.5	5.7	0.0	6.3	3.6	2.4	3.6	2.8	0.7	0.1
Dominican Republic	1990–94	14.6	13.2	1.4	2.4	1.1	1.3	0.6	0.0	3.9	...	3.1	6.1	5.7	0.0	0.1
El Salvador 2/	1990–94	10.6	9.8	0.8	2.2	0.9	1.3	0.0	0.0	5.1	3.8	1.1	1.9	1.6	0.3	0.6
Guatemala 2/	1990–94	8.7	7.4	1.3	1.7	0.2	1.4	0.0	0.0	3.6	2.5	1.0	1.7	1.7	0.0	0.1
Honduras	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Nicaragua	1990–94	19.1	17.6	1.5	2.2	...	...	2.2	0.0	8.5	2.1	6.4	3.6	3.6	0.0	0.2
Panama	1990–94	31.3	21.4	9.9	5.5	0.3	1.9	6.2	0.0	5.3	2.1	2.2	3.3	3.1	0.2	0.5
Unweighted regional average 3/		17.4	14.5	2.9	2.7	0.8	1.3	2.5	0.0	5.5	2.8	2.7	3.4	3.1	0.2	0.3

Sources: *Government Finance Statistics* (IMF); *International Financial Statistics* (IMF); and *World Economic Outlook* (IMF).

1/ Total tax revenue shown is net of tax revenue transferred back to subcentral levels of government due to revenue sharing agreements.
2/ Budgetary central government.
3/ For each revenue classification, only countries for which data are available are included in the calculation.

Table 2. Consolidated Central Government: Tax Structure for Latin American Countries, 1995–99

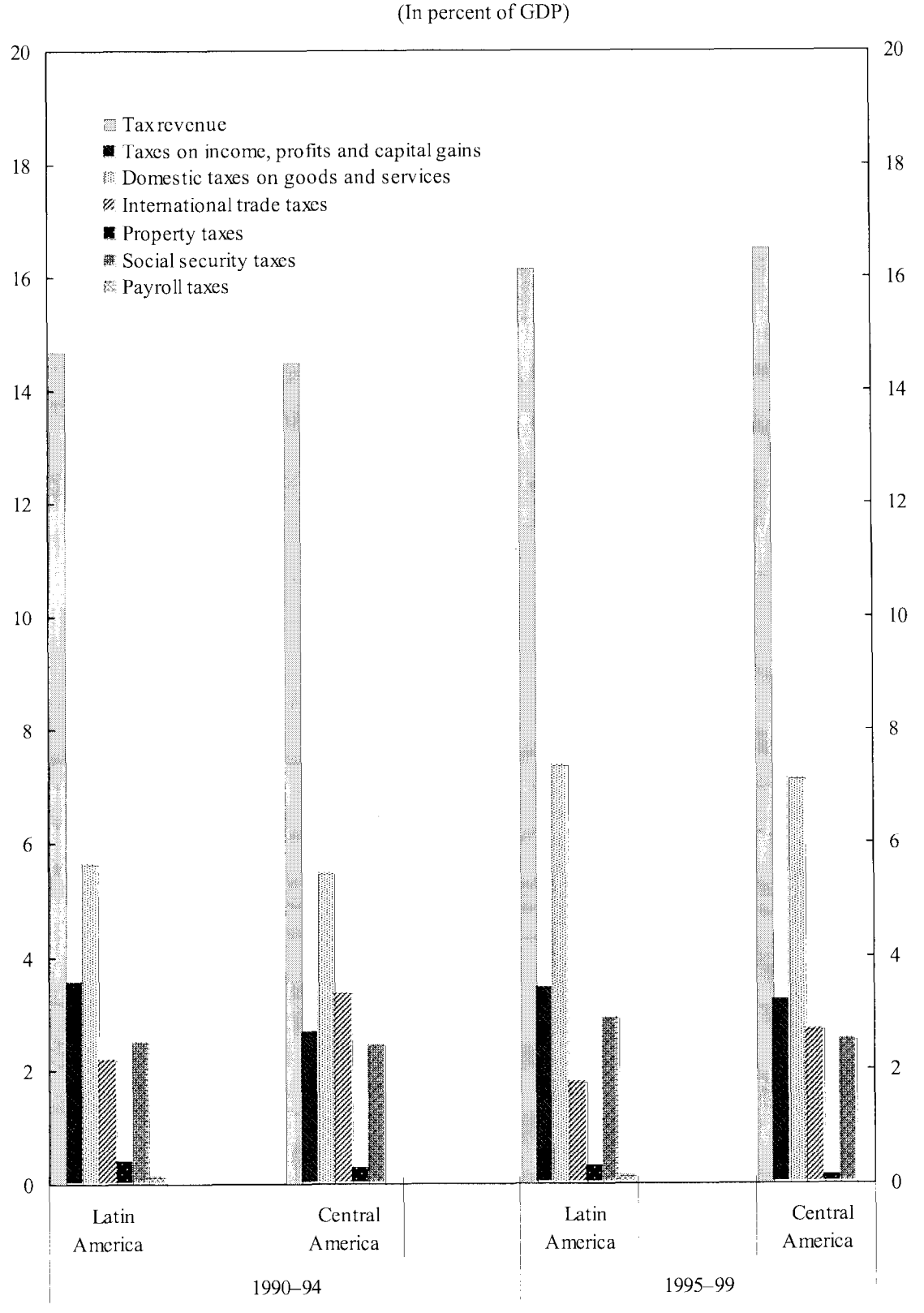
(In percent of GDP)

	Sample Size	Total Revenue	Tax Revenue	Other Revenue	Taxes on Income, Profits, and Capital Gains			Social Security Taxes	Payroll Taxes	Domestic Taxes on Goods and Services			International Trade Taxes			Property taxes
					Total	*Of which:* Individual	Corporate			Total	*Of which:* General sales turnover, or VAT	Excises	Total	*Of which:* Import duties	Export duties	
Latin America																
Argentina 1/	1995–98	13.6	12.5	1.1	1.8	0.6	1.2	4.0	0.0	5.4	3.7	1.6	0.9	0.8	0.0	0.3
Bolivia	1995–99	17.3	13.9	3.4	1.1	...	1.1	1.9	0.0	8.0	6.0	1.9	1.1	1.1	0.0	1.5
Brazil	1997	24.5	19.8	4.7	3.9	0.3	1.5	8.6	1.2	5.4	2.1	1.9	0.6	0.6	0.0	0.0
Chile	1995–99	22.9	19.0	3.9	4.1	...	...	1.4	0.0	10.6	8.5	2.1	1.9		...	0.0
Colombia 2/	1995–99	12.0	10.3	1.6	4.2	0.2	3.9	0.0	0.0	5.0	4.5	0.5	1.0	1.0	0.0	0.1
Costa Rica	1995–99	20.3	17.9	2.4	2.4	1.7	0.5	5.7	0.0	7.7	4.8	2.5	1.9	1.5	0.2	0.1
Dominican Republic	1995–98	16.3	14.9	1.4	2.6	1.5	1.0	0.6	0.0	5.6	...	4.7	5.9	5.5	0.0	0.1
Ecuador 2/	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
El Salvador 2/	1995–99	11.7	11.1	0.6	3.2	1.3	1.9	0.0	0.0	6.2	5.5	0.6	1.5	1.5	0.0	0.1
Guatemala 2/	1995–99	9.2	8.9	0.3	2.0	0.2	1.1	0.0	0.0	5.2	3.8	1.1	1.5	1.5	0.0	0.0
Honduras	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Mexico	1995–98	14.6	12.6	2.0	4.4	...	...	1.8	0.0	8.4	3.0	1.5	0.6	0.6	0.0	0.0
Nicaragua	1995	25.8	23.9	2.0	2.8	...	...	3.3	0.0	10.9	2.9	7.6	5.3	5.3	0.0	0.0
Panama	1995–98	33.4	22.5	10.9	6.3	0.3	2.0	5.7	0.0	...	...	...	0.1	...	0.1	0.5
Paraguay	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Peru	1995–99	17.2	14.9	2.4	3.4	1.2	2.2	1.4	0.5	8.5	6.4	2.1	1.7	1.7	0.0	0.0
Uruguay	1995–99	28.6	26.2	2.4	3.5	1.4	2.0	8.3	0.2	10.7	7.4	3.0	1.0	0.9	0.0	1.5
Venezuela	1995–99	18.8	13.7	5.1	5.9	...	...	0.6	0.0	5.7	4.5	0.7	1.6	1.6	...	0.3
Unweighted regional average 3/		19.1	16.1	2.9	3.4	0.9	1.7	2.9	0.1	7.4	4.8	2.3	1.8	1.8	0.0	0.3
Central America																
Costa Rica	1995–99	20.3	17.9	2.4	2.4	1.7	0.5	5.7	0.0	7.7	4.8	2.5	1.9	1.5	0.2	0.1
Dominican Republic	1995–98	16.3	14.9	1.4	2.6	1.5	1.0	0.6	0.0	5.6	...	4.7	5.9	5.5	0.0	0.1
El Salvador 2/	1995–99	11.7	11.1	0.6	3.2	1.3	1.9	0.0	0.0	6.2	5.5	0.6	1.5	1.5	0.0	0.1
Guatemala 2/	1995–99	9.2	8.9	0.3	2.0	0.2	1.1	0.0	0.0	5.2	3.8	1.1	1.5	1.5	0.0	0.0
Honduras	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Nicaragua	1995	25.8	23.9	2.0	2.8	...	...	3.3	0.0	10.9	2.9	7.6	5.3	5.3	0.0	0.0
Panama	1995–98	33.4	22.5	10.9	6.3	0.3	2.0	5.7	0.0	...	...	...	0.1	...	0.1	0.5
Unweighted regional average 3/		19.4	16.5	2.9	3.2	1.0	1.3	2.5	0.0	7.1	4.2	3.3	2.7	3.1	0.1	0.1

Sources: *Government Finance Statistics* (IMF); *International Financial Statistics* (IMF); and *World Economic Outlook* (IMF).

1/ Total tax revenue shown is net of tax revenue transferred back to subcentral levels of government due to revenue sharing agreements.
2/ Budgetary central government.
3/ For each revenue classification, only countries for which data are available are included in the calculation.

Figure 1. Latin American Countries: Tax Revenue Structure, 1990–94 and 1995–99



Sources: *Government Finance Statistics* (IMF), *International Financial Statistics* (IMF); and *World Economic Outlook* (IMF).

revenues to GDP and by an increase in tax revenue in Latin America. Notably, all countries in Central America experienced an increase in the tax revenue to GDP ratio between these periods.[4] Two countries, Nicaragua and Panama, finished the period with a tax revenue to GDP ratio above 20 percent, with Nicaragua's tax revenue to GDP ratio increasing from 17.6 percent in 1990–94 to 23.9 percent in 1995, the latest year for which data were available.[5] Guatemala has the weakest revenue share, largely reflecting prolonged civil conflict, though it also improved the tax revenue to GDP ratio from 7.4 percent to 8.9 percent, from 1990–94 to 1995–99, still short of its goal of 12 percent, as agreed to in the Peace Accords.

Central American tax systems rely on diverse sources of revenue, including the major categories of domestic taxes on goods and services, taxes on income and profits, and international trade taxes (Table 3 and 4). By virtue of the small size of Central American countries, most revenue is collected by the central government. Domestic taxes on goods and services, consisting of VAT, excises or selective sales taxes (sometimes applied to an extensive array of goods), and other transactions-type taxes, are the broadest and most robust source of tax revenue.[6] This component of tax revenues rose from 39.5 percent of tax revenues to 48 percent over the two periods, paralleling a similar rise in Latin America.

VAT is the main source of revenue from domestic goods and services in these countries, rising from 22.7 percent of tax revenue to 32.8 percent over the two periods. This growth in reliance on broad-based sales taxes is consistent with worldwide trends. These taxes are seen as a relatively administrable and efficient way to generate revenues. Excises are also an important revenue source in the region, generating on average 17.9 percent of tax revenues in the earlier period and marginally increasing to 19.0 percent in the latter. Although developed countries have seen a drop in reliance on excises in recent decades, this is less evident in developing countries, especially those where income taxes are weak.

Taxes on income and profits, consisting of personal income and enterprise income taxes, constitute another main source of tax revenue. In contrast to domestic consumption taxes, this component of taxation is relatively weak in most Central American countries, averaging only 19.2 percent of tax revenues in the earlier period and rising to 20.3 percent in the latter. These shares are a little lower than that in Latin America, though the trends diverged over the

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[4] GDP estimates in several Central American countries appear to be significantly underestimated, raising the measured tax to GDP ratio for these countries. However, if this mismeasurement is systematic, the trends in this ratio would still be meaningful, even if the precise level is not.

[5] Although GDP tends to be understated in many developing countries, Nicaragua's and Honduras's GDP estimates are thought to be significantly understated, so that, if GDP were adjusted upward, the tax ratio would fall. There have recently been some revisions to Costa Rica's GDP series, which have been incorporated into the data presented in this paper.

[6] Domestic taxes on goods and services include taxes collected at the first stage on imports, as under the VAT and excises, since ultimately the tax is borne by domestic consumers (as these taxes are rebated on exports).

Table 3. Consolidated Central Government: Tax Structure for Latin American Countries, 1990–94

(In percent of tax revenue)

	Sample Size	Total Revenue	Tax Revenue	Other Revenue	Taxes on Income, Profits, And Capital Gains			Social Security Taxes	Payroll Taxes	Domestic Taxes on Goods and Services			International Trade Taxes			Property taxes
						Of which:					*Of which:*			*Of which:*		
					Total	Individual	Corporate			Total	General sales, turnover or VAT	Excises	Total	Import duties	Export duties	
Latin America																
Argentina 1/	1990–94	110.5	100.0	10.5	5.8	1.5	...	46.2	0.0	30.8	19.5	10.7	9.9	4.3	2.3	3.4
Bolivia	1990–94	154.8	100.0	54.8	7.3	...	3.8	12.4	0.0	56.5	38.6	17.3	10.1	10.1	0.0	12.5
Brazil	1990–94	162.0	100.0	62.0	21.9	1.2	5.8	40.4	6.8	28.2	8.7	13.2	2.6	2.6	0.0	0.0
Chile	1990–94	121.9	100.0	21.9	20.7	...	...	8.7	0.0	54.3	43.8	10.5	12.3	...	...	0.0
Colombia 2/	1990–94	115.8	100.0	15.8	43.6	2.3	39.5	0.0	0.0	41.5	35.1	6.2	13.9	13.2	0.7	0.0
Costa Rica	1990–94	115.4	100.0	15.4	11.0	8.3	2.6	32.5	0.0	35.8	20.6	13.7	20.5	15.8	3.6	0.7
Dominican Republic	1990–94	110.5	100.0	10.5	19.1	8.4	10.5	4.6	0.0	28.9	...	23.0	46.4	43.4	0.0	0.7
Ecuador 2/	1990–94	105.2	100.0	5.2	59.9	...	50.8	0.0	0.0	25.6	20.3	5.2	12.6	11.2	0.3	1.2
El Salvador 2/	1990–94	107.4	100.0	7.4	22.7	9.4	13.3	0.0	0.0	52.0	38.7	11.6	19.0	16.2	2.8	5.8
Guatemala 2/	1990–94	117.6	100.0	17.6	22.8	2.9	19.4	0.0	0.0	48.5	32.6	13.8	22.7	22.7	0.1	1.3
Honduras	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Mexico	1990–94	111.9	100.0	11.9	37.4	...	...	15.8	0.7	57.4	22.3	12.0	7.8	7.7	0.0	0.0
Nicaragua	1990–94	109.8	100.0	9.8	13.7	...	...	11.9	0.0	47.1	12.0	35.0	20.6	26.2	0.0	1.4
Panama	1990–94	146.3	100.0	46.3	25.9	1.3	8.7	29.1	0.0	24.6	9.6	10.4	15.7	20.6	1.2	2.3
Paraguay	1990–94	141.3	100.0	41.3	13.7	...	13.7	0.0	1.5	37.2	18.7	14.9	22.4	14.4	0.0	9.0
Peru	1990–94	108.9	100.0	8.9	11.5	3.1	8.4	11.7	2.2	55.5	28.8	26.7	12.5	10.8	1.7	3.9
Uruguay	1990–94	106.0	100.0	6.0	7.1	1.8	4.9	30.9	0.6	35.0	21.7	12.2	7.2	7.3	0.2	5.0
Venezuela	1990–94	127.1	100.0	27.1	69.5	...	...	5.6	0.0	12.0	4.4	3.6	11.7	5.9	...	1.9
Unweighted regional average 3/		121.9	100.0	21.9	24.3	4.0	15.1	14.7	0.7	39.5	23.5	14.1	15.8	14.5	0.9	2.9
Central America																
Costa Rica	1990–94	115.4	100.0	15.4	11.0	8.3	2.6	32.5	0.0	35.8	20.6	13.7	20.5	15.8	3.6	0.7
Dominican Republic	1990–94	110.5	100.0	10.5	19.1	8.4	10.5	4.6	0.0	28.9	...	23.0	46.4	43.4	0.0	0.7
El Salvador 2/	1990–94	107.4	100.0	7.4	22.7	9.4	13.3	0.0	0.0	52.0	38.7	11.6	19.0	16.2	2.8	5.8
Guatemala 2/	1990–94	117.6	100.0	17.6	22.8	2.9	19.4	0.0	0.0	48.5	32.6	13.8	22.7	22.7	0.1	1.3
Honduras	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Nicaragua	1990–94	109.8	100.0	9.8	13.7	...	...	11.9	0.0	47.1	12.0	35.0	20.6	26.2	0.0	1.4
Panama	1990–94	146.3	100.0	46.3	25.9	1.3	8.7	29.1	0.0	24.6	9.6	10.4	15.7	20.6	1.2	2.3
Unweighted regional average 3/		117.8	100.0	17.8	19.2	6.1	10.9	13.0	0.0	39.5	22.7	17.9	24.1	24.1	1.3	2.0

Sources: *Government Finance Statistics* (IMF); *International Financial Statistics* (IMF); and *World Economic Outlook* (IMF).

1/ Total tax revenue shown is net of tax revenue transferred back to subcentral levels of government due to revenue sharing agreements.
2/ Budgetary central government.
3/ For each revenue classification, only countries for which data are available are included in the calculation.

Table 4. Consolidated Central Government: Tax Structure for Latin American Countries, 1995–99

(In percent of tax revenue)

	Sample Size	Total Revenue	Tax Revenue	Other Revenue	Taxes on Income, Profits, and Capital Gains			Social Security Taxes	Payroll Taxes	Domestic Taxes on Goods and Services			International Trade Taxes			Property taxes
					Total	*Of which:* Individual	*Of which:* Corporate			Total	*of which:* General sales, turnover or VAT	*of which:* Excises	Total	*of which:* Import duties	*of which:* Export duties	
Latin America																
Argentina 1/	1995–98	108.9	100.0	8.9	14.4	4.5	9.9	32.1	0.0	43.1	30.0	12.5	7.1	6.2	0.2	2.4
Bolivia	1995–99	125.9	100.0	25.9	7.8	...	7.8	13.6	0.0	57.2	43.1	13.9	7.9	7.9	0.0	10.8
Brazil	1997	123.8	100.0	23.8	19.9	1.6	7.6	43.7	6.1	27.2	10.6	9.7	3.0	3.0	0.0	0.2
Chile	1995–99	120.4	100.0	20.4	21.4	...	...	7.6	0.0	55.6	44.5	11.1	10.1	...	...	0.0
Colombia 2/	1995–99	115.9	100.0	15.9	40.2	2.1	38.1	0.0	0.0	48.7	43.5	5.1	9.8	9.8	0.0	1.1
Costa Rica	1995–99	113.4	100.0	13.4	13.4	10.0	2.9	31.6	0.0	43.3	26.6	13.8	10.7	8.5	1.3	0.3
Dominican Republic	1995–98	109.1	100.0	9.1	17.7	10.3	6.9	4.3	0.0	37.3	...	31.3	39.8	36.8	0.0	0.7
Ecuador 2/	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
El Salvador 2/	1995–99	105.4	100.0	5.4	28.6	11.9	16.8	0.0	0.0	56.1	49.7	5.6	13.4	13.3	0.0	1.1
Guatemala 2/	1995–99	103.5	100.0	3.5	22.3	2.5	13.0	0.0	0.0	57.8	42.8	12.3	17.5	17.4	0.0	0.2
Honduras	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Mexico	1995–98	115.9	100.0	15.9	34.9	...	...	14.6	0.0	66.5	23.7	12.2	4.6	4.6	0.0	0.0
Nicaragua	1995	108.2	100.0	8.2	11.8	...	...	13.8	0.0	45.6	12.0	31.9	22.2	45.5	0.0	0.0
Panama	1995–98	148.9	100.0	48.9	28.1	1.3	8.8	25.0	0.0	...	...	...	22.8	22.2	0.5	2.1
Paraguay	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Peru	1995–99	115.9	100.0	15.9	23.2	8.2	15.0	9.5	3.3	57.0	43.0	14.0	11.1	11.1	0.0	0.0
Uruguay	1995–99	109.4	100.0	9.4	13.6	5.5	7.7	31.7	0.6	40.7	28.3	11.4	3.9	6.7	0.0	5.6
Venezuela	1995–99	137.4	100.0	37.4	41.9	...	...	4.4	0.0	41.7	32.6	5.6	12.0	3.5	...	2.8
Unweighted regional average 3/		117.5	100.0	17.5	22.6	5.8	12.2	15.5	0.7	48.4	33.1	13.6	13.0	14.0	0.2	1.8
Central America																
Costa Rica	1995–99	113.4	100.0	13.4	13.4	10.0	2.9	31.6	0.0	43.3	26.6	13.8	10.7	8.5	1.3	0.3
Dominican Republic	1995–98	109.1	100.0	9.1	17.7	10.3	6.9	4.3	0.0	37.3	...	31.3	39.8	36.8	0.0	0.7
El Salvador 2/	1995–99	105.4	100.0	5.4	28.6	11.9	16.8	0.0	0.0	56.1	49.7	5.6	13.4	13.3	0.0	1.1
Guatemala 2/	1995–99	103.5	100.0	3.5	22.3	2.5	13.0	0.0	0.0	57.8	42.8	12.3	17.5	17.4	0.0	0.2
Honduras	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Nicaragua	1995	108.2	100.0	8.2	11.8	...	...	13.8	0.0	45.6	12.0	31.9	22.2	45.5	0.0	0.0
Panama	1990–98	148.9	100.0	48.9	28.1	1.3	8.8	25.0	0.0	...	...	...	22.8	22.2	0.5	2.1
Unweighted regional average 3/		114.8	100.0	14.8	20.3	7.2	9.7	12.5	0.0	48.0	32.8	19.0	21.1	23.9	0.3	0.7

Sources: *Government Finance Statistics* (IMF); *International Financial Statistics* (IMF); and *World Economic Outlook* (IMF).

1/ Total tax revenue shown is net of tax revenue transferred back to subcentral levels of government due to revenue sharing agreements.
2/ Budgetary central government.
3/ For each revenue classification, only countries for which data are available are included in the calculation.

two periods, with the income tax share rising in Central America and dropping in the larger group of countries. Enterprise income taxes are the larger component of this revenue in Central America, though the gap between enterprise and personal income taxes as a share of tax revenue narrowed over the two periods, reflecting worldwide trends toward reduced reliance on enterprise income taxes and increased reliance on personal income taxes. The gap between enterprise and personal income taxes is much larger in Latin America, though it too narrowed over the two periods.

International trade taxes are a third major source of tax revenue in Central America, averaging 24.1 percent of tax revenues in the earlier period and 21.1 in the latter period. This decline offers a sharp contrast with the other components of revenue, but is fully consistent with worldwide trends towards trade liberalization and reduced reliance on international trade taxes. Although in principle international trade taxes may be levied on both imports and exports, most revenues are collected on imports. The share of export taxes practically vanished by the latter period, while the share of import duties only declined slightly.

Two final sources of revenues are social security taxes, which fell from 13 percent of tax revenues in 1990–94 to 12.5 percent in 1995–99[7] and property taxes, which are relatively small but also fell over this period. The first trend is at variance with general worldwide trends, which have seen an increased reliance on social security taxes, especially to provide social insurance and pension annuities to aging workforces.

Central America offers an interesting contrast with the Caribbean. The tax ratio in the Caribbean is for the most part higher than in Central America, averaging more than 20 percent of GDP (Itam, et al., 2000). The difference is most pronounced in the area of income tax. This may reflect a combination of cultural traditions and attitudes toward the public sector or a different administrative emphasis. The greater formalization of the labor market in the Caribbean compared to Central America and the greater ease of compliance in small islands at customs borders may also contribute to stronger tax bases.

IV. Domestic Taxes on Goods and Services

Domestic taxes on goods and services are the mainstay of collections in most developing countries. The VAT is the key component of these revenues (Ebrill et al., 2001). All countries in Central America have a VAT, with the date of introduction ranging from 1975 for Nicaragua and Costa Rica to 1992 for El Salvador. The standard rate of VAT varies across countries (Table 5, Figure 2) but has tended to rise over time, increasing the dominance of this form of revenues. At introduction, the rates ranged from 3 to 10 percent,

[7] To some extent, the classification of taxes as social security taxes or payroll taxes is arbitrary in GFS.

Table 5. Cross-Country Comparisons: Value-Added Tax Rates, 1994, 1997, and 2001 1/

(In percent)

	Date VAT Introduced or Proposed	At Introduction	1994	1997	2001	VAT Revenue Productivities (Latest year) 2/
Latin America						
Argentina	Jan. 1975	**16**	**18**; 26; 27 3/	**21**; 27	10.5; **21**; 27	0.30
Bolivia	Oct. 1973	5; **10**; 15	**14.92**; 4/	**14.92**	**14.92**	0.43
Brazil 5/	Jan. 1967	**15**	**20.5**; 22.0 33.3	**20.5**; 22.0 33.3	**20.5**; 22.0;.33.3	... 6/
		15	7.5; 13.6	7.5; 13.6	7.5; 13.6	
Chile	Mar. 1975	8; **20**	**18**	**18**	**18**	0.58
Colombia	Jan. 1975	4; 6; **10**	8; **14**; 20; 35; 45	8; 15; **16;** 20; 35; 45.6	**16**; 20; 35; 45; 60	0.32
Costa Rica	Jan. 1975	**10**	**8**	**8**	**13**	0.45
Dominican Republic	Jan. 1983	**6**	**6**	**8**	**12**	0.31
Ecuador	Jul. 1970	**4**; 10	**10**	**10**	**12**	0.42
El Salvador	Sept. 1992	**10**	**10**	**13**	**13**	0.49
Guatemala	Aug. 1983	**7**	**7**	**10**	**12**	0.42
Honduras	Jan. 1976	**3**	**7;** 10	**7;** 10	**12;** 15	0.55
Mexico	Jan. 1980	**10**	**10**	**15**	10; **15**	0.28
Nicaragua	Jan. 1975	**6**	5; 6; **10**	5; 6; 10; **15**	5; 6; **15**	0.60
Panama 7/	Mar. 1977	**5**	**5**; 10	**5;** 10	**5;** 10	0.52
Paraguay	Jul. 1993	**12**	**10**	**10**	**10**	0.51
Peru	Nov. 1972	2; 3; 7; **15**; 25	**18**	**18**	**18**	0.42
Uruguay	Jan. 1968	5; **14**	12; **22**	14; **23**	14; **23**	0.31
Venezuela 8/	Oct. 1993	**10**	**10**	**16.5**	**14.5**	0.31
Unweighted regional average 9/		**10.2**	**12.1**	**13.8**	**14.7**	0.42
Central America						
Costa Rica	Jan. 1975	**10**	**8**	**8**	**13**	0.45
Dominican Republic	Jan. 1983	**6**	**6**	**8**	**12**	0.31
El Salvador	Sept. 1992	**10**	**10**	**13**	**13**	0.49
Guatemala	Aug. 1983	7	**7**	**10**	**12**	0.42
Honduras	Jan. 1976	**3**	7; 10	7; 10	**12;** 15	0.55
Nicaragua	Jan. 1975	**6**	5; 6; **10**	5; 6; 10; **15**	5; 6; **15**	0.60
Panama	Mar. 1977	**5**	**5;** 10	**5;** 10	**5**; 10	0.52
Unweighted regional average 9/		**6.7**	**7.6**	**9.4**	**11.7**	0.48

Sources: *Corporate Taxes: Worldwide Summaries* (PricewaterhouseCoopers); *Taxation in Latin America* (IBFD); and *International Tax Summaries: A Guide for Planning and Decisions* (Coopers & Lybrand International Tax Network).

1/ Rates shown in bold type are so-called effective standard rates (tax exclusive) applied to goods and services not covered by other especially high or low rates. Some countries zero rate a few goods and exports.

2/ VAT revenue as a percentage of final consumption expenditure, divided by the VAT standard rate. This is often termed the "c-efficiency" ratio.

3/ Supplementary VAT rates of 8 percent and 9 percent on noncapital goods imports; through "catch-up," these can revert to 18 percent retail.

4/ Effective rate (legislated tax-inclusive rate is 13 percent).

5/ Tax exclusive equivalent rates to tax inclusive rates. Top line are rates 17, 18, and 25 on intra-state trade and bottom line are rates 7 and 12 on inter-state trade.

6/ No calculation is made because the VAT is a state-level tax.

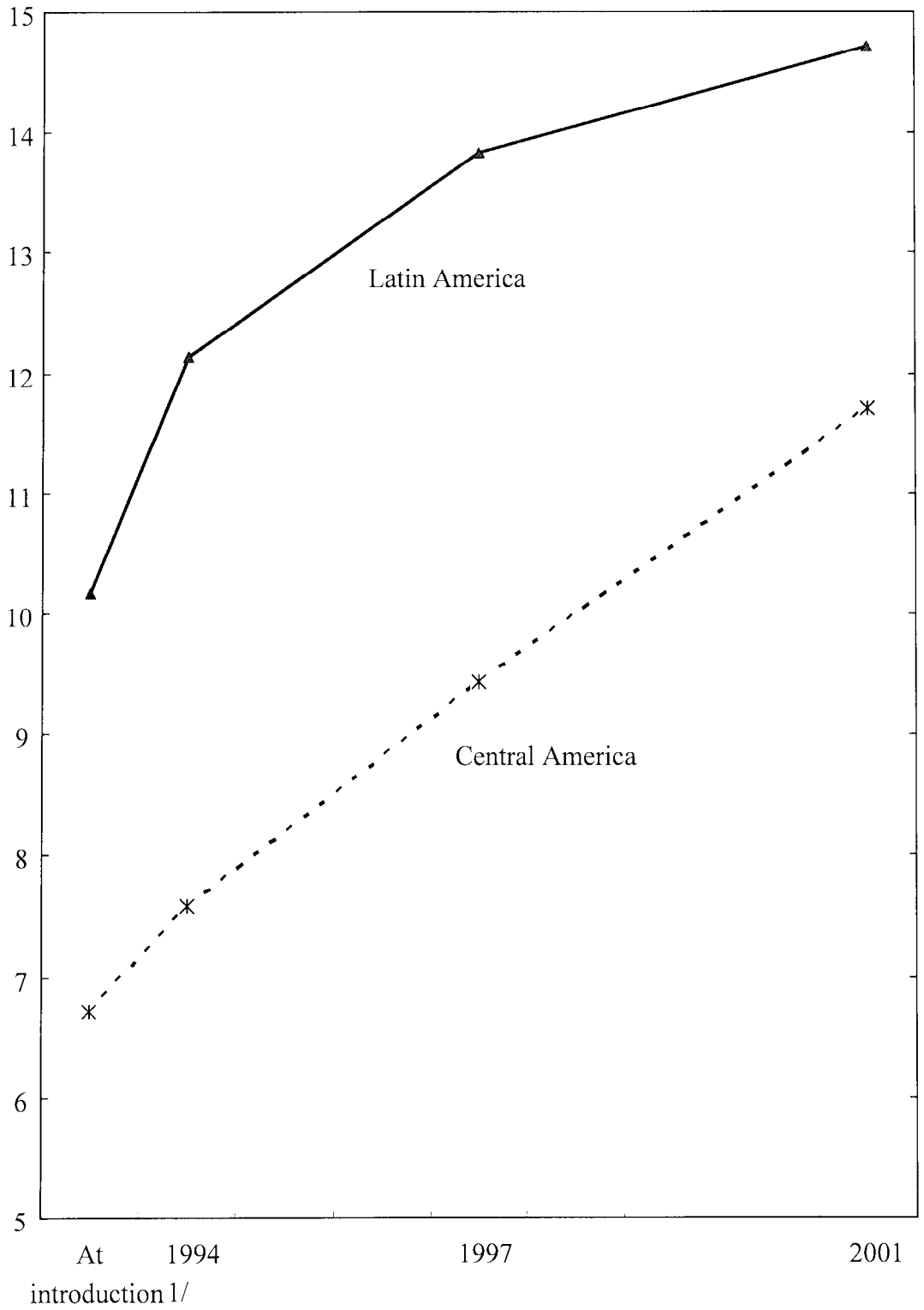
7/ The rate of cigarettes and alcoholic beverages is 10 percent.

8/ Venezuela was the last country to introduce a VAT in October 1993, had removed it by March 1994, but reintroduced it soon thereafter.

9/ Only standard rates.

Figure 2. Latin American Countries: Value-Added Tax Rates, from Introduction, 2001

(In percent)



Sources: *Corporate Taxes: Worldwide Summaries* (PricewaterhouseCoopers); *Taxation in Latin America* (IBFD); and *International Tax Summaries: A Guide for Planning and Decisions* (Coopers & Lybrand International Tax Network).

1/ Because of various dates of introduction, the x-axis is not drawn to scale in this region.

averaging 6.7 percent, but in 2001, the rates ranged from 5 to 13 percent, averaging 11.7 percent.[8] Over time, the variation in VAT rates across these countries has declined, even with the introduction of multiple rates in some countries. As of 2001, all countries, except Nicaragua and Panama had a standard VAT rate of 12 or 13 percent. Nicaragua's was 15 percent and Panama's 5 percent. In comparison to Latin America, the average VAT rate in Central America is lower. The average rate in Latin America rose from 10.2 percent at introduction (varying dates by country) to 14.7 percent in 2001. This rate is still relatively low compared to developed countries, but is close to the average in the Anglophone Caribbean of 15 percent (for example, Jamaica, Trinidad and Tobago, and Barbados).

In several countries, the VAT is levied at two or more rates. In some cases, a higher rate applies to certain luxury goods and in others a lower rate applies to certain necessities. Honduras and Panama use a higher luxury rate, applied in both cases to a limited set of goods. Nicaragua uses two lower rates and is the only country in the region that uses more than two rates. Although many countries with VATs, inside and outside of Latin America, use multiple rate VATs, including those with more than two rates, it is generally thought advisable to limit the number of VAT rates to a single rate, as unlike in the income tax, administrative complexity grow more than proportionately to the number of rates, and may impair collections as well as lead to excessive distortion in economic decisions. Many of the more recently introduced VATs have only a single rate.

VAT revenue productivity is difficult to measure. One commonly used measure, termed the "c-efficiency" ratio, is defined as VAT revenue as a share of domestic consumption (both private and public) divided by the standard VAT rate, and offers some standardization of measurement of the revenue productivity across countries. It averaged about 0.48 in Central America, higher than the ratio of 0.42 in Latin America in the latest year for which data are available (Table 6). In Central America there has been a decline in the average VAT productivity in the past few years, after increasing for several years before that. The pattern of change, however, is uneven across the region, with El Salvador and Nicaragua improving VAT productivity, Panama remaining stable, and Costa Rica, the Dominican Republic, Guatemala, and Honduras experiencing a decline. A declining VAT productivity, if sustained, should be a source of serious concern. Declining productivity overall likely reflects base erosion through legislative changes or reduced tax compliance, though the reasons in any particular country require careful scrutiny. There are, however, several shortcomings of this measure. First, it tends to be biased in countries with multiple rates, given that the calculation is based on a standard rate. Countries with multiple rates in which there are luxury rates higher than the standard rate tend to score better on productivity because the higher revenue is attributed to a lower standard rate, while countries in which there are lower rates than the standard rate tend to score worse, although the dramatic improvement in Nicaragua's VAT productivity belies this observation. Second, countries that

[8] The average is based on the standard rate of VAT, not a weighted average, if there are multiple rates. In these countries, the additional rate generally applies to only a limited set of goods.

Table 6. Cross-Country Comparisons: Value-Added Revenue Productivities 1/

	1994	1997	Latest Year Data Available
Latin America			
Argentina	0.45	0.40	0.30
Bolivia	0.38	0.52	0.43
Brazil 2/	...	...	...
Chile	0.58	0.58	0.58
Colombia	0.36	0.35	0.32
Costa Rica	0.58	0.76	0.45
Dominican Republic	0.51	0.43	0.31
Ecuador	0.43	0.50	0.42
El Salvador	0.51	0.43	0.49
Guatemala	0.39	0.43	0.42
Honduras	0.55	0.65	0.55
Mexico	0.33	0.28	0.28
Nicaragua	0.28	0.48	0.60
Panama	0.50	0.52	0.52
Paraguay	0.49	0.53	0.51
Peru	0.41	0.45	0.42
Uruguay	0.28	0.43	0.31
Venezuela	0.33	0.46	0.31
Unweighted regional average	0.43	0.48	0.42
Central America			
Costa Rica	0.58	0.76	0.45
Dominican Republic	0.51	0.43	0.31
El Salvador	0.51	0.43	0.49
Guatemala	0.39	0.43	0.42
Honduras	0.55	0.65	0.55
Nicaragua	0.28	0.48	0.60
Panama	0.50	0.52	0.52
Unweighted regional average	0.48	0.53	0.48

Sources: *Corporate Taxes*: *Worldwide Summaries* (PricewaterhouseCoopers); *Taxation in Latin America (IBFD);* and *International Tax Summaries: A Guide for Planning and Decisions* (Coopers & Lybrand International Tax Network). Revenue and consumption data are from *Government Finance Statistics* (IMF); *International Financial Statistics* (IMF); and *World Economic Outlook* (IMF).

1/ VAT revenue as a percentage of final consumption expenditure, divided by the VAT standard rate.
2/ No calculation is made because the VAT is a state-level tax.

limit input tax credits for a substantial number of goods or services generate higher revenues, even at the cost of some loss of efficiency of the tax. This would be measured as an improvement in revenue productivity, without taking into account the loss of efficiency. Third, any mismeasurement of final consumption expenditure (likely reflecting a mismeasurement of GDP) would also translate into a mismeasurement of the VAT productivity. With these qualifications in mind, the differences in VAT revenue productivity across the Central American countries are striking, ranging from a high of 0.60 in Nicaragua to a low of 0.31 in the Dominican Republic in the latest period. This variation suggests that there may be some systematic differences in both the structure of the tax (the degree to which the base captures domestic consumption) and the effectiveness of administration of the tax.

Central American VATs share some characteristics in common, including that they are invoice- and destination-based, as in the EU and in most other countries with a VAT. The VAT base tends to be eroded by an excessive number of zero rated and exempt items.[9] Zero-rated items should generally be limited to exports while exempt items should be limited to many (or most) educational, medical, and social services, as well as financial intermediation, housing rentals, and a few other goods and services. Several Central American countries have reasonably well structured VATs, with broad bases and moderate tax rates. El Salvador, in particular, provides a good model of a VAT adopted in the 1990s, with a broad base and a single rate. Costa Rica's VAT is hampered by an excessive degree of denial of input tax credits, which leads to cascading. Central American VATs have scope to broaden the tax base. In particular, exemptions for the agricultural sector and food, for capital goods, and for certain services, such as public events, and special exemptions for investors erode the tax base. Several countries made progress in the 1990s in limiting the scope of VAT exemptions, thus strengthening collections and the structure of the tax.

Excises are a useful supplement to VATs and other broad-based sales taxes. Excises typically apply to tobacco, alcohol, and petroleum, but may also apply to other goods, such as motor vehicles or consumer durables. Excise tax rates tend to vary considerably from one country to another, and the manner in which they are levied—whether ad valorem or unit-based—also tends to vary (Table 7). They also tend to be changed frequently, making it difficult to keep track of the particular excise tax rates in any one country. Because the effective rate of unit-based excise taxes depends on the price of the goods to which they are applied, it is also more difficult to compare them across countries. Excise tax rates may be quite high, and hence, they may enable a country to avoid levying multiple rates under the VAT. However, in general, it appears that excise tax rates in Central America are not high, by an international comparison or compared to some Latin American countries. There would appear to be scope to increase excises on both tobacco and alcoholic beverages in several of these countries.

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[9] Exemption does not necessarily lead to base erosion if there is cascading—exempt items, with VAT on inputs already built into their cost are later sold to a taxable producer, who cannot claim credit for tax on these inputs, hence the tax is levied on tax.

Table 7. Central Latin American Countries: Excise Tax Summary 1/

	Costa Rica Mar. 30, 1996	Dominican Republic Mar. 31, 1999	El Salvador July 2001	Guatemala Dec. 31, 2000	Honduras	Nicaragua	Panama Sept. 30, 1998
Taxes on alcoholic beverages:							
Beer	...	25 percent	20 percent	10.00 percent	...	34 percent	B. 1.325 per liter
Champagne	...		20 percent on		...	37 percent	
Wine	...	35 percent	alcoholic	4.18 percent	...	37 percent	B. 005 per liter 2/
Vermouth Wine	...		beverages.	4.18 percent	...	37 percent	
Brandy	...		Alcoholic		...	37 percent	
Whisky	...	45 percent	beverages and		...	36 percent	
Rum	...	35 percent	beer (C0.05 for		...	36 percent	
Vodka	...	45 percent	each 1 percent of		...	36 percent	
Distilled alcoholic	...		alcohol per liter)	10.60 percent	...	30 percent	
Other	...			10.60 percent	...	43 percent	Spirits -B. 0.035 per degree of alcoholic strength per liter
Taxes on nonalcoholic beverages:						(tasas per gallon)	
Sparkling wine	...					37 percent	
Refreshment drinks	...			4.18 percent	...	9 percent	
Soft drinks	...	RD$0.05 per bottle			...	22 percent	
Cider	...				...	37 percent	
Mineral water	...			2.09 percent	...	...	
Plain or sweetened carbonated	...		10 percent	0.20 percent	...	11.5 percent	5 percent 3/
Taxes on liquid combustibles and natural gas:		Prices (RD$ per gallon): 4/		(Rates per gallon)		(Rates US$ per gallon)	(Rates per gallon)
Gasoline(regular)	...			Q 3.65	...	0.6955	B. 0.60
Gasoline (premium)	...	36.10		Q 3.70	...	0.6985	
Diesel	...	41.56		Q 1.30	...	0.5415	B. 0.25
Kerosene	...	23.91		Q 0.50	...	0.4224	B. 0.13
Avtur	...	22.40			...	0.9017	
Fuel oil	...	18.60		Q 0.55 (Bunker C)	...	0.1888	B. 0.15
Solvent and turpentine	...	17.17			...	0.0	
Aircraft gasoline	...			Q 2.00	...	...	
Gas oil	...			Q 1.30	...	...	
Liquid petroleum gas	...			Q 0.50	...	0.0	
Crude oil used as fuel	...			Q 0.50	...	0.0	
Other fuel derived from petroleum	...			Q 0.50	...	0.0	
Asphalt	...			Q 0.50	...	0.0	B. 0.08

Table 7. Central Latin American Countries: Excises Tax Summary (continued)

	Costa Rica Mar. 30, 1996	Dominican Republic Mar. 31, 1999	El Salvador Jul. 2001	Guatemala Dec. 31, 2000	Honduras	Nicaragua	Panama Sept. 30, 1998
Taxes on tobacco 5/ Cigarettes Cigars Other		 50 percent 25 percent	39 percent	Machine produced tobacco 100 percent, Imported tobacco 100 percent, Imported raw tobacco per kg- Q. 0.50 (produced in Central America), Imported raw tobacco per kg- Q. 1.30 (produced in other countries), Guatemalan cut pipe tobacco per kg Q. 1.00		39.0 percent	32.5 percent of the consumer sales price
Taxes on match boxes	...	RD$0.0033 per box of 15–30 matches; RD$0.01 on boxes of 30 matches or more			...	...	
Taxes on motor vehicles	...	Various			...	35 percent	
Taxes on services: Electric energy Telephone Taxes on airline tickets (International flights) Taxes on airport fees Taxes on hotel rooms		 12 percent 6/ 12 percent US$10 per passenger 7/				 15 percent 15 percent 6 percent US$25 per passenger 15 percent ...	
Taxes on the sales of tickets for public performance and for sport events	...	RD$0.01 per ticket with price of RD$0.20 or lower, 7 percent on the value of tickets with higher prices; and RD$0.05 per ticket for sport events			...	15 percent	

Table 7. Central Latin American Countries: Excises Tax Summary (concluded)

	Costa Rica Mar. 30, 1996	Dominican Republic Mar. 31, 1999	El Salvador Jul. 2001	Guatemala Dec. 31, 2000	Honduras	Nicaragua	Panama Sept. 30, 1998
Taxes on hotel	...	10 percent			...	15 percent	
Taxes on insurance premiums	...	12 percent			...	15 percent	2 and 5 percent—Risk insurance premiums, 7 percent—fire insurance
Taxes on agriculture	(In percent) Banana 1 Coffee 1 Meat 1 Cattle 8 Banana package export duty-US$0.30 per case				...	...	

Source: Country documents tax summary tables.

1/ "..." where the countries have not reported the figures.
2/ B. 0.05 per liter on each alcoholic beverage not classified as wine, where the alcoholic content does not exceed 20 percent proof by volume, except beer.
3/ 6 percent, syrups or concentrate used in the production of carbonated beverages.
4/ Prices in effect on May 8, 2002. Resolution 112-00 allows for prices to be adjusted periodically for, inter alia, changes in the consumer price index, world oil prices, and the official exchange rate, but in practice, adjustments have been infrequent.
5/ Tax on tobacco, percentage applied to the taxable base, which is no less than 44 percent of the retail price, which the manufacturer or importer must suggest and report to the superintendency of tax administration, net of value-added tax in Guatemala.
6/ Tax on long distance communication services at home and abroad, which includes radio, cable, telegraph, and satellites.
7/ Exemption on diplomatic travelers.

Note:- Currency and exchange rates:

Costa Rica:	Colones per U. S. dollar, January 1996, period average = 196.23
Dominican Republic:	Pesos per U. S. dollar, January 2002, period average = 17.310
El Salvador:	Colones per U. S. dollar, January 2002, end of period = 8.750
Guatemala:	Quetzales per U. S. dollar, January 2002, period average = 7.8829
Honduras:	Lempiras per U. S. dollar, January 2002, period average = 15.9727
Nicaragua:	Gold Cordobas per U. S. dollar, January 2002, period average = 13.88
Panama:	Balboas per U. S. dollar, January 2001, end of period = 1.00

V. Taxes on Income and Profits and Taxes on Wealth

Taxes on income and profits are also an important component of revenues. Income taxes are less standardized in comparison to VAT, and hence, across any group of countries—even those linked by geography or tradition—there is likely to be substantial variation in income taxes. In Central America, as in most developing countries, more revenue is generated by taxes on enterprise income than by taxes on personal income. The same basic principles underline the ideal structure of the income tax as with the VAT. The tax is best levied on a broad base and at moderate rates. However, personal income taxes accommodate multiple rates, through the use of a graduated schedule, more easily than the VAT.

Both enterprise and personal income tax rates tended to decline for about a decade from the mid-1980s to the mid-1990s, but have since stabilized (Table 8, Figure 3). In Central America, the top rate of the enterprise income tax averaged 43.3 percent in 1986, declining to 28.4 percent in 1997, and then roughly stabilizing at this level through the most recent year. The current average rate reflects relatively little overall variation in the rate, with Honduras having the highest top rate of 35 percent and three countries having the lowest top rate of 25 percent.[10] A few countries with multiple rates either eliminated this feature or else narrowed the gap between the bottom and top rates, which improved the structure and administrability of the tax.

The trend in Latin America is similar to that for Central America, though the top rate (where there are multiple rates) has on average continued to decline. In Organization for Economic Cooperation and Development (OECD) countries, the top rate also continued to drop through the present, though there has been more stability in the U.S. and Canada. Overall, a comparison of these three groups of countries show considerable convergence of enterprise income tax rates at a level with a top rate around 30 percent on average. Some stabilization in enterprise income tax rates after a point is not surprising given the need to preserve revenue yield, though the relative stability of revenue suggests that some base broadening has occurred during the period in which rates were being reduced.

Although this comparison is limited to enterprise income tax rates, other features of the enterprise income tax, such as depreciation schedules, loss carryforward provisions, special incentives, and the like are also quite critical in determining the eventual income tax burden. For instance, several countries offer free trade zones or special incentives, including Costa Rica, Guatemala, Honduras, Nicaragua, and Panama. The Dominican Republic has recently revoked all tax incentive laws for new investments. Although free trade zones and special incentives are quite common in developing countries, they are generally an inefficient way to provide incentives for additional investment, as they lead to greater administrative complexity, forgone revenue, which requires higher tax rates on others, distorted economic

[10] One country had a range of rates, so this was the top rate in that country.

Table 8. Enterprise Income Tax Rates, 1986, 1992, 1997–2002

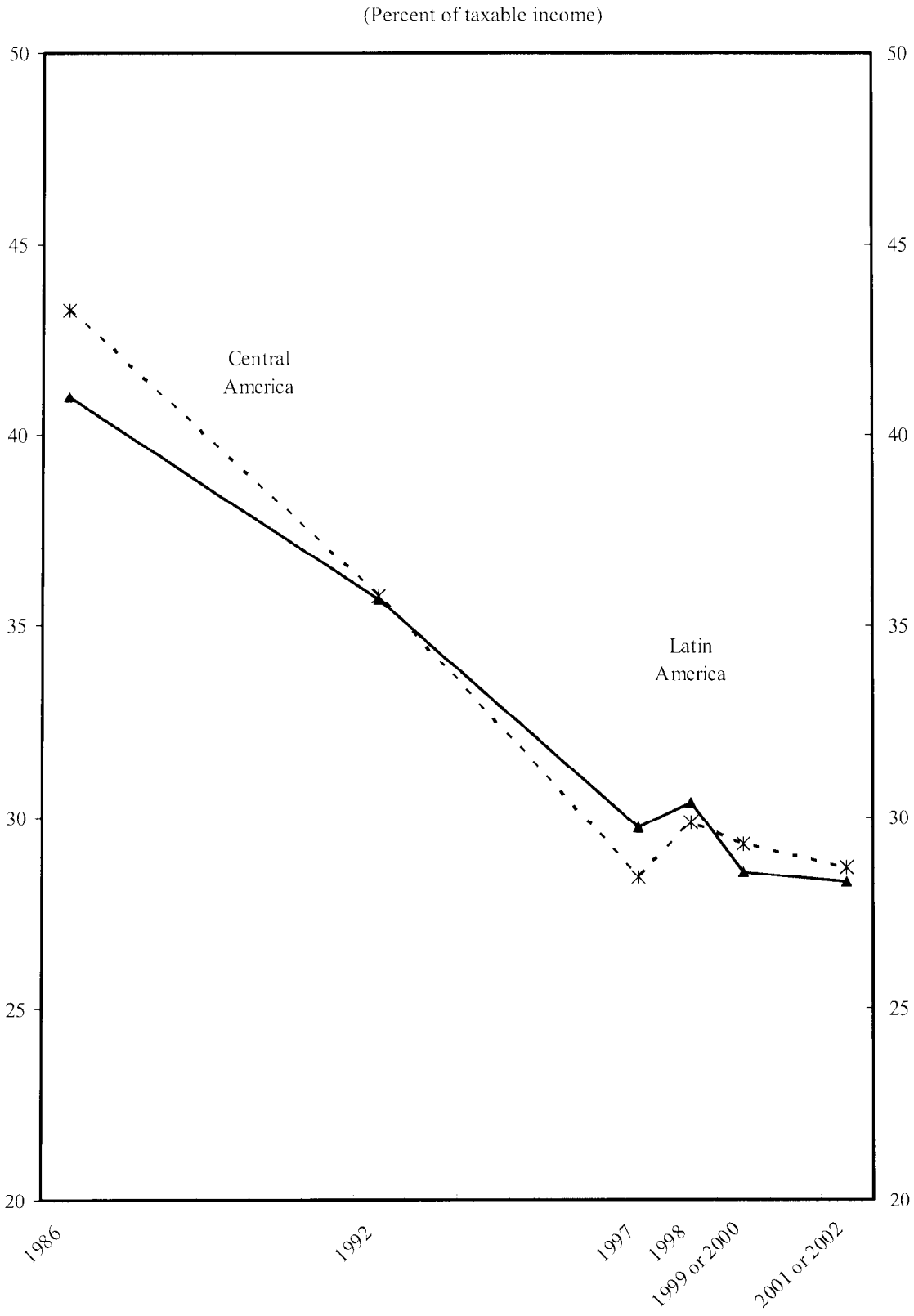
(In percent of taxable income)

	1986	1992	1997	1998	1999 or 2000 1/	2001 or 2002 2/
Latin America						
Argentina	33.0	20.0	33.0	35.0	35.0	35.0
Bolivia	30.0	40.0	25.0	25.0	25.0	25.0
Brazil 3/	35.0	25.0–30.0	15.0–25.0	15.0–25.0	15.0	15.0
Chile 3/	10.0–37.0	15.0–35.0	15.0–35.0	15.0–35.0	15.0	15.0
Colombia 3/	40.0	30.0	35.0	35.0	35.0	35.0
Costa Rica 3/	10.0–50.0	30.0	30.0	30.0	30.0	30.0
Dominican Republic 4/ 5/	10.0–46.0	10.0–46.0	25.0	25.0	25.0	25.0
Ecuador 3/	20.0–40.0	25.0–44.4	25.0	25.0	15.0–25.0	15.0–25.0
El Salvador 4/	2.5–30.0	25.0	25.0	25.0	25.0	25.0
Guatemala	5.0–42.0	12.0–34.0	25.0	30.0	30.0	31.0
Honduras 3/ 6/	3.0–40.0	15.0–35.0	15.0–30.0	15.0–35.0	15.0–35.0	15.0–35.0
Mexico	42.0	35.0	34.0	34.0	35.0	35.0
Nicaragua 4/	45.0	35.5	30.0	30.0	30.0	25.0
Panama 6/	20.0–50.0	27.5–45.0	30.0–34.0	30.0–34.0	30.0	30.0
Paraguay 3/	30.0–40.0	25.0–30.0	25.0–30.0	25.0–30.0	25.0–30.0	25.0–30.0
Peru 3/	20.0–40.0	30.0	30.0	30.0	30.0	30.0
Uruguay 6/	30.0	30.0	30.0	30.0	30.0	30.0
Venezuela	18.0–67.7	20.0–67.7	15.0–34.0	15.0–34.0	15.0–34.0	15.0–34.0
Unweighted regional average	12.6–41.0	17.8–35.7	19.2–29.7	19.2–30.4	17.5–28.6	17.5–28.3
Central America						
Costa Rica 3/	10.0–50.0	30.0	30.0	30.0	30.0	30.0
Dominican Republic 4/ 5/	10.0–46.0	10.0–46.0	25.0	25.0	25.0	25.0
El Salvador 4/	2.5–30.0	25.0	25.0	25.0	25.0	25.0
Guatemala	5.0–42.0	12.0–34.0	25.0	30.0	30.0	31.0
Honduras 3/ 6/	3.0–40.0	15.0–35.0	15.0–30.0	15.0–35.0	15.0–35.0	15.0–35.0
Nicaragua 4/	45.0	35.5	30.0	30.0	30.0	25.0
Panama 6/	20.0–50.0	27.5–45.0	30.0–34.0	30.0–34.0	30.0	30.0
Unweighted regional average	8.4–43.3	16.1–35.8	22.5–28.4	30.0–29.9	15.0–29.3	15.0–28.7
OECD average 7/	28.7–42.8	21.5–37.3	22.4–33.5	22.9–33.7	23.8–32.9	22.9–31.8
Canada 4/	46.0	38.0	38.0	38.0	38.0	38.0
United States	15.0–34.0	15.0–34.0	15.0–35.0	15.0–35.0	15.0–35.0	15.0–35.0

Sources: *International Bureau of Fiscal Documentation* (IBFD); "European Taxation," "Taxes and Investment in Asia and the Pacific," and "Taxation in Latin America" (Loose-leaf; Amsterdam); and *Corporate Taxes, Worldwide Summaries* (PricewaterhouseCoopers).

1/ The data, unless otherwise indicated, present the tax rates in effect at January 1, 2000.
2/ The data, unless otherwise indicated, present the tax rates in effect at January 1, 2001.
3/ Data are for 1999 in column "1999 or 2000."
4/ Data are for 1998 in column "1999 or 2000."
5/ Data are for 1999 in column "2001 or 2002."
6/ Data are for 2000 in column "2001 or 2002."
7/ Excluding Mexico.

Figure 3. Latin American Countries: Enterprise Income Tax Rates, 1986–2002



Sources: *Corporate Taxes: Worldwide Summaries* (PricewaterhouseCoopers); and *Taxation in Latin America* (IBFD).

decisions, and an inequitable burden of taxes, depending on whether investments qualify (Zee, Stotsky, and Ley, 2002). Income tax exemptions may be in violation of World Trade Organization rules. A preferred manner of providing incentives to investment is through generous depreciation allowances (including accelerated depreciation) and loss carryforward provisions, and possibly some limited investment tax credits.

As with VAT, it is possible to measure enterprise income tax productivity by taking the ratio of enterprise income tax to GDP divided by the standard income tax rate (Table 9).[11] The most striking feature of this table is the low productivity in all these countries. In Central America, the ratio rose from 0.046 in 1994 to 0.057 in 1997 and then declining to 0.052 in the most recent year. Latin America experienced the opposite trend, with this ratio, which was significantly higher in 1994, falling then rising, so that it remains higher than in Central America, though the gap between the two narrowed over this period. Among Central American countries, El Salvador had the highest ratio, and Guatemala the lowest. Panama's sharp decline in recent years is also noteworthy.

Trends in personal income tax rates are similar in many respects to those for enterprise income tax rates (Table 10, Figure 4). All countries in Central America levy personal income taxes with graduated rates but the number of rate brackets, the income level at which the brackets apply, and the coverage of income—labor and capital income—varies from country to country, making precise comparisons difficult except by taking a representative taxpayer in each country and comparing their tax burden. The personal income tax may take on a more or less global nature depending on the extent of coverage. Where coverage of different forms of income is broadest and the treatment of different forms of income most similar, the tax takes on a more global nature, consistent with worldwide trends and personal income taxes in developed countries. However, even the most developed countries retain some schedular elements to their personal income taxes. All Central American personal income taxes are global in the sense that one set of graduated rates applies to labor and some other forms of income, but they differ in the extent of coverage of nonlabor income.

In Central America, the top and bottom bracket rates fell on average over the same period of time, leveling off at the end of this period, as with corporate rates. The current average range is 10.3–27.3 percent. Again, there is relatively little variation in the rates across Central America. The highest top rate is in Guatemala, where it is 31 percent. The top rate in the other countries is either 25 or 30 percent. The lowest rate is either 10 or 15 percent, except in Panama, where it is 2 percent. The top rate is lower than in both Latin America and the OECD, while the bottom bracket is intermediate these two groups. A few South American countries, such as Bolivia and Colombia, have adopted flat rates of personal income tax, though at very different rates—Bolivia at 13 percent and Colombia at 35 percent.

[11] The upper rate is used when there is a range, as it likely applies to the majority of enterprises.

Table 9. Cross-Country Comparisons: Enterprise Income Tax Revenue Productivities 1/ 2/

	1994	1997	Latest Year Data Available
Latin America			
Argentina	0.036	0.038	0.043
Bolivia	0.010	0.050	0.059
Brazil	0.044	0.060	0.060
Chile	...	...	...
Colombia	0.131	0.119	0.114
Costa Rica	0.016	0.017	...
Dominican Republic	0.037	0.041	0.044
Ecuador	0.260	...	...
El Salvador	0.051	0.067	0.078
Guatemala	0.033	0.040	0.037
Honduras	...	...	...
Mexico	...	...	...
Nicaragua	...	...	...
Panama	0.062	0.080	0.049
Paraguay	...	...	...
Peru	0.056	0.086	0.061
Uruguay	0.055	0.062	0.076
Venezuela	...	...	...
Unweighted regional average	0.066	0.060	0.062
Central America			
Costa Rica	...	...	...
Dominican Republic	0.037	0.041	0.044
El Salvador	0.051	0.067	0.078
Guatemala	0.033	0.040	0.037
Honduras	...	...	...
Nicaragua	...	...	...
Panama	0.062	0.080	0.049
Unweighted regional average	0.046	0.057	0.052

Sources: *Government Finance Statistics* (IMF), *International Financial Statistics* (IMF); *World Economic Outlook* (IMF); *Corporate Taxes: Worldwide Summaries* (PricewaterhouseCoopers); *Taxation in Latin America* (IBFD); and *International Tax Summaries: A Guide for Planning and Decisions* (Coopers & Lybrand International Tax Network).

1/ Enterprise tax revenue as a percentage of GDP, divided by the upper level of the enterprise rate.
2/ For some countries, revenue data were not available and hence no tax productivity could be calculated.

Table 10. Personal Income Tax Rates, 1985, 1992, 1997–2002

(Percent of taxable income)

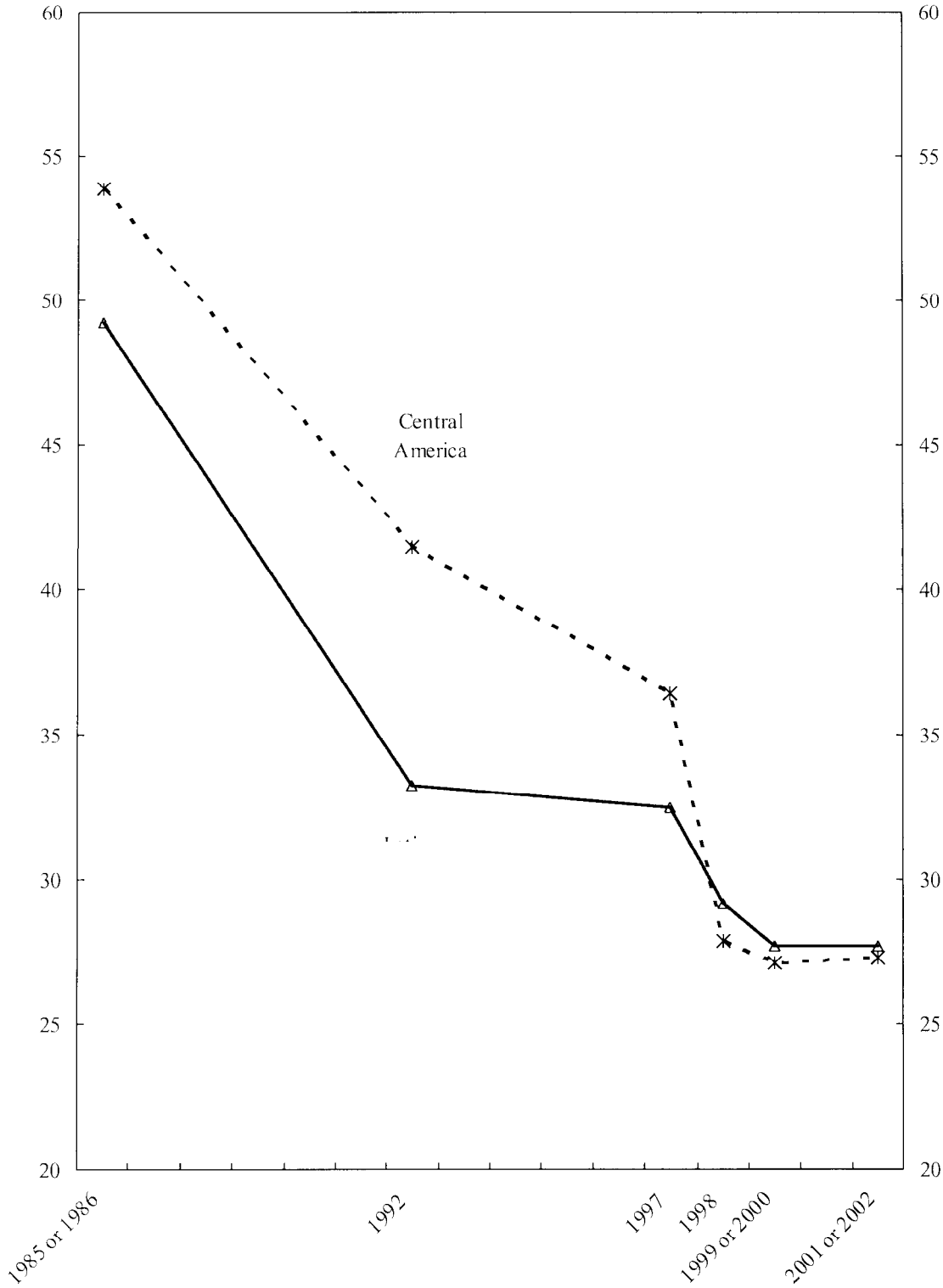
	1985 or 1986 1/	1992	1997	1998	1999 or 2000 2/	2001 or 2002 3/
Latin America						
Argentina	16.5–45.0	15.0–30.0	6.0–33.0		9.0–35.0	9.0–35.0
Bolivia	30.0	10 % flat rate	13 % flat rate	13 % flat rate	13 % flat rate	13 % flat rate
Brazil 4/	0.0–60.0	10.0–25.0	15 25	15.0–25.0	15.0–27.5	15.0–27.5
Chile 4/	0.0–57.0	5.0–50.0	5.0–45.0	5.0–45.0	5.0–45.0	5.0–45.0
Colombia 4/	49.0	5.0–30.0	35 % flat rate	35 % flat rate	35 % flat rate	35 % flat rate
Costa Rica 4/	5.0–50.0	10.0–25.0	10.0–25.0	10.0–25.0	10.0–25.0	10.0–25.0
Dominican Republic 5/ 6/	2.0–73.0	3.0–70.0	3.0–70.0	15.0–25.0	15.0–25.0	15.0–25.0
Ecuador 4/	19.0–40.0	10.0–25.0	10.0–25.0	10.0–25.0	0.0–15.0	5.0–25.0
El Salvador 5/	3.0–60.0	10.0–30.0	10.0–30.0	10.0–30.0	10.0–30.0	10.0–30.0
Guatemala	11.0–48.0	4.0–34.0	15.0–30.0	15.0–25.0	15.0–25.0	15.0–31.0
Honduras 4/ 7/	3.0–40.0	12.0–40.0	9.0–40.0	10.0–30.0	10.0–25.0	10.0–25.0
Mexico	3.0–55.0	3.0–35.0	3.0–35.0	3.0–40.0	3.0–40.0	3.0–40.0
Nicaragua 5/	15.0–50.0	8.0–35.5	10.0–30.0	10.0–30.0	10.0–30.0	10.0–25.0
Panama 7/	13.0–56.0	3.5–56.0	4.0–30.0	4.0–30.0	2.0–30.0	2.0–30.0
Paraguay 4/ 8/	5.0–30.0	...	...	...	...	...
Peru 4/ 9/	0.0–49.0	6.0–37.0	15.0–30.0	15.0–30.0	15.0–30.0	15.0–20.0
Uruguay 10/		0.7–3.0	0.7–3.0	0.7–3.0	1.0–6.3	1.0–6.0
Venezuela	12.0–45.0	10.0–30.0	6.0–34.0	6.0–34.0	6.0–34.0	6.0–34.0
Unweighted regional average	7.2–49.2	7.2–33.3	8.4–32.5	9.2–29.2	8.4–27.7	8.7 27.7
Central America						
Costa Rica 4/	5.0–50.0	10.0–25.0	10.0–25.0	10.0–25.0	10.0–25.0	10.0–25.0
Dominican Republic 5/ 6/	2.0–73.0	3.0–70.0	3.0–70.0	15.0–25.0	15.0–25.0	15.0–25.0
El Salvador 5/	3.0–60.0	10.0–30.0	10.0–30.0	10.0–30.0	10.0–30.0	10.0–30.0
Guatemala	11.0–48.0	4.0–34.0	15.0–30.0	15.0–25.0	15.0–25.0	15.0–31.0
Honduras 4/ 7/	3.0–40.0	12.0–40.0	9.0–40.0	10.0–30.0	10.0–25.0	10.0–25.0
Nicaragua 5/	15.0–50.0	8.0–35.5	10.0–30.0	10.0–30.0	10.0–30.0	10.0–25.0
Panama 7/	13.0–56.0	3.5–56.0	4.0–30.0	4.0–30.0	2.0–30.0	2.0–30.0
Unweighted regional average	7.4–53.9	7.2–41.5	8.7 36.4	10.6–27.9	10.3–27.1	10.3–27.3
OECD average 11/	22.2–52.8	16.8–44.1	15.8–43.6	16.1–43.1	15.0–43.0	16.0–41.2
Canada 5/	25.0–34.0	17.0–29.0	17.0–29.0	17.0–29.0	17.0–29.0	16.0–29.0
United States	18.0–50.0	15.0–31.0	15.0–39.6	15.0–39.6	15.0–39.6	15.0–39.6

Sources: *International Bureau of Fiscal Documentation* (IBFD); "European Taxation," *Taxes and Investment in Asia and the Pacific;*, and *Taxation in Latin America* (Loose-leaf, Amsterdam); and *Individual Taxes, Worldwide Summaries* (PricewaterhouseCoopers).

1/ The average shown is a joint average of the two year.
2/ The data, unless otherwise indicated, present the tax rates in effect at January 1, 2000.
3/ The data, unless otherwise indicated, present the tax rates in effect at January 1, 2001.
4/ Data are for 1999 in column "1999 or 2000."
5/ Data are for 1998 in column "1999 or 2000."
6/ Data are for 1999 in column "2001 or 2002."
7/ Data are for 2000 in column "2001 or 2002."
8/ In the case of Paraguay, the personal income tax in 1985/86 was restricted to CEOs, and was eliminated thereafter.
9/ In 2002 the upper tax rate was incremented to 27 percent.
10/ No income tax is levied on personal income in Uruguay, except for tax on income derived from agricultural activities and tax on commissions.
11/ Excluding Mexico.

Figure 4. Latin American Countries: Personal Income Tax Rates, 1985–2002

(Percent of taxable income)



Sources: *Individual Taxes: Worldwide Summaries* (PricewaterhouseCoopers); and *Taxation in Latin America* (IBFD).

Table 11. Personal Income Tax: Exemption Level and Upper Income Bracket, 1985 or 1986, 1991, and 1997–2001

(Multiples of per capita GDP)

	Personal Exemption Level							Upper Income Bracket						
	1985 or 1986	1991	1997	1998	1999	2000	2001	1985 or 1986	1991	1997	1998	1999	2000	2001
Latin America														
Argentina	0.8	0.5	1.2	1.2	1.3	1.3	1.4	21.4	13.7	14.5	14.4	25.5	15.5	16.5
Bolivia	1.0	0.5	...	...	...	...	...	10.1	0.5	...	...	...	...	...
Brazil	0.3	1.2	2.1	2.0	1.8	1.7	1.5	10.1	2.8	4.2	4.1	3.7	3.3	3.1
Chile	0.2	2.3	0.1	0.1	0.1	0.1	0.1	2.8	22.6	1.3	1.3	1.2	1.2	1.2
Colombia	0.0	0.4	2.7	4.9	5.0	4.4	4.1	20.5	25.3	12.0	12.9	13.1	11.7	16.6
Costa Rica	1.2	2.9	1.1	1.1	0.6	0.8	0.8	1.4	5.3	5.6	5.4	3.1	4.1	3.7
Dominican Republic	1.1	0.2	0.1	3.4	2.9	2.6	2.3	413.5	74.3	34.3	8.4	7.3	6.5	5.8
Ecuador	0.4	2.9	1.8	2.8	1.9	0.9	2.4	29.2	35.8	22.7	34.4	23.4	11.3	8.3
El Salvador	...	2.3	1.4	1.3	1.3	1.2	1.2	171.7	32.5	12.7	12.2	11.8	11.4	11.0
Guatemala	0.9	2.3	6.3	5.8	5.6	5.3	5.0	356.0	31.7	17.5	16.0	15.6	14.7	22.5
Honduras	0.0	6.9	5.2	4.4	...	3.9	3.6	600.4	686.8	103.4	88.8	...	39.1	36.0
Mexico 1/	0.7	0.2	0.1	0.1	0.1	0.1	0.1	21.3	11.7	5.0	5.3	44.2	36.8	44.0
Nicaragua	1.7	...	6.6	6.2	4.7	8.3	7.7	56.9	9.9	47.4	44.4	33.9	49.9	61.2
Panama	0.3	0.5	0.9	0.9	0.9	0.9	0.9	89.0	97.8	63.1	61.1	59.9	58.9	57.8
Paraguay	0.5	...	...	...	...	...	...	10.4	...	...	...	...	...	...
Peru	...	...	2.6	2.7	2.8	2.8	2.9	...	...	20.1	20.9	21.8	21.5	22.3
Uruguay	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Venezuela	...	...	0.0	0.0	0.0	0.0	0.0	...	...	0.0	0.0	0.0	0.0	0.0
Unweighted regional average 2/	0.6	1.8	2.1	2.5	2.1	2.3	2.3	121.0	75.0	24.2	22.0	18.9	19.0	20.7
Central America														
Costa Rica	1.2	2.9	1.1	1.1	0.6	0.8	0.8	1.4	5.3	5.6	5.4	3.1	4.1	3.7
Dominican Republic	1.1	0.2	0.1	3.4	2.9	2.6	2.3	413.5	74.3	34.3	8.4	7.3	6.5	5.8
El Salvador	...	2.3	1.4	1.3	1.3	1.2	1.2	171.7	32.5	12.7	12.2	11.8	11.4	11.0
Guatemala	0.9	2.3	6.3	5.8	5.6	5.3	5.0	356.0	31.7	17.5	16.0	15.6	14.7	22.5
Honduras	0.0	6.9	5.2	4.4	...	3.9	3.6	600.4	686.8	103.4	88.8	...	39.1	36.0
Nicaragua	1.7	...	6.6	6.2	4.7	8.3	7.7	56.9	9.9	47.4	44.4	33.9	49.9	61.2
Panama	0.3	0.5	0.9	0.9	0.9	0.9	0.9	89.0	97.8	63.1	61.1	59.9	58.9	57.8
Unweighted regional average 2/	0.9	2.5	3.1	3.3	2.7	3.3	3.1	241.3	134.0	40.6	33.8	21.9	26.3	28.3

Sources: IMF *Government Finance Statistics* (IMF); *World Economic Outlook* (IMF); *International Bureau of Fiscal Documentation* (IBFD); "Taxation in Latin America" (Loose-leaf, Amsterdam); and *Individual Taxes, Worldwide Summaries* (PricewaterhouseCoopers); and other similar sources.

1/ Allowance equals 12 months minimum wage in zone of residence (13 months with Christmas bonus). The data provided correspond to the Federal District in 1997.
2/ Average are taken over the set of countries for which data for 1997, 1991 and 1985 or 1986 are available.

For comparative purposes, Table 11 presents information on the basic exemption level and the income level at which the top bracket applies for these countries over the same period, measured in terms of multiples of per capita GDP in each country. In Central America, the personal exemption level has risen and then fluctuated up and down with no clear direction of change in recent years around a value of about 3 or a little more than 3 times per capita GDP. There is considerable variation across the countries, with the lowest in Costa Rica at 0.8 times per capita GDP and the highest in Nicaragua at 7.7 times per capita GDP. The average level is a little higher than in Latin America, and is much higher than in developing countries on average, where this figure usually ranges from 1–2, and in developed nations, where it is usually well under 1. The exemption level is an important determinant of the degree of progressivity of the personal income tax, as it not only removes low income households entirely from liability to the tax, it also reduces the average (as opposed to marginal tax rate) on others, with a disproportionate effect of lowering the average rate on lower incomes. Typically, the exempt level tends to decline relative to per capita GDP as a country becomes wealthier because a larger proportion of the population has a level of resources that enables it to more comfortably afford this tax. This high level of basic exemption would contribute to the relatively small number of personal income taxpayers in Central America.

The income level at which the upper bracket applies exhibits the opposite trend, first falling and then fluctuating up and down with no clear tendency around 30 or a little less than 30 times per capita GDP. Again, there is considerable variation across the countries, with the lowest level in Costa Rica, with 3.7 times per capita GDP and the highest in Nicaragua, with 61.2 times per capita GDP. The decline in the income level at which the upper bracket applies implies some increase in progressivity of the tax in the middle range of income, though perhaps some reduction in progressivity in the upper range of income.

A desirable feature of an income tax is that the highest tax bracket of the personal income tax and the corporate income tax should be roughly the same, to avoid distorting the form of economic activities. This rough equivalence is achieved in several Central American countries. And in the others, the differences are not that large.

To strengthen collections of income tax and the structure of the tax it is important to define and administer the tax over as broad a base of labor and related labor income as possible. Although all countries in Central America define the tax base to include income from wages and salaries, in most countries income from bonuses, and fringe benefits (in the form of housing allowances, car allowances, which can be both in-kind and in cash) are not fully taxed. This favorable treatment creates inequities between taxpayers who earn these kinds of income and those who do not, which disproportionately benefits higher income employees and those working for larger enterprises, who tend to earn this income. It also encourages employers to provide remuneration in these forms, even though most employees would prefer cash outright to allowances or in-kind benefits, that may distort their consumption decisions. Although there has been some movement to limit the tax favored treatment of these forms of remuneration, there is still scope for further broadening of the base.

Cross-crediting of the VAT against income tax is a practice found in Latin America, including Central America. This cross-crediting does not serve a useful purpose, as it confounds the nature of the two taxes—the income tax and the VAT, and adds to administrative complexity, weakening compliance with both taxes.

In many countries, especially developed ones, corporate income is usually taxed twice—at the level of the firm and at the level of the individual once it is paid out in the form of dividends or capital gains. Because interest paid on debt is normally deductible, income from corporate debt is taxed only once at the level of the individual. Provisions of the personal income tax with respect to income from dividends, interest on bonds, and capital gains are thus critical in determining the ultimate tax burden on owners of corporate capital. Countries differ in the manner in which they try to relieve the burden of double taxation on corporate income. Central American countries use a classical system, but because capital income is lightly taxed in general, the double tax issue would seem of minor importance at this point.

In developing countries, apart from wage and salary income, the next largest source of income tax revenue is usually from taxation of interest. Central American countries exhibit a range of practices with respect to taxation of dividends and interest income. This treatment is favorable compared to most developed countries and would be favorable compared to most developing countries as well. For instance, in El Salvador, interest received from financial institutions is not taxable to individuals. Also, to avoid double taxation, dividends paid by corporations that are subject to corporate tax are not taxable to individuals. In Honduras, interest and dividends are taxed at flat rates of 5 and 15 percent, respectively, by a final withholding tax. Guatemala, in contrast, taxes interest and dividends at a flat rate of 10 percent but exempt dividends on which corporate income tax has been paid. The Dominican Republic exempts interest income but taxes dividends at standard rates. Nicaragua exempts interest from bank deposits and dividend income, though other investment income is taxable. Panama taxes interest income with a 10 percent withholding tax and dividends at a 10 percent rate, except dividends on bearer shares, which are taxed at 20 percent. Costa Rica taxes only interest income with a 15 percent withholding tax on bearer documents except those registered with the local stock exchange, which are taxed at 8 percent.

In developing countries, owing to the underdeveloped state of domestic financial markets, capital gains taxation generally comprises a relatively small part of income tax revenue, though it can be useful as a device to avoid conversion of other forms of taxable income into untaxable capital gains income. In most countries of Latin America, the treatment of capital gains is the same as for other forms of income, and this has been relatively stable over time (Table 12). However, in a few countries in Central America, capital gains have received preferential treatment. In Costa Rica and the Dominican Republic, this income is exempt from income tax, while in El Salvador and Guatemala it is taxed at a favorable rate. In Honduras and Nicaragua it is taxed at normal rates, while in Panama it is taxed on the basis of the gross sales price. Developed countries, in contrast, also exhibit a wide range of practices with respect to capital gains income, though the tendency is to tax it at a preferential rate but not exempt it altogether. This tax is rarely based on the gross sales price, as this turns the tax into a turnover-type tax rather than a capital gains tax.

Table 12. Latin American Countries: Treatment of Capital Gains, 1980, 1991, 1997, and 2001

(Rate in percent of capital gains, unless otherwise indicated)

	1980	1991	1997	2001
Argentina	15 1/	Normal 2/	Normal 2/	Normal 2/
Bolivia	Normal	Exempt	Exempt	Exempt
Brazil	Normal	Normal	Normal	Normal
Chile	Normal	Normal	Normal	Normal
Colombia	Normal	Normal	Normal	Normal
Costa Rica	Normal	Exempt	Exempt	Exempt
Dominican Republic	Exempt	Exempt	Exempt	Exempt
Ecuador	8 1/	Normal	Normal	Normal
El Salvador	6.8–21.5	5–15 1/	5–20 1/	5–20 1/
Guatemala	Normal	Normal	15 percent	10 percent
Honduras	Normal	Normal	Normal	Normal
Mexico	Normal	Normal	Normal	Normal
Nicaragua	Exempt	1–15 1/	Normal	Normal
Panama	2 percent of price	2 percent of price	2 percent of price	2 percent of price
Paraguay	5 1/	5 1/	5 1/	5 1/
Peru	Normal	Normal	Exempt	Exempt
Uruguay 3/	Normal	Normal	Normal	Normal
Venezuela	Normal	Normal	Normal	Normal

Sources: Corporate Taxes: Worldwide Summaries (PricewaterhouseCoopers); Taxation in Latin America (IBFD); and *International Tax Summaries: A Guide for Planning and Decisions* (Coopers & Lybrand International Tax Network).

1/ Less than normal corporate tax rate.
2/ "Normal" throughout the table indicates that the prevailing income tax rate is applicable.
3/ Except for capital gains on property in rural areas, which are exempt from tax.

The choice of filing unit is another area of variation in income tax laws. Except Panama, which most likely drew upon the U.S. model, Central American countries require individual filing. Panama requires joint filing for married couples but allows them to opt for individual filing, where advantageous. Most developing countries use individual filing, primarily for administrative reasons. However, even in developed countries, the trend has been toward adoption of individual filing and away from joint or family concepts of filing. With individual filing, a key issue is how to allocate joint income, such as investment income, and deductions or allowances for children. In some countries, this allocation is at the option of the taxpayers while in others it is automatically attributed to the husband (and less often, to the higher earner in the couple). In Europe and in some developing countries, there has been a movement in recent years toward greater gender neutrality in this aspect of the tax system, with the allocation either being determined on a formulaic basis (for example, split between the two individual returns) or allocated to the higher earner.

Table 13. Withholding Taxes on Foreign Remittances, 1986, 1992, 1997, and 2001

(Percent of remittance)

	1986			1992			1997			2001		
	Dividends	Interest	Royalties	Dividends	Interest	Royalties	Dividends	Interest	Royalties	Dividends	Interest	Royalties
Latin America												
Argentina	17.5 1/	15.8	36.0 2/	20.0	14.4	25.2	...	13.2	23.1	...	15.05 or 35.0	21 or 28
Bolivia	25.0	25.0	25.0	10.0	10.0	...	13.0	...	...	13.0	...	...
Brazil	25.0	25.0	25.0	25.0	25.0	25.0	0.0 3/	15.0 3/	15.0	0.0 3/	15.0 3/	10–15
Chile	40.0	40.0	40.0	35.0	40.0	40.0	35.0	40.0	40.0	35.0	5.0–40.0	5–40
Colombia	40.0	40.0	...	...	...	...	7.0	...	7.0	7.0	...	7
Costa Rica	15.0	10.0	20.0	15.0	15.0	25.0	15.0	15.0	25.0	15.0	15.0	25
Dominican Republic	20.0	20.0	20.0	35.0	35.0	35.0	30.0	30.0	30.0	25.0	25.0 4/	25
Ecuador	... 5/	... 6/	40.0	36.0	...	36.0	20.0	...	33.0	25.0	...	33
El Salvador	22.0	22.0	22.0	...	...	...	...	...	...	...	...	...
Guatemala	12.5	10.0 7/	25.0	12.5	25.0 7/	34.0	12.5	20.0 7/	30.0	0.0 8/	10.0 9/	30
Honduras	15.0	5.0	10.0	15.0	5.0	35.0	15.0	5.0	35.0	10.0	10.0	...10/
Mexico	55.0	24.8 11/ 12/	31.5	none	20.2 13/	23.8	Nil	11.5 14/ 15/	26.0 16/ 17/ 18/	5.0	15.0	...19/
Nicaragua	20.0	...	...	...	35.0	35.0	...	30.0	20.0	...	25.0	25
Panama	10.0	...	50.0 20/	10.0	6.0	45.0 20/	10.0	6.0	34.0 20/	10.0	6.0	30
Paraguay	10.0	30.0	30.0	10.0 21/	30.0	30.0	5.0	35.0	35.0	5.0	35.0	35
Peru	30.0	1.0;40.0 17/	55.0 22/	10.0	1.0; 37.0 17/	28.0 23/	Nil	1.0; 30.0 17/	30.0	Nil	1.0; 5.0; 30.0 17/ 24/	30 25/
Uruguay	...	...	30.0	...	...	...	...	...	30.0	...	...	30
Venezuela	20.0	20.0	...	...	...	15.0	...	5.0	5.0	...	5.0	5
Unweighted regional average	23.6	23.4	30.6	19.5	22.9	30.9	14.8	19.7	26.1	12.5	20.5	25.6
Central America												
Costa Rica	15.0	10.0	20.0	15.0	15.0	25.0	15.0	15.0	25.0	15.0	15.0	25.0
Dominican Republic	20.0	20.0	20.0	35.0	35.0	35.0	30.0	30.0	30.0	25.0	25.0 4/	25.0
El Salvador	22.0	22.0	22.0	...	...	...	...	...	...	...	...	...
Guatemala	12.5	10.0 7/	25.0	12.5	25.0 7/	34.0	12.5	20.0 7/	30.0	0.0 8/	10.0 9/	30.0
Honduras	15.0	5.0	10.0	15.0	5.0	35.0	15.0	5.0	35.0	10.0	10.0	...10/
Nicaragua	20.0	...	...	...	35.0	35.0	...	30.0	20.0	...	25.0	25.0
Panama	10.0	...	50.0 20/	10.0	6.0	45.0 20/	10.0	6.0	34.0 20/	10.0	6.0	30.0
Unweighted regional average	16.4	13.4	24.5	17.5	20.2	34.8	16.5	17.7	29.0	12.0	15.2	27.0

Sources: *Corporate Taxes: Worldwide Summaries* (PricewaterhouseCoopers); *Taxation in Latin America* (IBFD); and *International Tax Summaries: A Guide for Planning and Decisions* (Coopers & Lybrand International Tax Network).

1/ Pertains to dividends in cash or kind, other than stock dividends. The beneficiary must be identified: otherwise, the rate is 22.25 percent. Dividends and remittances of branch profits in excess of 12 percent of registered investments are subject to a special remittance tax ranging from 15 percent to 25 percent.

2/ Services derived from agreements ruled by the Foreign Technology Law: (a) technical assistance, technology, and engineering—27 percent (45 percent on assumed profit of 60 percent); (b) cession of right or licenses for inventions, patents, exploitation, and others—36 percent (45 percent on assumed profit of 80 percent); and (c) nonregistered agreements—45 percent (profit of 100 percent is assumed).

3/ These rates have been established as of January 1, 1996. Treaty rates in excess of those in force for nontreaty countries are automatically reduced. Payments of income to nonresidents in nontreaty countries that tax income at less than 20 percent are subject to withholding tax at 25 percent.

4/ Payments on interest (loans) to foreign financial institutions are subject to a withholding tax of 15 percent.

5/ Taxes on dividends are withheld at the basic tax rate with surcharges. If the dividends are paid from undistributed profits of prior years, credit is allowed for the tax already paid on such profits by the company.

6/ No withholding required on interest remitted or credited abroad on loans. A special tax of 0.5 percent to 2 percent on the portion of the loans payable up to two years is levied (only once) at the time loans are registered at the Central Bank of Ecuador. If the loan is due after two years, the special tax is not payable.

7/ Interest on cash foreign-source loans brought into the country is not subject to withholding taxes.

8/ Tax on income shown by partial closure of accounts or computation of presumed liquidation of operations at the end of each quarter.

9/ Tax on 5 percent of overall gross income earned during the corresponding quarter of the preceding year (5 percent of the 30 percent income tax rate=1.5 percent).

10/ Royalties are taxed as ordinary income and are included in the taxpayer's gross income.

11/ The withholding taxes are an average of different interest and royalties rates.

12/ Interest payments to nonresidents are exempt from Mexican income tax in the case of (a) loans to the federal government; (b) fixed-rate loans for five or more years, by duly registered financial institutions; and (c) certain securities and bank acceptances issued in foreign currency.

13/ Interest payments to nonresidents are exempt from Mexican income tax for (a) loans to the federal government; and (b) loans for three or more years by duly registered financial entities that promote exports by special financing; (c) these gains are taxable as interest; (d) when royalties are paid for the use of patents in connection with the technical assistance required for their use under the same contract, both the licensing fee and amounts paid for the technical assistance will be subject to the lower 15 percent rate; (e) the nonresident taxpayer may elect to pay at the regular corporate tax rate on net profit if he has a resident representative and advises the customer accordingly. The latter, then, makes no withholding.

14/ Interest payments to nonresidents are exempt from Mexican income tax in the case of: (a) loans to the federal government; and (b) loans for three or more years by duly registered financial entities that promote exports by special financing; (c) preferential loans granted or guaranteed institutions by foreign financial entities to authorized to receive tax-deductible donations in Mexico, provided that these institutions are properly registered and use the funds for purposes consistent with their status.

15/ The election is available only if the payee is a resident taxpayer of a country that has signed an income tax treaty with Mexico and the treaty is in force.

16/ 35 percent income tax must be withheld on payments made to foreign persons or entities located in low-tax jurisdictions.

17/ When these payments involve items on which tax must be withheld at either the 15 percent or the 35 percent rate, the tax must be calculated by applying the applicable rates to the payments made for each of the corresponding items; when no distinction can be made, the 35 percent rate must be applied to the total payment. The 1 percent rate applies in case of banking concesional loans, otherwise the other rate applies.

18/ The alienation (even as a capital contribution) of drawings, models, plans, formulas procedures is treated as an authorization for their use; accordingly, the corresponding amount is taxed at the 15 percent rate.

19/ Royalties paid to residents are subject to tax as ordinary income and are normally included in the taxpayer's gross income.

20/ Upper enterprise income tax rates are used; however, the rates of royalties or technical assistance fees paid is subject to withholding tax at corporate or individual tax rates, depending on the recipient.

21/ Taxable income is determined as gross rentals less depreciation computed as provided by law.

22/ Under certain circumstances, exemptions are granted.

23/ Payments for transfer of technology or for information regarding commercial, industrial, or scientific knowledge are deemed to be royalties.

24/ Under certain circumstances, exemptions are granted.

25/ Payments for transfer of technology or for information regarding commercial, industrial, or scientific knowledge are deemed to be royalties.

Withholding tax rates on foreign remittances of corporate income are also important characteristics of an income tax, especially from the point of view of foreign investors. These taxes typically apply to dividends, interest, and royalties, but may also apply to management fees and other components of capital and labor income (Table 13). As with other income tax rates in Central America, after rising in the late 1980s and early 1990s, there is some downward trend evident in these rates in the 1990s to the present, though it is most pronounced for dividends and royalties. Interest tax rates exhibited relatively little change. For Latin America, the same trends also appear to be present.

Some tax systems supplement income taxes with a tax on net worth or assets. This tax can take one of several forms, including a tax on gross assets or net assets (or net worth), or on only a subset of assets, such as fixed assets (usually applied to businesses) or real estate (Table 14). This type of tax is often seen as a complement to an income tax, as a type of minimum tax, when the base of the income tax is eroded excessively by exemptions or low compliance. Also, in some countries with persistently high inflation but no general correction to business balance sheets for inflation, the income tax base can become eroded, if businesses are able to take large nominal deductions for interest. If assets yield a uniform rate of return, an asset tax set at an appropriate rate can, in fact, mimic an income tax. For instance, if assets typically yield a return of 10 percent, then an income tax of 30 percent is equivalent to an assets tax of 3 percent. However, in practice, assets do not yield a uniform return across sectors, or assets, or over time. Several Central American countries use this tax, including Costa Rica, Guatemala, Honduras, Nicaragua, and Panama. El Salvador had such a tax but revoked it. In general, these taxes do not yield a substantial amount of revenue, and appear to be widely evaded.

The property tax has, in some countries, been used as an important component of local revenues because the tax base is relatively immobile. Property taxation has the potential to be a more significant source of revenue all over Central America, especially that component directed at residential and commercial real estate, as opposed to natural resources. There are two essential elements to running a successful property tax: having an accurate cadastre of property and an accurate and up-to-date assessment of property value. Until these elements are in place, it is unlikely that the property tax could yield substantially greater revenues. For now, given the administrative limitations (and the small size of the countries) in Central America, it may be more productive to levy the property tax at the federal level.

VI. Administrative Issues

Central American tax systems are extending the tools necessary for adequate enforcement of the tax law. These steps include the expansion and improvement of withholding taxes; implementation of self-assessment and improved audit selection and conduct; and computerization. One important step was taken by Guatemala in 1998 with the formation of an autonomous tax administration agency under the ministry of finance, which led to distinct improvements in productivity. However, the establishment of large taxpayers units is another measure that is underway in some countries but should be reinforced and extended to all the countries as it has been an essential component of success in improving collections from large taxpayers in many developing countries.

Table 14. Net Worth or Assets Tax, 1986, 1992, 1998, 2000, and 2001

(In percent)

	1986	1992	1998	2000	2001
Argentina	1.5 on net worth 1/	2 on gross assets	1.0 on assets	1.0 on assets	1.0 on assets
Bolivia	...	3 on net worth	3 on net worth	3 on net worth	3 on net worth
Brazil	...	...	...	...	...
Chile	...	...	...	...	...
Colombia	8 on net worth	7 on net worth	...	...	...
Costa Rica	0.36–1.17 on fixed assets	0.36–1.17 on fixed assets	1.0 on assets	1.0 on assets	1.0 on assets
Dominican Republic	...	...	...	...	...
Ecuador	0.15 on assets	0.15 on net worth 2/	0.15 on net worth 2/	0.15 on net worth 2/	0.15 on net worth 2/
El Salvador	0.1–1.4 on net worth	0.9–2 on assets	...	...	...
Guatemala	0.3–0.8 on real estate 3/	0.3–0.9 on real estate 3/	1.5 on assets	1.5 on assets	0.2–0.9 on real estate 3/ 3.5 on assets 4/
Honduras	...	...	1.0 on assets	0.5 on assets	0.25 on assets 5/
Mexico	...	2 on gross assets 1/	1.8 on assets 1/	1.8 on assets 1/	1.8 on assets 1/
Nicaragua	1.0 on real estate 3/	1.5–2.5 on net worth	1.0 on real estate	1.0 on real estate	1.0 on real estate
Panama	1.0 on net worth 6/	1.0 on net worth 6/	1.0 on net worth 6/	1.0 on net worth 6/	1.0 on net worth 6/
Paraguay	1.0 on real estate 3/	1.0 on real estate 3/	1.0 on real estate 3/	1.0 on real estate 3/	1.0 on real estate 3/
Peru	1.0–2.5 on net worth	2.0 on net worth	0.5 on assets 7/	Nil	Nil
Uruguay	2.8 on net worth	2.0 on net worth	1.5–3.5 net worth	1.5–3.5 net worth	1.5–3.5 net worth
Venezuela	...	...	1.0 on assets 1/	1.0 on assets 1/	1.0 on assets 1/

Sources: *Corporate Taxes*: *Worldwide Summaries* (PricewaterhouseCoopers); *Taxation in Latin America* (IBFD); and *International Tax Summaries*: *A Guide for Planning and Decisions* (Coopers & Lybrand International Tax Network).

1/ Minimum corporate income tax; can be credited against normal corporate tax. In Mexico, the income tax can be credited against the gross assets tax in order to avoid the foreign investors' problem of crediting against tax liability in the home country.

2/ 1 percent of assets as income tax advance payment.

3/ The base is real estate. The tax, however, is conceived not as a property tax but as an additional corporate tax.

4/ There is no net worth tax in Guatemala. However, the tax levied at rate of 3.5 percent on assets or 2.25 percent on gross income declared in the preceding annual income tax return.

5/ Honduras does not have a business net worth tax. However, levied on fixed assets exceeding HNL 750,000 which are held by companies at the end of the tax period.

6/ This tax has the form of a license to do business. The maximum tax amount is PAB 20,000 per year.

7/ Minimum corporate income tax; can be credited against normal corporate tax.

Recent unpublished estimates suggest that evasion of the VAT may be approximately 40 percent of revenues in several Central American countries. Although not unusual for developing countries—and even some developed countries—such high rates of evasion suggest that there is considerable scope for strengthening collections through in general administrative practices, such as audit, and improvements in the structure of the tax, which would make it easier to administer.

In general, there is a need to adopt rules (and supporting regulations) in the income tax, in particular, to deal with cross-border issues, such as transfer pricing, thin capitalization (excessive use of debt to remove earnings from a country through high interest deductions), and other devices used by multinational corporations. Over time, as the complexity of Central American economies grow, there may be a need to deal with issues, such as taxation of groups and the tax treatment of corporation reorganizations. So far, these issues are largely absent in Central American income tax laws.

Because wealthy individuals may keep a large proportion of their wealth abroad, it is important to both extend the jurisdiction of the tax system to global income but also to develop the tools and relationships with other countries to uncover income from assets held abroad. Strengthening income taxation of the self-employed is another challenge but also a critical one, and may require greater clarity in whether taxpayers owe liability under the enterprise income tax or personal income tax. Better enforcement of income taxation for both wealthy individuals and the self-employed would make a significant contribution toward improving the equity of the tax system and strengthening collections.

VII. Regional Tax Harmonization

International issues have become increasingly important in tax policy reform in recent years. The Central American countries could likely gain by greater integration of their tax systems. The movement toward a common market implies that there would also be freer movement of tax bases (Keen, 1993). In Central America, the emphasis of regional tax harmonization has first entailed movement toward more uniform tariffs and the elimination of internal tariffs. Moving beyond those goals, harmonization of domestic tax systems would also be beneficial to Central American countries, given their natural links and their small size. In this regard, harmonization of domestic taxes on goods and services should be a priority. As tariffs converge, countries could be tempted to use domestic taxes to gain advantages with regard to their neighbors. However, there do appear to be some promising trends underway in Central America. Already, the trends point toward convergence of VAT rates. One goal might be to aim for a single rate of 15 percent, as in the Caribbean. Similarly, harmonization of excises should be on the agenda, though here, it might be more useful to set certain minimum rates, as in the EU, rather than a single set of rates, given the importance of having flexibility in excise rates for meeting immediate budgetary needs and the recognition that there are different levels of administrative control over excises. Over time, however, as the common market takes shape, it may be more important to have greater convergence in excises.

Some convergence of income tax rates also appears to be taking place, and greater harmonization of income taxes—especially tax incentives—should be a medium term goal. It is important that Central American countries modernize their income tax with appropriate anti-avoidance legislation, such as in the area of transfer pricing, to ensure that multinational companies do not take advantage of differences in enterprise income tax legislation and practices to shift profits from one jurisdiction to a less highly taxed jurisdiction in Central America or elsewhere.

VIII. Looking to the Future

Tax policy reform in Central America should continue to emphasize the importance of strengthening domestic tax systems by relying on a broad range of taxes, including domestic consumption and income taxes, and broadening the tax bases to permit revenue goals to be achieved with moderate tax rates, which will reduce tax-induced distortions in economic behavior and disincentives to domestic and foreign investment, and enhance compliance. Important principles underlying these reforms are that tax policies should be based on clear and transparent tax legislation and administrative regulations, and administration should support the implementation of tax policies by the establishment and maintenance of modern and professional tax administrations based on the rule of law. The best tax policy is formed in an environment in which the tax authorities facilitate public discussion of reform. Globalization will continue to reduce barriers to cross-border trade and investment continue, making it thus more imperative that countries adopt policies and practices that do not deviate significantly from regional and international norms. This will be all the more important in countries that have adopted a common market, as in Central America.

Taxes on domestic goods and services, such as the VAT, will continue to be the mainstay of domestic revenue systems in the foreseeable future. However, the broad-based taxes should be supplemented by excises, especially when limited in application to key goods, such as alcoholic beverages, tobacco products, and petroleum products. Trade taxes should continue to fall in importance, and eventually serve only limited trade policy purposes, as in developed countries, rather than revenue purposes. Income taxes need to be strengthened, mindful of the global competition for investments. Personal income tax, in particular, must reach out to encompass higher income taxpayers and those earning capital and other nonwage and salary income. Property taxation is an underused source of revenue and should also be strengthened, with this revenue possibly being dedicated to local uses. Continuing improvement in administrative performance is essential.

Comparison of GFS and RED Data

Table 15. Central Government: Tax Structure for Central American Countries, 1990–94

(In percent of GDP)

	Sample Size	Total Revenue	Tax Revenue	Other Revenue	Taxes on Income, Profits, and Capital Gains			Social Security Taxes	Payroll Taxes	Domestic Taxes on Goods and Services			International Trade Taxes			Property taxes
					Total	*Of which:* Individual	*Of which:* Corporate			Total	*Of which:* General sales, turnover or VAT	*Of which:* Excises	Total	*Of which:* Import duties	*Of which:* Export duties	
REDs																
Costa Rica	1990–94	12.5	12.2	0.3	1.9	0.0	...	...	0.3	6.7	4.2	2.5	3.1	2.7	0.4	0.1
Dominican Republic	1990–94	14.3	12.8	1.5	2.5	...	...	...		5.2	2.1	3.1	4.7	4.7	0.0	0.2
El Salvador	1990–94	10.0	9.2	0.8	2.3	...	...	...		4.8	3.5	1.1	1.9	1.6	0.3	0.2
Guatemala	1990–94	8.7	7.4	1.3	1.7	0.1	1.4	...		3.9	2.5	0.9	1.7	1.7	0.0	0.1
Honduras	1990–94	17.2	15.6	1.6	4.3	...	...	...		6.0	2.9	1.7	5.2	4.2	1.0	0.1
Nicaragua	1990–94	19.1	17.8	1.2	3.0	...	...	...		11.0	2.4	7.6	3.6	3.6	0.0	0.3
Panama	1990–94	17.7	11.6	6.1	5.1	...	...	...		4.2	1.7	1.8	2.3	2.1	0.2	
Unweighted regional average		14.2	12.4	1.8	3.0	0.0	1.4	...	0.3	6.0	2.7	2.7	3.2	2.9	0.3	0.2
GFS																
Costa Rica	1990–94	20.2	17.5	2.7	1.9	1.5	0.5	5.7	0.0	6.3	3.6	2.4	3.6	2.8	0.7	0.1
Dominican Republic	1990–94	14.6	13.2	1.4	2.4	1.1	1.3	0.6	0.0	3.9	...	3.1	6.1	5.7	0.0	0.1
El Salvador 1/	1990–94	10.6	9.8	0.8	2.2	0.9	1.3	0.0	0.0	5.1	3.8	1.1	1.9	1.6	0.3	0.6
Guatemala 1/	1990–94	8.7	7.4	1.3	1.7	0.2	1.4	0.0	0.0	3.6	2.5	1.0	1.7	1.7	0.0	0.1
Honduras	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Nicaragua	1990–94	19.1	17.6	1.5	2.2	...	...	2.2	0.0	8.5	2.1	6.4	3.6	3.6	0.0	0.2
Panama	1990–94	31.3	21.4	9.9	5.5	0.3	1.9	6.2	0.0	5.3	2.1	2.2	3.3	3.1	0.2	0.5
Unweighted regional average 2/		17.4	14.5	2.9	2.7	0.8	1.3	2.4	0.0	5.5	2.8	2.7	3.4	3.1	0.2	0.3

Sources: REDs; *Government Finance Statistics* (IMF); *International Financial Statistics* (IMF); and *World Economic Outlook* (IMF).

1/ Budgetary central government.
2/ For each revenue classification, only countries for which data are available are included in the calculation.

Table 16. Central Government: Tax Structure for Central American Countries, 1995–99

(In percent of GDP)

	Sample Size	Total Revenue	Tax Revenue	Other Revenue	Taxes on Income, Profits, and Capital Gains			Social Security Taxes	Payroll Taxes	Domestic Taxes on Goods and Services			International Trade Taxes			Property taxes
					Total	*Of which:* Individual	Corporate			Total	*Of which:* General sales, turnover or VAT	Excises	Total	*Of which:* Import duties	Export duties	
REDs																
Costa Rica	1995–99	12.5	12.4	0.1	2.4	0.0	...	...	0.5	7.4	4.8	2.6	1.8	1.5	0.3	0.1
Dominican Republic	1995–99	13.7	12.6	1.2	2.6	...	...	...		5.9	2.5	3.4	3.7	3.7	0.0	0.3
El Salvador	1995–99	11.6	10.6	1.0	3.0	...	...	...		6.0	5.3	0.7	1.5	1.5	...	0.1
Guatemala	1995–99	9.4	8.7	0.7	1.4	...	...	...		5.2	3.6	1.2	1.5	1.5	...	0.6
Honduras	1995–99	17.7	16.4	1.2	4.4	...	...	...		8.4	4.4	3.1	3.5	3.2	0.3	
Nicaragua	1995–99	25.0	22.7	2.2	3.4	...	...	...		16.2	7.3	8.0	3.2	3.2	...	0.0
Panama	1995–99	19.3	12.3	7.1	5.5	...	...	...		4.3	1.9	1.6	2.5	2.4	0.1	
Unweighted regional average		15.6	13.7	1.9	3.2	0.0	...	...	0.5	7.6	4.2	2.9	2.5	2.4	0.2	0.2
GFS																
Costa Rica	1995–99	20.3	17.9	2.4	2.4	1.7	0.5	5.7	0.0	7.7	4.8	2.5	1.9	1.5	0.2	0.1
Dominican Republic	1995–98	16.3	14.9	1.4	2.6	1.5	1.0	0.6	0.0	5.6	...	4.7	5.9	5.5	0.0	0.1
El Salvador 1/	1995–99	11.7	11.1	0.6	3.2	1.3	1.9	0.0	0.0	6.2	5.5	0.6	1.5	1.5	0.0	0.1
Guatemala 1/	1995–99	9.2	8.9	0.3	2.0	0.2	1.1	0.0	0.0	5.2	3.8	1.1	1.5	1.5	0.0	0.0
Honduras	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Nicaragua	1995	25.8	23.9	2.0	2.8	...	...	3.3	0.0	10.9	2.9	7.6	5.3	5.3	0.0	0.0
Panama	1995–98	33.4	22.5	10.9	6.3	0.3	2.0	5.7	0.0	...	...	...	0.1	...	0.1	0.5
Unweighted regional average 2/		19.4	16.5	2.9	3.2	1.0	1.3	2.5	0.0	7.1	4.2	3.3	2.7	3.1	0.1	0.1

Sources: REDs; *Government Finance Statistics* (IMF); *International Financial Statistics* (IMF); and *World Economic Outlook* (IMF).

1/ Budgetary central government.
2/ For each revenue classification, only countries for which data are available are included in the calculation

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