MEASUREMENT OF TAX EXPENDITURES IN LATIN AMERICA

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Contents

Tables

Figures

Diagram

Summary

The tax system is one of the main instruments used by the State to obtain resources to finance public spending and investment and thus provide the population with the public goods and services it needs. Within the tax system, certain preferential treatments may be given to companies, individuals or regions, in order to promote economic activity or as a support measure for vulnerable sectors, among others. In this sense, the tax system has similar functions to the public expenditure system, but in this case it is done through the State's forgone revenue of the taxes that would be collected without these preferential treatments. Hence, the term to refer to this estimate is known as tax expenditure or, in some cases, forgone revenues.

The volume of tax expenditures in Latin America and the Caribbean is considerable. In 2020, the uncollected revenue in the region was equivalent to 3.8% of GDP, on average, while in terms of tax collection it represents an average of 20.6%. There is great variation among countries in the region, partly as a result of the different degrees of progress made in estimating tax expenditures.

Tax expenditures take various forms, such as exemptions, deductions, credits, reduced rates and deferrals, among others. Their variety provides tax policymakers with a set of tools with which to formulate public policies that include the incorporation of a forgone revenue, but whose impact is varied, resulting in different revenue losses and various changes in the behaviour of the beneficiaries. This highlights the importance of evaluating the effectiveness of the forgone revenue and contrasting it with its costs.

This report studies the reports on tax expenditures in countries of the region in order to provide a guide on measuring the cost of said forgone revenues. The information on tax expenditures presents several conceptual and methodological complications that make it difficult to compare across countries, and even some conceptual differences regarding the concept of direct public expenditure within the same country.

Regarding the definition of tax expenditures, most countries refer to it in terms of revenue not received or not collected. One country (Uruguay) does so in terms of lost revenue, Brazil refers to them as indirect government expenditures and Nicaragua as transfers from the State. Other interesting aspects of these definitions are that five countries explicitly mention the pursuit of objectives (Argentina, Brazil, Chile, Guatemala, Honduras), seven define them as a type of benefit or incentive to taxpayers (Brazil, Chile, the Dominican Republic, Guatemala, Honduras, Mexico, Peru), five countries mention the type of tax

expenditures applicable (Colombia, Ecuador, Guatemala, Honduras and the Plurinational State of Bolivia), and seven countries mention the deviation from a normal or reference structure (Argentina, Costa Rica, Dominican Republic, Mexico, Paraguay, the Plurinational State of Bolivia and Uruguay).

In terms of the concept measured or measurement approach, all the countries reviewed measure forgone revenue, without any assumptions about the change in taxpayer behaviour when a preferential treatment is removed or the crossed effects of different tax expenditures. For this reason, the sum of the values of different line items does not accurately represent potential revenue collection and the conclusions drawn from the totals or subtotals of more than one type of tax should be carefully evaluated with this limitation in mind. Among the sources of information used to make these estimations are tax information (mainly tax returns), statistics from national institutions and surveys conducted in each country.

For the normal or reference framework, it should be noted that the vast majority of countries use a definition of the tax based on the country's own legislation, only three countries use a conceptual framework (Dominican Republic, Mexico and Paraguay) and one uses a mixed approach (Chile, with the aim of moving to a fully conceptual framework). This is one of the main limitations in the comparison of estimates between countries, since this means that the concepts measured are not entirely equivalent, especially in the case of income tax, since there is greater uniformity in the case of value added tax (VAT).

Finally, with regard to the legal obligation to report the estimates of forgone revenue, it is clear that the vast majority of countries have an article or law that establishes it, and there are only three countries that do not have this obligation (Costa Rica, Nicaragua and the Plurinational State of Bolivia). This is a good indicator of the growing importance of estimating forgone revenue in the region, aimed at helping to achieve the objectives of reducing income inequality, wellbeing, investment, consumption and job creation, among others. The most important elements to compare in these reports are the timing and the disaggregation of the information presented, especially the level of detail with which each concept or forgone line item is described.

In the particular case of Mexico, the Secretariat of Finance and Public Credit is responsible for preparing the document *Renuncias recaudatorias*, which is meant to present a quantification of the amounts that the federal treasury has stopped collecting. In the 2021 report (Secretariat of Finance and Public Credit, 2021) there are estimated amounts, based on tax returns, taxpayers' tax assessments, internet digital tax receipts for payroll and other complementary sources, of forgone personal income tax and corporate income tax, value added tax (VAT), the special tax on production and services and tax on new cars, tax incentives and differential treatments established in various presidential decrees, regarding tax matters.

Based on the best practices identified in reports on tax expenditures for Latin America and the Caribbean, a set of salient elements are proposed herein for consideration in the estimation, analysis and reporting of tax expenditures, with emphasis on the features of the most complete reports. In particular, four central methodological aspects are highlighted: (1) for the definition of the "normal" tax structure, a conceptual frame of reference is suggested, seeking to facilitate comparisons between countries and solutions as a whole; (2) regarding the sources of information, it is recommended that the information come mainly from taxpayers' returns (companies and persons), and be complemented with public information from aggregate statistics or household surveys; (3) regarding the contents, it is recommended that a complete list of estimated tax expenditures be provided as well as detailed information on them (which concepts are covered, to whom they apply, and what they entail); (4) and an annual preparation of these reports is essential for follow up on the development of both tax expenditures and the relevant methodological aspects.

As a complement to this methodological guide, emphasis is placed on the importance of accompanying these reports with an analysis that assesses whether the benefits attributable to these practices outweigh their costs, as well as a portal that makes this information available to the general public, is emphasized. These aspects seek to strengthen the role of tax expenditures in promoting sustainable development within the context of the 2030 Agenda for Sustainable Development.

Introduction

The tax system is one of the main instruments used by the State to obtain resources to finance public spending and investment and thus provide the population with the public goods and services it needs. The tax system is not only used as a means of collection, but also as a central instrument of fiscal policy to pursue certain policy objectives, such as reducing inequalities (income redistribution), encouraging private investment, attracting foreign capital, supporting certain sectors of the economy and internalizing the negative externalities generated by economic agents, among others.

Within the tax system, certain preferential treatments may be given to companies, individuals or regions, in order to promote economic activity or as a support measure for vulnerable sectors, among others. In this sense, the tax system has similar functions to the public expenditure system, but in this case it is done through the State's forgone revenue of the taxes that would be collected without these preferential treatments. Hence, the term to refer to this estimate is known as forgone revenue, (although the term tax expenditure is also used).

The volume of tax expenditures in Latin America and the Caribbean is considerable. In 2020, the uncollected revenue in the region was equivalent to 3.8% of GDP,[1] while in terms of tax collection[2] it represents an average of 20.6%. Both measurements are important because they allow for a comparison to be made between the estimated tax expenditures for different countries or areas of the region (for example, Central America versus South America), but expressing them in terms of tax collection allows for an overview of the scale of the forgone revenue within the same country's tax system. In both cases, there is great variation among countries in the region, partly as a result of the different degrees of progress made in estimating tax expenditures.

The most important comparisons that can be made, in terms of each country's tax system and tax expenditures, are the frame of reference used, the estimation approach followed, the sources of information consulted and the structure of the reports prepared. The frame of reference refers to the "normal" structure or benchmark based on which tax expenditures are identified and measured; this can be legal or theoretical conceptual, as will be discussed later in this document.

Regarding the estimation of tax expenditures, the approach may be to measure the revenue forgone (the revenue that is not collected due to the application of a preferential treatment is measured, assuming that taxpayers would not change their behaviour), the income earned (the gain in collection that the

[1] Simple average calculated based on ECLAC data sourced from official figures.
[2] Simple average calculated based on OECD and others (2022).

elimination of preferential treatment would bring is estimated, assuming a change in the behaviour of the beneficiaries) or the equivalent direct expenditure (the cost of providing the same monetary benefit granted by the tax treatment through a direct expenditure is measured). In the case of Latin America and the Caribbean, the most commonly used frame of reference for defining the "normal" tax structure is the legal one, and the only estimation approach used is that of forgone revenue. For the particular case of Mexico, a conceptual frame of reference is used and the estimation approach is forgone revenue.

The sources used include tax information (mainly tax returns), statistics from national institutions and surveys conducted in each country. Finally, the most important elements to compare within the reports on tax expenditures are the timing and the disaggregation of the information presented, especially the level of detail with which each concept or waived item is presented.

It should be noted that, depending on the measurement approach used, the estimates of tax expenditures presented by each country are not necessarily equivalent to the revenue that would be obtained if a specific preferential treatment were eliminated. The overall impact, which takes into account adjustments and changes will depend, among other factors, on the effects of the tax change on the behaviour of economic agents. However, and because the estimations are done independently, the sum of the results would not necessarily coincide with the theoretical amount forgone (the result of eliminating each treatment one by one is not equal to that of eliminating all of them).

This document has five sections, in addition to this introduction. Section I reviews the conceptual elements that constitute the concept of forgone revenue, starting from the relevance of tax revenues in the economy and for the financing of budgetary expenditure. It also details the main mechanisms that help improve the efficiency of tax expenditures and estimates their evolution, volume and composition in Latin American countries.

In section II, there is a comprehensive review of the reports on tax expenditures published in the region, which identifies the definitions used by the countries, the methodologies employed and the sources of information used. Section III focuses on Mexico's particular experience in the development of impact analysis of tax expenditures for income tax and value added tax (VAT). Based on all the foregoing, section IV proposes a set of elements to be included in a methodological guide for the estimation and analysis of tax expenditures based on the best practices identified in Latin America and the Caribbean, with emphasis on the features of the most complete reports. Of note, four central methodological aspects are highlighted: (i) for the definition of the "normal" tax structure, a conceptual frame of reference is encouraged, since this would encourage comparisons between countries and the identification of solutions to similar problems that they have; (ii) regarding the sources of information, it is recommended that the information should come mainly from taxpayers' returns (companies and persons), and be complemented with public information from aggregate statistics or household surveys; (iii) with regard to the contents of the report on tax expenditures, it is recommended that a complete list of estimated tax expenditures be provided, as well as detailed information on them (which concepts are covered, to whom it applies, and what it consists of); and (iv) an annual preparation of these reports is relevant for follow up on the evolution of both tax expenditures and the relevant methodological aspects.

Finally, section V makes recommendations on how to strengthen the role of tax expenditures in promoting sustainable development. Tax policy can represent an important tool for driving progress towards the achievement of the Sustainable Development Goals (SDGs), set out in the United Nations 2030 Agenda for Sustainable Development. In particular, the use of tax expenditures could contribute significantly to achieving these goals, by creating the right incentives for private agents or by granting economic relief to certain vulnerable groups, but these tools must be accompanied by a cost-benefit analysis and their interaction with tax policies and public spending programmes needs to be included. Despite the fact that many of the preferential treatments are aligned with the SDGs, they must be comprehensively evaluated, in order to determine whether they fulfil the objectives for which they were created. Therefore, improving the methodology for estimating and evaluating preferential treatments is regarded as a very relevant action for the financing of initiatives geared toward a transformative recovery with sustainability and inclusiveness in the countries of Latin America and the Caribbean.

I. Conceptual discussion

A. Context and relevance of tax revenues to the economy, to total revenues and as a source of financing for public expenditure and international comparisons

The tax system is one of the main instruments used by the State to obtain resources to finance public spending and investment and thus provide the population with the goods and services it needs. However, this system is not only used as a collection instrument, but also promotes the implementation of public policies to achieve other objectives, such as reducing inequality in income distribution, improving welfare, promoting domestic investment and attracting foreign investment, stimulating growth and job creation, providing incentives for exports and sustainable industrialization, promoting or discouraging the production or consumption of certain goods and services, protecting the environment and supporting specific sectors, or internalizing the negative externalities generated by economic agents, among others.

In terms of resource collection by tax systems, there is great variation among the countries of Latin America and the Caribbean. Table 1 presents general government[3] tax revenues as a proportion of gross domestic product (GDP) for 17 countries in the region for the period 2009 to 2020, with an average ratio of 20.1% of GDP for 2020, although the range observed is very wide (a minimum of 12.4%, a maximum of 31.6% and an average of 19.2% of GDP), from 12.4% of GDP for Guatemala, 12.6% for the Dominican Republic and 13.4% for Paraguay to 26.6% of GDP for Uruguay, 29.4% for Argentina and 31.6% for Brazil (see also figure A1 in annex 1). In 2020, the average tax to GDP ratio decreased by 0.6 percentage points of GDP when compared with 2019 (with an average growth rate (AGR) of 1.1% between 2009 and 2019), mainly due to the reduction in collection levels in most countries in the region because of the crisis created by the COVID-19 pandemic, with the exception of Argentina, El Salvador, Mexico and Uruguay.

An important aspect to highlight is the difference between Central America (including Mexico and the Dominican Republic) and South America. On the one hand, before the pandemic tax revenues in Central American countries averaged 18.6% of GDP in 2019 (with an average growth rate of 1.4% between 2009 and 2019) versus 22.6% of GDP in South America (with an average growth rate of 0.8% between 2009 and 2019). However, it should be noted that the variation in this ratio is more marked in South America (a minimum of 14%, a maximum of 32.5% and an average of 14% of GDP).

[3] Includes central government, subnational governments and other government entities, such as social security.

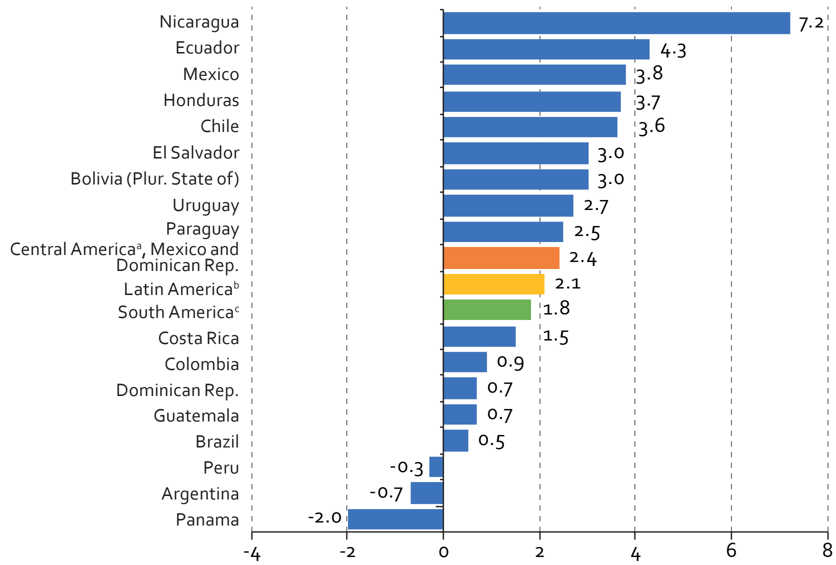
Table 1
Latin America (17 countries) and subregions: general government tax revenues , 2009–2020
(Percentages of GDP)

Country	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Argentina	28.9	29.1	29.3	30.6	31.2	31.1	31.5	30.7	30.0	28.5	28.2	29.4
Bolivia (Plurinational State of)	21.7	22.9	25.1	25.9	26.7	27.9	29.5	27.9	25.9	25.0	24.7	22.4
Brazil	32.0	32.4	33.3	32.5	32.5	31.8	32.0	32.2	32.3	32.6	32.5	31.6
Chile	17.3	19.6	21.1	21.3	19.9	19.6	20.4	20.1	20.2	21.1	20.9	19.3
Colombia	18.8	18.1	18.9	19.7	20.0	19.6	19.9	19.1	19.0	19.3	19.7	18.7
Costa Rica	22.1	22.1	22.6	22.6	23.0	22.6	22.9	23.5	23.0	23.2	23.6	22.9
Dominicana Republic	12.8	12.4	12.4	13.1	13.6	13.5	13.0	13.1	13.2	13.2	13.5	12.6
Ecuador	15.7	16.8	17.7	19.7	19.5	19.3	21.7	19.9	19.9	20.7	20.0	19.1
El Salvador	017.9	18.7	18.7	19.1	20.1	19.8	19.9	20.5	20.9	21.3	20.9	21.9
Guatemala	12.3	12.5	12.8	12.9	13.3	13.2	12.8	13.2	13.2	13.2	13.0	12.4
Honduras	17.8	18.2	17.7	18.3	18.9	19.9	20.6	22.2	21.7	21.9	21.5	19.2
Mexico	12.5	12.8	12.8	12.6	13.3	13.7	15.9	16.6	16.1	16.1	16.3	17.9
Nicaragua	18.5	19.3	20.2	20.8	21.2	21.8	22.3	23.3	23.8	23.2	25.7	25.4
Panama	16.0	16.4	16.3	16.6	16.8	15.7	15.1	15.5	15.1	14.8	14.0	13.7
Paraguay	11.5	12.1	12.8	13.4	12.7	13.8	13.7	13.4	14.0	13.9	14.0	13.4
Peru	16.9	17.8	18.5	19.0	18.9	19.2	17.4	16.2	15.3	16.4	16.6	15.2
Uruguay	23.9	24.3	24.6	24.9	25.4	25.3	25.2	25.6	26.9	27.0	26.6	26.6
Latin America[a]	18.6	19.1	19.7	20.2	20.4	20.5	20.8	20.8	20.6	20.7	20.7	20.1
South America[b]	20.8	21.4	22.4	23.0	23.0	23.0	23.5	22.8	22.6	22.7	22.6	21.8
Central America, Mexico and Dominican Republic[c]	16.2	16.6	16.7	17.0	17.5	17.5	17.8	18.5	18.4	18.4	18.6	18.2

Source: Prepared by the author, on the basis of Organisation for Economic Co-operation and Development (OECD) and others, *Revenue Statistics in Latin America and the Caribbean 2022*, Paris, 2022.
[a] Average of the 17 countries of Latin America
[b] Average of nine countries: Argentina, Bolivia (Plurinational State of), Brazil, Chile, Colombia, Ecuador, Paraguay, Peru and Uruguay.
[c] Average of eight countries: Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, and Panama.

The increase in collection at the regional level (2.1 percentage points of GDP) and the subregional level between 2009 and 2019, the year before the crisis created by the COVID-19 pandemic, hides significant variation among the countries (figure 1). Since the countries with the largest increase are Nicaragua (increase of 7.2 percentage points of GDP and an average growth rate of 3.3% between 2009 and 2019), Ecuador (increase of 4.3 percentage points of GDP and an average growth rate of 2.5% between 2009 and 2019), Mexico (increase of 3.8 percentage points of GDP and an average growth rate of 2.7% between 2009 and 2019), Honduras (plus 3.7 percentage points of GDP and an average growth rate of 1.9% between 2009 and 2019) and Chile (increase of 3.6 percentage points of GDP and an average growth rate of 1.9% between 2009 and 2019). Some countries show negative growth in this period, the most significant being the case of Panama (reduction of 2 percentage points of GDP and an average growth rate of -1.3% between 2009 and 2019), Argentina (reduction of 0.7 percentage points of GDP and an average growth rate of -0.2% between 2009 and 2019) and Peru (reduction of 0.3 percentage points of GDP and an average growth rate of -0.2% between 2009 and 2019). This relative stability also suggests that the gap between South America and the countries of Central America, the Dominican Republic and Mexico still exists, but this gap has decreased by 0.6 percentage points in recent years, from a difference of 4.6 percentage points in 2009 to a difference of 4.0 percentage points As reflected in table 1, in Latin America there is great variation in terms of tax collection, so these relative levels of collection must be borne in mind for the comparisons that will be presented later in terms of forgone revenues.

Figure 1
Latin America (17 countries): variation in general government tax revenues, 2009–2019
(Percentages of GDP)



Source: Prepared by the author, on the basis of Organisation for Economic Co-operation and Development (OECD) and others, *Revenue Statistics in Latin America and the Caribbean 2022*, Paris, 2022.
[a] Average of eight countries: Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, and Panama.
[b] Average of the 17 countries of Latin America.
[c] Average of nine countries: Argentina, Bolivia (Plurinational State of), Brazil, Chile, Colombia, Ecuador, Paraguay, Peru and Uruguay.

Revenue collection for the financing of public goods and services is the main objective of tax systems, but they can also fulfil other policy objectives, for example, preferential treatments granted to certain sectors, activities or specific groups through exemptions, deductions, credits, deferrals or lower tax rates, among others. They play a fundamental role by creating incentives for private agents in keeping with the government's priorities or by providing economic relief to certain social groups. Hence, the tax system, through preferential treatments, plays a similar role to that of the public expenditure system, but through the State's forgone revenue of the revenues that should be collected from certain sectors, activities or specific groups (Agostini and Jorratt, 2017). All these revenues that the State ceases to collect through these concessions or special tax regimes are known as tax expenditures.[4] Tax expenditures therefore do not mean an "outflow" of fiscal resources, rather they allow beneficiaries to reduce, avoid or defer the payment of taxes. These tax treatments that give rise to tax expenditures entail a deviation from the "normal" structure of each one of the taxes.

For the Organisation for Economic Co-operation and Development (OECD), the concept of tax expenditure refers to a transfer of public resources by reducing tax obligations with respect to a frame of reference or benchmark, rather than by a direct public expenditure (Kraan, 2004). However, for the Inter-American Center of Tax Administrations (CIAT, 2011), tax expenditures are defined as resources forgone by the State, due to the existence of incentives or benefits that reduce the direct or indirect tax burden of certain taxpayers in relation to a reference tax system, in order to achieve certain economic and social policy objectives. These two definitions concur that there is a tax expenditure when there is a deviation from a frame of reference, the State ceases to collect a tax, there is a benefit for certain taxpayers and certain policy objectives are pursued.

According to the definitions reviewed, the first important element is the frame of reference used to identify and measure tax expenditures. In a very general sense, this structure can follow either a legal or a theoretical conceptual framework. The former entails using the structure established by the tax law itself as a point of reference, so that those that deviate from the general stipulations of the tax legislation

[4] In some countries the preferred term is forgone revenues.

are regarded as tax expenditures, as is the case in Argentina, the Plurinational State of Bolivia, Colombia and Ecuador. However, the conceptual framework entails using a broad tax base as a reference. This tax base is based on a theoretical concept of income, consumption or value added, according to the tax being analysed, so that any deviation from that base would result in a forgone revenue, as in the cases of Mexico, Chile and Paraguay. These first two cases will be discussed in greater detail in subsequent sections. A third approach, although rarely used, is the analogous subsidy approach, whereby those benefits granted that are analogous to a direct subsidy are identified as tax expenditures, for example, the German authorities limit the concept of forgone revenue to concessions that can be regarded as subsidies, which is linked to whether or not a broad range of taxpayers benefit from a tax break (Craig and Allan, 2001).

Tax expenditures are implemented in various forms, such as exemptions, deductions, credits, reduced rates and deferrals, among others. Their variety provides tax policymakers with a set of tools for the formulation of public policies that include the incorporation of a preferential tax treatment, but whose impact is varied, resulting in different revenue losses and different changes in the behaviour of beneficiaries. Table 2 presents a summary of the main types of tax expenditures applied in Latin America, as well as an example of these preferential tax treatments based on the Mexican case.

Table 2
Typology of tax expenditures

Type of tax expenditure	Description	Examples from the Mexican case
Exemptions	Amounts that are excluded from the value upon which a tax is calculated (the tax base)	Exemption from the payment of the special tax on production and services regarding telecommunications for the provision of internet or landline rural and public telephony services
Deductions	Amounts that can be deducted or rebated from the tax base	Deduction of corporate income tax for the purchase of internal combustion vehicles and hybrid, electric or hydrogen-powered vehicles
Credits	Amounts that can be subtracted from tax payments or which allow for a tax rebate	Tax credit of 30% on the incremental basis of expenditures and investments made in research and development projects
Reduced rates	Rate that is lower than the general rate applicable to certain transactions or subjects	Zero-rated Value Added Tax (VAT) on the sale of non-industrialized animals and vegetables
Deferrals	Postponement of the payment of tax	53% deduction for pension and retirement fund contributions
Administrative facilities	Exceptions to the fulfilment of formal obligations that impact the calculation of the tax base	10% deduction from the total income for the labour force of casual farm workers, livestock feed and minor expenses even with receipts that do not meet tax requirements

Source: Prepared by the author, on the basis of Secretariat of Finance and Public Credit, *Renuncias recaudatorias 2021*, Mexico City, 2021.

Tax expenditures can be classified according to the way in which the differential treatment is applied, depending on whether they are relatively general or whether they only apply to one sector or group of taxpayers, and according to the process required for obtain these tax benefits, since in some cases a specific process or procedure is required and in others the application is automatic. For example, in the Mexican case, the zero-rated VAT on foods is a preferential tax treatment where no procedure is required, since this is a tax that is levied (in this case at zero rate) on the specific consumption of a good or service (in this case, foods), and general, because its tax burden falls on all individuals and companies that act as final consumers. However, the different Free Trade Zones[5] regimes are special tax expenditures, since only the taxpayers that carry out activities in these geographical delimitations will benefit from the preferential treatment.

According to Mexico's Secretariat of Finance and Public Credit (Secretariat of Finance and Public Credit, 2021), this classification helps to limit discussions that arise in relation to tax expenditures.

[5] Geographically delimited areas designed to promote and develop the process for the industrialization of goods and the provision of services intended primarily for external markets.

The Secretariat of Finance and Public Credit argues that in the cases when the application of a tax expenditure is more particular and more processes are required to obtain it, then it is more like a direct expenditure. For these cases, the cost-benefit evaluations applied to some direct expenditure items are more relevant.

It should be noted that there is no single criterion for classifying differential treatments, due to the nature of tax expenditures and the diversity of approaches that can be taken to study them. Thus, depending on the type of analysis to be carried out, one classification may be more useful than another. Here we present the classification used in the reports on tax expenditures presented by the Economic Commission for Latin America and the Caribbean (ECLAC, 2019; ECLAC/Oxfam International, 2019), and several Latin American countries.

At this point, it is important to make a distinction between tax incentives and tax benefits. An incentive is intended to promote a change in the behaviour of economic agents, while a benefit does not have that ultimate goal, since it is only a form of financial support to taxpayers (such as personal income tax deductions for social security or social assistance expenses). In other words, a tax benefit is based on reasons of public interest (including support for strategic economic sectors), equity and social justice; while tax incentives are mainly aimed at promoting investment, creating employment, prioritizing domestic production and consumption, and so forth (Peláez Longinotti, 2021).

According to a report prepared jointly by the International Monetary Fund (IMF), OECD, the United Nations and the World Bank (IMF and others, 2015), a tax incentive is defined as "any special tax provisions granted to qualified investment projects or firms that provides a favourable deviation from the general tax code" (p. 8).

According to Peláez Longinotti (2021), tax incentives tend to focus on income or corporate wealth taxes, taxes on assets, on financial flows, as well as on sales taxes, especially when these taxes can have an impact as a cost for the execution of a project. While tax benefits are more geared toward individuals and serve a social purpose, they are usually focused on personal income taxes, as well as on sales or value added taxes, especially when these taxes are levied on specific essential goods or services, and have an impact on their final consumption. Peláez Longinotti (2021), in a detailed review of CIAT's Tax Expenditure Database of Latin America and the Caribbean (TEDLAC),[6] indicates that tax expenditures are slightly skewed towards social benefits or exceptions that seek to correct market inequities or inequities in the tax system itself. The author notes that on average benefits represent 54.8% of the tax expenditures in the different countries, while incentives represent 45.2%.

Regardless of the objectives being pursued through tax expenditures, it is important to identify the revenue losses associated with the different preferential treatments of the tax system, quantify them and periodically review their relevance to maintain some control over this phenomenon. This entails incorporating adjustments for the elimination of inefficient measures or the review of the regimes that are not producing the desired results, minimizing the losses related to these tax expenditures, since they limit the tools available for tax policy, and social spending, and may affect equity. Another disadvantage of these treatments is that they make tax systems more complex, increasing administration and compliance costs, and creating loopholes for tax evasion and tax avoidance. Moreover, since these policies are not subject to the same control and evaluation mechanisms as direct expenditures (although some of these tax expenditures could be reviewed in the same way that these expenditures are reviewed), they reduce the transparency of tax policy, while at the same time making it difficult to identify the beneficiaries (especially when the treatment is automatically applied), unlike direct expenditure or subsidy policies.

Although there is no consensus in the specialized literature, ECLAC/Oxfam International (2019) suggests that three key points should be evaluated when considering the use of a differential treatment that results in a forgone revenue. These points are: (i) do tax expenditures generate a more efficient allocation of resources; (ii) what impact do they have on the horizontal and vertical equity of the tax

[6] This database presents a classification of tax expenditures at the individual level, which identifies each line item with a tax incentive or good with a tax benefit.

system; and (iii) is there transparency and are such tax expenditures included in the budget process?

First, do tax expenditures generate a more efficient allocation of resources? One of the grounds that justifies State intervention (through tax expenditures, taxation, direct expenditure or another public policy tool) is the need to correct the allocation of resources resulting from some market failure (i.e. externalities, information asymmetries, economies of scale, and so forth). In this regard, the use of differential treatments is justified because the forgone revenue would maximize the use of positive externalities or minimize the effects of negative externalities. However, when there are multiple market failures, it cannot be ensured that the removal of one of them would improve wellbeing. For example, monopolistic or oligopolistic markets tend to produce inefficient outcomes, while information asymmetries and incomplete information limit the ability of economic agents to make decisions that optimize wellbeing. In these cases, preferential treatment is likely to result in an inefficient allocation of resources and generate a net neutral benefit, at best, or a negative one, at worst.

Therefore, ECLAC/Oxfam International (2019) establishes that, in order to evaluate the efficiency and effectiveness of tax expenditures the objective sought must be clearly stated, as well as the impact indicators and the cost associated with each differential treatment. In particular, it is proposed that policymakers weigh the advantages and disadvantages of using a forgone revenue against a direct expenditure. Depending on the objective, the latter tool may be a more efficient way to allocate resources.

Secondly, what is the impact of tax expenditures on equity and fair use? In some cases, preferential tax treatments are justified by an improvement in the tax system. In those cases, tax expenditures seek to reduce the negative effects of a tax on a group of taxpayers with less resources, although this measure is not always the most efficient way. An example of this is the case of VAT, in which an exemption or a zero rate is applied to basic food basket products in order to support lower-income households (in principle because spending on these products represents a higher percentage of their total income). In theory, the vast majority of taxpayers can take advantage of exemptions, deductions and credits that seek, for example, to encourage the consumption of certain goods and services or to encourage savings and investment; but, in practice, not all taxpayers can take advantage of these treatments, thus creating situations of horizontal and vertical inequity. In the first case, because some treatments benefit certain sectors or activities, different tax burdens can be generated for similar taxpayers; for example, in Mexico, individuals and companies in the northern border region enjoy different tax incentives than their peers in the rest of the country. This differentiation between similar taxpayers can lead to negative results, creating situations in which the tax burden of a subsidiary of a multinational company is lower than that of a domestic company, as a result of which the domestic industry loses competitiveness. In the second case, preferential treatments can cause vertical inequity, especially when they affect progressive taxes with a greater redistributive impact; for example, when the type of income is concentrated in the highest deciles of income distribution (as in the case of income received from dividends and other financial instruments), the preferential treatment of these incomes results in a reduction in their average effective rate, thereby reducing the progressive nature of personal income tax.

Third, how is transparency ensured and the use of tax expenditures included in the budget process? Although tax treatments can represent certain benefits when compared to other policy instruments, their costs, and to some extent their advantages and disadvantages, are "invisible" to both policymakers and society. Since tax expenditures are not usually subjected to the same control and evaluation mechanisms to which direct expenditures are subjected (they are not included in the budget and are generally renewed automatically each year), this reduces the transparency and limits the accountability of fiscal policy, while at the same time making it more difficult to identify the beneficiaries. It is in this context that ECLAC/Oxfam International (2019) advocates for the incorporation of tax expenditures into the budget process to improve the monitoring of and accountability for them. However, this step has advantages and disadvantages: although it increases transparency and accountability, it is likely that in the face of a recession it would be complicated to use tax expenditures as a countercyclical fiscal policy tool. In any case, this incorporation is particularly important in the case of preferential treatments that have not undergone a legislative process for their approval (as in the case of tax expenditures granted by presidential decrees). Finally, regardless of whether tax expenditures are considered as part of the budget or not, considerable effort should be made to quantify these tax expenditures and to know who their beneficiaries are, in order to ensure the transparency of the various public policy instruments. Furthermore, transparency is also required in how each forgone revenue is calculated so that any citizen can have the means for checking the official figures of the Ministries of Finance or Treasury of each country. Regarding the latter, IMF and OECD (Brys and others, 2020) recommend the establishment of a working group comprising officials from the responsible Ministries of Finance or Treasury to focus on the development and fine-tuning of the methodology for the calculation of tax expenditures, while OECD and the Directorate of National Taxes and Customs of Colombia recommend a stronger mandate and greater resources for the responsible entities, which can prepare an annual report on tax expenditures that is independent and broken down line item by line item. They also recommend the creation of an independent entity of public finance experts to support the Ministries of Finance or Treasury in the development of a strategy for the implementation of the suggested reforms and the evaluation of tax proposals (OECD/DIAN/MHCP, 2021).

Table 3
Possible benefits and costs of tax expenditures

Possible Benefits	**Possible Costs**
Better tax collection for a possible greater investment and growth	Loss of collection for investments that would have been made, even without incentives and because of greater avoidance/evasion
Possible correction of market failures (externalities, asymmetry of information, economies of scale, and so forth, and so forth)	Greater complexity of tax systems
Possible use of positive externalities or minimization of effects of negative externalities	Increase in administrative and compliance costs
	Less transparency in the tax policy
Possibility of creating new jobs	Distortion in the allocation of resources
Other possible social or environmental benefits depending on the incentive	Harmful tax competition between jurisdictions
	Loss of horizontal and vertical equity

Source: Prepared by the author, on the basis of Oxfam International/Economic Commission for Latin America and the Caribbean (ECLAC), "Los incentivos fiscales a las empresas en América Latina y el Caribe", *Project Documents* (LC/TS.2019/50), Santiago, 2019.

With regard to the measurement of tax expenditures, there are, in general terms, three different approaches (Villela, Lemgruber and Jorratt, 2009): revenue forgone, revenue gain and outlay equivalent. On the one hand, the revenue forgone approach measures the loss of revenue due to the application of a preferential treatment through a partial equilibrium exercise, assuming that taxpayers would not change their behaviour; for example, in the case of Mexico, the estimation of the revenue forgone due to VAT exemption is calculated as if the goods and services were subject to the general VAT rate of 16%, without considering any change in the administrative efficiency of this tax. On the other hand, the earned income method estimates the gain in revenue that the removal of the preferential treatment would entail, so it includes an assumption about the change in the behaviour of the beneficiaries. Finally, the equivalent expenditure approach measures the cost of providing the same monetary benefit granted by the tax treatment through a direct expenditure; that is, the direct expenditure that would be required in order to provide a similar net tax benefit to taxpayers who receive the preferential treatment being evaluated.

The OECD makes some recommendations for the quantification of tax expenditures, both in relation to the determination of the frame of reference of the tax as well as the estimation approach (Kraan, 2004). In terms of the frame of reference, it indicates that this does not necessarily have to be based on the legal structure of the tax and that it must be broad and unique, mainly because a framework based on legislation prevents the measurement of tax expenditures from being comparable (as in personal and corporate income tax, which will be reviewed below), or may even result in dissonance within the same tax system, by linking the reference index to the regulatory tax base. In terms of the approach to estimation, it maintains that all types of tax expenditures must be included and recommends measuring them based on the revenues lost because of their simplicity and accuracy, but taking care not to include tax expenditures that really are not generating a loss (such as VAT exemptions or exclusions on intermediary goods and services that are intended to produce taxed final goods or services).

For its part, CIAT (2011) indicates that, in cases where the internal legislation is very different from the internationally accepted doctrine, it is recommended that a tax system be used that is based on a theoretical conceptual framework. At the same time, CIAT (2011) agrees with estimations based on lost revenues and emphasizes that only one of the other two methods should be used (revenue gain or outlay equivalent) if there is specialized information available that allows for the exact quantification of the earnings from collections, which would be obtained by removing a preferential treatment or if there are the requisite resources to replace it with subsidies or transfers, and these results should be presented separately.

The measurement of tax expenditures is a complex task and is not devoid of problems, criticisms and constraints. As indicated before, there is no single definition of forgone revenue and what constitutes a benchmark tax system, in addition to the fact that the frameworks and metrics used in each country may vary, which makes it difficult to, or could even invalidate their comparison and during different periods.

B. Evaluations of the effectiveness of the tax treatments, which represent a tax expenditure, in order to improve efficiency

In recent years, there has been growing interest in carrying out studies to evaluate the impact of tax expenditures on variables such as investment and employment, among others. However, factors such as the form of each tax expenditure, the diversity of the objectives pursued (for example, to boost the economy of a geographical area, or a sector of activity or to make a new investment, to promote employment, or to alter the distributional impact of a tax) make it difficult to determine the overall benefit of these preferential tax treatments and lead to evaluations being conducted for a particular forgone revenue or for a set of treatments that make up the tax system and are geared toward the same objective. In this regard, Peláez Longinotti (2021) highlights the use of a classification of tax expenditures according to the associated budget sector, since this allows policymakers to differentiate between each of the treatments and to know the equivalent forgone revenue. Based on the information available in Tax Expenditures in Latin America and the Caribbean (TEDLAC) database and the classification suggested by CIAT (2011),[7] with the exception of the health, sanitation (including food and maternity) and sports sector, which combined is the sector with the highest volume of tax expenditures in 2020 (31.5% of the total on record for all countries), there is a fairly uniform distribution among the remaining sectors, with a minimum of 2.7% and a maximum of 10.7%. In the case of the health, sanitation and sports sector, which includes all the exceptions introduced for these social purposes, it can be deduced that this sector has broad scope, mainly because of the diversity of tax benefits that exist both for certain goods in the consumption basket and for services associated with the health of human beings.

A fundamental aspect to be evaluated in any policy implemented is whether the benefits it provides, be they economic, social or environmental, outweigh the costs it generates, from the fiscal cost of lost revenue to the effects on efficiency, equity and transparency. However, the effectiveness of tax expenditures in achieving the aforementioned objectives is not exempt from debate, and this type of analysis is not common in studies conducted among Latin American and Caribbean countries (ECLAC/Oxfam International, 2019; Brys and others, 2020; OECD/DIAN/MHCP, 2021). The benefits that should be compared to the costs of any tax intervention are those that can actually be attributable to the tax treatment in question; for example, an increase in revenue as a result of new investments that

[7] State apparatus, Internal Security and National Defense; Foreign Trade; Social Security and Social Services; Employment; Housing; Health and Sanitation; Education; Agriculture; Industry and the like; Energy and Mining; Transportation and Telecommunications; Financial Sector; Investment, Development and Decentralization; Politics and Foreign Affairs; All sectors (including Trade, Services and Environment); Any other sector.

responded to the incentive and the social benefits of that increased investment, such as new jobs, positive externalities, greater economic growth, lower poverty, and so forth. However, the costs should include aspects like the loss of revenue from investments that would have been made even without the incentives, a higher tax administration cost, the possible abuse of the incentive that increases tax evasion, economic distortions, distributive effects and their impact on macroeconomic variables. In general, existing studies in the region focus on estimating the loss of revenue and very few perform a comprehensive evaluation of the costs and benefits of tax incentives (ECLAC, 2019, ECLAC/Oxfam International, 2019; Brys and others, 2020; OECD/DIAN/MHCP, 2021).

An example of this type of analysis is found in a study conducted by the World Bank (Moller, Junquera Varela and Alvarez, 2012) in which it evaluates three tax expenditures in Colombia: VAT exemptions and exclusions, the free trade zone regime and the special tax regime for non-profit companies. According to what is reported in that study, there are enough technical elements to call into question the effectiveness of the Colombian free zone regime, arguing that the investment decision depends on many other factors, and in the Colombian case, it is the physical infrastructure and not the tax regime. Although these zones generate a certain amount of investment and employment, the study points out that this is not necessarily due to the differential tax treatment, since part of this investment would probably have been made even without tax incentives given the high profitability of many of these investments. Among the costs of these interventions are the collection loss, estimated at 0.1% of GDP, the cost of compliance (due to the annual hiring of an external auditor) and the administrative cost, which is equivalent to 0.8% of GDP. In addition, this regime generates horizontal inequity, due to the lower taxation of companies under the free zone regime compared to companies under the general regime. There is also speculation about a higher risk of tax avoidance, as there could be a manipulation of transfer prices. For all these reasons, the World Bank recommends considering other more effective instruments to encourage investment, such as establishing a system of accelerated depreciation and implementing regional development plans financed with budgetary resources.

A joint study by IMF, OECD, the United Nations and the World Bank (IMF and others, 2015), emphasized that tax incentives that reduce the cost of investment (e.g. accelerated depreciation schemes, special tax deductions and credits) are preferable to incentives based on corporate profits (e.g. tax holidays, preferential tax rates or income exemptions).

Another study conducted by the World Bank (2017) proposes an evaluation of the benefits of incentives granted to companies established in free zones in the Dominican Republic. The treatment analysed is that of 100% exemption from corporate income tax and compares the improvements in employment and investments and their cost in terms of forgone revenue. The analysis highlights that, due to the tax incentives, free zone companies create significantly more jobs than companies outside the free zones, but at a very high fiscal cost, since, although these companies create three times more jobs, each job generated costs five times more in terms of forgone revenue. The ratio between the fiscal cost of each job created and the average income per worker is 10:1 in the free trade zones, which is much higher than the 7:1 ratio under the standard tax regime. These results seem to indicate that tax incentives are not an efficient means of promoting employment growth, especially in free trade zones, in addition to the generation of horizontal inequity (due to the lower taxation of these companies) and that there are other public investment alternatives that could have better results.

For its part, CIAT in conjunction with the United Nations Department of Economic and Social Affairs (DESA) conducted a cost-benefit analysis of the tax incentives granted to the tourism industry in the Dominican Republic during the period 2002–2015 (CIAT/United Nations, 2018). The analysis highlights that the tourism industry in this country is mainly affected by global economic conditions and tax incentives do not represent an important factor in its growth and development. The benefits attributable to incentives include tourism investment, the impact on GDP and the potential tax revenue generated by this additional investment, while the costs include the loss of tax revenue, the negative impact on GDP and the loss of efficiency caused by the incorrect allocation of the investment. The study estimates that the costs outweigh the benefits, and concludes that incentives have not been an efficient tax instrument. Finally, it argues that if the forgone revenue had been invested in public infrastructure, there would be a net gain in GDP and the benefits would outweigh the costs, and therefore holds the view that this type of investment is a more cost-effective fiscal instrument to support tourism and economic growth.

In conclusion, these few cost-benefit studies carried out in the region seem to show that some of the tax treatments implemented are not cost-efficient, so that the costs they generate, both in terms of forgone revenue and other economic and social costs, are higher than the benefits they provide, whether in terms of increased investment, economic growth, job creation or other objectives pursued.

With these criticisms in mind, Tokman, Rodriguez and Marshall (2006) propose a systematic framework for evaluating forgone revenue. The authors propose that, first of all, it should be verified whether there is an economic efficiency reason, distributive justice reason or any other reason that justifies this type of State intervention. It should also be verified whether the tax treatment is effective and efficient in meeting the objective and that there are no alternative instruments for achieving it in a better way. Finally, they suggest that the relevance of tax incentives should be evaluated on a case-by-case basis and reviewed periodically in the event of possible changes in the context.

An example of the application of this methodological framework is found in Agostini and Jorratt (2017) who analyse two investment incentives in Chile: the exemption of tariffs on capital goods imports and income tax credit for purchases of fixed assets. The justification for State intervention would be related to the existence of some positive externality influencing the country's economic growth by increasing investment in capital goods. The effectiveness of tariff exemptions is estimated based on information from import records and shows that the reduction of tariffs to zero rate increases capital goods imports significantly. Regarding the benefit generated by the incentive and the comparison with its costs (i.e. loss of revenue, greater loopholes for tax evasion, increase in the administrative and control costs of the system), an evaluation was done on the increase in imported capital goods in relation to the loss of revenue, with the former being higher by approximately US$ 184 million. However, the authors warn that this does not necessarily translate into a positive impact, since not all imported capital goods have a positive impact on economic growth and not all potential costs have been estimated. Finally, they conclude that there are better instruments that can be used to increase investment, such as instantaneous depreciation and the exclusion of the payment of interest as an expense for the purposes of calculating the tax base. Regarding credit for purchases of new fixed assets, the authors estimate the additional investment resulting from this based on the corporate income tax returns, which is about four times lower than the estimated cost. They also stress that this treatment would have a negative impact on income distribution, since it is highly concentrated in the high-income population. Finally, they recommend replacing this incentive with a more accelerated depreciation regime than the current one or implementing certain improvements in the design of this credit.

In general, the literature reviewing the effects of tax incentives on foreign direct investment shows that they have had only a secondary influence on the level and location of investments. De Mooij and Ederveen (2003) and Feld, Heckmeyer and Overesch (2013) conducted a meta-analysis of econometric studies on corporate tax incentives; in the first case, composed of 25 studies in developed countries, it was concluded that a one percentage point increase in the tax rate reduces foreign investment by 3.3%, while in the second, comprising 21 additional studies, it was concluded that taxes are important for location and investment decisions, although with an effect of corporate taxes on foreign direct investment of about half of the previous study (between 1.39 and 1.68). With respect to the Latin American case, Klemm and Van Parys (2012) reviewed over 40 countries in Latin America, the Caribbean and Africa between 1985 and 2004 and evaluated the use of tax incentives as a tax competition tool, as well as the effectiveness of corporate tax rates and tax incentives in attracting investment. In summary, they found evidence of cross-country tax competition and an impact on foreign investment through lower corporate income tax rates (a 10 percentage point increase in the income tax rate reduces investment by 0.5 percentage points of GDP) and longer tax holidays (a 10-year extension increases investment by 1% of GDP), while investment tax credits and deductions seem to have no effect, and tax rates have a negative impact on this type of investment. However, tax rates and tax holidays do not seem to be effective in stimulating gross private fixed capital formation, total investment and economic growth. According to the authors, this could be due to a crowding out effect of foreign direct investment on domestic investment, or that only the transfer of ownership is affected rather than an improvement in investment.

According to James (2013), whose research focused on OECD countries, the investment climate is a key determinant of the effectiveness of incentives in attracting foreign direct investment. According to his findings, the effect of lowering effective tax rates is eight times stronger in countries with good investment climates, which helps explain why incentives have encouraged investment in some countries, but fail in others. In the same vein, a study conducted by the World Bank (2018), through a survey of 750 multinational investors and business executives, revealed that political stability, security, and the presence of a stable legal and regulatory environment, are the main features that multinational company executives take into account. This study concluded that these considerations carry much more weight than issues such as tax rates or low labour costs.

In the particular case of Latin America, Agostini and Jalile (2009) analysed the top marginal income tax rate and its effect on foreign investment decisions in eleven countries in the region during the period 1990 to 2002. Their results show that foreign investment does respond to changes in this rate and these effects are relatively important; for example, a one percentage point increase in the income tax rate is associated with a decrease of between 0.75 and 0.96% in the proportion of foreign direct investment that a country receives. In addition, they point out that there are other determinants of great relevance in the region, such as better infrastructure, lower salaries, lower institutional risk, free trade agreements with developed countries and a larger market size. Along these lines, the Central American Institute for Fiscal Studies (ICEFI, 2008) conducted an econometric analysis of the determinants of foreign direct investment in Central America (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua), Panama and the Dominican Republic, with data for the period 1980–2005. Its model included both fiscal determinants (tax rates and tax incentives) and non-fiscal factors (market size, trade openness, macroeconomic and political stability, infrastructure, and so forth), and found that fiscal incentives are not the main determinants of foreign investment in the region, but that economic growth, the existence of infrastructure and economic openness are more important factors.

Artana (2015) conducted an econometric study for Costa Rica, the Dominican Republic and El Salvador based on information from companies' income tax returns, in which he highlighted that the risk of "tax holidays" to encourage high-profit projects that would have materialized without the incentives would be high. His analysis shows that companies with tax incentives in the Dominican Republic and El Salvador would have profits equal to or higher than those of companies without incentives; for example, in the case of El Salvador, companies included in the free zone regime did not perform better (measured by sales performance) than other companies, but in the case of the Dominican Republic, there was more growth in sales and labour intensity; on the other hand, the Costa Rican case revealed that the level of the exemption does not seem to have an impact on investment or employment.

In summary, the available empirical evidence shows that tax incentives are only one of the factors that can affect investment, employment and economic growth, given that there are other external elements that are more relevant, such as the quality of institutions, infrastructure, market size and economic, political and social stability.

Table 4 presents a summary of the advantages and disadvantages of tax expenditures aimed at encouraging a change in business behaviour. It shows the main findings of the empirical studies, that not all tax incentives are equally effective in achieving investment, employment and growth objectives, with accelerated depreciation schemes, deductions and tax credits being preferable to tax holidays, other exemptions and reduced rates.

Table 4
Advantages and disadvantages related to tax incentives

Advantages	Disadvantages
Exemptions or tax holidays	
Easy to administer	It favours high-profit projects that would have materialized even without the benefit Incentives for tax avoidance, by diverting the profits from affected companies to exempt companies, through transfer pricing The period can be extended beyond the legal term, through social transformations. Since it is limited to a certain number of years, it attracts mainly short-term investments
Reduced rates	
Easy to administer Unlike exemption, it requires a declaration, which allows for greater control Lower tax cost than exemption	It favours high-profit projects that would have materialized even without the benefit Incentives for tax avoidance, by diverting the profits from affected companies to exempt companies, through transfer pricing It is a gift for investments already made
Investment deductions and credits	
More targeted, since it is issued against a tangible investment Allows for the prioritization of certain types of assets over others	Stimulates investments in assets of shorter useful life, since the incentive may be used at each asset renewal The system can be abused by the sale and purchasing of the same assets, in order to enjoy the benefit several times over Higher administrative costs If the loss carryforward is limited in time, credit carryforward is not allowed, there may be discrimination against investments with late returns
Accelerated depreciation	
More targeted, since it is issued against a material investment Allows for the prioritization of certain types of assets over others. There is no distortion in favour of short-term assets, since regardless of the life of the asset, its purchase price always depreciates Less prone to abuse, as the use of mechanism such as the sale and repurchase of the same asset do not generate additional tax savings It has a lower tax cost, since it only defers the payment of the tax	Higher administrative costs If the loss carryforward is limited in time, it may discriminate against investments with late returns

Source: Prepared by the author, on the basis of Oxfam International/Economic Commission for Latin America and the Caribbean (ECLAC), "Los incentivos fiscales a las empresas en América Latina y el Caribe", *Project Documents* (LC/TS.2019/50), Santiago, 2019.

C. Evolution, volume and composition of tax expenditures

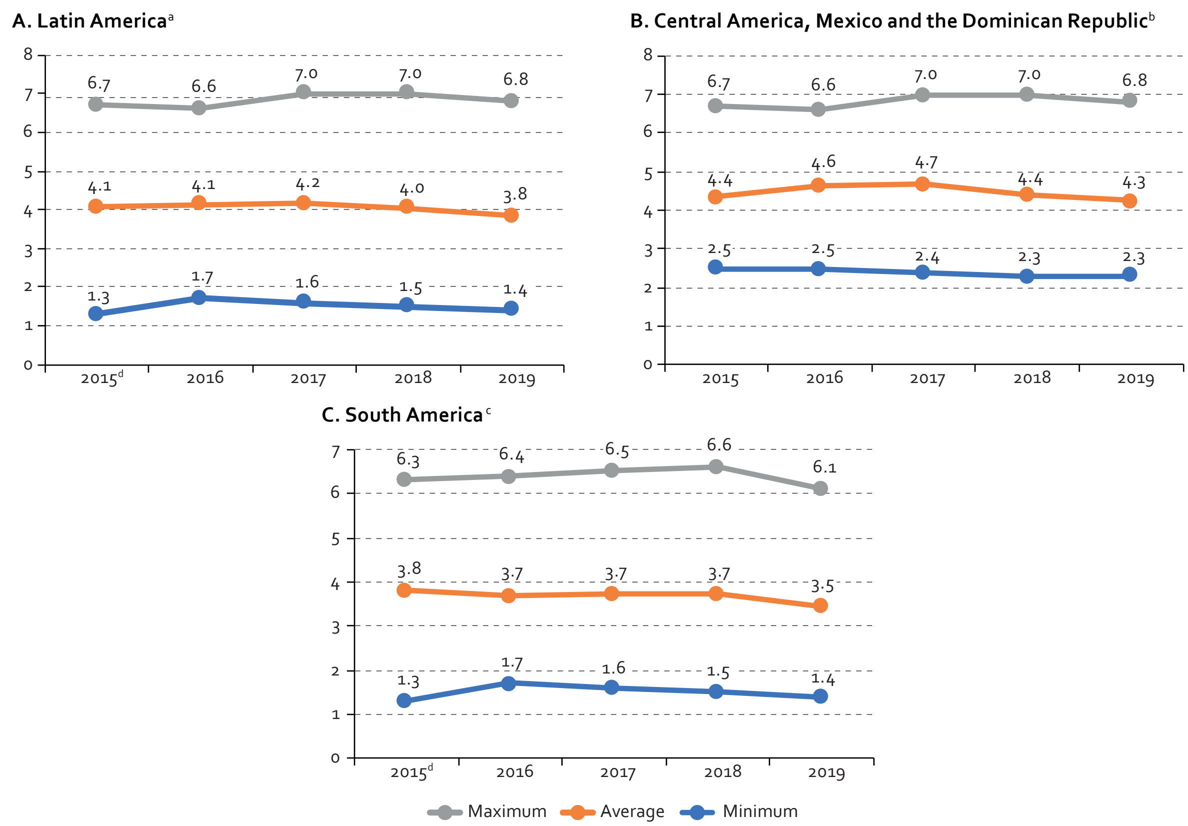
As an introduction to a more direct comparison between countries, it is worth briefly reviewing the evolution of tax expenditures in Latin America in recent years, highlighting the variation that exists between countries, which reflects the diversity of tax frameworks and public policies implemented in the region (ECLAC, 2019; 2020; 2021). An example of this can be seen in figure 2, which shows that, although the average of tax expenditures in the 13 countries considered[8] has remained at a relatively constant level between 2015 and 2019, around 4.1% of GDP (a minimum of 1.4%, a maximum of 6.8% and an average of 3.8% of GDP), a clear difference is observed between the group comprising Central America,[9] the Dominican Republic and Mexico (a minimum of 2.3%, a maximum of 6.8% and an average of 4.3% of GDP) and the group of South American countries (a minimum of 1.4%, a maximum of 6.1% and

[8] Argentina, Brazil, Chile, Costa Rica, Dominican Republic, Ecuador, Guatemala, Honduras, Mexico, Panama, Paraguay, Peru, and Uruguay.
[9] Costa Rica, Guatemala, Honduras, and Panama.

an average of 2.8% of GDP). The first of these groups shows a slight reduction in tax expenditures between 2015 and 2019 (an average growth rate of -0.5% during this period), while South America[10] as a whole has remained fairly steady with an estimated forgone revenue of 3.7% of GDP, but dropping to 3.5% by 2019. However, the lowest level of forgone revenue in the sample of Central American countries, Mexico and the Dominican Republic is about 1 percentage point of GDP above the value observed in South America.

It should be noted that all the countries reviewed use the lost revenue approach to estimate their forgone revenue, so this estimate is not necessarily equivalent to the revenue that would be obtained if a specific preferential treatment were removed. The overall impact will depend, among other factors, on the effects of the tax change on the behaviour of economic agents. However, and due to the fact that the estimates are made independently, the sum of the results would not necessarily coincide with the theoretical amount waived, or in other words, the result of removing the exceptions one by one is not the same as the result of removing them all together.

Figure 2
Latin America (13 countries): tax expenditures, 2015–2019
(Percentages of GDP)



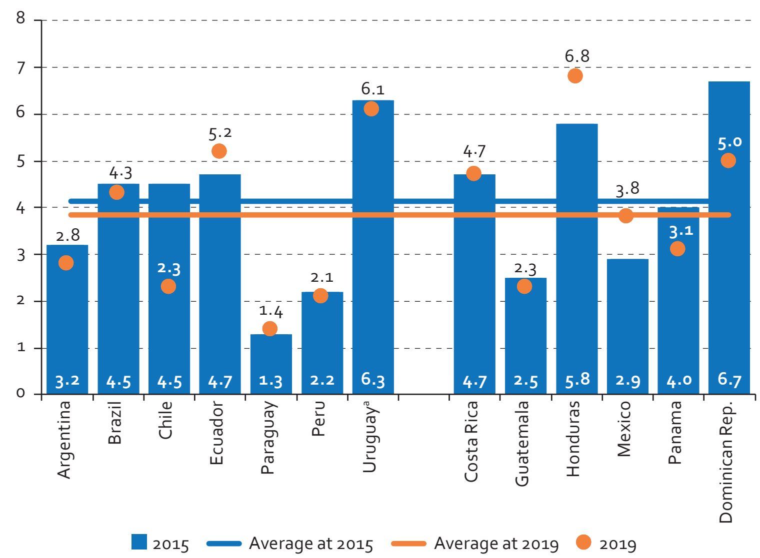
Source: Prepared by the author, with data from ECLAC, on the basis of official figures.
Note: Simple averages.
[a] Argentina, Brazil, Chile, Costa Rica, Dominican Republic, Ecuador, Guatemala, Honduras, Mexico, Panama, Paraguay, Peru, and Uruguay.
[b] Costa Rica, Dominican Republic, Guatemala, Honduras, Mexico, and Panama.
[c] Argentina, Brazil, Chile, Ecuador, Paraguay, Peru and Uruguay.
[d] For the 2015 average, the figures for Uruguay correspond to 2014.

It is important to review the different situations between the countries in each group in order to better understand the aggregate performance. For example, figure 3 shows that, for the region comprising Central America, the Dominican Republic and Mexico, there is a slight increase in the tax expenditures

[10] Argentina, Brazil, Chile, Ecuador, Paraguay, Peru and Uruguay.

estimated between 2015 and 2019 for the cases of Mexico (with an average growth rate of 7% during that period) and Honduras (with an average growth rate of 4.1% during the period) while there is a reduction in tax expenditures in Guatemala (with an average growth rate of -2.1% during the period), Panama (with an average growth rate of -6.2% during the period) and the Dominican Republic, where it is much more obvious (with an average growth rate of -7.1% during the period). In this same region, Costa Rica showed a growth trend toward 2018, and then in 2019 returned to the level observed in 2015. For its part, the reduction in tax expenditures in South America[11] in the last two years, which is reflected in figure 3, derives primarily from the decrease in the forgone revenues in the cases of Argentina (with an average growth rate of -3.3% between 2015 and 2019), and a sharper reduction in the cases of Chile (with an average growth rate of -15.4% between 2015 and 2019) and Peru (with an average growth rate of -1.2% between 2015 and 2019). On the contrary, Ecuador (with an average growth rate of 2.6% between 2015 and 2019) and Paraguay (with an average growth rate of 1.9% between 2015 and 2019) show an increase in estimated tax expenditures for this period. The remaining countries have shown a significant change for the period 2015 to 2019.

Figure 3
Latin America (13 countries): tax expenditures, 2015 and 2019
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] The figures for Uruguay correspond to 2014 and 2019.

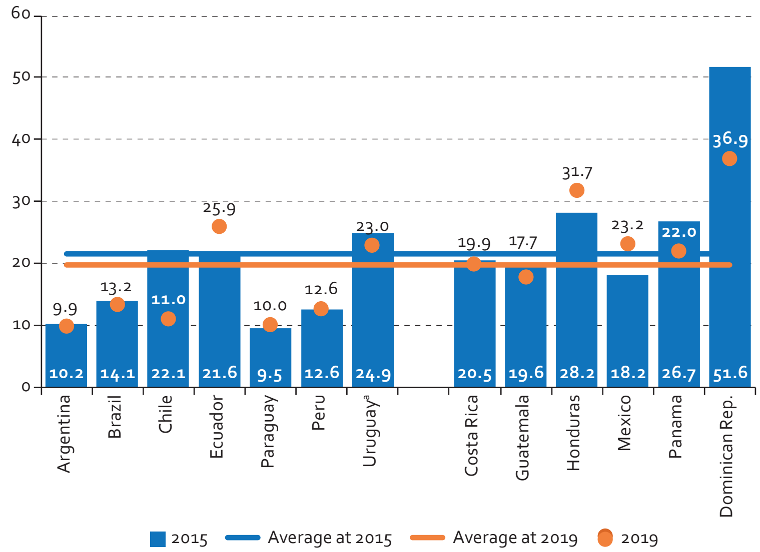
Figure 3 also shows that there is a wide variety in the region in terms of the costs attributable to different tax treatments. For example, within the South American countries, there are opposite cases such as Paraguay (1.4% of GDP in 2019), which is well below the Latin American average (3.8% in 2019), while Uruguay (6.1% in 2019) is well above that average. Along the same lines, in Central America, the Dominican Republic and Mexico, the most striking cases are those of Costa Rica and Guatemala, which have remained constant between 2015 and 2019, and those of Honduras and Mexico, which have varied greatly over the same period of time (see table A1 in annex 1). Honduras in particular reports, in 2019, the highest cost in terms of tax expenditures among the countries reviewed so far.

As mentioned at the beginning, it is also important to take into account how tax expenditures evolve with respect to each country's tax revenue, so figure 3 shows the ratio of tax expenditures as a function of tax revenue. This amount represents how much is forgone as a proportion of tax revenues, and is a complementary measurement to the forgone revenue to GDP ratio. On average, the forgone revenue to collection ratio is

[11] The case of Colombia is excluded because the calculation methodology used by DIAN, and reported in the Medium-Term Fiscal Framework (MFMP) takes into account exclusions that do not generate effective collection losses; because its methodology for estimating forgone VAT differs from the rest of the countries; and because of some inconsistencies in the figures that have been identified by different sources.

19.8% of revenue for 2019, but there is also a marked difference when comparing South America and the group of countries comprising Central America, the Dominican Republic and Mexico, with the average for the former being 15.1% of revenue and 25.2% for the latter, a much more marked difference than in the case of tax expenditures in relation to GDP, which is only a reflection of the lower revenue collection and higher tax expenditures in Central America, the Dominican Republic and Mexico described above.

Figure 4
Latin America (13 countries): tax expenditures in 2015 and 2019
(Percentages of collection)



Source: Prepared by the author, on the basis of Organisation for Economic Co-operation and Development (OECD) and others, *Revenue Statistics in Latin America and the Caribbean 2022*, Paris, 2022.
Note: The ratios are calculated using the total general government tax collection as a base.
[a] The figures for Uruguay correspond to 2014 and 2019.

Regarding the variation within these zones, figure 4 shows that the Central American countries that present a higher proportion of tax expenditures in relation to their tax collection in 2019 are Honduras (31.7%) and the Dominican Republic (36.9%); in the case of the latter, it is worth mentioning that in the last five years this ratio has been decreasing (mainly due to a decrease in tax expenditures), as in 2015 and 2016, tax expenditures in this country were equivalent to 50% of its tax revenues (this represents an average growth rate of -8% between 2015 and 2019). For their part, Mexico (an average growth rate of 6.3% between 2015 and 2019) and Honduras (an average growth rate of 3% between 2015 and 2019) have increased this ratio during this period. In the cases of Costa Rica (an average growth rate of -0.7% between 2015 and 2019), Guatemala (an average growth rate of -2.5% between 2015 and 2019) and Panama (an average growth rate of -4.7% between 2015 and 2019), this ratio has decreased.

With respect to South American countries, the cases of Ecuador stand out, which has a tax expenditure to tax revenue ratio above the average for the subregion (25.9% of its tax revenue in 2019, with an average growth rate of 4.7% between 2015 and 2019), while Argentina and Paraguay are well below it (9.9% for Argentina in 2020 and 10% for Paraguay in 2019). Figure 3 also shows the reduction of this ratio in Chile (with an average growth rate of -15.6% between 2015 and 2019) and Uruguay (with an average growth rate of -2.1% between 2015 and 2019), with Chile being the country that has decreased its forgone revenue to tax revenue ratio the most, through a decrease in tax expenditures (it is important to note that Chile changed its methodology during this period). However, Argentina (with an average growth rate of -0.6% between 2015 and 2019), Brazil (with an average growth rate of -1.5% between 2015 and 2019), Paraguay (with an average growth rate of 1.4% between 2015 and 2019) and Peru (with an average growth rate of 0.0% between 2015 and 2019), have not changed significantly during this period.

II. Detailed review of the Reports on Tax expenditures published in Latin American countries

The preparation of reports that compile conceptual and methodological information and present an estimate of a country's tax expenditures has become an international practice that began in the late 1960s and early 1970s. While they have been produced in Germany since 1967 and in the United States since 1974, the practice became widespread among OECD member countries in the late 1970s and early 1980s.

The information on tax expenditures presents several conceptual and methodological complications that make it difficult to compare between countries, and even some conceptual differences regarding the concept of direct public expenditure within the same country. The existing debate on the most appropriate normal structure for a tax, the different tax expenditures included, the different methodologies used and the interaction between the different measurements, are among the differences between countries that often make a direct comparison of the final estimates on tax expenditures difficult, even among the same types of taxes.

A. Conceptualization in the reports on tax expenditures

The main comparisons that can be made between countries regarding the degree of progress in their tax expenditure reporting are on the normal or reference structure of a tax that is used (conceptual or legal) and on the approach or concept measured (forgone revenue, revenue gain or outlay equivalent), although it is also important to review the different definitions of tax expenditure and observe how these, despite being very similar in principle (even equivalent), may present minor differences that are important to highlight. Table 5 summarizes this comparison among 18 Latin American countries. The information was compiled from the different reports on tax expenditures specific to each country.[12] It is interesting to note that not all countries have a legal obligation to prepare a report compiling tax expenditures, so this aspect is also included in table 5.

[12] It was only in the case of Panama that no information was found on the general conceptual and methodological aspects of its estimates, but these data are available from other sources (Garcimartín, Larios and Astudillo, 2020) and will be included in the comparison below.

Table 5
Comparison of the conceptualization of tax expenditures

Country	Definition of tax expenditure	Concept being measured[a]	Frame of reference	Legal obligation
Argentina	Revenues forgone by the tax authorities in order to give a tax treatment that is contrary to the general provisions of the tax legislation, in order to benefit or encourage the development of certain activities, zones, taxpayers, or consumptions.	Definitive revenue losses (does not include deferrals).	Legal	Yes[b]
Bolivia (Plurinational State of)	Tax revenues forgone by the tax authorities owing to the application of tax incentives, special regimes, exemptions, deductions and others that represent deviations from the basic tax system.	Loss of revenues caused by the introduction of a tax concession.	Legal	No[b]
Brazil	Indirect government expenditures made through the tax system, in order to meet economic and social objectives and they constitute an exception to the Reference Tax System, reducing the potential revenue and, consequently, increasing the taxpayer's economic resources.	Tax-free transactions that were actually conducted or are expected to be conducted in the future, all other things being equal.	Legal	Article 165 (6) of the Constitution of the Federative Republic of Brazil and article 5(II) of Complementary Law No. 101.
Chile	Revenue forgone as a result of the application of special tax exemptions or regimes that seek to achieve various public policy objectives, such as encouraging or stimulating certain sectors, activities, regions or agents in the economy, encouraging changes in behaviour or simplifying tax compliance.	Forgone revenue measures how much more revenue would be collected in the year if a specific exemption were not in effect.	Legal and Conceptual	Article 19 (22) of the Political Constitution of the Republic of Chile.
Colombia	Those deductions, exemptions and special tax treatments, present in the tax legislation, which entail a decrease in the tax obligation for taxpayers, generating less resources for the State.	Revenue forgone by the National Government due to the use of any of the tax expenditures included in the law. For VAT, it is calculated based on the "Modelo del IVA" developed by DIAN, which allows for a comparison between the tax actually collected from taxpayers and the estimated potential collection in the absence of these measures.	Legal	Article 1 of Law No. 819 of 2003.
Costa Rica	Revenues forgone by the Government as a result of a tax treatment, which is different from that which is generally applied.	Size of the reduction in tax revenues resulting from the establishment of a tax expenditure.	Legal	No[b]
Dominican Republic	The amount of revenue that the tax authorities forgo by granting preferential tax treatment that deviates from that established in the tax legislation, in order to benefit certain areas or taxpayers.	Revenue forgone by the tax authorities assuming that taxpayers would not change their behaviour with the removal of the tax benefit.	Conceptual	Article 36, paragraph 9, of the Organic Budget Law for the Public Sector No. 423-06.
Ecuador	Resources that the State, at all levels of government, ceases to collect due to the deduction, exemption, among other mechanisms, of direct or indirect taxes established in the corresponding regulations.	The amount of tax revenues that the State ceases to collect due to the existence of a particular provision that establishes an incentive or benefit.	Legal	Article 94, chapter 2 of the Organic Code for Planning and Public Finance.
El Salvador	All those special tax-related provisions that generate a reduction of taxpayers' obligations, causing a loss in tax revenue.	The forgone revenue that generates the introduction of a tax expenditure, under the assumption that there are no changes in taxpayers' behaviour.	Legal	Yes[b]

Country	Definition of tax expenditure	Concept being measured[a]	Frame of reference	Legal obligation
Guatemala	Tax revenues forgone as a result of the application of preferential treatments set forth in the Political Constitution of the Republic of Guatemala and other ordinary laws, including tax laws, as well as some policy instruments provided by the State, provided that the generating event is formalized, they are targeted at a specific group or sector, there are no compensations that neutralize the benefit and they are not part of the structural features of the tax assessment.	Loss of income after the introduction of a tax expenditure.	Legal[c]	Yes[b]
Honduras	Income that the State of Honduras ceases to collect upon granting a concession or increasing incentives, exemptions, reduced rates and deductions intended to benefit, promote or encourage certain activities, sectors, branches, regions or groups of taxpayers.	Loss of tax revenues incurred by the government as a result of the incentive or benefit granted without taking into consideration the taxpayer's behaviour in light of the measure applied.	Legal	Fiscal Responsibility Act.
Mexico	Indirect support granted to sectors of the economy or taxpayers through the tax system, which deviates from the "normal" tax structure, resulting in an exception regime and leading to lower or even no tax collection.	Amounts not collected by the tax authorities due to differential tax treatments established in laws and decrees.	Conceptual	Article 27 (A) of the Federal Income Law[d].
Nicaragua	Transfers that the State makes to certain groups or sectors, but instead of making them through budgetary expenditure, it does so through a reduction in the taxpayer's tax obligation.	Financial benefit received by the taxpayer and income that the tax authorities would obtain if the item in question were taxed at the general tax rate.	Legal[e]	No
Panama	…	…	…	…
Paraguay	Lack of collection, as a result of a different or exceptional tax treatment than that provided for in the normal structure of a tax or a tax system.	Loss of revenue.	Conceptual	Article 11 of Law 5061/13.
Peru	Revenue forgone by the State by granting tax incentives and benefits that reduce the tax burden of a particular group of taxpayers.	Revenue forgone.[f]	Legal	Law No. 30099 of the Law of Strengthening of Fiscal Responsibility and Transparency (LFRTF).
Uruguay	The absence or loss of potential revenue resulting from an exceptional or different tax treatment from that provided for in the normal structure of a tax or a reference tax system.	Definitive loss of revenue resulting from differential tax treatment.	Legal	Article 183 of Law No. 19.438.

Source: Prepared by the author, on the basis of Oxfam International/Economic Commission for Latin America and the Caribbean (ECLAC), "Los incentivos fiscales a las empresas en América Latina y el Caribe", *Project Documents* (LC/TS.2019/50), Santiago, 2019; Superintendency of Tax Administration, *Estimación del Gasto Tributario del Gobierno Central: Aspectos Conceptuales y Metodológicos. Periodo 2012-2015*, Guatemala City, 2016; J. Cardoza, *Actualización Metodológica y Estimación del Gasto Tributario de Nicaragua*, Managua, Ministry of Finance and Public Credit, 2010.

[a] All the countries reviewed use the forgone revenue approach, and except for Chile, none makes assumptions about the change in taxpayer's behaviour because of the removal of preferential treatment. The column contains the way in which the forgone revenue approach is defined.

[b] Information taken from ECLAC/Oxfam International (2019), Tax incentives to companies in Latin America and the Caribbean.

[c] Superintendency of Tax Administration (2016).

[d] The reference to the article may change depending on the fiscal year in question, since the Federal Income Law is approved annually.

[e] Methodological Update and Estimation of Nicaragua's Tax Expenditure http://www.estimacionestributarias.com/archivos/Actualizacion_Metodologica_y_Estimacion_del_Gasto_Tributario_Nicaragua%20.pdf.

[f] Some estimates do consider the effect of some overlaps that would involve significant amounts, such as the cases of the overlapping of differentiated rates applicable to the agricultural sector and the Amazon linked to income tax, as well as the overlapping of exemptions for agricultural products between appendix 1 of the General Sales Tax Law and the Law for the Promotion of Investment in the Amazon.

Regarding the definition of tax expenditures, table 5 shows that most countries refer to it in terms of revenue not received or not collected, one country (Uruguay) in terms of revenue loss, Brazil calls it indirect government expenditures and Nicaragua sees it as transfers from the State. Other interesting aspects of these definitions are that five countries explicitly mention the pursuit of objectives (Argentina, Brazil, Chile, Guatemala, Honduras), seven define them as a type of benefit or incentive to taxpayers[13] (Brazil, Chile, the Dominican Republic, Guatemala, Honduras, Mexico, Peru), five countries mention the type of tax expenditures applicable (Colombia, Ecuador, Guatemala, Honduras and the Plurinational State of Bolivia), and seven countries mention the deviation from a normal or reference structure (Argentina, Costa Rica, the Dominican Republic, Mexico, Paraguay, the Plurinational State of Bolivia and Uruguay).

In terms of the concept measured or measurement approach, all the countries reviewed do so in terms of revenue forgone, without any assumption about the change in taxpayers' behaviour upon the removal of preferential treatment or the cross effects of the different tax expenditures.[14] For this reason, the sum of the values of different line items does not accurately represent the potential revenue collection and the conclusions drawn from totals or subtotals of more than one type of tax should be carefully evaluated with this limitation in mind.

For the normal or reference framework, it should be noted that the vast majority of countries use a definition of the tax based on the country's own legislation, only three countries use a conceptual framework (the Dominican Republic, Mexico and Paraguay) and one uses a mixed approach (Chile, with the aim of moving to a fully conceptual framework). This is one of the main limitations for the comparison of estimates between countries, since this means that the concepts measured are not entirely equivalent, especially in the case of income tax, since there is greater harmonization in the case of VAT.

Finally, with regard to the legal obligation to produce a report with the estimates of tax expenditures, it can be seen that the vast majority of the countries have an article or law that establishes it, and there are only three countries where this obligation does not exist (Costa Rica, Nicaragua and the Plurinational State of Bolivia). This is a good indicator of the growing importance of estimating tax expenditures in the region, geared toward helping to achieve the objectives of reducing income inequality, welfare, investment, consumption, job creation, among others.

B. Recent developments in reports on tax expenditures

Although most of the different tax systems in Latin American countries usually have some kind of annual review or ratification, which translates into the incorporation or elimination of certain forgone revenue concepts, the most important case in terms of the recent development of reports on tax expenditures is Chile. Between 2019 and 2020, IMF and OECD received a request from Chile's Minister of Finance for an assessment of the country's tax expenditures methodology and practices, as well as selective corrective taxes. This assessment was jointly prepared by a team of IMF and OECD staff and presented to the Minister of Finance (Brys and others, 2020). The report finds that the methodology used by the Internal Revenue Service (SII) to calculate tax expenditures is generally in line with international practice, but there is room for improvement, mainly in terms of defining a more explicit benchmark for tax expenditures in terms of income tax in Chile. It also recommends collecting more and better-quality data in order to obtain a more accurate assessment, among other recommendations arising from an analysis of the VAT framework and other selective consumption taxes.

Based on these recommendations, the report on tax expenditures presented in 2021 (SII, 2021) incorporates a definition of normal tax structure. In general terms, a mixed reference tax (conceptual and legal)

[13] The countries that only mention a "reduction in obligations" are not included.

[14] In the case of Chile, the totals presented incorporate the joint or simultaneous exception effects.
An assumption about behavioural change in taxpayers is also applied, given that the exception of a treatment reduces their disposable income (they pay more taxes), which also reduces their VAT-liable consumption. In the case of Colombia, the estimation of forgone VAT revenues is done in a different way from the rest of the tax expenditures, which in principle allows for a more accurate estimation of the potential revenue from the removal of preferential treatments.

is used, in order to approximate a purely conceptual reference system, but recognizing that there are certain features of the Chilean tax system that must be incorporated. This definition allows Chile to have a reference tax system that allows for continuity of measurement in the face of changes in tax legislation.

Another country that has received such a detailed assessment is Colombia. In August 2020, the Colombian government established a "Commission of Experts on Tax Benefits", charged with the reviewing tax benefits, and in general tax expenditures, within Colombia's tax system. This expert commission would receive support from DIAN, the country's Ministry of Finance and Public Credit (MHCP), and the OECD's Centre for Tax Policy and Administration (OECD/DIAN/MHCP, 2021). This report highlights the mistake made by Colombian legislators and policymakers in introducing tax expenditures in an attempt to address the country's structural economic deficiencies, noting the use of marginal, almost annual reforms that have attempted to counteract the system's imbalances. Some of the tax system problems reported are the high tax rates imposed on those who cannot avoid paying taxes in Colombia, in order to compensate for the narrow tax base, the implementation of highly distortionary taxes to help balance the budget, and even the introduction of more tax expenditures to compensate taxpayers for the high tax rates, thus further narrowing the tax base and limiting tax revenues. This has made the Colombian tax system excessively complex, generating the need for a fundamental reform to broaden the tax base, increase tax revenues and restore efficiency and equity. The document makes recommendations, such as strengthening the role of personal income tax (e.g. significantly reducing the number of exempt or unearned income, taxing pensions at a fair effective rate, improving the design of taxes on personal capital income, and so forth), broadening the VAT base and improving its design (e.g. reducing the number of exempt goods and services and excluded goods and services, and so forth), and improving the design of the corporate tax regime (replacing the Industry and Commerce Tax with recurrent taxes on real estate, eliminating the tax on financial movements and so forth).

C. Methodologies used in the reports on tax expenditures

The estimation under the forgone revenue approach assumes that all other factors remain constant. That is, under this assumption, interdependence effects that may exist between two or more tax benefits are excluded. Thus, "joint effects" items are eliminated. It should therefore be borne in mind when analysing the reports on tax expenditures that the direct sum of these does not necessarily reflect the revenue impact that would be felt if they were removed simultaneously.

Another factor that is assumed to be constant is taxpayer consumption. For the purposes of this report, this means eliminating the calculation of tax expenditures with "behavioural change." For example, a tax benefit to the taxpayer may influence the activity with the benefit to be performed more, which is generating a higher accounting of revenue forgone (due to increased activity). On the other hand, these behavioural changes can also affect economic activity, known as general equilibrium effects. These effects are generally not separated or calculated in reports on tax expenditures.

In other words, the measurement of each item of tax expenditures is done in isolation, i.e. assuming that the rest of the allowances remain unchanged and, therefore, ignoring adjustments in taxpayer behaviour and interactions between the different allowances. For this reason, the sum of the values of different items does not accurately represent the actual revenue variation, and conclusions drawn from the totals and/or subtotals of more than one item should be evaluated with caution under this important consideration.

As shown in table 5, the estimation of tax expenditures using the forgone income method is the most widely used among the countries considered, so it is important to review some of its special features. Estimations done using this approach can employ various forms of calculation, depending on the information available and the type of differential treatment in question. According to the Inter-American Development Bank (IDB) (Villela, Lemgruber and Jorratt, 2009) the following are the specific ways of calculation:

Direct sourcing from revenue statistics: for some tax expenditures, in particular credits, taxpayers must report information in their tax returns, which are stored in databases from which the amount of the forgone revenue can be obtained. In this case, the estimation of the forgone revenue corresponds to the sum of the amounts reported for this concept.

Estimations with aggregated statistics: This entails performing arithmetic operations on statistics at an aggregated level, such as national accounts or aggregated information from taxpayers' tax returns.

Aggregated simulation models: This methodology is similar to the previous one, since it uses aggregate statistics from tax sources, as well as from national accounts and surveys, among others. The difference lies in the fact that this form of calculation requires a higher level of breakdown or openness of the aggregated statistics, as well as the application of assumptions and more complex mathematical operations to simulate the aggregated effects that the modification of the tax framework would have. With this form of calculation, tax expenditures are estimated by constructing two or more scenarios with aggregated information, in which the rules of the current tax regime with the preferential treatment being evaluated and the rules of a hypothetical tax regime representing the normal tax structure are applied. In these cases, the forgone revenue is determined by comparing both results. Included in this form of calculation are those tax expenditures for which a sample is used to simulate the value of a forgone revenue for the universe of taxpayers.

Microsimulation models: These models analyse data from taxpayers' tax returns at the individual level, as well as from alternative sources, such as household or corporate surveys, and corporate financial statements. Calculations are done at the individual level, i.e. by taxpayer or by household or recipient in the case of household surveys, depending on the availability of information. In some cases, the universe of taxpayers is used, while in others statistically representative random samples are used. This methodology entails re-estimating the taxes to be paid by each taxpayer by applying the rules of the hypothetical tax regime to reflect the normal tax structure. The forgone revenue is estimated as the difference between the revenue obtained with the simulation of changes in the tax legislation and the revenue corresponding to the current regime with preferential treatments.

D. Sources of information used for the estimation of tax expenditures by country

Table 6 highlights the main source of information for the estimation of tax expenditures (in the case of corporate and personal income tax) or citing the source used in the estimation of the most important forgone revenue within that tax. For example, in the case of VAT, in countries such as Costa Rica, the Dominican Republic and Mexico, reference is made to the data used to estimate VAT tax expenditures on food, but other VAT tax expenditures can be estimated from other sources (in the case of Mexico, monthly returns are used to estimate the fiscal stimulus in the northern border region). In some other very particular cases (such as Colombia, El Salvador, Guatemala, Peru and the Plurinational State of Bolivia), the only sources mentioned in the official reports are included.

Table 6 shows the different sources of information used for the estimation of income tax expenditures. It should be noted that all of the countries reviewed use taxpayers' returns for the estimation of tax expenditures for both individuals and corporations. Regarding the estimation of forgone VAT revenues, there is a greater diversity of sources, although information from taxpayers' returns is used primarily (as in the case of Guatemala, Peru and the Plurinational State of Bolivia), and information compiled in national surveys (such as Costa Rica, the Dominican Republic, Ecuador, Mexico and Paraguay). In terms of complementary sources, most of them are data and statistics from state institutions, tax returns, surveys and information on the economic situation of the country.

Another important comparison that can be made between the reports is about the type of information contained in each one. Table 7 compares the timing of the information, in terms of each report's coverage of past years or future projections, and the disaggregation of the information. This last point is very important in order to make comparisons later on, since some reports only contain tax expenditures by type of tax, which limits the evaluation of the groups that benefited from each type of treatment.

Table 6
Sources of information for the estimation of tax expenditures

Country	Corporate Income Tax	Personal Income Tax	VAT	Others
Argentina	Na	Na	Na	Na
Bolivia (Plurinational State of)	Tax declarations by taxpayers.	Tax declarations by taxpayers	Tax declarations by taxpayers	Issuance of tax credit notes, macroeconomic variables.
Brazil	Information extracted from the Federal Revenue Secretariat of Brazil's systems (RFB).	Personal income tax returns	Information from the systems of the Special Department of Federal Revenue of Brazil.	Returns, accountability, processes, records, collection documents and statistics reports.
Chile	Tax returns and Tax declarations from companies.	Tax returns and statistics on tax revenues.	National accounts published by the Central Bank (especially on household consumption, intermediate consumption, percentage of exempt production) and internal information from SII.	Tax returns and internal information from SII.
Colombia	Income tax returns	Income tax returns for the previous taxable year.	Structure of the economy and legal definitions for quantifying the tax base of national accounts.	Tax returns.
Costa Rica	Income tax declarations	Income tax declarations	List of goods and services from the National Survey of Household Income and Expenditure 2018 conducted by the National Institute of Statistics and Censuses of Costa Rica.	Imports from the General Customs Administration and the form for the Single Fuel Tax form.
Dominican Republic	Tax declarations	Tax declarations	National Survey of Household Income and Expenditure indexed to private consumption growth, according to the Central Bank of the Dominican Republic figures, in the calculation of GDP using the expenditure approach.	Surveys and official data from government institutions.
Ecuador	Corporate income tax returns	Income tax returns	National Survey of Rural and Urban Households' Income and Expenditure (ENIGHUR), tax returns.	Processing, information from the Internal Revenue Service, external financing operations subject to the tax on foreign currency outflows[a].
El Salvador	Tax returns	Tax returns	Information about physical persons and legal entities that enjoy a particular tax benefit.	Tax returns
Guatemala	Income tax returns	Income tax returns	Customs declarations filed by taxpayers with the Superintendency of Tax Administration.	Na

Country	Corporate Income Tax	Personal Income Tax	VAT	Others
Mexico	Annual returns of legal entities, information on tax assessments and information on tax status (ISSIF).	Annual individual tax returns, internet digital tax receipts for payroll and National Survey of Household Income and Expenditure.	Information from the System of National Accounts of Mexico and the National Survey of Household Income and Expenditure).	Provisional monthly and annual returns of individuals and corporations, information from Secretariat of Finance and Public Credit, Tax Administration Service and the National Institute of Statistics and Geography (INEGI).
Paraguay	Tax declarations	Tax declarations	Consumption weights from the General Directorate of Statistics, Surveys and Censuses, tax rates and aggregate final household consumption statistics from the Central Bank of Paraguay[b].	Specific report on amounts released per year and main benefits, prepared by the General Customs Administration, the Office of the Undersecretary of State for Taxation and the Office of the Undersecretary of State for the Economy.
Peru	Annual income tax returns	Annual income tax returns	Monthly Tax declarations	Na
Uruguay	Taxpayers tax returns	Taxpayers tax returns	Na	Administrative records from the General Tax Directorate or from information collected from taxpayers or institutions themselves.

Source: Prepared by the author, on the basis of official reports.
Note: Na means that accurate information or information from official sources could not be found.
[a] Correspond to sources of tax expenditures through tax refund on plastic bottles, exemption and deduction of the property tax on motor vehicles and exemption from the tax on foreign currency outflows.
[b] The estimates are cross checked with product-level tax information and an adjustment made for consumption (methodological and statistical capture differences, as well as the effect of consumption on the informal sector of the economy).

Table 7
Comparison of timing and disaggregation of information in the reports on tax expenditures

Country	Timing[a]	In the last report[b]			Level of disaggregation	
		Time series	Year of analysis	Projection	Taxes	Information
Argentina	Annual	2020–2021	2021	2022	Type of tax, forgone revenue concept	Contains only basic definition of forgone revenue.
Bolivia (Plurinational State of)		2005–2016	2016		Type of tax, forgone revenue concept, sector benefitted.	Contains details on the legal basis of the forgone revenue.
Brazil[c]	Annual	2008–2018	2018	2019–2021	By budget function, type of forgone revenue, type of tax and by geographical region.	Contains details on each forgone revenue concept.
Chile	Annual	2019–2021	2021		Type of tax, forgone revenue concept, sector benefitted.	Contains details on each forgone revenue concept.
Colombia	Annual	2011–2019	2019		Type of tax, forgone revenue concept, sector benefitted (only on income).	Only contains a basic definition for each forgone revenue concept.
Costa Rica		2010–2020	2020	2021–2022	Type of tax, forgone revenue concept, sector benefitted, environmental impact.	Contains a basic definition for each forgone revenue concept; details VAT tax expenditures at Customs.
Dominican Republic	Annual	2020	2021	2021	Type of tax, forgone revenue concept, sector benefitted.	Contains details on the legal basis of the forgone revenue.
Ecuador	Annual		2020		Type of tax, forgone revenue concept, policy objective.	Contains details on each forgone revenue concept.
El Salvador	Annual	2009–2016	2016		Type of tax, forgone revenue concept, sector benefitted.	Only contains a basic definition for each forgone revenue concept.
Guatemala	Na	2012–2015	2015	2016	Type of tax, beneficiary	Only contains a basic definition for each forgone revenue concept.
Honduras						
Mexico	Annual	2020–2021	2021	2022	Type of tax, forgone revenue concept, sector benefitted, income decile, sex.	Contains details on each forgone revenue concept.
Panama	Na	2012–2019	2019		Type of tax, forgone revenue concept	Only mentions the forgone revenue concept
Paraguay	Annual	2013–2014	2014	2015–2016	Type of tax, forgone revenue concept, sector benefitted, income quintile (VAT), income decile (personal income tax).	Contains details on each forgone revenue concept.
Peru	Annual	2018	2019	2019	Type of tax, forgone revenue concept, sector benefitted, geographical scope	Only contains a basic definition for each type of forgone revenue.
Uruguay	Annual	2017–2019	2019	2020	Type of tax, forgone revenue concept, sector benefitted.	Contains details on each forgone revenue concept.

Source: Prepared by the author, on the basis of official reports.
Note: Na indicates that the information was not found despite the fact that it should be available.
[a] Based on the revised information in the revised report.
[b] As requested by Law.
[c] Based on the 2018 report (published in 2021), because the report on 2019 expenditures only has data for that year.

Regarding the timing of the reports on tax expenditures, all those countries with a legal obligation to report tax expenditures (all except Costa Rica, Nicaragua and the Plurinational State of Bolivia) do so on an annual basis (in most cases it is specified in the same law that mandates them to submit the report), and most of these reports contain some type of historical reference of these tax expenditures (i.e. they incorporate information from at least the previous year), and incorporate a projection of tax expenditures for at least the following year. Only Ecuador's case does not have either of these two features.

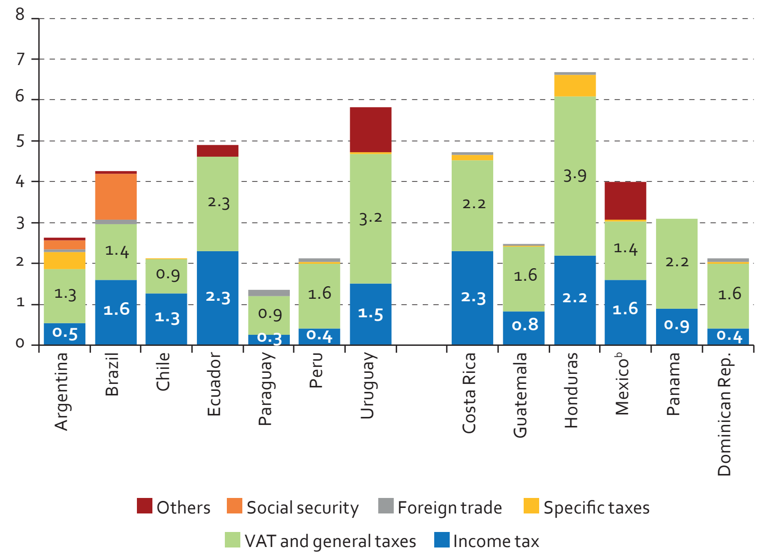
Regarding the disaggregation of the information, most of the countries reviewed present the information at least by type of tax (VAT, income tax, and so forth) and by concept of forgone revenue (exemption, deduction, special regime, and so forth), these concepts also incorporate more precise information about the preferential treatment applied (i.e. zero VAT rate on foods), which allows for a more concrete comparison of these treatments, with more precise information on what is not being taxed. Of note are the cases of Brazil, which presents almost all its estimates also by geographical region benefited, Costa Rica, which presents a section on the environmental impact of tax expenditures, and Mexico and Paraguay, which also include an analysis by income decile of the benefited taxpayers.

E. Estimates of tax expenditures

With regard to the structure of tax expenditures according to specific taxes, shown in figure 5, the preferential treatments with the greatest weight are those aimed at VAT and general taxes, followed by income tax treatments (both for individuals and companies). In the case of VAT, the forgone revenue associated with it exceeds 2% of GDP in five countries: Ecuador (2.3%), Uruguay (3.2%), Costa Rica (2.2%), Honduras (3.9%) and Panama (2.2%); exceeding 1% of GDP in another 7 countries, and only in Chile and Paraguay is it barely below this threshold (0.9% of GDP in both cases). On the other hand, in the case of income tax, the cost of these treatments is above 2% of GDP in only three countries: Ecuador (2.3%), Costa Rica (2.2%) and Honduras (2.2%), being very similar to the case of VAT in the first two countries; in another four countries it exceeds 1% of GDP, and in the remaining six it is below this level, between 0.3% (in the case of Paraguay) and 0.9% (in the case of Panama).

Using the year 2020 as a reference, the country that recorded the highest revenue forgone revenue was Honduras, with 6.7% of its GDP (35% in terms of its revenue), while the country that recorded the lowest amount was Paraguay, with 1.4% of its GDP (10.1% in terms of its revenue), according to the data available for 2019. Figure 5 shows a significant difference with respect to the composition of these tax expenditures. In the case of Honduras, tax expenditures come mainly from VAT treatments (the highest forgone revenue for this tax in the region), while in the case of Paraguay there is a much lower VAT forgone revenue than in the rest of the countries for this same tax. These differences will be explored in greater detail in the section on country comparisons.

Figure 5
Latin America (13 countries): composition of tax expenditures, most recent data available[a]
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] Argentina 2021, Brazil 2021, Chile 2021, Ecuador 2020, Paraguay 2019, Uruguay 2020, Costa Rica 2019, Guatemala 2021, Honduras 2021, Mexico 2021, Panama 2019 and Dominican Republic 2021.

[b] "Others" in Mexico corresponds to the part of the item published as "Tax Incentives" where it was not possible to identify the type of tax.

Table 8 reviews the ten most important tax expenditures for the different Latin American countries, grouping them according to the description of each concept (where this information was available) and choosing the six concepts that appeared the most among these ten most important tax expenditures (see annex 3 with tables and tax expenditures chosen for each country). Among the concepts chosen are three VAT treatments (for foods, medical services and medicines, and educational services) and three that incorporate different types of tax expenditures, but geared towards the same objective, such as supporting associations, foundations and cooperatives or promoting the economic and industrial development of some region of the country.

Table 8 highlights the role of preferential VAT treatments on foods (although this concept is more or less broad depending on each country), which usually has an important weight in the tax expenditures of each country; for example, in the case of Colombia, Costa Rica, the Dominican Republic and Mexico, it represents more than 1% of GDP. Also noteworthy are the different treatments used to promote a specific zone or region through special regulations, which, although they do not carry the same weight as the forgone VAT revenues for food, they are present in almost all the countries reviewed, except for the Plurinational State of Bolivia, and are very important in the case of Costa Rica and the Dominican Republic.

Table 8
Latin America: comparison of the main tax expenditures
(Percentages of GDP)

Country (Year)	VAT			Associations, foundations, cooperatives	Fuels	Economic Zones
	Foods	Medical services and medicines	Educational Services			
Argentina (2021)	0.52	0.36	0.08	0.10	0.32	0.38
Bolivia (Plurinational State of) (2017)			0.04	0.08	0.05	
Brazil[a b] (2019)	0.37	0.07	0.02	0.36	0.01	0.50
Chile (2021)		0.11	0.12	0.00	0.00	0.08
Colombia (2019)	1.28	0.64	0.59		0.36	0.22
Costa Rica (2020)	1.04	0.09	0.00	0.09	0.08	0.95
Dominican Republic (2021)	1.24	0.47	0.27	0.09	0.33	0.60
Ecuador (2020)	0.12	0.3	0.2	0.5	0.0	0.4
El Salvador (2016)		0.19	0.11	0.20	0.35	0.49
Guatemala	...	...	...	...	...	...
Honduras	...	...	...	...	...	...
Mexico (2021)	1.04	0.10	0.15	0.02	0.43	0.35
Nicaragua	...	...	...	...	...	...
Panama	...	...	...	...	...	...
Paraguay (2014)	0.15	0.15	0.19	0.17	0.25	0.01
Peru (2019)	0.46	0.01	0.28		0.04	0.49
Uruguay (2020)	0.26	0.82	0.23	0.05	0.34	0.43

Source: Prepared by the author, on the basis of official reports.
Note: The empty cells indicate that the tax expenditure was not applied in that country. The dots indicate that the information could not be found. The cells with an estimate of 0.00 indicate that the tax expenditure concept exists, but its value is below 0.01 of GDP.
[a] In the case of Brazil, the treatment of foods includes the entire basic food shopping basket.
[b] For Brazil, VAT was equated to the different consumption taxes that are similar: IPI, PIS-PASEP, COFINS.

III. Mexico's experience with the analysis of the impact of tax expenditures on income tax and VAT

In Mexico's case, the Secretariat of Finance and Public Credit is responsible for preparing a document on tax expenditures[15] in compliance with article 27, section A of the Federal Income Law,[16] and submits it to the Finance and Public Credit Commission, Budget and Public Accounts Committee and the Centre for Public Finance Studies of the Chamber of Deputies, as well as the Finance and Public Credit Commission of the Chamber of Senators. Since 2002, this document has been prepared in keeping with the law.

In accordance with article 27, section A of the Federal Income Law, the purpose of the document is to present a quantification of the amounts that the federal tax authorities fail to collect as a result of differentiated rates, exemptions, subsidies and tax credits, cancellations, administrative facilities, tax incentives, authorized deductions, treatments and special regimes, in relation to the taxes established in the different federal tax laws. To this end, the measurement of tax expenditures also contributes to the analysis of the tax system.

The 2021 report (Secretariat of Finance and Public Credit, 2021) contains the estimated amounts for these items for fiscal years 2021 and 2022.[17] The taxes included are: corporate and personal income tax, VAT, the special tax on production and services and the tax on new cars, tax incentives and differential treatments established in various tax-related presidential decrees.

A. Sources of information

The information used for the estimates comes mainly from tax returns, taxpayers' tax assessments, internet digital tax receipts for payroll and other complementary sources in some cases where it is necessary. Most of this tax information is generated and provided by the Tax Administration Service to the Undersecretariat of Income of the Secretariat of Finance and Public Credit in an anonymized form.[18] For those cases in

[15] From fiscal year 2021 onwards, the name "Tax Expenditure Budget" has been replaced by "Forgone revenues" in order to use a name that is more suitable for its content and nature.

[16] The reference to the article may change depending on the fiscal year in question since the Federal Income Law is approved annually.

[17] The estimations for 2022 assume continuity of the provisions in force in 2021, except for those that have an explicit expiration date.

[18] With respect to previous years, from 2002 to 2007 the information requested from the Tax Administration Service corresponded to specific fields for the estimates, so there were no additional elements for the analysis of the impact of tax expenditures. In 2011 the economic sector could be incorporated into the databases, which allowed for the adding of the analysis of the sectorial distribution of deductions, deferrals and employment subsidy in corporate income tax. In 2014, distribution by income decile of personal deductions was incorporated as part of the impact analysis, and as of 2019 they have been presented distributed by gender.

which there is no tax data, other sources are used, such as the National Household Survey of Income and Expenditure, the System of National Accounts of Mexico and the Tourism Satellite Account, all published by the National Institute of Statistics and Geography; statistics from the Bank of Mexico, the Mexican Social Security Institute, the National Commission of the Retirement Savings System (CONSAR), the Mexican Stock Exchange, as well as chambers and business associations. Annex 1 includes all the sources of information used to generate the most important tax expenditures by type of tax (table A4-A8). Most of the concepts that generate forgone revenues are estimated directly, since the tax returns include a field that reports the amount of the treatment and it is provided directly by the taxpayers, while others require some arithmetic operations or a microsimulation, among others. To enrich the analysis of some tax expenditures, they are presented by economic sector, income decile or sex, to the extent that tax information is available.

Although the use of tax information is generally preferred, this is not always the most appropriate, since it largely depends on the nature of the taxes. For example, in the case of VAT, the use of tax information is not ideal since it does not allow for the estimation of the potential tax base of the tax, due to the fact that it is the "taxpayers" and not the final consumers who provide the information and the form in which it is presented. First of all, the information reported in the VAT payment declarations does not correspond only to the transactions that definitively represent "final consumption", but to all transactions, including those of intermediate consumption that are creditable. However, this is also because the information is not disaggregated or presented in sufficient detail by type of good or service, as well as by type of applicable treatment (general rate, reduced rates or exempted). Bearing in mind these limitations, the sources of information used to evaluate forgone VAT revenues are those that allow for the potential "final consumption" tax base to be obtained and make it possible to disaggregate the greatest detail on the goods and services and their corresponding tax regime. However, in the case of corporate and personal income tax, or selective/specific consumption taxes, when they are applied to a single stage or link in the production chain, the use of tax information, when available, is the most relevant.

Estimates associated with certain concepts are not included in the report, since the information, fiscal or otherwise, needed to calculate[19] them is not available. The Secretariat of Finance and Public Credit (2021) mentions that directly requesting this information from taxpayers would have a very high tax compliance cost, and an adverse effect on productive activities. For other concepts, estimates are only presented for one of the two fiscal years covered by the report, since according to existing regulations they are only in effect for one year.

B. Methodological Aspects

In the document, "tax expenditures" means indirect support granted to sectors of the economy or taxpayers through the tax system, which deviates from the "normal" tax structure, and thus gives rise to an exception regime and entails a lower or even no revenue collection. Hence, in keeping with the descriptions in the previous sections, tax expenditures do not involve an expenditure of previously obtained resources or income, but allow the beneficiary taxpayers to reduce, avoid or defer the payment of taxes.

In the case of Mexico, a conceptual approach was used to define the "normal" tax structure. This means that a tax base is used as a reference that is based on a theoretical concept of the tax that is being analysed, therefore any deviation from that base would give rise to a tax expenditure. This conceptualization gives rise to a broader reference base that allows for the identification of a greater number of tax expenditures. In particular, the following definitions are used:

- **Corporate income tax:** The "normal" structure of corporate income tax is that which is applied under the principles of worldwide income and residence. In other words, it obliges nationals to combine all their incomes regardless of the country where they are generated and foreigners to combine incomes from a source of national wealth. According to its

[19] The 'maquiladora' regime in the corporate income tax facilities section, exemptions for frozen rental income and disposal of land or communal rights under personal income tax are reported as Not Available.

"normal" structure, corporate income tax is levied on business activities on a net basis at a uniform rate, it allows for the deduction of expenditures that are absolutely essential for the carrying out of such activities, authorizes the deduction of investments using the straight-line method and prevents international double taxation.

- **Personal income tax:** The "normal" structure consists of a global income scheme, which mandates the combining of all net incomes regardless of their nature and is levied at a progressive rate; using a schedular scheme for income from business activities that were previously taxed at the company level.
- **Value added tax (VAT):** The "normal" structure taxes the value added at all stages of the production process, distribution and sale to the final consumer. It is applied on the broadest possible basis and at a uniform rate, granting a zero rate only to exports and with a reduced number of exemptions to sectors that due to technical difficulties cannot be taxed or which because of savings concepts (being a consumption-based VAT) should be excluded from this tax.
- **Special taxes:** In the case of special taxes, the "normal" structure is considered to be that which is applied with an ad-valorem rate and/or specific quota on a broad basis without exceptions for type of good or service. In the case of selective ad-valorem consumption taxes, the effect of the tax must be equivalent to that of taxing all stages of the production and distribution chain, avoiding its cumulation, even if it is only applied at one stage (for example, the ad-valorem special tax on production and services on manufactured tobacco, whose base is the retail price). In the case of selective consumption taxes, since they are applied at only one stage on a physical unit (e.g. litres or grams) this condition is not necessary (e.g. the specific special tax on production and services rate per cigarette or gram of tobacco or special tax on production and services for flavoured drinks with added caloric sugars per litre of drink). This is because the application of specific taxes is intended to tax the consumption of goods, regardless of their value.

For the estimation of tax expenditures in Mexico, the revenue loss method is used, which entails estimating the amount of resources that the tax authorities do not collect due to the application of a differential tax treatment. The results obtained from this method are only approximations of the amount of resources that could be collected if such treatment were eliminated, and do not consider the possible interactions between different treatments, variations in taxpayers' behaviour due to such elimination, nor the general equilibrium effect and its repercussions on the rest of the economy.

In most of the forgone revenue calculations, data from tax returns are used (see tables A4-A8 in Annex 1). For example, in the case of personal income tax, information from the annual returns of individuals for the 2016, 2017, 2018 and 2019 fiscal years is used, and for corporate income tax, the annual returns of entities under the general regime are used, and the optional regime is used for corporate groups in 2016, 2017, 2018 and 2019, as well as from tax assessments and ISSIF for 2016, 2017 and 2018. However, in those cases where this type of tax information is not available, the estimate done represents a benchmark of the volume of revenues lost because of the various differential treatments on a case-by-case basis.

All the calculations (regardless of which data are used) do not consider changes in taxpayer behaviour (according to the lost revenue measurement approach), so the total figures for tax expenditures presented should be interpreted with caution, since the simultaneous elimination of several or all differential treatments would not mean a revenue recovery similar to the sum of the individual estimates. The Secretariat of Finance and Public Credit (2021) indicates that the absence of total amounts in the reports on tax expenditures is not an atypical practice, since countries such as Austria, Canada, France, United Kingdom, United States of America, Belgium, Finland, Ireland and Italy also do not present totals in their reports, precisely for the aforementioned reasons.

C. Main results

The *Forgone Revenues 2021* (*Renuncias Tributarias 2021*) document presents estimates of the treatments applied by type of tax. The report includes five main sections: (i) corporate income tax; (ii) personal income tax; (iii) value added tax; (iv) special taxes; and (v) tax incentives. Within each of these sections, the concepts are identified by type of forgone revenue, which facilitates analysis by grouping treatments that have similar features in terms of their form of operation.

As has been emphasized several times throughout this document, the total of the estimates of tax expenditures can lead to erroneous conclusions about the revenue projection that could be obtained from the simultaneous elimination of these treatments, so the document does not contain the total amounts per tax or for all the differential treatment items of the tax system, although a summary table is included (table 9).

As shown in table 9, in general, the projected amount of tax expenditures for 2022 is expected to increase relative to 2020 and 2021, with some minor exceptions, especially in the cases of corporate income tax and special taxes, where no differences are expected to be noted between 2021 and 2022 for tax expenditures in relation to GDP (i.e. tax expenditures are expected to increase in the same proportion as GDP). According to the Secretariat of Finance and Public Credit (2021), the increase from 2020 to 2021 is mainly attributable to higher tax revenue forgone because of the tax incentive for the special tax on production and services applicable to motor fuels (table 17, tax incentive.L.17), exempt interests received by individuals through Specialized Retirement Fund Investment Companies (SIEFORES) (table 12, personal income tax.E.15), the reduced VAT rate on foods (table 14, VAT.TR.1), special tax on production and services credit for diesel or biodiesel and their blends (table 17, tax incentive.L.1), as well as the VAT incentive for the northern border region (table 17, tax incentive.DP.17).

The Secretariat of Finance and Public Credit explains that the increase in forgone revenue noted in relation to the incentives associated with the special tax on production and services on motor fuels (table 17, tax incentive.L.17), is due to the fact that, in 2021, contrary to the low international reference prices noted in 2020, due to the low mobility generated by Covid-19, prices and mobility have recovered. In 2021, gasoline prices reached levels that were higher than pre-pandemic levels, so the incentive for gasoline and diesel started being granted from the beginning of the year. The increase due to interests from SIEFORES (table 12, personal income tax.E.15) is due to the increase in yield and the greater amount of resources invested in Afores in 2020 compared to 2019. While the increase derived from the application of the zero VAT rate on food (table 14, VAT.TR.1) is explained by the increase in VAT revenue, coupled with a lower evasion rate. Finally, the increase in the special tax on production and services credit for diesel or biodiesel and their blends (table 17, tax incentive.L.1), is reportedly coming from a change in level in 2020.

However, the Secretariat of Finance and Public Credit (2021) indicates some amounts that decreased between 2020 and 2021, among them the decrease in forgone revenue for the employment subsidy (seventh line of table 9), as well as the exempt income from savings funds and social welfare benefits (table 12, personal income tax.E.2 and personal income tax.E.4), presumably due to a drop in the number of workers who benefited in 2020. As of June 2020, the tax incentive for gasoline and diesel in the fishing and agricultural sectors was reduced to zero pesos per litre, given the consensus reached between the Secretariat of Energy, Secretariat of Agriculture and Rural Development, Secretariat of Environment and Natural Resources y la Secretariat of Finance and Public Credit.

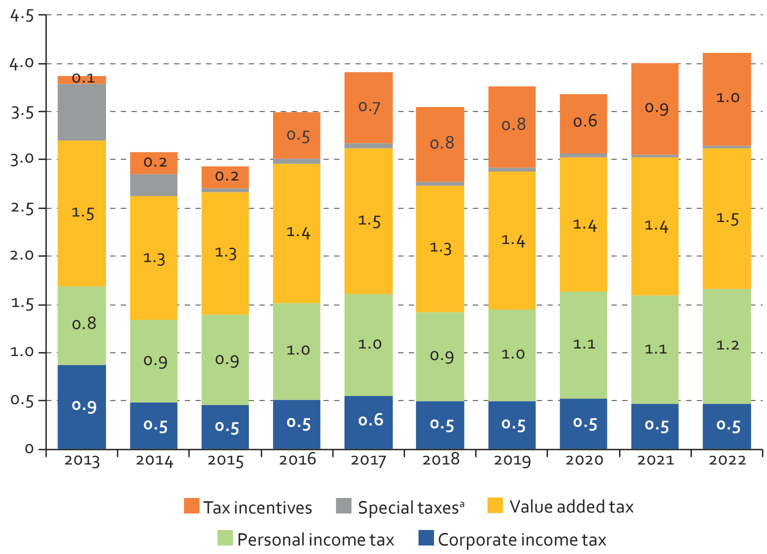
Table 9
Tax expenditures by type of treatment, 2020–2022
(Millions of pesos and percentages of GDP)

Type of treatment	Millions of pesos (MP)			Percentages of GDP[a]		
	2020	2021	2022	2020	2021	2022
Corporate income tax	127 677	120 420	128 848	0.53	0.47	0.47
Deductions	27 379	29 943	32 040	0.11	0.12	0.12
Exemptions	11 889	10 535	11 274	0.05	0.04	0.04
Special or sectoral regimes	11 376	11 043	11 815	0.05	0.04	0.04
Deferrals	21 531	25 893	27 706	0.09	0.10	0.10
Administrative facilities	5 505	3 085	3 297	0.02	0.01	0.01
Employment subsidy	49 997	39 921	42 716	0.21	0.16	0.16
Personal income tax	269 734	291 075	321 757	1.11	1.15	1.19
Deductions	26 067	28 375	30 360	0.11	0.11	0.11
Exemptions	216 909	237 216	265 572	0.89	0.94	0.98
Special or sectoral regimes	26 646	25 365	25 698	0.11	0.10	0.10
Deferrals	112	119	127	0.00	0.00	0.00
Value Added Tax	339 554	369 067	394 903	1.40	1.46	1.46
Exemptions	57 295	61 250	65 538	0.24	0.24	0.24
Reduced rates	282 259	307 817	329 365	1.16	1.22	1.22
Special taxes[b]	9 093	7 177	7 678	0.04	0.03	0.03
Exemptions	9 093	7 177	7 678	0.04	0.03	0.03
Tax Incentives	151 972	242 290	260 466	0.62	0.94	0.96
Presidential decrees	92 949	166 912	178 639	0.38	0.65	0.66
Others	59 023	75 378	81 827	0.24	0.29	0.30
Total[c]	898 030	1 030 029	1 113 652	3.70	4.05	4.11

Source: Prepared by the author, on the basis of the Secretariat of Finance and Public Credit, *Renuncias recaudatorias 2021, Mexico City, 2021; Documento relativo al cumplimiento de las disposiciones contenidas en el artículo 42, fracción I de la Ley Federal de Presupuesto y Responsabilidad Hacendaria "pre-criterios 2022", Mexico City, 2022.*
Note: Quantities as a percentage of GDP may not coincide owing to the use of rounding up.
[a] A GDP of 24,360 billion pesos for 2020, 25,257.9 billion pesos for 2021 and 27,026 billion pesos for 2022, presented in the Document on compliance with the provisions of article 42 section I of the Federal Budget and Tax Liability Law "pre-2022 criteria", was used.
[b] Includes the special tax on production and services and tax on new cars.
[c] Totals by type of forgone revenue and the total as the aggregate of all treatments are included only as a reference to the data presented in the previous sections; however, they should not be interpreted as an estimate of the total forgone revenue because the simultaneous elimination of several or all of the differential treatments would not mean similar revenue to the total of the individual estimates.

Figure 6 shows the evolution of tax expenditures in Mexico by type of tax, indicating that the greatest loss comes from preferential VAT treatments, followed by personal income tax treatments and tax incentives. It also highlights that, in the last 10 years, the tax expenditure to GDP ratio has remained constant for these three taxes, and for forgone revenues on special taxes (remaining at around 0.03% of GDP since 2015), while tax expenditures related to tax incentives have increased somewhat, moving from 0.1% of GDP in 2013, to 0.5% in 2016 and 1% in 2022, with some of the factors for this increase being those mentioned above (the tax incentives regarding the special tax on production and services on motor fuels, the special tax on production and services credit for diesel or biodiesel and their blends, the VAT incentive for the northern border region and the tax incentive for gasoline and diesel in the fishing and agricultural and livestock sectors).

Figure 6
Mexico: tax expenditures by type of tax, 2013–2022
(Percentages of GDP)



Source: Prepared by the author, on the basis of data provided by ECLAC, using official figures.
[a] The corresponding values are not show on the figure since, as of 2015, they amounted to less than 0.1% of GDP.

1. Corporate income tax

The following is a more detailed review of the most important tax expenditure concepts by tax to which they apply and by type of forgone revenue. Table 10 presents forgone revenues derived from the differential treatments on corporate income tax. Regarding deductions from the corporate income tax base, the concept that is the most important is the deduction for the purchase of vehicles, especially internal combustion vehicles up to an amount of 175,000 pesos (0.09% of GDP in 2021) and hybrid, electric or hydrogen-powered vehicles up to an amount of 250,000 pesos per unit (0.0% of GDP in 2021). The deduction for both types of vehicles represents 74.6% of the total forgone revenue for corporate income tax deductions in 2021; and if the deduction for motor vehicle leasing is also considered (0.01% of GDP in 2021), these deductions represent 83.3% of the total. The increase in forgone corporate income tax revenues with respect to those reported in 2020 corresponds mainly to these deductions.

Regarding exemptions, table 10 shows that decentralized organizations and grantees accumulated 78.1% of the forgone revenues for the differential treatments that exempted part of the potentially taxable income in 2021, and the remaining 21.9% is exempted income collected by federal entities, municipalities and political parties.

For corporate income tax, a special sectoral regime is applied to companies and individuals exclusively engaged in agriculture, livestock, fishing or forestry. A first forgone revenue concept entails a 30% reduction in income tax for legal entities under agrarian law with income of up to $5 million pesos and which derive at least 80% of their income from the industrialization and distribution of primary sector products (0.05% of the total in 2021). The most important concept comes from the tax expenditures associated with the primary sector regime (99.95%), which include the exemption of 20 annual Units of Measurement and Update (UMAs)[20] applicable to each partner or member, with a total limit of 200 annual UMAs, and a reduction in the payment of income tax on the income exceeding the exemption up to an amount of 423 annual UMAs or 4,230 annual UMAs for farmers' associations and those formed by individual members or associates, and the revenue waiver granted to legal entities under agrarian law.

[20] The Unit of Measurement and Update is established by the National Institute of Statistics and Geography (INEGI) and updated with inflation, the value of this unit in 2020 was 31,693.80 pesos (annual value), in 2021 it was 32,693.40 pesos and in 2022 it is 35,101.80 pesos. https://www.inegi.org.mx/temas/uma/.

Table 10
Main tax expenditures for corporate income, 2020–2022
(Millions of pesos, percentages of GDP and percentages)

Code	Concept	Millions of pesos (MP)			Percentages of GDP[a]		
		2020	2021	2022	2020	2021	2022
	Deductions	27 379	29 943	32 040	0.11	0.12	0.12
Corporate income tax.D.1	Purchase of vehicles[b]	20 677 (75.52)	22 335 (74.59)	23 899 (74.59)	0.08 (72.73)	0.09 (74.66)	0.09 (74.66)
	Exemptions	11 889	10 535	11 274	0.05	0.04	0.04
Corporate income tax.E.1	Income exempt from interests collected by decentralized organizations	5 962 (50.15)	4 042 (38.37)	4 325 (38.36)	0.03 (50.10)	0.02 (38.28)	0.02 (38.28)
Corporate income tax.E.1	Income exempt from interest collected by grantees	4 083 (34.34)	4 184 (39.72)	4 477 (39.71)	0.02 (34.36)	0.02 (39.71)	0.02 (39.71)
Corporate income tax.E.1	Income exempt from interest collected by other institutions[c]	1 844 (15.51)	2 309 (21.92)	2 472 (21.93)	0.01 (15.54)	0.01 (22.01)	0.01 (22.01)
	Special or sectoral regimes	11 376	11 043	11 815	0.05	0.04	0.04
Corporate income tax.RE.1	Taxpayers involved in agriculture, livestock, forestry or fisheries[d]	11 376 (100)	11 038 (99.95)	11 810 (99.96)	0.05 (100)	0.04 (95.88)	0.04 (95.88)
Corporate income tax.RE.2	Legal entities involved in industrialization and distribution of products from the primary sector	0 (0)	5 (0.05)	5 (0.04)	0 (0)	0 (0)	0 (0)
	Deferrals	21 531	25 893	27 706	0.09	0.10	0.10
Corporate income tax .DF.3	Deduction of pension and retirement fund[e] contributions	11 234 (52.18)	13 565 (52.39)	14 515 (52.39)	0.05 (52.15)	0.05 (52.39)	0.05 (52.39)
Corporate income tax .DF.6	Deduction during the financial year of machinery and equipment for power generation from renewable sources or efficient electricity cogeneration systems	5 749 (26.70)	5 759 (22.242)	6 162 (22.241)	0.02 (26.70)	0.02 (22.24)	0.02 (22.24)
	Administrative Facilities	5 505	3 085	3 297	0.02	0.01	0.01
Corporate income tax.FA.1	Ground transportation sector[f]	2 947 (53.53)	408 (13.23)	432 (13.10)	0.01 (53.54)	0.00 (13.11)	0.00 (13.11)
Corporate income tax.FA.2	Deduction for the primary sector for the concept of the labour force of casual farm workers, livestock feed and minor expenses	2 558 (46.47)	2 677 (86.77)	2 865 (86.90)	0.01 (46.46)	0.01 (86.89)	0.01 (86.89)

Source: Prepared by the author, on the basis of the Secretariat of Finance and Public Credit, *Renuncias recaudatorias 2021*, Mexico City, 2021; *Presupuesto de gastos fiscales 2020*, Mexico City, 2020.
Note: The amounts in bracket represent each concept as a proportion of the treatment in question. These proportions are not identical between columns because of rounding up. May not add up to one hundred percent when not all treatments are included.
[a] A GDP of 24,360 billion pesos for 2020, 25,257.9 billion pesos for 2021 and 27,026 billion pesos for 2022 was used.
[b] Up to 175,000 pesos for internal combustion vehicles (21,695 million pesos in 2021), up to 250,000 pesos for hybrid, electric or hydrogen powered vehicles (640 million pesos in 2021).
[c] Federal entities (1,579 million pesos in 2021), municipalities (722 million pesos in 2021) and political parties (8 million pesos in 2021).
[d] Exemption of 20 annual UMAs for each partner or member with a limit of 200 annual UMAs (10,583 million pesos in 2021), 30% reduction in income tax for income above the exemption level but below 423 annual UMAs (455 million pesos in 2021).
[e] The estimate does not include taxpayers in the economic sector of "Activities of government and international and extraterritorial organizations".
[f] Federal and foreign passenger and tourism land freight transportation sector (357 million pesos in 2021), and urban and suburban passenger and material land freight transportation sector (51 million pesos in 2021).

The corporate income tax deferrals that represent the greatest forgone revenue are the partial deduction of pension and retirement fund contributions (52.39% in 2021), the 100% deduction of machinery and equipment for power generation from renewable sources (22.24% in 2021). In short, these tax benefits represent about 74.6% of the total deferred. With respect to the estimates reported in 2020, there is an increase in pension and retirement fund contributions, but the treatment of machinery and equipment for generating renewable energy remains very similar.

Finally, table 10 shows the tax expenditures associated with administrative facilities —deductions that are allowed without supporting documentation— for the ground transportation and primary sectors. For ground transportation, these tax expenditures consist of a deduction of 8% of income, without tax requirements and not exceeding 1 million pesos per year, with a 16% income tax payment (13.2% of the total administrative facilities for 2021). It is interesting to note that the tax expenditures associated with the ground transportation sector decreased from 2020 to 2021, reducing from 2,947 million pesos in 2020 to 408 million pesos in 2021. In the case of the primary sector, forgone revenues correspond to a 10% deduction with a limit of 800,000 pesos for the concept of the labour force of casual farm workers, livestock feed and minor expenses (86.7% in 2021).

As noted in section A, one of the most noteworthy aspects of the Mexico report is that it presents an impact analysis by income decile for some of the most important tax expenditures. Table 11 presents a summary of this information for corporate income tax expenditures. This table presents the corporate income tax deduction for the purchase of vehicles, internal combustion and electric vehicles, the special regime of agricultural, livestock, forestry and fishing activities and the deferral of payment for contributions to pension and retirement funds, and for the use of machinery and equipment for renewable power generation.

It is important to note that the analysis of deductions and deferrals is presented as the proportion per decile of the total forgone revenue under that concept, while in the case of the special regime it is presented as the proportion per decile of the total benefit applied by corporations.

Table 11
Distribution by income decile of the main tax expenditures in terms of corporate income tax
(Percentages of forgone revenue)

Forgone revenue	Concept	Income Decile[a]									
		I	II	III	IV	V	VI	VII	VIII	IX	X
Deductions[b]	Purchase of internal combustion vehicles	2.10	0.44	1.05	2.10	2.94	3.49	3.20	3.31	6.88	74.50
	Purchase of electric and hybrid vehicles	0.00	0.12	0.35	0.60	0.53	1.75	2.42	5.62	28.04	60.57
Special regimes[c d e f]	Exemption	0.20	1.70	3.00	5.20	8.90	14.20	20.90	18.20	16.50	11.20
	Rebate	0.00	0.00	0.00	0.10	0.30	1.40	2.50	9.80	26.80	58.90
Deferrals[g]	Deduction of pension and retirement fund contributions	0.20	0.20	0.00	0.00	0.00	0.10	0.20	0.30	0.80	98.10
	Deduction for the use of machinery and equipment for renewable power generation	0.10	0.20	0.00	0.00	0.00	2.10	5.90	0.40	8.10	83.00

Source: Prepared by the author, on the basis of Secretariat of Finance and Public Credit, *Renuncias recaudatorias 2021*, Mexico City, 2021.
Note: The percentages may not total 100% because of rounding up.
[a] For the preparation of the income deciles, the gross income reported by taxpayers on the annual returns of legal entities is taken into account. The amount of each forgone revenue is distributed by income decile, so the number of observations changes depending on the number of taxpayers that apply each tax benefit.
[b] Projected figures for fiscal year 2022.
[c] Regime of agricultural, livestock, forestry and fishing activities.
[d] Percentage of benefit applied by legal entities in each decile.
[e] Figures corresponding to fiscal year 2019.
[f] For the preparation of the income deciles of companies in the primary sector, the gross income reported by taxpayers on Form 25 "Regime of agricultural, livestock, forestry and fishing activities" is taken into account. The amount of each forgone revenue is distributed by income decile, so the number of observations changes depending on the number of taxpayers that apply each tax benefit.
[g] Figures projected for fiscal year 2022.

In the case of the deduction for the purchase of vehicles, it is noted that for both internal combustion and electric and hybrid vehicles, more than 75% of the forgone revenues come from companies in the highest income deciles (tenth and ninth), although in the case of internal combustion vehicles a slightly more uniform distribution can be observed for the other income deciles, while in the case of electric and hybrid vehicles the first five income deciles barely accumulate 1.57% of the forgone revenues and the first eight deciles barely exceed 10% overall (11.4%). In other words, it could be said that the removal of tax expenditures for the purchase of electric and hybrid cars is more skewed towards the higher income deciles.

This skewing is much more pronounced in the cases of corporate income tax deferral. Both in the case of contributions to pension and retirement funds and for the use of machinery and equipment for renewable power generation, the vast majority of forgone revenues accrue to companies in the highest income decile, and less than 3% come from the lowest five deciles.

Table 11 also shows that legal entities in the first seven income deciles receive 54.1% of the income tax exemptions within the regime of agricultural, livestock, forestry and fishing activities, while taxpayers in the eighth and ninth deciles receive 34.7% of the forgone revenue exemption, and 11.2% of this forgone revenue benefits legal entities in the tenth income decile. As for the benefit of the income tax reduction, legal entities located between the first and seventh income deciles receive 4.3% of the forgone revenue, to the extent that even though their income does not exceed the exempt amount, they may apply some income tax reduction in the event of waiving the benefit of exemption. Companies in the eighth and ninth income deciles obtain 36.6% of the benefit of the income tax reduction for income in excess of the exemption level, and the top 10% of taxpayers under this regime obtain 58.9% of the revenue forgone under the income tax reduction.

The forgone revenue associated with the employment subsidy, which allows taxpayers earning up to approximately 1.7 annual general minimum salaries to reduce their tax payable, is reported separately due to its importance and special features. This is classified as a forgone corporate income tax revenue, although it is intended to support the income of lower-income wage earners, in practice it also means a benefit for companies, as it is a way to finance part of the income of a company's workers. It is estimated that this subsidy represents a forgone revenue of 39,921 million pesos for 2021 and 42,716 million pesos for 2022 (0.16% of GDP).

An analysis of the distribution by sector of the employment subsidy shows that professional, scientific and technical services, business support services, manufacturing, retail trade, construction and wholesale trade account for 30,888 million pesos (72.3% of the total), benefiting 15 million workers. The professional, scientific and technical services sector accounts for 16% of the employment subsidy, benefiting 2.8 million workers. In the case of business support services, it is estimated to be the equivalent of 15.5% of the total, and benefits 3.5 million employees, the manufacturing sector represents 14.6% of the subsidy and is distributed among 3.3 million employees, while the retail trade sector accounts for 9.7% of the total benefit, supporting 2 million employees, the construction sector accumulates 8.6% of the total and benefits 1.8 million employees, while the wholesale trade sector has 7.9% of the total benefit and distributes it among 1.5 million employees.

An important aspect of the Mexican case is that results are presented not only by industry and income decile, but also in terms of minimum wage and gender. The distribution of the employment subsidy by gender shows that most of the benefit, in terms of number of beneficiaries and amount, is received by men in all deciles (always accumulating more than 55% and up to 68% of these).

2. Personal income tax

Table 12 shows the tax expenditures, by type of treatment, for personal income tax. Deductions are classified in four categories, deductions associated with social security expenses, social assistance, related to savings and those related to educational services. The table shows the most important concept in each category, as follows: Medical, dental, professional services fees for psychology and nutrition and other hospital expenses (22.08% of total deductions in 2021), donations that are neither monetary nor remunerative (3.92% in 2021), real interests paid on mortgage loans (38.19% in 2021) and tuition (11.21% in 2021). None of these showed a significant change with respect to the forgone revenues in 2020.

In terms of exemptions, for tax expenditures associated with labour income, the concepts that represent a greater loss are the exemption of income from pensions, retirement funds and retirement benefits (25.35% in 2021), income from social security benefits (12.23% in 2021), income from savings funds (8.16% in 2021), and other income from salaries (6.86% in 2021). The total of these tax expenditures represents about 52.3% of the total amount of personal income tax exemptions. Also shown are the tax expenditures associated with other exempt income not related to wages and salaries, where the most significant revenue loss comes from the exemption of interest income collected by SIEFORES of 0.25% of GDP, representing 27.1% of the total forgone revenue for personal income tax exemptions. This concept almost doubled the amount of forgone revenues noted in 2020 (33,575 million pesos in 2020 and 64,308 million pesos for 2021).

Table 12
Main tax expenditures in terms of persons' incomes, 2020–2022
(Millions of pesos, percentages of GDP and percentages)

Code	Concept	Millions of pesos (MP)			Percentages of GDP[a]		
		2020	2021	2022	2020	2021	2022
	Personal deductions	26 067	28 375	30 360	0.12	0.11	0.11
	Social security expenditure	5 920	6 264	6 702	0.02	0.02	0.02
Personal income tax.D.1	Medical and dental fees, professional services fees for psychology and nutrition and other hospital expenses	(22.71)	(22.08)	(22.08)	(22.71)	(22.08)	(22.08)
	Social assistance expenses	1 194	1 111	1 189	0.05	0.00	0.00
Personal income tax.D.5	Donations that are neither monetary nor remunerative	(4.58)	(3.92)	(3.92)	(4.58)	(3.92)	(3.92)
	Savings-related expenses	9 330	10 836	11 594	0.04	0.04	0.04
Personal income tax.D.6	Real interests paid on mortgage loans	(35.79)	(38.19)	(38.19)	(35.79)	(38.20)	(38.20)
	Education-related expenses	3 094	3 182	3 405	0.01	0.01	0.01
Personal income tax.D.9	Tuition fees[b]	(11.87)	(11.21)	(11.22)	(11.87)	(11.22)	(11.22)
	Exemptions	216 909	237 216	265 572	0.89	0.94	0.98
	Exempt salary income						
Personal income tax.E.1	Retirement funds, pensions or retirement benefits	58 001 (26.74)	60 139 (25.35)	64 349 (24.23)	0.24 (26.75)	0.24 (25.35)	0.24 (24.23)
Personal income tax.E.2	Social security benefits[c]	32 158 (14.83)	29 002 (12.23)	34 756 (13.09)	0.13 (14.83)	0.11 (12.22)	0.13 (13.09)
Personal income tax.E.3	Other salary income[d]	18 740 (8.64)	16 281 (6.86)	19 522 (7.35)	0.08 (8.64)	0.06 (6.87)	0.07 (7.35)
Personal income tax.E.4	Savings banks and savings funds	22 884 (10.55)	19 348 (8.16)	23 186 (8.73)	0.09 (10.55)	0.07 (8.16)	0.09 (8.73)
	Other exempt income						
Personal income tax.E.15	Interests collected by SIEFORES	33 575 (15.48)	64 308 (27.11)	68 810 (25.91)	0.14 (15.48)	0.25 (27.11)	0.25 (25.91)
	Special or sectoral regimes	26 646	25 365	25 698	0.11	0.10	0.10
Personal income tax.RE.1	Tax Incorporation Regime. Reduction of income tax for taxpayers that provide information on income, expenditures and suppliers	14 418 (54.11)	13 476 (53.13)	12 978 (50.50)	0.06 (54.11)	0.05 (53.19)	0.05 (53.33)
Personal income tax.RE.2	Regime of agricultural, livestock, forestry and fishing activitiese	9 647 (36.20)	9 497 (37.44)	10 161 (39.54)	0.04 (36.20)	0.04 (37.45)	0.04 (41.78)
	Others	2 581 (9.69)	2 392 (9.43)	2 559 (9.95)	0.01 (9.69)	0.01 (9.36)	0.01 (4.89)
	Deferrals	122	119	127	0.00	0.00	0.00
Personal income tax.DF.3	Deduction of investments as an expense for taxpayers under the regime of agricultural, livestock, forestry and fishing activities.	122 (100)	119 (100)	127 (100)	0.00 (100)	0.00 (100)	0.00 (100)

Source: Prepared by the author, on the basis of the Secretariat of Finance and Public Credit, *Renuncias recaudatorias 2021*, Mexico City, 2021; *Presupuesto de gastos fiscales 2020*, Mexico City, 2020.

Note: The amounts in brackets represent each concept as a proportion of the treatment in question. These proportions are not identical between columns because of rounding up. It may not reach one hundred percent when all the treatments are not included.

[a] A GDP of 24,360 billion pesos was used for 2020, 25,257.9 billion pesos for 2021 and 27,026 billion for 2022.

[b] Granted by Presidential Decree.

[c] This refers to the subsidies granted for disability, educational scholarships, kindergarten, cultural and sports activities, as well as others of a similar nature.

[d] Concepts are included that do not have a specific line item for reporting, such as income from services.

[e] Exemption up to 40 annual UMAs (9,068 million pesos in 2021), 40% reduction in income tax for non-exempt income (429 million pesos in 2021).

For personal income tax, four special regimes are included: (i) the Fiscal Incorporation Regime; (ii) the regime of agricultural, livestock, forestry and fishing activities, which includes the benefits of exempting part of the income, reducing the payment of income tax on the surplus and deducting investments as an expense for taxpayers with income of up to 423 annual UMAs; (iii) deductions for various concepts similar to those made by companies under the cash basis regime that applies to individuals with business and professional activities, and (iv) the regime for small farmers in the primary sector, which grants an exemption of up to 1 UMA per year provided that their total income does not exceed 8 UMAs per year and that at least 25% of their income comes from the carrying out of activities in this sector.

Of these four, the Fiscal Incorporation Regime (53.13% in 2021) and the regime of agricultural, livestock, forestry and fishing activities (37.44% in 2021) represent the largest forgone revenues. The revenue forgone associated with the discounts offered to Fiscal Incorporation Regime participants on their income tax payments is equivalent to 0.05% of GDP in 2021 and 2022, but these amounts are lower than those reported in 2020, which is consistent with the design of the gradually decreasing discounts and the growth rate of these taxpayers.

Finally, the forgone revenue for personal income tax deferrals for investment deductions as an expense for taxpayers under the regime of agricultural, livestock, forestry and fishing activities amounts to 127 million pesos for 2022 and represents only 0.0005% of GDP for that year.

Table 13 presents a brief summary of the forgone personal income tax revenues by income decile for personal deductions for the four concepts presented in table 12, for medical, dental and hospital fees, donations, real interest on mortgage loans, and tuition, and also presents the exemptions for social security benefits and savings and savings funds, as well as the tax expenditures for exemption and reduction in income tax for the regime of agricultural, livestock, forestry and fishing activities.

Table 13
Distribution by income decile of main tax expenditures in terms of personal income tax
(Percentages of forgone revenue)

Forgone revenue	Concept	Income Decile									
		I	II	III	IV	V	VI	VII	VIII	IX	X
Deductions[a b]	Medical and dental fees and hospital expenses	0	0.1	0.1	0.2	0.3	0.6	1.2	2.7	7.6	87.4
	Donations	0.1	0.0	0.0	0.1	0.1	0.2	0.4	0.8	2.1	96.2
	Real interests on mortgage loans	0.0	0.0	0.1	0.2	0.6	1.9	4.9	9.6	17.6	65.2
	Tuition fees	0.6	0.3	0.2	0.4	0.6	1.1	2.0	4.3	11.2	79.5
Exemptions[c d]	Social security benefits	0.1	0.4	0.3	1.2	3.7	8.4	15.1	19.5	23.5	27.7
	Savings banks and savings funds	0.1	0.2	0.2	0.4	1.6	5.2	11.9	19.0	31.9	29.5
Special regime[e f g]	Exemption	0.2	1.2	3.2	6.1	9.6	13.0	15.5	17.3	17.6	16.2
	Rebate	0.0	0.0	0.1	0.2	0.2	0.2	0.3	0.7	11.0	87.2

Source: Prepared by the author, on the basis of the Secretariat of Finance and Public Credit, *Renuncias recaudatorias 2021*, Mexico City, 2021.
Note: The percentages may not total 100% because of rounding up.
[a] Figures corresponding to fiscal year 2019.
[b] For the preparation of the income deciles for personal deductions, the gross income reported by taxpayers in the annual returns of individuals and in the internet digital tax receipt for payroll is considered. The amount of each forgone revenue is distributed by income decile, so the number of observations changes depending on the number of taxpayers that apply each tax benefit.
[c] Figures corresponding to fiscal year 2020.
[d] For the preparation of the income deciles of exempt income, the gross income reported by taxpayers on the internet digital tax receipt for payroll is taken into account.
[e] Regime of agricultural, livestock, forestry and fishing activities.
[f] Figures corresponding to fiscal year 2019.
[g] For the preparation of the income deciles, the gross income reported by taxpayers on the annual returns of individuals with business activities corresponding to sector 11 "Primary Sector Activities" is taken into account. The amount of each forgone revenue is distributed by income decile, so the number of observations changes depending on the number of taxpayers that apply each tax benefit.

For personal deductions, table 13 highlights that the 10% of the population with the highest income accounts for between 65.2% and 96.2% of the total of the different concepts of forgone revenue, and that in none of these does the first five deciles carry much weight. The deduction with the highest share is that of donations, followed by medical and dental fees and hospital expenses, both of which account for more than 85% in the top decile.

With respect to personal income tax exemptions, it can be seen that the distribution by income deciles is less skewed towards the higher deciles, although it does lean more towards the upper half of the scale (from decile V to decile X), since a jump can be seen at this point for both forgone revenue concepts, especially in the case of social welfare benefits (from 3.7% of taxpayers in decile IV to 8.4% in decile V).

Regarding the special regime of agricultural, livestock, forestry and fishing activities, as in the previous case, there is a more or less homogeneous distribution among the top half of income deciles for forgone revenues in terms of income tax exemptions, with a moderate weight of the lowest half, totalling 20.2% for the first five deciles. The income tax reductions for non-exempt income show a high concentration in the 10% of taxpayers with the highest income, and deciles IX and X account for 98.2% of individuals benefiting from this special treatment.

The distribution by income deciles and sex of personal deductions subject to the global[21] limit shows that most of the benefit of the deductions is claimed by men in almost all deciles. This effect is more evident in the cases of the deduction of real interest on mortgage loans and school transportation expenses. In the case of the deduction of medical expenses, women's participation is higher than men's, except for the last decile.

However, in the case of personal deductions not subject to the global limit,[22] most of the benefit is claimed by men in almost all deciles; for example, in the case of special savings accounts, non-monetary donations and tuition fees. Only in the case of medical expenses for disability and incapacity does it stand out that women in the second and fourth deciles received almost all the benefit of these tax expenditures.

For exempt salary income,[23] the distribution by income deciles and sex shows that most of the benefit of exempt income is claimed by men in all deciles. This is more so for the annual bonus (aguinaldo), other payments for separation and overtime. In the case of social security benefits and funeral reimbursements, women in deciles I and V account for a slightly higher share than men.

Finally, the distribution by income decile and sex of the exemption and reduction for primary sector activities of individuals shows that, in terms of income tax exemption, most of the benefit is obtained by men in all deciles with up to 77.1%, while women accumulate a share of 22.9%. In the case of the income tax rebate, in general, men account for a greater share, with the exception of deciles VI, VII and VIII, where women account for a greater share of up to 73.5%, leaving men with a total share of 26.5%.

3. VAT

Value Added Tax (VAT) provides for two types of differential treatments, the exemption regime and the reduced rate regime (zero rate on goods and services other than exports). The main difference between these two tax expenditures is that the zero-rated VAT retains the same credit rights[24] as goods and services taxed at 16%. Some examples of exempt goods, not included in the estimates in table 14, since they are not deemed to give rise to a forgone revenue as they are not acts of consumption, are the transfer of land, used movable goods, domestic and foreign currency, the provision of services free of charge, and so forth. Examples of goods subject to the zero-tax regime are exports in general, the sale of ixtle, palm and lechuguilla, call centre services, and so forth

[21] Real interest paid on mortgage loans; Medical expenses; Medical insurance premiums; Funeral expenses; School transportation expenses.

[22] Tuition fees; Special savings account; Non-monetary donations; Contribution to retirement subaccounts; Medical expenses for disability and incapacity.

[23] Social security benefits; Other income from salaries; From savings banks and savings funds; Christmas bonus; Other separation expenses; Overtime; Vacation bonus; Employee profit sharing; Sunday bonus; Social security contributions paid by the employer; Reimbursement of medical, dental and hospital expenses; Reimbursement for funeral expenses.

[24] The credit right entails subtracting the creditable tax (i.e. the value added tax that has been transferred to the taxpayer and the tax that the taxpayer would have paid on the importation of goods or services), from the amount resulting from applying the corresponding rate to the values indicated in this Law, as the case may be (Presidency of the Republic of Mexico, 2021).

Table 14
Tax expenditures for the VAT, 2020–2022[a]
(Millions of pesos, percentages of GDP and percentages)

Code	Concept	Millions of pesos (MP)			Percentages of GDP[b]		
		2020	2021	2022	2020	2021	2022
	Exemptions	57 295	61 250	65 538	0.24	0.24	0.24
VAT.E.1	Educational services	33 860 (59.10)	37 003 (60.41)	39 593 (60.41)	0.14 (59.10)	0.15 (60.41)	0.15 (60.41)
VAT.E.1	Housing[c]	16 443 (28.70)	16 594 (27.09)	17 756 (27.09)	0.07 (28.70)	0.07 (27.09)	0.07 (27.09)
VAT.E.1	Professional medical services	3 922 (6.85)	4 269 (6.97)	4 567 (6.97)	0.02 (6.85)	0.02 (6.97)	0.02 (6.97)
VAT.E.1	Public ground transportation service for persons, which is provided exclusively in urban and suburban areas or in metropolitan zones	1 739 (3.04)	1 894 (3.09)	2 027 (3.09)	0.01 (3.02)	0.01 (3.09)	0.01 (3.09)
VAT.E.1	Public events	1 340 (2.34)	1 490 (2.43)	1 595 (2.43)	0.01 (2.34)	0.01 (2.43)	0.01 (2.43)
	Zero rate	282 259	307 817	329 365	1.16	1.22	1.22
VAT.TR.1	Foods[d]	239 970 (85.02)	262 152 (85.16)	280 503 (85.16)	1.00 (85.02)	1.04 (85.24)	1.04 (85.24)
VAT.TR.1	Medicines	19 439 (6.89)	20 711 (6.73)	22 161 (6.73)	0.08 (6.89)	0.08 (6.73)	0.08 (6.73)
VAT.TR.1	Service or supply of potable water for domestic use	13 715 (4.86)	15 003 (4.87)	16 053 (4.87)	0.06 (4.86)	0.06 (4.87)	0.06 (4.87)
VAT.TR.1	Books, newspapers and magazines	6 382 (2.26)	6 971 (2.265)	7 459 (2.265)	0.03 (2.26)	0.03 (2.26)	0.03 (2.26)
VAT.TR.1	Other products	2 753 (0.98)	2 980 (0.97)	3 189 (0.97)	0.01 (0.98)	0.01 (0.97)	0.01 (0.97)

Source: Prepared by the author, on the basis of Secretariat of Finance and Public Credit, *Renuncias recaudatorias 2021*, Mexico City, 2021; *Presupuesto de gastos fiscales 2020*, Mexico City, 2020.
Note: The amounts in brackets represent each concept as a proportion of the treatment in question. These proportions are not identical between columns because of rounding up. It may not total one hundred percent when all the treatments are not included.
[a] Information is used from the National Survey of Household Income and Expenditure of 2018 published by the National Institute of Statistics and Geography.
[b] A GDP was used of 24,360 billion pesos for 2020, 25,257.9 billion pesos for 2021 and 27,026 billion for 2022.
[c] Includes sales, income, the payment of interests on home mortgage loans.
[d] The forgone revenue for the tax incentive of 100% of VAT to be paid on the importation or sale of juices, concentrated fruit or vegetable nectars, bottled water in containers of less than 10 litres, among others, amounts to 0.0375% of GDP, i.e. 9,471.7 million pesos in 2021.

The tax expenditures from this tax show an increase with respect to the estimate for 2020 due to the increase in revenue noted, which generated a decrease in systematic evasion, since there is an inverse relationship between the level of evasion and the revenue forgone. Table 14 shows the estimated forgone VAT revenue. On the one hand, 87.5% of the total exemptions derive from the provision of educational services (60.41% in 2021) and from the sale of housing, including leasing and mortgage loan interest payments (27.09%). Regarding tax expenditures associated with the reduced rates, it is noted that the zero rate on the sale and importation of food represents 85.16% of the total tax expenditures for this concept in 2021, followed by medicines (6.73% in 2021) and the service or supply of potable water for domestic use (4.87% for 2021).

The application of zero-rated VAT and VAT exemptions represent a tax transfer for all households, regardless of their income level, since it is granted across the board. The most relevant forgone VAT revenue is the zero-rated regime. It is estimated that its application to items such as food and medicines is equivalent to 1.12% of GDP, 282.863 billion pesos in 2021, and it is projected to reach 302.664 billion pesos by 2022 (so as to maintain the proportion of 1.12% of GDP).

Table 15 summarizes the distribution by income decile of the forgone VAT revenues, both exemptions and goods and services taxed at the zero rate. With respect to exemptions, educational services, housing and medical services are included; for the zero-rated treatment, tax expenditures on food, medicines and drinking water supply or services for domestic use are retained.

Table 15
Distribution per income decile of the main tax expenditures for VAT[a]
(Percentages of households)

Forgone revenue	Concept	Income Decile[b]									
		I	II	III	IV	V	VI	VII	VIII	IX	X
Exemption	Educational services	1.7	3.7	4.7	6.4	7.6	8.7	9.4	11.5	15.6	30.7
	Housing	1.4	2.7	4.1	5.6	6.1	7.1	9.1	10.4	15.1	38.3
	Medical service	1.4	2.6	5.2	6.3	4.4	6.3	8.0	10.6	18.6	36.6
Zero rate	Foods	3.8	6.7	8.6	9.9	10.6	10.9	11.2	12.0	12.2	14.1
	Medicines	3.1	4.6	5.7	6.9	8.1	9.3	9.5	10.6	14.5	27.7
	Service or supply of potable water	3.2	4.6	7.0	8.0	9.2	10.8	11.9	12.8	14.6	17.9

Source: Prepared by the author, on the basis of the Secretariat of Finance and Public Credit, *Renuncias recaudatorias 2021*, Mexico City, 2021.
Note: Percentage may not total 100% due to rounding up.
[a] Figures corresponding to the National Survey of Household Income and Expenditure 2018.
[b] The income deciles are established using data from the National Survey of Household Income and Expenditure 2018.

Table 15 shows two clearly distinguishable patterns. On the one hand, for VAT exemptions the degree of concentration increases towards the highest income deciles, and in each of the three cases, the highest decile claims about one third of the treatment benefit. On the other hand, for zero-rated VAT tax expenditures, the distribution is somewhat less skewed towards the highest income households, instead it is spread across all income deciles, although with an increasing share according to income decile (i.e. the highest deciles have a slightly higher share than the lowest deciles), but without showing such a marked concentration as in the cases reviewed above.

4. Special taxes

Table 16 shows the tax expenditures related to the special taxes of the federal tax system, the special tax on production and services and the tax on new cars. The special tax on production and services for telecommunications services (61.74% in 2021) exempts the provision of public and rural landline telephony services, as well as internet services in certain cases, while the tax on new cars totally and partially exempts (36.45% for 2021) vehicles with a price excluding VAT of up to 272,471.43 and 345,130.49 pesos, respectively, and totally exempts vehicles powered by rechargeable electric batteries (1.81% for 2021).

5. Tax Incentives

With respect to tax incentives, we present those incentives that originate from the Federal Income Law, Presidential Decrees or Title VII "On Tax Incentives" of the Income Tax Law. Table 17 shows tax expenditures linked to tax incentives, which can take the form of deductions, exemptions, reduced rates or as tax credits, and sometimes represent only a tax deferral, although most of those reported in this section of the document represent tax credits.

Table 16
Tax expenditures in terms of special taxes, 2020–2022
(Millions of pesos, percentages of GDP and percentages)

Code	Concept	Millions of pesos (MP)			Percentages of GDP[a]		
		2020	2021	2022	2020	2021	2022
	Exemptions	9.093	7.177	7.678	0.04	0.03	0.03
ST.E.1	Exemption from the payment of special tax on production and services for telecommunications[b]	4.945 (54.38)	4.431 (61.74)	4.740 (61.73)	0.02 (54.28)	0.02 (61.62)	0.02 (61.62)
ST.E.2	Exemption from tax on new cars on vehicles[c]	4.054 (44.58)	2.616 (36.45)	2.799 (36.45)	0.02 (44.65)	0.01 (36.62)	0.01 (36.62)
ST.E.3	Exemption from the total tax on new vehicles for the sale or importation of vehicles powered by rechargeable electric batteries	94 (1.03)	130 (1.81)	139 (1.81)	0.00 (1.06)	0.00 (1.76)	0.00 (1.76)

Source: Prepared by the author, on the basis of the Secretariat of Finance and Public Credit, *Renuncias recaudatorias 2021*, Mexico City, 2021; *Presupuesto de gastos fiscales 2020*, Mexico City, 2020.
Note: The amounts in brackets represent each concept as a proportion of the treatment in question. These proportions are not identical between columns because of rounding up. It may not total one hundred percent when all the treatments are not included.
[a] A GDP was used of 24,360 billion pesos for 2020, 25,257.9 billion pesos for 2021 and 27,026 billion for 2022.
[b] For the provision of internet service (4,168 million pesos in 2021), for the provision of telephone service (263 million pesos in 2021).
[c] One hundred percent (100%) for vehicles for a value of 272,471.43 (20,072 million pesos in 2021), 50% for vehicles valued at 272,471.44 and up to 345,130.49 (544 million pesos in 2021).

Table 17
Main tax expenditures linked to tax incentives, 2020–2022
(Millions of pesos, percentages of GDP and percentages)

Code	Concept	Millions of pesos (MP)			Percentages of GDP[a]		
		2020	2021	2022	2020	2021	2022
	Tax incentives	151 972	242 290	260 466	0.62	0.96	0.96
	Ley de Ingresos de la Federación or tax laws						
Tax incentive.L.1	Credit for special tax on production and services for diesel fuel[b]	17 961 (11.82)	28 876 (11.92)	32 423 (12.45)	0.07 (11.82)	0.11 (11.91)	0.12 (12.45)
Tax incentive.L.2	Tax incentive for trustors who donate real estate to trusts whose primary purpose is the construction or acquisition of real estate (Infrastructure and Real Estate Trusts, FIBRAs), which entails deferring the payment of their tax	22 424 (14.76)	28 042 (11.57)	30 005 (11.52)	0.09 (14.77)	0.11 (11.57)	0.11 (11.52)
Tax incentive.L.17	Credit for the special tax on production and services for fossil fuels used in production processes for the manufacture of other goods and which are not intended for combustion in the process	183 (0.12)	101 (0.00)	104 (0.00)	0.00 (0.12)	0.00 (0.00)	0.00 (0.00)
	Presidential Decrees						
Tax incentive.DP.1	Tax incentives for special tax on production and services applicable to motor fuels	14 703 (9.67)	76 019 (31.38)	81 687 (31.36)	0.06 (9.67)	0.30 (31.38)	0.30 (31.37)
Tax incentive.DP.17	Tax incentives in the northern border region[c]	74 973 (49.33)	82 668 (34.12)	88 214 (33.87)	0.31 (49.34)	0.33 (34.12)	0.33 (33.87)
	Others[d]	21 728 (14.30)	26 584 (10.97)	28 033 (10.76)	0.09 (14.28)	0.11 (11.02)	0.10 (10.79)

Source: Prepared by the author, on the basis of the Secretariat of Finance and Public Credit, *Renuncias recaudatorias 2021*, Mexico City, 2021; *Presupuesto de gastos fiscales 2020*, Mexico City, 2020.
Note: The amounts in brackets represent each concept as a proportion of the treatment in question. These proportions are not identical between columns because of rounding up. It may not total one hundred percent when all the treatments are not included.
[a] A GDP was used of 24,360 billion pesos for 2020, 25,257.9 billion pesos for 2021 and 27,026 billion for 2022.
[b] Carriers (28,861 million pesos in 2021), taxpayers-end users using it in machinery in general, except vehicles (7 million pesos in 2021) and taxpayers-end users of special marine diesel, used as fuel in marine vehicles (8 million pesos in 2021).
[c] Credit of 50% of the VAT rate (79,630 million pesos in 2021), tax credit equivalent to one third of the income tax incurred in the fiscal year or in the provisional payments (3,065 million pesos in 2021).
[d] Includes the rest of the tax incentives reported in SHCP (2020) and SHCP (2021).

For 2021, the revenue forgone because of the incentives granted to taxpayers in the northern border region, in terms of VAT and income tax, amounts to 34.12% of the total and the incentive in terms of special tax on production and services on motor fuel represents 31.38% of the total, and together they are equivalent to 65.50% of the total tax expenditures attributable to tax incentives. The most important incentives derived from the Federal Income Law or tax laws are the credit for the special tax on production and services for diesel fuel (11.92% for 2021) for carriers, taxpayers-end users that use it in machinery in general, except vehicles and taxpayers-end users of special marine diesel, used as fuel in marine vehicles, and the tax deferral for trustors who donate real estate to trusts whose primary purpose is the construction or acquisition of real estate (11.57% in 2021).

6. Summary

Table 18 summarizes the 10 tax expenditures that represented the greatest loss for 2021, according to the Secretariat of Finance and Public Credit estimate (2021). These tax expenditures include three corresponding to VAT (zero rate on foods and patent medicines [VAT.TR.1], and VAT exemption on educational services [VAT.E.1]), which represent 31.1% of the total[25] tax expenditures, i.e. one of the main tax expenditures overall; four corresponding to tax incentives (in the northern border region [tax incentive.DP.17], to the special tax on production and services for motor fuels [tax incentive.DP.1] and diesel [tax incentive.L.1], and to trustors who donate real estate to trusts, whose primary objective is the construction or acquisition of real estate [tax incentive.L.2]), which represent 21% of the total; and three corresponding to personal income tax (exemption on interests collected by SIEFORES [personal income tax.E.15], on income for retirement funds, pensions or retirement benefits [personal income tax.E.1] and on social security benefits [personal income tax.E.2]), which amount to 14.8%. This is consistent with what is noted in figure 5, which shows that these three tax expenditures are the ones that have been most important in recent years. These ten tax expenditures altogether represent two thirds of the total tax expenditures, 66.9%. However, it should be recalled that these estimates do not include the change in the behaviour of the taxpayers, or the possible interaction between treatments, with the removal of any of these tax expenditures.

It is important to highlight the role that zero-rated VAT plays in the sale or importation of foods, which in 2021 resulted in an estimated loss of 262,152 million pesos, the equivalent of 1.04% of GDP, and a quarter of the total tax expenditures (25.7%). On the other hand, tax incentives issued by presidential decree, amended in the Official Gazette of the Federation (DOF) dated 30 December 2020, corresponding to the tax incentives for the special tax on production and services applicable to motor fuels (tax incentive. DP.1)[26] and the tax incentives in the northern border region (tax incentive DP.17)[27] also represent significant tax expenditures in 2021, the first equivalent to 0.3% of GDP (7.4% of total tax expenditures) in 2021 and the second to 0.33% (8.2% of total tax expenditures).

[25] The total as an aggregate of all the treatments only serves as a reference, but should not be interpreted as an estimate of the total forgone revenue since the simultaneous removal of several or all the differential treatments would not mean a revenue that is similar to the total of the individual estimates.

[26] Secretariat of the Interior (2020a).

[27] Secretariat of the Interior (2020b).

Table 18
Most important tax expenditures, in 2021
(Millions of pesos, percentages of GDP and percentages)

Code	Concept	Million pesos			Percentages of GDP[a]		
		2020	2021	2022	2020	2021	2022
	Total	898 030	1 030 029	1 113 652	3.69	4.05	4.11
VAT.TR.1	Foods	239 970 (26.72)	262 152 (25.45)	280 503 (25.19)	1.00 (26.72)	1.04 (25.68)	1.04 (25.30)
Tax incentive.DP.17	Tax incentives in the northern border region	74 973 (8.35)	82 668 (8.03)	88 214 (7.92)	0.99 (8.35)	0.33 (8.15)	0.33 (8.03)
Tax incentive.DP.1	Tax incentives for special tax on production and services applicable to motor fuels	14 703 (1.64)	76 019 (7.38)	81 687 (7.34)	0.31 (1.64)	0.30 (7.41)	0.30 (7.30)
Personal income tax.E.15	Interests collected by SIEFORES	33 575 (3.74)	64 308 (6.24)	68 810 (6.18)	0.06 (3.74)	0.25 (6.17)	0.25 (6.08)
Personal income tax.E.1	Retirement funds, pensions or retirement benefits	58 001 (6.46)	60 139 (5.84)	64 349 (5.78)	0.14 (6.46)	0.24 (5.93)	0.24 (5.84)
VAT.E.1	Educational services	33 860 (3.77)	37 003 (3.59)	39 593 (3.56)	0.24 (3.77)	0.15 (3.70)	0.15 (3.65)
Personal income tax.E.2	Social security benefits	32 158 (3.58)	29 002 (2.82)	34 756 (3.12)	0.14 (3.58)	0.11 (2.72)	0.13 (3.16)
Tax incentive.L.1	Credit for special tax on production and services for diesel fuel	17 961 (2.00)	28 876 (2.80)	32 423 (2.91)	0.13 (2.00)	0.11 (2.72)	0.12 (2.92)
Tax incentive.L.2	Tax incentive for trustors, which entails deferring the payment of their tax	22 424 (2.50)	28 042 (2.72)	30 005 (2.69)	0.07 (2.50)	0.11 (2.72)	0.11 (2.68)
VAT.TR.1	Medicines	19 439 (2.16)	20 711 (2.01)	22 161 (1.99)	0.08 (2.16)	0.08 (1.98)	0.08 (1.95)
	Others[b]	350 966 (39.08)	341 109 (33.12)	371 151 (33.33)	1.44 (39.08)	1.33 (32.84)	1.36 (33.09)

Source: Prepared by the author, on the basis of the Secretariat of Finance and Public Credit, *Renuncias recaudatorias 2021*, Mexico City, 2021; *Presupuesto de gastos fiscales 2020*, Mexico City, 2020.
Note: The amounts in brackets represent each concept as a proportion of the treatment in question. These proportions are not identical between columns because of rounding up. It may not total one hundred percent when all the treatments are not included.
[a] A GDP was used of 24,360 billion pesos for 2020, 25,257.9 billion pesos for 2021 and 27,026 billion for 2022.
[b] It includes the rest of the tax expenditures reported in SHCP (2020) and SHCP (2021).

IV. Proposed elements to be included in a methodological guide for the estimation and analysis of tax expenditures based on best practices identified in Latin America

Based on the foregoing, this section proposes a methodological guide about best practices for the estimation of tax expenditures, with emphasis on the features of the most complete reports identified in the region. Table 19 includes a summary of this guide.

Among these recommendations, it is important to clearly define a reference tax system to serve as a parameter for evaluating tax expenditures. The adoption of a conceptual reference framework is recommended, mainly because it allows for continuity in the measurement of tax expenditures when there are changes in the tax legislation. Progress has been made in the adoption of conceptual frameworks, especially the case of Chile, which has opted for a gradual transition to a purely conceptual framework, adopting a mixed framework for its most recent report, but with the clear intention of completing the transition in the future. It should be noted that in addition to continuity in the estimates, the adoption of the conceptual framework would facilitate comparisons between countries and the search for joint solutions to similar problems. However, a review of the country cases shows that most of them use frameworks that are based on current tax legislation, and even the CIAT (2011) manual of best practices suggests the use of this approach because of its practicality, but sets aside the collaborative nature that a conceptual framework offers. It is clear that a generalized shift in this direction must take into account the peculiarities of each tax system and that the transition must be made gradually. For example, in the case of Argentina and Uruguay, deferrals are not considered as tax expenditures, since they are understood to be only a postponement of the tax liability that will be reflected in subsequent years, so the change to a different definition of the normal tax structure must include this conceptual difference and adopt a mixed reference framework that also incorporates this feature.

Table 19
Recommendations for improving the estimation and analysis of tax expenditures based on best practices identified

Aspects to be included in reports	Explanation	Sample countries
Reference framework	Clearly define a reference tax system. The adoption of a conceptual reference framework is recommended.	Mexico, Paraguay and the Dominican Republic include a description of the reference tax system. The case of Chile also stands out, whose change in methodology is geared toward moving to a purely conceptual framework.
Sources of information	Evaluate the sources of information used, reviewing their relevance and seeking to improve them, where necessary.	Brazil, Chile and Mexico mention the sources used for each type of forgone revenue.
List of tax expenditures	Include a list that contains detailed information on each forgone revenue (what concepts are included, to whom does the forgone revenue apply and what does it entail), in addition to the type of forgone revenue, what it deals with and the tax to which it applies.	Brazil, Chile, Costa Rica, Ecuador, Mexico, Paraguay and Uruguay include an extensive list with detailed information on each line item, including the regulatory sources.
Frequency	The presentation of these reports, at least annually, allows for follow-up on the evolution of both tax expenditures and the methodological aspects that are behind them. It is recommended that both retrospective as well as projective information should be included.	In principle, all the countries reviewed (except for the Plurinational State of Bolivia, Costa Rica and Guatemala) present their estimates annually. However, not all of them include a projection for the future.

Source: Prepared by the author, on the basis of official reports.

A key point for improving the estimates of tax expenditures is improving the quality of the data used. The lack of data is a major obstacle for the proper measurement of these tax expenditures, therefore it is recommended that the sources of information used be constantly evaluated, reviewing their relevance and seeking to improve them in cases where this is necessary, as well as seeking the necessary information to cover all the tax expenditures derived from preferential treatments. In this regard, the basic source of information should be taxpayers' returns (companies and persons), and if this information is not available for the type of tax analysed, public information from aggregate statistics or household surveys can be used. It is therefore important to establish the institutional mechanisms for ensuring the exchange of information between entities in cases where the tax administration is not responsible for estimating tax expenditures.

Another relevant aspect is to provide a complete list of tax expenditures and improve the methodology for calculating them in the necessary line items, always taking care to meet the objective of transparency when introducing these changes, even incorporating for a period of time the estimates obtained by both methodologies, especially if these yield figures that differ significantly. For example, in the case of Brazil, Chile and Mexico the description of each estimated forgone revenue includes the source of the information used for its estimation. It is important that the reports on tax expenditures contain all the necessary information to make a complete evaluation of them, so it is suggested that these reports include detailed information on each line item (for example, what concepts it covers, to whom it applies, and what it entails), apart from the type of tax expenditure in question and the tax to which it applies. In addition to encouraging more detailed analyses of the impact of the tax expenditures on the sectors that benefit from them, on the population strata that make the best use of them, or on the regions of the country that represent the greatest burden. The cases of Costa Rica, Mexico and Paraguay stand out, as, in addition to the estimates of revenue tax expenditures, they include an impact analysis by income deciles (Mexico and Paraguay) and sex (Mexico), and an analysis of the environmental impact (Costa Rica).

Likewise, it is believed that at least an annual preparation of these reports is relevant for follow up on the evolution of both tax expenditures and the methodological aspects behind them. According to the review summarized in table 7, all countries report, or it is stipulated within their legal obligation, that the estimated tax expenditures are reported annually (with the only exceptions being Costa Rica, Guatemala, Panama and the Plurinational State of Bolivia). However, one aspect that does differentiate the countries is the projection they make for future years' tax expenditures, with Argentina, Brazil, Costa Rica, the Dominican Republic, Guatemala, Mexico, Paraguay, Peru, and Uruguay including this projection. This projection is important mainly because it represents a future reference point for the expected behaviour of the estimates, taking into account that, for example, some preferential treatments are valid for a certain period of time, so it would be advisable to incorporate this time aspect and estimate the effect that the termination of these tax expenditures would have on others. Of the countries reviewed, Ecuador is the only one that does not include any type of baseline information (retrospective or prospective) in its report.

V. Recommendations for the improvement of the estimation and evaluation of tax expenditures to promote sustainable and inclusive development

The 2030 Agenda for Sustainable Development, approved in September 2015 by the United Nations General Assembly, establishes a set of goals geared toward the economic, social and environmental sustainability of the 193 Member States that adopted it and is meant to be a reference guide for the work of the institution to achieve these goals during the next 15 years (ECLAC, 2019b). This agenda, comprising 17 goals[28] and 169 targets, is the result of a process of open, democratic and participatory negotiation by the 193 Member States of the United Nations, along with tremendous participation by civil society, academia and the private sector. These goals are geared toward tackling problems like low productivity and a deficient infrastructure, segregation and gaps in the quality of the education and health services, persistent gender gaps, territorial inequalities and inequalities regarding minorities, and a disproportionate impact of climate change on the poorest sectors of society.

The 2030 Agenda is therefore understood to be "a universal commitment, undertaken by developed and developing countries alike, in the framework of a strengthened global partnership that takes account of the means of implementation to achieve this change, the prevention of natural disasters, and climate change mitigation and adaptation." (ECLAC, 2019b; p. 7). However, the implementation and evaluation of the 2030 Agenda requires various efforts, such as the strengthening of the regional institutional architecture, the enhancing of the analysis of the means of implementation at the regional level, support for the integration of the Sustainable Development Goals (SDGs) into national development plans and budgets, and the promotion of the integration of the measurement processes needed for the production of SDG indicators, as well as the consolidation of national statistical systems and those of the national statistics offices.

The 2030 Agenda for Sustainable Development poses major challenges especially for the countries of Latin America and the Caribbean. The investments needed in order to achieve the SDGs are tremendous and highlight the development, economic and social gaps that exist in the region. In particular, domestic

[28] 1. No poverty; 2: Zero hunger; 3. Good health and well-being; 4. Quality education; 5. Gender equality; 6. Clean water and sanitation; 7. Affordable and clean energy; 8. Decent work and economic growth; 9. Industry, innovation and infrastructure; 10. Reduced inequality; 11. Sustainable cities and communities; 12. Responsible consumption and production; 13. Climate action; 14. Life below water; 15. Life on land; 16. Peace, justice and strong institutions; 17. Partnerships for the goals.

resource mobilization continues to be an issue of great importance. Despite the progress made in recent years, tax collection continues to be too low to address the economic and social challenges in most of the countries of the region, even taking into account their level of development, and the tax systems in general characteristically by dependence on indirect taxes, a low level of collection of direct taxes (especially of personal income tax) and high levels of tax avoidance and evasion. ECLAC (2020) estimates that in 2018 the evasion of income tax and VAT represented a loss of 325 billion dollars, which was equivalent to 6.1% of GDP. Available studies suggest that non-compliance with income tax is very serious, since in many countries less than half of the income is collected that their systems should generate in theory (ECLAC, 2021).

The tax policy as a tool for driving progress toward the achievement of these goals has taken on great relevance (ECLAC, 2019a; 2020; 2021). The use of tax expenditures, in particular, and especially those geared toward investment, could contribute significantly to the achievement of these goals, but these tools must be complemented by an independent cost-benefit analysis and consideration should be given to their interaction with tax policies and public expenditure programs. These evaluations could help determine whether their implementation and continued use is justified or if they should be replaced with other more efficient and effective measures in order to achieve the policy objectives pursued. However, it is also important to mention that there are other elements outside of the tax system that affect the effectiveness of these policies (e.g. the quality of the institutions and the economic, political and social stability, and so forth), and that these tax expenditures can have negative effects beyond the loss of revenues for the State (e.g. tax systems become more complex, they increase the costs of administration and compliance, they create loopholes for evasion and avoidance, they reduce the transparency of fiscal policy and distort the allocation of resources). In this regard, the cost-benefit evaluations have certain limitations in terms of the assessment of the total costs and benefits of the measure, but they represent fundamental instruments to help tackle the problems of transparency and help to increase the efficiency and equity of tax systems.

A first essential step for the evaluation of tax expenditures is the identification of the types of incentives and other tax benefits in each country and the estimation of tax expenditures associated with those tax breaks. In the last few decades, considerable progress has been made towards official and regular measurement of these tax expenditures, but there is also the need for an improvement in the quantity, quality and frequency of the information published. Hence, there is still a long way to go in evaluating their impact and effectiveness in meeting the objectives for which they were created and their relationship with other costs that they generate.

As mentioned before, tax expenditures geared toward investment will play an important role in the achievement of the SDGs, but consideration must be given to all aspects of sustainable development (economic, social and environmental). For example, in the social sphere, although tax incentives that benefit companies or high-income persons could bring benefits, such as greater investment and employment, the cost of that forgone revenue can bring with it greater inequality (Goal 10). Therefore, the progressiveness of the tax system would have to be reviewed to prevent this from happening. Regarding the environmental aspect, some of the countries in the region include treatments that reduce the cost of investment for renewable power generation and promote their use (Goal 7), some offer incentives for the use of electric vehicles in order to improve air quality in cities (Goal 11) or encourage the consumption of other goods and services with low carbon emissions, or grant incentives to forest plantations and for the adoption of clean technologies (Goal 12 and 13). In this regard, it is important for countries in the region to make an effort to reduce and gradually remove tax expenditures that may be harmful to the environment, such as incentives geared toward the production and consumption of fossil fuels and other measures that promote an unsustainable use of natural resources. A good practice in this sense is the environmental evaluation of the tax expenditures given by the Ministry of Finance of Costa Rica.

Tax expenditures' effectiveness in achieving the goals depends to a large extent on good governance in their design, implementation and management, as well as their transparency and accountability. It is recommended that detailed reports on tax expenditures be published and discussed, that cost-benefit evaluations be done, and tax expenditures be incorporated into the legislative process, especially for those treatments that are not derived from the tax law approval process, as in the case of tax expenditures by presidential decree. Cost-benefit evaluations help to focus on those preferential treatments that are most efficient for achieving the 2030 Agenda for Sustainable Development and reducing or gradually removing the rest, taking into account how the different preferential treatments benefit the population according to sex, age (there is little discussion about the intergenerational impacts), geographical region and industry. This removal of treatments that are not effective would help to strengthen domestic resource mobilization and would increase the regional tax contribution and prevent international tax competition (pursuing Goal 17).

Although there is a wide range of tax expenditures that are aligned to the SDGs, these must be fully evaluated, in order to assess whether the benefits attributable to these tax expenditures outweigh their costs. Although it is difficult to conduct an in-depth exploration for each one of the concepts, it is proposed that this analysis be conducted for at least those line items that represent a large forgone revenue (for example, those highlighted in table 8, or tables A9-A20 by country in Annex 3). With regard to who should conduct these analyses, ideally it is recommended that it be an academic or international institution that will undertake the evaluation independently, and that the results thereof inform both the relevant institutions and governments, as well as society in general. This, in principle, will not only facilitate the fulfilment of the transparency objectives, but will also democratically ensure the viability of the tax expenditures evaluated.

Regarding the latter, it is important to note that there must be transparency in terms of the aggregate amounts of tax information. One of the recommendations from the previous section is to use primarily tax data to estimate tax expenditures and generally this information is for private use among government institutions (Tax Administration Systems and Ministries of Finance), for which reason these data should be published with a view to preventing any agency within the governments from not sharing the information or delaying the availability of these data. This would allow the society to have a means of verifying that the calculations of the Ministries of Finance are correct and are easily verifiable. Therefore, it is recommended that the countries have a website that is easily accessible, which presents the information about tax expenditures simply and in an understandable manner.[29]

Diagram 1 summarizes the different steps and recommendations for estimating and evaluating tax expenditures. As a first step, what is included in the concept of forgone revenue must be defined in order to quantify these tax expenditures appropriately. Based on the detailed review of the different reports on tax expenditures a set of recommendations is proposed, which emphasizes attention to the definition of the "normal" structure of the tax, seeking to facilitate comparisons between countries and the solutions as a whole, the prioritization of the information coming from tax sources, the specification of all the estimated tax expenditures, with detailed information on them, and the annual preparation of these reports, in order to follow up on the evolution of the estimates presented and the methodologies used. Subsequently, a cost-benefit assessment tool must be in place for these tax expenditures. Therefore, the preparation of the reports must be accompanied by an analysis that evaluates both whether the benefits attributable to these practices outweigh their costs and their relevance to the achievement of the goals of the 2030 Agenda for Sustainable Development, as well as a website that makes this information available to the general public. These best practices also help to improve tax collection, promote vertical and horizontal equity, close loopholes for tax evasion and tax avoidance, and improve transparency and accountability.

[29] For example, the government of Mexico has a website on which it clearly and simply explains the budget: See Secretariat of Finance and Public Credit, "Transparencia presupuestaria: observatorio del gasto" [online] https://www.transparenciapresupuestaria.gob.mx/. This is easily accessible and the information is available to the entire public.

Diagram 1
Strengthening of the review of tax expenditures to promote the financing of sustainable development

1. Institutional framework for tax expenditures

- Legal obligation of quantification and evaluation
- Definition of tax expenditure
- Institutional responsibilities
- Control mechanisms and accountability

2. Quantification of tax expenditures

- Establishment of a tax reference framework
- Selection of concept being measured
- Preparation of an inventory of tax expenditures (description, legal basis, type of tax, type of tax expenditure)
- Identification of sources of information (tax declarations, household surveys, national counts)
- Choice of the methodology to be used (direct evaluation of tax declarations, macro or microsimulation models)
- Publication of the information (inventory of tax expenditure, methodology, estimations)

3. Evaluation

- Selection of most significant line items
- Identification of objectives and beneficiaries of related policy
- Weighting of results and impacts (cost-benefit analysis)
- External evaluator (academia, national, regional or international organization)
- Publication of the information (methodology, sources of information, results)

4. Consistency of the tax policy to promote sustainable and inclusive development

- Improve tax collection
- Promote vertical and horizontal equity
- Close loopholes for tax evasion and tax avoidance
- Improve transparency and accountability
- Strategic thrust toward sustainable development (SDG)

Source: Prepared by the author.

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Annexes

Annex 1
Additional Tables

Table A1
Latin America and the Caribbean: tax expenditures, 2009–2022
(Percentages of GDP)

Country	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020[a]	2021[a]	2022[a]
Argentina	2.6	2.7	2.9	3.0	3.0	3.1	3.2	3.3	3.2	2.8	2.8	2.6	2.6	...
Bolivia (Plurinational State of)	1.4	1.1	1.0	1.2	1.2	1.5	1.4	1.2	...	...	...	..	...	...
Brazil	3.7	3.6	3.5	3.8	4.2	4.5	4.5	4.3	4.4	4.4	4.3	4.3	4.3	3.9
Chile	5.1	5.4	5.1	4.4	4.5	4.3	4.5	3.5	3.1	3.2	2.3	2.5	2.1	2.3
Colombia	...	...	6.1	...	...	...	7.7	...	8.0	8.3	6.4	6.6	...	...
Costa Rica	...	4.9	4.9	5.0	5.1	4.9	4.7	5.2	5.3	5.5	4.7	4.7	4.7	...
Dominican Republic	5.9	5.8	5.2	5.0	5.9	6.6	6.7	6.6	6.2	5.1	5.0	4.6	4.4	...
Ecuador	5.0	...	5.5	4.9	4.8	4.1	4.7	4.6	5.0	5.3	5.2	4.9	...	...
El Salvador	2.7	3.9	3.5	3.3	3.2	3.1	3.9	3.8	...	...	...	...	...	...
Guatemala	6.0	6.3	6.7	6.7	2.6	2.5	2.5	2.5	2.4	2.3	2.3	2.5	2.5	2.4
Honduras	...	...	...	...	...	...	5.8	6.4	7.0	7.0	6.8	6.7	6.7	6.8
Mexico	3.9	4.0	3.5	3.5	3.6	2.9	2.9	3.5	3.9	3.5	3.8	3.7	4.0	4.1
Nicaragua	7.6	6.3	...	...	5.4	...	...	...	...	...	...	...	...	...
Panama	...	...	...	...	...	...	4.0	3.6	3.7	3.4	3.1	...	...	...
Paraguay	...	...	...		1.7	1.9	1.3	1.7	1.6	1.5	1.4	...	...	...
Peru	1.8	2.2	2.0	1.9	1.9	2.1	2.2	2.1	2.2	2.2	2.1	2.0	2.1	2.0
Uruguay	5.4	6.3	6.3	6.6	6.4	6.3	...	6.4	6.5	6.6	6.1	5.8	...	...

Source: Prepared by the author, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary data.

Table A2
Latin America: tax expenditures, 2009–2020
(Percentages of tax collection)

Country	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Argentina	9.0	9.3	9.9	9.8	9.6	10.0	10.2	10.8	10.7	9.8	9.9	8.8
Bolivia (Plurinational State of)	6.5	4.8	4.0	4.6	4.5	5.4	4.7	4.3	…	…	…	…
Brazil	11.6	11.1	10.5	11.7	12.9	14.2	14.1	13.4	13.6	13.5	13.2	13.6
Chile	29.4	27.6	24.2	20.6	22.7	21.9	22.1	17.4	15.4	15.1	11.0	12.9
Colombia	…	…	32.2	…	…	…	38.7	…	42.1	43.1	32.5	35.3
Costa Rica	…	22.1	21.6	22.2	22.2	21.7	20.5	22.1	23.1	23.7	19.9	20.5
Ecuador	31.9	…	31.1	24.9	24.6	21.3	21.6	23.1	25.1	25.6	25.9	25.6
El Salvador	15.1	20.9	18.7	17.3	16.0	15.6	19.6	18.5	…	…	…	…
Guatemala	48.6	50.5	52.5	52.0	19.6	18.9	19.6	18.9	18.1	17.5	17.7	20.1
Honduras	…	…	…	…	…	…	28.2	28.8	32.3	31.9	31.7	34.9
Mexico	31.3	31.2	27.4	27.7	27.1	21.2	18.2	21.1	24.3	21.7	23.2	20.6
Nicaragua	41.1	32.6	…	…	25.4	…	…	…	…	…	…	…
Panama	…	…	…	…	…	…	26.7	23.0	24.4	22.8	22.0	…
Paraguay	…	…	…	…	13.4	13.8	9.5	12.7	11.4	10.8	10.0	…
Peru	10.6	12.4	10.8	10.0	10.1	10.9	12.6	13.0	14.4	13.4	12.6	13.1
Dominican Republic	46.2	46.9	41.8	38.0	43.3	48.9	51.6	50.5	46.8	38.5	36.9	36.6
Uruguay	22.5	26.0	25.6	26.5	25.2	24.9	…	25.0	24.2	24.5	23.0	21.8

Source: Prepared by the author, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC) and Organisation for Economic Co-operation and Development (OECD) and others, *Revenue Statistics in Latin America and the Caribbean 2022*, Paris, 2022.

Table A3
Latin America: tax expenditures by type of tax (latest data available)
(Percentages of GDP)

Country	Year	Income tax				VAT and general taxes	Specific taxes	Foreign Trade	Social Security	Others	Total *(Percentages of GDP)*[a]
		Persons	Legal entities	Unclassified	Total						
Argentina	2021	...	...	...	0.54	1.32	0.42	0.06	0.22	0.07	2.64
Bolivia (Plurinational State of)	2016	0.01	0.10	...	0.11	0.97	...	0.07	...	0.06	1.20
Brazil	2021	0.70	0.79	0.10	1.59	1.36	0	0.13	1.12	0.06	4.28
Chile	2021	0.50	0.75	...	1.26	0.85	0.02	...	...	0	2.13
Colombia	2020	...	...	...	1.70	4.90	0.00		...	0	6.60
Costa Rica	2019	...	...	...	2.30	2.22	0.13	0.08	...	..	4.73
Ecuador	2020	0.71	1.59	...	2.30	2.30	...	...	...	0.30	4.90
El Salvador	2016	0.51	1.02	0.30	1.83	1.94	...	...	...	...	3.76
Guatemala	2021	...	...	...	0.82	1.60	0.02	0.03	...	...	2.47
Honduras	2021	...	...	...	2.18	3.90	0.54	0.07	...	...	6.70
Mexico[b]	2021	1.13	0.47	...	1.60	1.43	0.03	...	...	0.94	4.00
Nicaragua	2013	0	0.30	...	0.30	4.20	0	...	...	0.90	5.40
Panama	2019	0.04	0.83	...	0.88	2.21	...	...	...	...	3.09
Paraguay	2019	0.05	0.21	...	0.26	0.94	...	0.16	...	...	1.36
Peru	2021	...	...	...	0.41	1.57	0.05	0.10	...	...	2.13
Dominican Republic	2021	0.11	0.65	0	0.76	2.41	0.44	0.26	...	0.56	4.44
Uruguay	2020	0.38	1.05	0.07	1.50	3.17	0.04	...	...	1.10	5.81
Colombia (OECD adjustment)[c]	2018	0.60	0.70	...	1.30	3.30	...	...	...	...	4.60

Source: Prepared by the author, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC); Ministry of Finance of Colombia, *Marco Fiscal de Mediano Plazo 2022*, Bogotá, 2022.

[a] Except for Chile, where the totals lines incorporate the combined effects or the effects of simultaneous exemption, in the other countries, the totals do not represent an estimation of the revenue that would have been collected if all the tax expenditures were removed. In the reports from Colombia, Mexico and Panama the results are not totalled.

[b] Others' in Mexico corresponds to the part of the item published as "Tax incentives" where it was not possible to identify the type of tax.

[c] It is important to adjust the figures for Colombia to make them comparable. This is because the calculation methodology used by DIAN, and reported in MFMP, takes into account exclusions that do not generate effective revenue losses. (ECLAC, 2019a, p. 125). Although Colombia's official report includes estimates of forgone VAT revenues, its methodology differs from the rest of the countries, by considering tax expenditures as exclusions that do not result in actual lost revenue because it would not be possible to apply VAT to certain cases (for example, some products and services are included that appear in the national accounts and should not be considered taxable, such as public administration services, household and non-market services; the production of coca leaf, poppy and marijuana crops that are not considered in the formal market accounting, among others). See Medium-Term Fiscal Framework 2022.

Table A4
Sources of information for the estimation of tax expenditures related to corporate income tax

Code	Sources
Deductions	
Corporate income tax.D.1	The amount of deductions for investment in vehicles reported by corporations and the value of gross capital formation in transportation equipment, from Mexico's System of National Accounts, through INEGI's Economic Information Bank, were used. The estimate for electric and hybrid vehicles was based on deductions reported by corporate taxpayers.
Exemptions	
Corporate income tax.E.1	In the case of political parties, the amount of interest income noted in 2015–2019 was used; for Federal Entities, the financial interest income reported in the 2019 public account was used; for municipalities, the interests reported by INEGI in the interactive data query section of on State and Municipal Public Finances, for fiscal year 2019; for donors, the information from the annual declaration for fiscal year 2019 regarding non-taxpaying corporations; and for decentralized entities, the *Cuenta Pública* Activities Report for 2020 was used.
Special regimes	
Corporate income tax.RE.1	Information from the annual declarations of the regime of agricultural, livestock, forestry and fishing activities for 2016, 2017, 2018 and 2019 was used.
Corporate income tax.RE.2	Information from the annual returns of corporations under the general regime for 2017, 2018 and 2019 was used for the 30% reduction in the corporate income tax under agrarian law.
Deferrals	
Corporate income tax.DF.3a	Information on contributions presented in the annual returns of corporations under the general regime, and the optional regime for groups of companies in 2016, 2017, 2018 and 2019, as well as from the tax assessments and ISSIF for 2016, 2017 and 2018 was used.
Corporate income tax.DF.6	Information was used from the annual declaration of corporations under the general regime, the optional regime for groups of companies, the regime of agricultural, livestock, forestry and fishing activities, as well as the coordinated regime, tax assessments and ISSIF, for the 2016, 2017, 2018 and 2019 fiscal years, and from the income accrual option regime for 2017, 2018 and 2019.
Administrative Facilities	
Corporate income tax.FA.1	For the federal and foreign passenger and tourism ground transportation sector, we used information from the annual returns of the coordinated regime for 2016, 2017, 2018 and 2019, from the tax assessments and ISSIF for 2016, 2017 and 2018. For the urban and suburban ground transportation of material cargo and passengers sector, information from the annual returns of the coordinated regime for 2016, 2017, 2018 and 2019, from the tax assessments and ISSIF for 2016, 2017 and 2018 was used.
Corporate income tax.FA.2	Information on own income reported by taxpayers on the annual returns of the regime of agricultural, livestock, forestry and fishing activities for 2016, 2017, 2018 and 2019, from the tax assessments and ISSIF for 2016, 2017 and 2018 was used.

Source: Prepared by the author, on the basis of Secretariat of Finance and Public Credit, *Renuncias recaudatorias 2021*, Mexico City, 2021.
[a] It was estimated as the tax that corresponds to the deductible part from pension fund contributions.

Table A5
Sources of information for the estimation of tax expenditures related to the personal income tax revenues

Code	Sources
Deductions	
Personal income tax.D.1 Personal income tax.D.5 Personal income tax.D.6 Personal income tax.D.9	The estimation was done using information from the annual returns of persons for the fiscal years 2016, 2017, 2018 and 2019. This was in addition to information from the National Survey of Household Income and Expenditure 2016, in the case of fees for professional services in the fields of psychology and nutrition.
Exemptions[a]	
Personal income tax.E.1 Personal income tax.E.2 Personal income tax.E.4	The information reported by the employers on the "internet digital tax receipt for payroll" for fiscal year 2020 was used. For the estimation of tax expenditures for retirement funds, pensions and retirement benefits, information was used about the collections that were reported by individuals in the National Survey of Household Income and Expenditure 2018[b] was used.
Personal income tax.E.15[c]	Information from CONSAR corresponding to fiscal year 2020 was used, regarding the amount of resources deposited in SIEFORES.
Special regimes	
Personal income tax.RE.1	Information about the tax incentives for income tax under the Fiscal Incorporation Regime for the period January-December 2020 by income level was used, whose total amount corresponds to that published by the Secretariat of Finance and Public Credit in the Report on the Economic Situation, Public Finances and Public Debt of the fourth quarter of 2020, including the current discounts in 2021 and 2022.
Personal income tax.RE.2	Both for reduction as well as for exemption, information was used from the annual declarations of persons with business activities for 2016, 2017, 2018 and 2019. There is no information for estimating the cost of the deduction of purchases and expenses; the deduction for investments is reported in the section on Deferrals.
Deferrals	
Personal income tax.DF.3[d]	Information from annual returns for 2016, 2017, 2018 and 2019 was used.

Source: Prepared by the author, on the basis of Secretariat of Finance and Public Credit, *Renuncias recaudatorias 2021*, Mexico City, 2021; F. Zamudio and others, *Evasión en sueldos y salarios*, Texcoco, Chapingo Autonomous University, 2018.

[a] The forgone revenue for each concept was estimated for each of the workers as the difference between the income tax that would result from adding each item of exempt income individually to their other income and the total income tax calculated, which corresponds to the taxable income reported in the abovementioned internet digital tax receipt for payroll.

[b] An iterative process was carried out that simultaneously determines the income tax payment and the gross income from retirement funds, pensions, and retirement benefits. Once pre-tax income was determined, taxable income and income tax were calculated, taking into account the tax policy framework in effect during 2018. The total estimated evasion of 8.569 billion pesos was applied for individuals with income from salaries. (Zamudio Sánchez, Jiménez Machorro, & Rodríguez Yam, 2019).

[c] Depending on the Income Tax Law, the interests paid to these companies are not subject to income tax withholding, therefore the forgone revenue consists of the tax that is no longer withheld on interests paid to SIEFORES.

[d] Depending on the availability of the information in the estimation, the cost of the following deductions is included: of consumptions in restaurants, for the purchase and leasing of vehicles that are powered by rechargeable electric batteries, as well as electric vehicles that also have an internal combustion engine or a hydrogen-powered engine, purchase of bicycles and rechargeable electric battery motorcycles, additional salary paid to workers 65 years or older and workers with disabilities, and for adaptations to facilities to benefit persons with disabilities.

Table A6

Sources of information for the estimation of tax expenditures related to VAT

Code	Sources
Exemptions	Information from the System of National Accounts of Mexico and the 2018 National Survey of Household Income and Expenditure was used. The methodology used was based on the public and private consumption reported in the System of National Accounts of Mexico and the structure of private spending by type of product reported in the National Survey of Household Income and Expenditure, excluding concepts such as home consumption, payment in kind and fringe benefits.
VAT.E.1[a]	
Zero rate	
VAT.TR.1[b]	

Source: Prepared by the author, on the basis of the Secretariat of Finance and Public Credit, *Renuncias recaudatorias 2021*, Mexico City, 2021; D. Cantalá, A. Castañeda and J. Sempere, *Evasión fiscal en el impuesto sobre la renta de personas físicas con ingresos por arrendamiento*, Mexico City, El Colegio de México, 2006.

[a] In the case of housing, the housing sector's evasion rate was estimated at 64% for 2002 in Cantalá, Castañeda and Sempere (2006).

[b] In order to estimate the forgone revenue for the different items at the zero rate, an assumption of differentiated evasion with respect to structural evasion was adopted. This assumption is necessary since it is not possible to determine a priori the evasion in those operations that are currently subject to some special regime, since there is no revenue reference noted.

Table A7

Sources of information for the estimation of tax expenditures related to special taxes (special tax on production and services and tax on new cars)

Code	Sources
Exemptions	
Special Tax.E.1	It was calculated based on information from final monthly returns from companies in the sector for fiscal years 2017, 2018, 2019 and 2020.
Special Tax.E.2	Information on 2020 car sales from the Mexican Automotive Industry Association, 2020 light vehicle prices, without taxes, from the Mexican Association of Automotive Distributors, the industry's estimated car sales growth rate for 2021, and information from the National Consumer Price Index published by INEGI for car purchases was used.
Special Tax.E.3	It was estimated based on imports for 2020 provided by the General Customs Administration of the Tax Administration Service, as well as information on the estimated growth rate for the sale of vehicles by the sector for 2021, and information from the NCPI, published by INEGI corresponding to the purchase of vehicles.

Source: Prepared by the author, on the basis of Secretariat of Finance and Public Credit, *Renuncias recaudatorias 2021*, Mexico City, 2021.

Table A8
Sources of information for the estimation of tax expenditures related to tax incentives

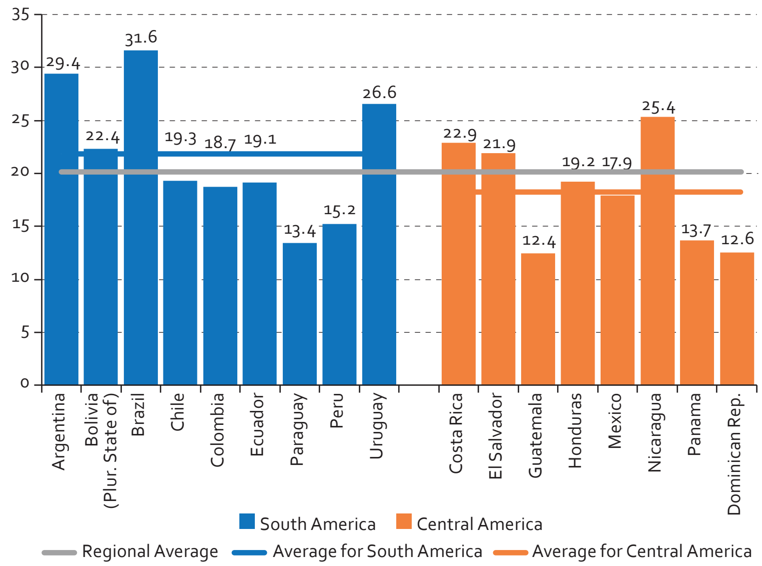
Code	Sources
Federal Income Law or Tax laws	
Tax incentive.L.1[a]	Proportion factors were established based on information on diesel consumption by sector and crediting factors based on information about the amount credited provided by the Tax Administration Service regarding the payment of the special tax on production and services on diesel in 2020. The updating of credits for 2021 was done in accordance with the "Document on compliance with the provisions of article 42 section I of the Federal Budget and Tax Liability Law "pre-2022 criteria".
Tax incentive.L.2	The forgone revenue for deferred income tax is determined based on the value of real estate assets donated to the trust. The information used comes from the reports submitted by Infrastructure and Real Estate Trusts (FIBRAs) to the Mexican Stock Exchange for 2020, and corresponding to the value of the investment properties, as well as the distributed profits.
Tax incentive.L.17	For the 2021 estimate of the crediting of the special tax on production and services on fossil fuels, proportion factors were established based on information on the amount credited provided by the Tax Administration Service regarding the payment of the special tax on production and services on diesel in 2020. The updating of credits for 2022 was done in accordance with the "Document on compliance with the provisions of article 42 section I of the Federal Budget and Tax Liability Law "pre-2022 criteria".
Presidential Decrees	
Tax incentive.DP.1	The average value of the incentive fee calculated for each fuel in 2021 was used, with information noted up until April and from May onwards with estimated information about reference price futures for gasoline and diesel, as well as information from the "Document on compliance with the provisions of article 42 section I of the Federal Budget and Tax Liability Law "pre-2022 criteria" and the volume of sales observed until March 2021 as well as estimates based on information from Petróleos Mexicanos (Pemex).
Tax incentive.DP.17	Information from the provisional tax returns for January through April 2021 and the "List of beneficiaries of the incentive for the northern border region" as of May 28, 2021, as well as inflation and one-off GDP growth, both for 2022, published in the Document on compliance with the provisions of article 42 section I of the Federal Budget and Tax Liability Law "pre-2022 criteria", were used.

Source: Prepared by the author, on the basis of Secretariat of Finance and Public Credit, *Renuncias recaudatorias 2021*, Mexico City, 2021; *Documento relativo al cumplimiento de las disposiciones contenidas en el artículo 42, fracción I de la Ley Federal de Presupuesto y Responsabilidad Hacendaria "pre-criterios 2022"*, Mexico City, 2022.

[a] The estimation is done based on a projection of the total revenue from the special tax on production and services on motor fuels established in the Law on the special tax on production and services, article 2, paragraph D), for 2021 and 2022, which includes: (1) The average monthly value of the incentive fee for each fuel with information noted up until April, and from May onwards, with estimated information about reference price futures for gasoline and diesel, as well as information from the "Document on compliance with the provisions of article 42 section I of the Federal Budget and Tax Liability Law "pre-2022 criteria"; and (2) the volume of sales noted up to March 2021 and estimates based on information from Petróleos Mexicanos (Pemex).

Annex 2
Additional Figures

Figure A1
Latin America and the Caribbean (17 countries): tax collection, 2020
(Percentages of GDP)



Source: Prepared by the author, on the basis of Organisation for Economic Co-operation and Development (OECD) and others, *Revenue Statistics in Latin America and the Caribbean 2022*, Paris, 2022.

Annex 3
Tax expenditures in Latin America

Argentina

In the case of personal income tax, tax is levied on profits, income or enrichments that are likely to be regular and to be generated by a permanent source. For companies, the requirements of regularity and permanence of the source do not apply. Due to the nature of the tax, incomes are considered net of the expenses incurred in order to obtain, maintain and preserve them. The most important deductions related to this tax are not regarded as tax expenditures due to their general nature.[30]

Value Added Tax is levied on sales and imports of movable things and works, rentals, and the provision of services. Goods and services that are not covered by the tax, such as retirement insurance, life insurance and membership contracts with occupational risk insurance companies, are excluded from the concept and are not regarded as tax expenditures either. The exemptions set forth in law, as well as the provisions of specific laws, are included for the purposes of calculation. The exemption or taxation at a reduced rate for goods and services that are used as inputs are not considered tax expenditures, since the tax assessment system causes them to be taxed at the next stage, at the general rate.

The taxes included in the report are: income tax, value added tax, fuel tax, social security contributions, internal revenue, foreign trade, miscellaneous goods and miscellaneous taxes.

[30] This is the case of the non-taxable minimum, special deductions for personal work, family expenses, social security contributions, private health plans, among others.

Table A9
Argentina: most important tax expenditures, 2020–2022
(Millions of pesos, percentages of GDP and percentages)

Concept	Millions of pesos			Percentages of GDP		
	2020	2021	2022	2020	2021	2022
Total	723 886.0	1 152 819.3	1 587 257.8	2.63	2.67	2.64
Economic promotion of Tierra del Fuego[a]	69 485.3 (9.60)	150 723.3 (13.07)	220 482.4 (13.89)	0.25 (9.51)	0.35 (13.11)	0.37 (14.02)
Reduced VAT rate for meats, fruits, legumes and fresh vegetables	102 678.7 (14.18)	150 154.7 (13.02)	200 039.8 (12.60)	0.37 (14.07)	0.35 (13.11)	0.33 (12.50)
Regime for the strengthening of micro, small and medium enterprises	63 785 (8.81)	92 662 (8.04)	119 032.1 (7.50)	0.23 (8.75)	0.21 (7.87)	0.20 (7.58)
VAT exemption for social security medical services provided to the National Institute of Social Services for Retirees and Pensioners	63 967.4 (8 84)	91 316.8 (7.92)	130 223.1 (8.20)	0.23 (8.75)	0.21 (7.87)	0.22 (8.33)
Difference between the rates applied to naphthas and to gasoil	58 172.1 (8.04)	90 964.9 (7.89)	122 520.1 (7.22)	0.21 (7.98)	0.21 (7.87)	0.20 (7.58)
Reduced VAT rate for the construction of dwellings	42 492.9 (5.87)	80 618.9 (6.99)	117 260.5 (7.39)	0.15 (5.70)	0.19 (7.12)	0.19 (7.20)
Exemption from income tax for incomes of magistrates and functionaries of the national and provincial judicial branches	29 430.9 (4.07)	52 448.6 (4.55)	72 914.1 (4.59)	0.11 (4.18)	0.12 (4.49)	0.12 (4.55)
Income tax exemption for civic associations, foundations, mutual societies and cooperatives	27 694 (3.83)	43 325.8 (3.76)	57 371.6 (3.61)	0.10 (3.80)	0.10 (3.75)	0.10 (3.79)
Reduced VAT rate for baked goods	25 984.6 (3.59)	40 753.2 (3.54)	56 899.6 (3.58)	0.09 (3.42)	0.09 (3.37)	0.09 (3.41)
VAT exemption for medicines for use by human beings	23 780.9 (3.29)	34 852.5 (3.02)	47 392.1 (2.99)	0.09 (3.42)	0.08 (3.00)	0.08 (3.03)
Others	216 414.2 (29.90)	324 998.6 (28.19)	443 122.4 (27.92)	0.80 (30.42)	0.76 (28.46)	0.74 (28.03)

Source: Prepared by the author, on the basis of Secretariat of Finance, *Informe sobre gastos tributarios: estimación para los años 2020-2022*, Buenos Aires, 2021.
Note: The quantities in brackets represent each concept as a proportion of the total tax expenditures for 2021.
[a] VAT exemption on purchases and sales (64.861 billion in 2021), income tax exemption (18.457 billion in 2021), import duty exemption (32.421 billion in 2021) and reduced internal revenue rate on electronic products (34.982 billion in 2021).

Tax expenditures included in the comparative table of main forgone revenues for Argentina

VAT on foods

- VAT exemption on sales of liquid or powdered milk, whole or skimmed without additives (0.08)
- Reduced VAT rate for meats, fruits, legumes, and fresh vegetables (0.35)
- Reduced VAT rate for baked goods (0.09)

VAT on medical services and medicines

- VAT exemption on social security medical services and to the National Institute of Social Services for Retirees and Pensioners (0.21)

- VAT exemption on medicines for use by human beings, wholesale and retail sale (0.08)
- Reduced VAT rate for prepaid medicine and its providers (0.07)

VAT on educational services

- VAT exemption on educational services (0.08)

Treatments for associations, foundations and cooperatives

- Income tax exemption for civic associations, foundations, mutual societies and cooperatives (0.10)

Treatments for fuels

- Difference between the rates applied to naphthas and gasoil (0.21)
- Forty-five percent (45%) of the liquid fuel tax included in purchases of gasoil intended for the respective companies is calculated as a VAT payment on account (transportation services) and income tax (agricultural and mineral activity). (0.04)
- Exemption of liquid fuels to be used in the southern zone of the country (0.05)
- Reduction of the fuel tax, Law No. 23.966, because of the incorporation of non-taxed biodiesel into gasoil (0.01)
- Exemption from fuel tax for the biodiesel used for electric power generation (0.01)

Treatments for economic zones

- Special income tax deduction for subordinate workers working in Patagonia (0.03)
- Economic promotion of Tierra del Fuego. Law No. 19.649 (0.35)

Plurinational State of Bolivia[31]

Corporate income tax will be applied across all of Bolivia on profits reflected on companies' financial statements at the end of each year, adjusted according to the provisions of the law and its regulations. Profits shall be considered to be beneficial income or earnings that are reflected on the financial statements, of a periodic nature or otherwise. To this end, profits are also considered to be those determined, by sworn statement, by subjects that are not obligated to keep accounting records that facilitate the preparation of financial statements, in the way and under the conditions established by the regulations. The object of this tax shall not include results that were the consequence of a company restructuring process, in the way and under the conditions established by the regulations.

Value Added Tax is levied on any transfer for valuable consideration involving the transfer of ownership of movable property, and any incorporation of movable goods in cases of contracts for works and the provision of services as well as the removal of movable property from a taxpayer's taxable activity for the private use or consumption of the sole owner or members of partnerships. This tax does not include interest generated by financial transactions, which is understood to be interest on loans granted or deposits received by financial institutions, but any other service provided by financial institutions remunerated by commissions, fees or any other form of compensation is subject to the tax. Likewise, the purchase and sale of shares, debentures, securities and debt securities are not subject to the tax. Sales or transfers resulting from a company restructuring or capital contributions to them are also not deemed to be subject to this tax. In order to complement the Value Added Tax regime, a tax on personal income and undivided inheritances from capital investment, from work or from the joint application of both factors (complementary regime to VAT) has been created.

The taxes included in the report are: value added tax, corporate income tax, transaction tax, complementary regime to VAT, tariff levy, tax credit notes.

[31] See National Congress of the Plurinational State of Bolivia (1986 and 2003).

Table A10
Plurinational State of Bolivia: most important tax expenditures, 2014–2016
(Millions of bolivianos, percentages of GDP and percentages)

Concept	Millions of bolivianos			Percentages of GDP[a]		
	2014	2015	2016	2014	2015	2016
Total	3 323.60	3 123.10	2 890.20	1.50	1.40	1.20
VAT refund for the export sector	1 465.0 (44.08)	1 751.1 (56.07)	1 677.3 (58.03)	0.66 (44.00)	0.78 (55.71)	0.70 (58.33)
Corporate income tax exemption for civil societies and authorized non-profit foundations	50.4 (1.52)	141.9 (4.54))	151.6 (5.25)	0.02 (1.33)	0.06 (4.29)	0.06 (5.00)
VAT exemption on goods that submit the "bonafide"	159.2 (4.79)	161.4 (5.17)	148.6 (5.14)	0.07 (4.67)	0.07 (5.00)	0.06 (5.00)
VAT exemption for the Ministry of Economy and Public Finance	339.3 (10.21)	121.5 (3.89)	135.4 (4.68)	0.15 (10.00)	0.05 (3.57)	0.06 (5.00)
Transaction tax exemption for the education sector	111 (3.34)	107.9 (3.45)	116.8 (4.04)	0.05 (3.33)	0.05 (3.57)	0.05 (4.17)
VAT exemption for the education sector	102.4 (3.08)	97.3 (3.12)	102.2 (3.54)	0.05 (3.33)	0.04 (2.86)	0.04 (3.33)
Tariff levy refund for the export sector	67.2 (2.02)	96.3 (3.08)	95.3 (3.30)	0.03 (2.00)	0.04 (2.86)	0.04 (3.33)
VAT credit for the hydrocarbon sector	106.3 (3.20)	73.0 (2.34)	91.4 (3.16)	0.05 (3.33)	0.03 (2.14)	0.04 (3.33)
Corporate income tax exemption for the mining sector	35.8 (1.08)	31.2 (1.00)	49.7 (1.72)	0.02 (1.33)	0.01 (0.71)	0.02 (1.67)
VAT exemption for the industrial sector	382.2 (11.50)	201.7 (6.49)	48.1 (1.66)	0.17 (11.33)	0.09 (6.43)	0.02 (1.67)
Others	504.80 (15.19)	339.80 (10.88)	273.80 (9.47)	0.23 (15.33)	0.15 (10.71)	0.11 (9.17)

Source: Prepared by the author, on the basis of Ministry of Economy and Public Finance, *Boletín Económico: Ingresos y Gastos Tributarios 2017*, Lima, 2018.
Note: The empty cells indicate that the expense does not apply for that year. The quantities in brackets represent each concept as a proportion of the total tax expenditures for 2016.
[a] A GDP of 221.573 billion pesos for 2014, 223.078 billion for 2015 and 240.85 billion for 2016, according to ECLAC.

Tax expenditures included in the comparative table of main forgone revenues for the Plurinational State of Bolivia

VAT on foods

- Na

VAT on medical service and medicines

- Na

VAT on educational services

- VAT exemption for the education sector (0.04)

Treatments for associations, foundations and cooperatives

- Corporate income tax exemption for cooperatives in the mining sector (0.02)
- Corporate income tax exemption for civil societies and authorized non-profit foundations (0.06)

Treatments for fuels

- Credits for transaction tax, corporate income tax, VAT and the VAT complementary regime for the hydrocarbon sector (0.05)

Treatments for economic zones

- Na

Brazil

Income tax is levied on financial or legally available income and any other types of earnings. Income means the outcome or remuneration derived from the production factors, capital and labour, or the combination of both. The concept of earnings includes the increases in assets not included in the concept of income, such as pensions and retirement funds. Consumption activities, such as the consumption of self-produced goods or services and the use of sustainable consumption goods (such as housing on own property), are not included in the concept of income adopted in Brazil.

In the case of persons, tax is levied on the labour income received, such as employees' salaries and the income of self-employed professionals, using a model of progressive tax on total income.[32] Corporate Income Tax and the Social Contribution on Net Income (CSLL) are levied on incomes from business activities, as well as capital gains income and income from financial investments, based on the net profit calculated in accordance with accounting standards.

With regard to taxes on consumption, the report includes the Tax on Industrialized Products (IPI), the Social Integration Program (PIS) and the Contribution for the Financing of Social Security (COFINS). The Tax on Industrialized Products (IPI) is a non-cumulative value added tax, which is levied on industrialized products produced in Brazil when the product leaves the industrial establishment or one that is equivalent to an industrial one.[33] For their part, the contributions to PIS and COFINS are levied at all stages of the production chain (multiphases) and they are levied on companies' invoices at a uniform rate, that is, a single rate is applied to all the taxpayer's incomes, without any distinction being made for the origin by activity, product or service (broad base).[34]

The taxes included in the report are: import duty, personal income tax, corporate income tax, income tax withheld at source, tax on industrialized products (IPI), tax on financial operations (IOF), rural land tax (ITR), Social Integration Program (PIS), Public Servant Asset Formation Program (PASEP), social contribution on net income (CSLL), contribution for the financing of social security (COFINS), contribution for intervention in the economic domain (CIDE), additional freight for the renewal of the merchant marine (AFRMM), contribution to the development of the national film industry (CONDECINE), and social security contribution.

[32] Entails the application of progressive rates, according to income level, using a calculation basis that is created by totaling specific types of income and subtracting the legally permitted deductions. This progressive table forms part of the reference tax system.

[33] IPI is also levied on imported foreign goods, as a way of levelling the tax burden borne by industrialized goods produced in Brazil, and is not levied on export operations.

[34] These taxes are also levied on the importation of foreign goods and services, as a way of levelling the tax burden borne by goods and services produced in Brazil. They are not levied on export operations.

Table A11
Brazil: most important tax expenditures, 2019
(Millions of reais, percentages of GDP and percentages)

Concept	Millions of reais	Percentages of GDP
Total	317 636.05	4.30
Reduction to zero of the contribution rates for COFINS on imports or sales of agricultural and agro-industrial products from the basic food basket[a]	22 251.45 (7.01)	0.30 (6.98)
Reduction of the calculation basis for the social security contribution and change in the employers' contributions for Micro and Small Enterprises that opted or the Simples Nacional[b]	22 226.87 (7.00)	0.30 (6.98)
Reduction of the calculation basis for COFINS and change in the employers' contributions for Micro and Small Enterprises that opted for the Simples Nacional	21 870.17 (6.89)	0.30 (6.98)
Reduction of the calculation basis for personal income tax for expenses with doctors, dentists, psychologists, physiotherapists, occupational therapists, speech therapists, hospitals, and for laboratory tests, radiology services, orthopaedic and dental equipment and prostheses	18 133.65 (5.71)	0.25 (5.82)
Reduction of the calculation basis for corporate income tax and the change in the employers' contributions for micro- and small enterprises that opted for the Simples Nacional	16 103.66 (5.07)	0.22 (5.12)
Exemption from personal income tax that is levied on retirement incomes or retirement caused by serious illness or accident	15 317.62 (4.82)	0.21 (4.89)
Exemption from IPI for all goods produced in the Manaus Free Trade Zone	14 849.60 (4.68)	0.20 (4.65)
Exemption from the Employers' Contribution to Social Security for social welfare entities	12 217.77 (3.85)	0.17 (3.95)
Employers' Contribution to Social Security levied on incomes at a reduced rate to replace tax on the payroll	9 774.40 (3.08)	0.13 (3.02)
Exemption from personal income tax for retirement incomes and pension for persons over the age of 65 years	9 496.23 (2.99)	0.13 (3.02)
Others	155 394.63 (48.92)	2.09 (48.59)

Source: Prepared by the author, on the basis of Ministry of Economy of Brazil, *Demonstrativo dos Gastos Tributarios: Bases Efetivas – 2019 – Série 2017 a 2022*, Brasilia, 2022.
Note: The empty cells indicate that the expense does not apply to that year. The quantities in brackets represent each concept as a proportion of the total tax expenditures for 2020.
[a] Fertilizers and their raw materials; pesticides and their raw materials; seeds and seedlings and products of a biological nature used in their production; soil improver; beans, rice, cassava flour and sweet potato; agricultural inoculants; veterinary vaccine; flour, groats, semola, crushed grains or maize flakes; chicken; milk for human consumption or used in the manufacture of products for this purpose, milk-based drinks; cheeses; serum; wheat flour; bread; fruits and vegetables and eggs; seeds and embryos; pasta; beef, pork, mutton, goat meat, poultry; fish; coffee; sugar; soyabean oils and other vegetable oils; butter; margarine; bath soaps; dental hygiene products; toilet paper.
[b] Exclusive tax regime for micro- and small enterprises.
IPI = Tax on Industrialized Products (domestic and import-related).
COFINS = Contribution for the Financing of Social Security.

Tax expenditures included in the comparative table of the main forgone revenues for Brazil

VAT on foods

- Reduction to zero of the PIS and COFINS rates on imports or sales on the domestic market of: fertilizers, fertilizers and their raw materials; seeds and seedlings; soil corrector; beans, rice, cassava flour and sweet potato; agricultural inoculants; veterinary vaccine; maize; chicken; milk, milk-based drinks; cheeses; milk serum; wheat flour; wheat; sliced bread; vegetables, fruits and eggs; seeds and embryos; acetone; pasta; beef, pork, mutton, goat meat, poultry, fish; coffee; sugar; soyabean oil; butter; margarine; soap; toothpaste; dental floss; toilet paper (0.37).

VAT on medical services and medicines

- Reduction to zero of the PIS/COFINS rates that are levied on income generated by the sale of equipment or materials for medical, hospital, clinic or laboratory use (0.00).

- PIS/COFINS credit for legal entities that manufacture or import medicines (0.07).

VAT on educational services

- Tax exemption for private higher education institutions, whether non-profit or for profit, which join the University for All Program (PROUNI) (0.01).
- PIS/COFINS exemption for private higher education institutions, whether non-profit or for profit, which join PROUNI (0.01).
- CSLL exemption for private higher education institutions, whether non-profit or for profit, which join PROUNI (0.00).

Treatments for associations, foundations and cooperatives

- Corporate income tax exemption for associations created as part of civil society, which seek to provide or facilitate the acquisition of housing for members, mobilize, raise and disseminate savings, or savings and loans associations (0.00).
- Exemption from income tax, CSLL, COFINS for non-profit social welfare and health entities (0.06).
- Exemption from income tax, CSLL, COFINS for civic associations that provide the services for which they were established and make them available to the group of persons for whom they are intended (0.04).
- Exemption from income tax, CSLL, COFINS for non-profit scientific institutions (0.00).
- Exemption from income tax, CSLL, COFINS for non-profit cultural institutions (0.00).
- Exemption from income tax, CSLL, COFINS for non-profit educational charities (0.05).
- Exemption from income tax, CSLL, COFINS for non-profit philanthropic institutions (0.03).
- Exemption from income tax, CSLL, COFINS for non-profit recreational institutions (0.00).
- Reduction of the calculation basis for corporate income tax for savings and loans associations (0.00).
- PIS/social security contribution exemption for social welfare entities (0.18).

Treatments for fuels

- Reduction to zero of the PIS/COFINS rates for the importation of Liquefied Natural Gas (0.00).
- Reduction of the PIS/COFINS rates for the importation or sale on the domestic market of: ethane, propane, butane, petrochemical naphtha, gas condensate streams and refinery gas streams, light hydrocarbons destined for petrochemical plants; ethylene, propene, butene, butadiene, orthoxylene, benzene, toluene, isoprene and paraxylene for use in the chemical industry as input material (0.01).

Treatments for Economic Zones

- Exemption from the tax on entry of foreign goods, when intended for domestic consumption and sale, processing of fish, mineral resources and agricultural or forestry raw materials, agriculture and fish farming, tourism, storage for export, for shipbuilding and ship repair and for admission as accompanied baggage, with the exception of arms and ammunition, tobacco, alcoholic beverages, tourist vehicles, perfumery and cosmetics, in the free trade zones.[35] (0.00).
- Exemption from the tax on goods entering the Manaus Free Trade Zone, when intended for domestic consumption or industrialization to any degree, including processing, agriculture, fishing, installation and storage for re-export, with the exception of arms and ammunition, tobacco, alcoholic beverages, cars, perfumery and cosmetics. Reduction of the tax on industrialized products leaving the Manaus Free Trade Zone, for any point in national territory. (0.04).

[35] Tabatinga (Amazonas), Guajará-Mirim (Rondônia), Pacaraima and Bonfim (Roraima), Macapá and Santana (Amapá), and Brasiléia and Cruzeiro do Sul (Acre).

- Exemption or reduction of corporate income tax for companies with projects approved for the regional development of the Superintendency for the Development of the Amazon (SUDAM). (0.05).
- Exemption or reduction of corporate income tax for companies with projects approved for the regional development of the Superintendency for the Development of the Northeast, (SUDENE). (0.07).
- Exemption from internal IPI, which is levied on products manufactured in the free trade zones, intended for domestic consumption or for distribution to other parts of national territory. (0.00).
- Exemption from internal IPI for all goods produced in the Manaus Free Trade Zone, exemption from the tax on products made with agricultural raw materials and regionally-produced vegetable extracts, excluding those of livestock origin, by establishments located in the Western Amazon. (0.20).
- Exemption from IPI linked to the entry of foreign goods into the free trade zones. (0.00).
- Exemption from IPI linked to the entry of goods into the Manaus Free Trade Zone. (0.04).
- Suspension of PIS/PASEP-importation and COFINS-importation on imports made by companies located in the Manaus Free Trade Zone of raw materials, intermediate products and packaging materials. (0.06).
- Suspension of the contribution to PIS/PASEP-importation and COFINS-importation, which is levied on the importation of machinery, apparatus, instruments and new equipment, for incorporation into the fixed assets of the importing entity established in the Manaus Free Trade Zone. (0.00).
- Reduction to zero of PIS/PASEP and COFINS contribution rates, which are levied on incomes for the sale of raw materials, intermediate products and packaging materials, produced in the Manaus Free Trade Zone. (0.00).
- Differentiated rates for PIS/PASEP and COFINS contributions levied on gross income earned by an industrial entity established in the Manaus Free Trade Zone and in the free trade area. (0.01).
- Reduction to zero of the contribution rates for PIS/PASEP and COFINS levied on income from the sale of goods destined for consumption or industrialization in the Manaus Free Trade Zone or the free trade area. (0.02).
- Exemption from AFRMM for goods intended for consumption or industrialization in the Western Amazon, excluding arms, ammunition, tobacco, alcoholic beverages, perfumes, cargo vehicles, tourist vehicles and bulk liquids. (0.00).
- No AFRMM levy on goods whose origin or final destination is a port located in the northern or north-eastern region of the country. (0.01).

Chile[36]

The first category income tax is applied on the basis of profits collected or derived in the case of companies that declare their effective income assessed through complete, simplified accountability, payrolls or contracts. The exception is taxpayers in the agriculture, mining and transport sectors, who can be taxed on the basis of assumed income, when they satisfy the requirements of the Income Tax Law. State enterprises must also pay a special tax on profit generated. The second category tax, for its part, is levied on income from subordinate employment, such as salaries, pensions and ancillary or supplementary income to the aforementioned, and is a tax that is applied with a progressive rate scale. If other incomes are also collected that are different from those indicated as being taxable under the complementary global tax,[37] such income must be consolidated annually and the abovementioned tax paid.

[36] See Internal Revenue Service (SII), "Aprenda sobre los impuestos" [online] https://www.sii.cl/ayudas/aprenda_sobre/3072-.html.

[37] Personal, global, progressive and complementary tax, which is assessed and paid once a year by individuals with domicile or residence in Chile on taxable income assessed in accordance with the rules of the first and second categories.

Value Added Tax is levied on the sale of movable and immovable property and the provision of services as defined by the law of the industry, conducted, inter alia, by commercial, industrial, mining and service enterprises. VAT affects the final consumer, but it is generated at each stage of the distribution of the good. The amount to be paid arises from the difference between the tax liability, the total of the taxes charged on sales and services provided during the period of one month, and the tax credit, the tax charged on invoices for the purchase of goods or the use of services, and in the case of imports, the tax paid for the importation of goods. VAT-exempt items are lands and also the provision of services that are carried out or used in the country.

The taxes included in the report are: first category income tax, second category tax, value added tax (VAT) and fuel tax.

Table A12
Chile: most important tax expenditures, 2019–2021
(Millions of pesos, percentages of GDP and percentages)

Concept	Millions of pesos			Percentages of GDP[a]		
	2019	2020	2021	2019	2020	2021
Total	4 649 101	4 455 403	5 479 653	2.38	2.22	2.31
Propyme General first category tax regime with a special rate of 10% on income tax[b]			608 394 (11.10)			0.26 (11.10)
Tax depreciation[c]	657 596 (14.14)	616 100 (13.83)	605 954 (11.06)	0.34 (14.14)	0.31 (13.83)	0.26 (11.06)
Special VAT credit for the building of dwellings	518 347 (11.15)	415 459 (9.32)	467 391 (8.53)	0.27 (11.15)	0.21 (9.32)	0.20 (8.53)
VAT exemption for various services	295 989 (6.37)	283 565 (6.36)	319 011 (5.82)	0.15 (6.37)	0.14 (6.36)	0.13 (5.82)
Income tax exemption for capital gains on real estate	243 733 (5.24)	296 444 (6.65)	317 586 (5.80)	0.12 (5.24)	0.15 (6.65)	0.13 (5.80)
VAT exemption for educational institutions	261 352 (5.62)	250 382 (5.62)	281 680 (5.14)	0.13 (5.62)	0.12 (5.62)	0.12 (5.14)
Propyme General first category tax regime			272 955 (4.98)			0.12 (4.98)
VAT exemption for passenger transport	234 587 (5.05)	224 740 (5.04)	252 833 (4.61)	0.12 (5.05)	0.11 (5.04)	0.11 (4.61)
Income tax exemption for rental income from dwellings covered by Decree having the force of law 2 (DFL2)[d]	226 493 (4.87)	236 766 (5.31)	247 613 (4.52)	0.12 (4.87)	0.12 (5.31)	0.10 (4.52)
Income tax exemption for capital gains covered by Art. 107[e]	117 943 (2.54)	241 545 (5.42)	245 197 (4.47)	0.06 (2.54)	0.12 (5.42)	0.10 (4.47)
Others	2 093 061 (45.02)	1 890 402 (42.43)	1 861 039 (33.96)	1.07 (45.02)	0.94 (42.43)	0.79 (33.96)

Source: Prepared by the author, on the basis of Internal Revenue Service (SII), *Informe de Gasto Tributario 2019 a 2021*, Santiago, 2021.
Note: The empty cells indicate that the expense was not applied in that year. The quantities in brackets represent each concept as a proportion of the total tax expenditures for 2021.
[a] A GDP of 195,116.,667 billion pesos for 2019, 200,851.389 billion pesos for 2020 and 237,003.614 billion pesos for 2021, according to ECLAC.
[b] The Propyme General first category tax regime with a special rate of 10%; Propyme General tax regime final taxes at a rate of 10%.
[c] An accelerated depreciation mechanism has been established, which entails depreciating the physical assets in one instalment or one tenth or one third of the normal useful life determined by the Internal Revenue Service.
[d] Income derived from the development of low-cost housing, built in accordance with the provisions set forth in said legal text, is exempted from Income Tax. This means that the income derived from the rental of these dwellings is exempt from both first category tax and complementary global tax or additional global tax, regardless of the person who develops them.
[e] It establishes that the higher value obtained from the sale of shares issued by corporations and the redemption and sale of shares in investment funds and mutual funds listed on the stock exchange are exempt from income tax.

Tax expenditures included in the comparative table of main forgone revenues for Chile:

VAT on foods

- Na

VAT on medical services and medicines

- 13.3 VAT exemption for health services (0.10)
- 13.5 VAT exemption for income received by health insurance institutions (0.01)

VAT on educational services

- 13.2 VAT exemption for educational institutions (0.12)

Treatments for associations, foundations and cooperatives

- Special presumptive income tax regime for partnerships or joint stock companies, communities and cooperatives formed only by natural persons (0.00)

Treatments for fuels

- 16.1 Recovery of special tax on diesel borne by freight forwarders (0.00)
- 16.2 Differentiated recovery of minor contributions to the variable component for the Taxpayer Protection System against variations in fuel prices (SIPCO) (0.00)

Treatments for economic zones

- 2.6 Income tax exemption for companies established in the Iquique and Punta Arenas free zones (0.02)
- 2.8 Income tax exemption, for 50 years, for companies established in the territory of the XII region, exclusively for industrial, mining, deep sea mining, transportation and tourism activities (0.00)
- 2.9 Income tax exemption, for 44 years, for companies established in the communes of Provenir and Primavera, exclusively for industrial, agro-industrial, agricultural, livestock, mining, deep sea mining, transportation and tourism activities (0.00)
- 4.6 Tax credit for investments in the provinces of Arica and Parinacota for the production of goods or the provision of services (0.01)
- 4.9 Tax credit for investments in the XI and XII regions and in the province of Palena, for the production of goods or the provision of services in those regions and province (0.01)
- 9.8 Income tax deduction for persons residing in and earning income from work in extreme zones (0.00)
- 10.5 First category credit for income of companies established in the XII region (0.00)
- 10.6 First category credit for income of companies established in the communes of Porvenir and Primavera (0.00)
- 13.14 VAT exemption for sales made by vendors domiciled or resident in the department of the Isla de Pascua (0.00)
- 13.15 VAT exemption for free zone imports (0.03)

Colombia[38]

Income tax is levied on persons, whether nationals or foreigners without residence in the country, in relation to their wealth held directly or indirectly, through permanent establishments in the country, except where there are legal exceptions and provisions in international treaties. For Legal Entities and Companies, it is levied on their wealth held directly in the country, except where there are legal exceptions and provisions in international treaties. For foreign companies and entities, in relation to their wealth held indirectly through branches or permanent establishments in the country, except where there are legal exceptions and provisions in international treaties. The concept that is taxed is that of net income, which is the total of all ordinary and extraordinary incomes, likely to produce a net increase in wealth at the time of collection, less returns, rebates and discounts (net income), less costs incurred attributable to such income (gross income) less deductions made.

Value Added Tax (VAT) is a national, indirect, real tax (which affects or is levied on goods and services), that is instantaneous and under the general regime. This tax is charged at the time of manufacture, consumption or purchase, of products, services, commercial transactions or importations and its value depends on the total of the transaction, as well as of the product or good. The fiscal impact of the changes in VAT is calculated based on the "Modelo del IVA" developed by the Directorate of National Taxes and Customs (DIAN), which allows for a comparison between the tax actually collected from taxpayers and the estimate of the potential collection in the absence of these measures. The potential collection is estimated based on the structure of the economy and the legal definitions of the tax base and rates, within the current regulatory framework, to quantify the taxable VAT base in the national accounts.

The taxes included in the report are: income tax, value added tax, coal tax, gasoline tax and tax on regular grade diesel fuel.

Table A13
Colombia: most important tax expenditures, 2018–2019
(Millions of pesos, percentages of GDP and percentages)

Concept	Millions of pesos		Percentages of GDP[a]	
	2018	2019	2018	2019
Total	81 474	92 446	8.30	8.70
Exclusion of VAT on real estate services	8 866 (10.88)	9 432 (10.20)	0.90 (10.88)	0.89 (10.20)
Exclusion of VAT on public administration services and other services provided to the community in general	8 514 (10.45)	9 364 (10.13)	0.87 (10.45)	0.88 (10.13)
Exclusion of VAT on human healthcare services and social services	5 771 (7.08)	6 372 (6.89)	0.59 (7.08)	0.60 (6.89)
Exclusion of VAT on educational services	5 613 (6.89)	6 221 (6.73)	0.57 (6.89)	0.59 (6.73)
Exclusion of VAT on agricultural and horticultural products	4 914 (6.03)	6 026 (6.52)	0.50 (6.03)	0.57 (6.52)
VAT exemption for milk, meat, eggs[b]	5 433 (6.67)	5 942 (6.43)	0.55 (6.67)	0.56 (6.43)
Exclusion of VAT on financial and related services	3 484 (4.28)	3 861 (4.18)	0.35 (4.28)	0.36 (4.18)
Exclusion of VAT on support services for agriculture, hunting, forestry, fishing, mining and public services	2 555 (3.14)	3 039 (3.29)	0.26 (3.14)	0.29 (3.29)

[38] See General Secretariat of the Senate of Colombia, "Leyes desde 1992" [online] http://www.secretariasenado.gov.co/senado/basedoc/arbol/1000.html.

Concept	Millions of pesos		Percentages of GDP[a]	
	2018	2019	2018	2019
Exclusion of VAT on passenger transport, cargo transport and rental of vehicles	2 179 (2.67)	2 548 (2.76)	0.22 (2.67)	0.24 (2.76)
Exclusion of VAT on constructions	2 122 (2.60)	2 081 (2.25)	0.22 (2.60)	0.20 (2.25)
Others	32 023 (39.30)	37 560 (40.63)	3.26 (39.30)	3.53 (40.63)

Source: Prepared by the author, on the basis of the Directorate of National Taxes and Customs (DIAN), "Gasto tributario en el impuesto sobre la renta, el impuesto al valor agregado (IVA) y otros impuestos nacionales: año gravable 2019 (cifras preliminares)", *Documento Web*, No. 75, Bogotá, 2020

Note: The empty cells indicate that the expenditure was not applied in that year. The quantities in brackets represent each concept as a proportion of the total tax expenditures for 2019.

[a] An estimated GDP of 981.614 billion pesos was used for 2018 and 1,062.597 billion pesos for 2019.

[b] According to Law 1955 of 2019, rice for human consumption was added to VAT-exempt goods.

Tax expenditures included in the comparative table of the main forgone revenues for Colombia

VAT on foods

- Exclusion of VAT on agricultural and horticultural products (0.57)
- Exclusion of VAT on milling products, starches and starch products; other food products (0.06)
- Exclusion of VAT on drinks (0.01)
- Exclusion of VAT on meat, fish, fruits, vegetables, oils and fats (0.00)
- Exclusion of VAT on fish and other fish products (0.00)
- Exclusion of VAT on dairy and egg products (0.00)
- VAT Exemption for milk, meats, eggs, and so forth (0.56)
- Reduced VAT rate for preparations used in animal feeds (0.05)
- Reduced VAT rate for wheat or meslin flour and other cereals (0.01)
- Reduced VAT rate for uncooked pasta, stuffing containing eggs and others (0.01)
- Reduced VAT rate for maize (0.00)
- Reduced VAT rate for other seeds and oil-producing fruits (soyabean, peanut, cotton, flaxseed, mustard, sesame, sunflower, olives, coconuts, and so forth) (0.00)
- Reduced VAT rate for sagu, cassava and achira-based baked goods (0.00)
- Reduced VAT rate for grain wheat (0.00)
- Reduced VAT rate for nut and palm fruits (0.00)
- Reduced VAT rate for sausage, salami and mortadella (0.00)
- Reduced VAT rate for honey and molasses (0.00)

VAT on medical services and medicines

- Exclusion of VAT on services for human healthcare services and social services (0.60)
- Reduced VAT rate for prepaid health services (0.04)

VAT on educational services

- Exclusion of VAT on educational services (0.59)

Treatments for associations, foundations and cooperatives

- Na

Treatments for fuels

- Exclusion of VAT on crude oil and natural gas; minerals and uranium and thorium concentrates (0.05)
- Exclusion of VAT on coke oven products; petroleum refining and nuclear fuel products (0.01)
- VAT exemption for mixed biodiesel and b100 biodiesel (0.17)
- VAT exemption for fuel alcohol (0.00)
- Reduced VAT rate for gasoline and regular grade diesel fuel (0.08)
- National Carbon Tax (0.02)
- National Tax on gasoline and regular grade diesel fuel (0.02)

Treatments for economic zones

- Exemption from VAT on raw materials, parts, inputs and finished goods that are sold to industrial users of goods or free zone services or among them (0.17)
- Reduced income tax rate for free zone users (0.05)

Costa Rica[39]

Income tax is levied on income, constant or occasional, from a Costa Rican source, received or accrued by persons or legal entities domiciled in the country, as well as any other income or benefit from a Costa Rican source not exempted by law, including income received by the beneficiaries of export contracts through tax credit certificates. The provisions of this law shall not be applicable to the environmental promotion and compensation mechanisms established in the Ley Forestal. Sales, income or benefits from Costa Rican sources shall be understood as earnings from services provided, assets located or capital used within the territory, which are obtained during the fiscal period in accordance with the provisions of the Income Tax Law.

Value Added Tax on the sale of goods and the provision of services, regardless of the means by which they are provided, in Costa Rican territory, is levied at the time of billing or the delivery of the good or the provision of the service. The sale of goods means the transfer of ownership of goods, importation of goods into Costa Rican territory, sale on consignment and the putting aside of goods, leasing of goods with a purchase option, removal of goods for the personal use or consumption of the taxpayer or the free transfer to third parties, the supply of standardized computer products, any act that involves or has as its ultimate purpose the transfer of ownership of goods, regardless of their legal nature and designation, as well as the conditions agreed upon by the parties. The provision of services means any operation that is not regarded as the transfer or importation of goods.

The taxes included in the report are: corporate and personal income tax for those involved in profit-making activities, tax on work incomes, tax on passive income from the financial market, tax on other assorted income, tax on available income and shares, tax on the incomes of non-residents, on value added tax, VAT Ley Forestal, single fuel tax, other taxes on imports.

[39] See Office of the Attorney General of the Republic, Sistema Costarricense de Información Jurídica (SCIJ) [online] http://www.pgrweb.go.cr/scij/main.aspx.

Table A14
Costa Rica: most important tax expenditures, 2020
(Millions of colones, percentages of GDP and percentages)

Concept	Millions of colones	Percentages of GDP[a]
Total	1 500 885.47	4.15
Reduced VAT rate on the basic tax basket	375 110.31 (24.99)	1.04 (24.99)
Corporate income tax exemption for free zones	344 002.03 (22.92)	0.95 (22.92)
VAT exemption at Customs for machinery, equipment and inputs for agricultural activity	35 442.00 (2.36)	0.10 (2.36)
VAT exemption at Customs for medical equipment	27 973.45 (1.86)	0.08 (1.86)
Exemption from single fuel tax	27 168.70 (1.81)	0.08 (1.81)
VAT exemption at Customs for the purchase of goods and the provision of services to be used for the production of goods and services for export	24 671.88 (1.64)	0.07 (1.64)
Income tax exemption for lottery prizes	21 319.43 (1.42)	0.06 (1.42)
Corporate income tax exemption for legal entities created with a special law	20 350.41 (1.36)	0.06 (1.36)
Corporate income tax exemption for cooperatives	16 954.49 (1.13)	0.05 (1.13)
VAT exemption at Customs for raw materials used in the manufacturing of inputs for agricultural activity and banana packing	14 702.91 (0.98)	0.04 (0.98)
Others	593 189.86 (39.52)	1.64 (39.52)

Source: Prepared by the author, on the basis of General Directorate of Finance, *Costa Rica: el gasto tributario (GT) 2020, metodología y estimación. Impuesto sobre la rente, impuesto al valor agregado y otros tributos*, San Jose, 2021
Note: The empty cells indicate that the expense was not applied in that year. The quantities in brackets represent each concept as a proportion of the total tax expenditures for 2020.
[a] An estimated GDP of 36,174.304 billion colones was used for 2020.

Tax expenditures included in the comparative table of the main forgone revenues for Costa Rica:

VAT on foods

- Reduced VAT Rate for the basic tax basket[40] (1.04)

VAT[41] on medical services and medicines

- VAT exemption on medical equipment (0.01)
- VAT exemption on raw materials, inputs and intermediate and final products that are used in the making of medicines (0.08)

VAT on educational services

- VAT exemption for State university institutions of higher education (0.00)

Treatments for associations, foundations and cooperatives

- Exemption from corporate income tax for cooperatives (0.05)

[40] The basic tax basket is the actual set of primary consumption goods of the 30% of the population with the lowest income, according to the data surveyed or collected by the National Institute of Statistics and Census (INEC).
[41] Amounts exempted at Customs.

- Exemption from corporate income tax for mutual associations (0.02)
- Surpluses of mutual associations (0.01)
- Reduced corporate income tax rate on securities issued by credit unions (0.01)
- Reduced corporate income tax rate on surpluses of cooperatives and similar entities (0.00)
- Reduced corporate income tax rate on savings incomes of credit unions and mutual associations (0.00)

Treatments for fuels

- Exemption from single fuel tax[42] (0.08)

Treatments for economic zones

- Exemption from corporate income tax in free zones (0.95)
- Exemption from single fuel tax in free zones (0.00)

Ecuador[43]

For income tax purposes, income from Ecuadorian sources obtained free of charge or for valuable consideration from labour, capital or both sources, including money, goods or services, and income obtained abroad by individuals domiciled in the country or by national companies, are considered income. Individuals, undivided estates and corporations, domestic or foreign, domiciled or not domiciled in the country, that obtain taxable income in accordance with the provisions of the Internal Tax Regime Law are liable to income tax. The taxpayers obliged to keep accounting records will pay income tax based on these records.

Value Added Tax is levied on the value of the transfer of ownership or importation of movable tangible property, at all stages of distribution, as well as copyrights, industrial property and related rights; and on the value of services provided, in the way and under the conditions set forth in the Internal Tax Regime Law. A transfer is deemed to be any act or contract performed by individuals or companies for the purpose of transferring ownership of movable tangible property, as well as copyrights, industrial property rights and related rights, the sale of tangible personal property received on consignment and the lease thereof with an option to purchase, including commercial leasing, in all its forms, and the personal use or consumption, by the taxpayer, of the movable tangible property produced or sold.

The taxes included in the report are: corporate income tax; personal income tax, value added tax, and other taxes.

[42] Fuels for airlines, fishers, builders, embassies, the Costa Rican Red Cross, fire brigades, institutions, the trade in fuel, maritime and others.
[43] National Congress of Ecuador (2004).

Table A15
Ecuador: most important tax expenditures, 2020
(Millions of dollars, percentages of GDP and percentages)

Concept	Millions of dollars	Percentages of GDP
Total	4 861.3	4.9
VAT exemption on food products	560.0 (11.52)	0.6 (12.24)
Income tax exemption for non-profit institutions	477.4 (9.82)	0.5 (10.20)
Income tax deduction for personal expenses	357.5 (7.35)	0.4 (8.16)
VAT exemption on seeds, bulbs, plants, flowers, foliage and cut branches, fertilizers, manure and so forth	247.9 (5.10)	0.3 (6.12)
VAT exemption on passenger and cargo services	203.1 (4.18)	0.2 (4.08)
Income tax exemptions on new productive investments in priority sectors	197.6 (4.06)	0.2 (4.08)
VAT exemption on bread, noodles, sugars, sugarcane cubes, and so forth	178.4 (3.67)	0.2 (4.08)
VAT exemption on educational services	165.8 (3.41)	0.2 (4.08)
VAT exemption on medicines	162.5 (3.34)	0.2 (4.08)
VAT exemption on health services	130.5 (2.68)	0.1 (2.04)
Others	2 180.6 (44.86)	2.0 (40.82)

Source: Prepared by the author, on the basis of Internal Revenue Service (SRI), *Manual de Gasto Tributario 2020*, Quito, 2021.
Note: The quantities in brackets represent each concept as a proportion of the total tax expenditures for 2020.

Tax expenditures included in the comparative table of the main forgone revenues for Ecuador:

VAT on foods

- VAT exemption on food products (0.6)
- VAT exemption on seeds, bulbs, plants, flowers, foliage and cut branches, fertilizers, manure and so forth (0.3)
- VAT exemption on bread, noodles, sugars, sugarcane cubes (0.2)
- VAT exemption on milk and derivatives (0.1)

VAT on medical services and medicines

- VAT exemption on medicines (0.2)
- VAT exemption on health services (0.1)

VAT on educational services

- VAT exemption on educational services (0.2)

Treatments for associations, foundations and cooperatives

- VAT exemption on services provided by clubs, unions, production chambers, among others (0.0)
- VAT refund for local purchase or importation of goods and services by the Junta de Beneficencia de Guayaquil, the Ecuadorian Institute of Social Security, Faith and Joy Ecuador, Sociedad de Lucha contra el Cáncer (SOLCA), Ecuadorian Red Cross, Dr. Oswaldo Loor Moreira Foundation and private universities and polytechnic schools. (0.0)

- Income tax exemption for income of non-profit institutions (0.5)
- Income tax exemption for income of popular and solidarity economy companies (0.0)
- Income tax exemption for income of entities in the popular and solidarity financial sector resulting from the merger of cooperatives (0.0)
- Income tax exemption for surplus income of members of the organizations stipulated in the Organic Law for the Popular and Solidarity Economy (0.0)

Treatments for fuels

- VAT refund for the purchase of aviation fuel for the transport of cargo abroad (0.0)
- Income tax exemption for income from non-cash investments made by companies that have signed contracts with the State for the provision of hydrocarbon exploration and exploitation services (0.0)

Treatments for economic zones

- Income tax exemption for income from new productive investments in priority sectors, including Quito and Guayaquil; outside of Quito and Guayaquil; and for priority industrial, agro-industrial and agrobusiness sectors within the border cantons, which generate net employment. (0.2)
- Income tax exemption for income of companies administering and using free trade zones. (0.1)
- Income tax exemption for income of companies incorporated as from the effective date of the Código Orgánico de la Producción, Comercio e Inversiones (COPCI), to make new and productive investments outside Quito or Guayaquil and in priority economic sectors. (0.1)
- Income tax exemption for income from new productive investments in accordance with COPCI definitions in the provinces of Manabí and Esmeraldas. (0.0)
- Income tax exemption for income of administrators or operators of a Special Economic Development Zone (ZEDE). (0.0)
- Income tax deduction for net increase in employment in depressed and border areas. (0.0)

El Salvador

Value Added Tax is levied on the consumption of goods and services within the country. Therefore, whoever pays the tax, is the final consumer, although the legislation identifies a taxpayer or person liable to tax as each economic operator that participates in the chain of transactions involved. According to the tax base, it can be categorized as a non-cumulative single-phase tax, which is levied at all stages of the value chain. However, the tax is not added in the final price, rather, the effective rate that the final individual in the chain pays is always the base rate.

According to the principle of origin or destination, it is a destination VAT, since it is applied to goods destined for domestic consumption (imports are taxed, exports are exempt). According to its microeconomic base, it is a credit-invoice VAT, because in order to calculate the tax to be paid, the taxpayer charges VAT on its sales (debit), and in turn, deducts the input VAT on its purchases (credit). Here each transaction must be recorded using a legal document (invoice or tax credit voucher) and the taxpayer does not have to calculate the tax base, rather the obligation is reduced to: Debit - Credit.

The taxes included in the report are: income tax and Value Added Tax.

Table A16
El Salvador: most important tax expenditures, 2016
(Millions of dollars, percentages of GDP and percentages)

Concept	Millions of USD	Percentages of GDP
Total	900.02	3.76
VAT exemption on interests for institutions under the supervision of the Superintendency of the Financial System	128.64 (14.29)	0.54 (14.31)
Income tax exemption for the free zones	116.37 (12.93)	0.49 (12.95)
Reduced income tax rate for those liable to non-domiciled taxes	70.59 (7.84)	0.30 (7.85)
Income tax deduction for education and health	49.86 (5.54)	0.21 (5.56)
Tax exemption for cooperatives on their establishment and operations	48.23 (5.36)	0.20 (5.37)
VAT exemption for health services	46.20 (5.13)	0.19 (5.13)
VAT exemption for personal insurance and reinsurance premiums in general	43.15 (4.79)	0.18 (4.79)
Income tax deduction for voluntary and mandatory social security contributions	32.58 (3.62)	0.14 (3.62)
VAT exemption for rental of dwelling for housing	28.89 (3.21)	0.12 (3.22)
VAT exemption for education and teaching	25.26 (2.81)	0.11 (2.82)
VAT exemption for taxpayer status	24.92 (2.77)	0.10 (2.77)
Others	285.34 (31.70)	1.19 (31.62)

Source: Prepared by the author, on the basis of Ministry of Finance of El Salvador, *Marco fiscal de mediano y largo plazo 2018-2028*, San Salvador, 2017
Note: The quantities in brackets represent each concept as a proportion of the total tax expenditures for 2016.

Tax expenditures included in the comparative table of the main forgone revenues for El Salvador:

VAT on foods

VAT on medical services and medicines

- VAT exemption for health services provided by public institutions (0.193)

VAT on educational services

- VAT exemption for educational services and teaching (0.106)

Treatments for associations, foundations and cooperatives

- Tax exemption for cooperatives on their establishment and operations (0.202)
- Income tax exemption for non-profit public law entities (0.089)
- Income tax exemption for five years for cooperative associations (0.057)

Treatments for fuels

- Na

Treatments for economic zones

- Incentive to companies that use free zones and Asset Improvement Deposits (DPAs), (0.004)
- Income tax exemption for 15 years for developers, users and managers of free zones and DPAs (0.487)

Mexico

Tax expenditures included in the comparative table of the main forgone revenues for Mexico:

VAT on foods

- Zero rated VAT on foods (1.0379)

VAT on medical services and medicines

- VAT exemption for professional medical services (0.0169)
- Zero rated VAT on medicines (0.0820)

VAT on educational services

- VAT exemption for tuition services (0.1465)

Treatments for associations, foundations and cooperatives

- Corporate income tax exemption for authorized donors (0.0166)

Treatments for fuels

- Tax credit incentives for special tax on production and services on diesel fuel (0.1143)
- Crediting of special tax on production and services on diesel to the agricultural and forestry sector. (0.0127)
- Crediting of special tax on production and services on fossil fuels used in production processes to the manufacture of other goods, which are not intended for combustion in the process. (0.0004)
- Tax incentives regarding special tax on production and services applicable to motor fuels. (0.3010)

Treatments for economic zones

- Tax incentives in the northern border region (0.3273)
- Tax incentives in the southern border region (0.0172)
- Tax incentive consisting of an amount per litre of gasoline sold in the southern border of the United Mexican States, which taxpayers may credit against their income tax liability. (0.0028)

Paraguay

The income tax on economic activities is levied on accrued income. The established reference framework is a comprehensive base tax that is levied on company incomes based on the net result, with some anticipated fiscal adjustments, with these being considered as part of the reference tax structure. The different income exemptions that coexist in the system were identified as tax expenditures, by sector of activity or by economic dimension. All costs or necessary expenses may be deducted in order to obtain the income and keep the source of income, in particular, the financial costs, depreciation and gains or losses in the value of assets.

The Haig-Simons' definition of income is used as a reference for personal income tax, according to which, personal income in a given period of time is the sum of the market value of a person's consumption and the change in value of his/her assets, even if the latter remain in the subject's assets at the end of the period. Thus, remunerations for subordinate or independent work, pensions, royalties and copyrights, rents, interest and other financial yields, capital gains, dividends (and any other form of profit distribution), prizes, lotteries, inheritances and donations are included in the personal income tax base. Depending on the jurisdictional principle followed by the tax, foreign source income may also form part of the personal income tax base. In such a case, any credit granted in recognition of taxes paid abroad is only intended to eliminate or reduce "legal" double taxation.

For its part, Value Added Tax seeks to tax the final consumption of residents. It is levied on the sale and importation of goods, as well as services, in general. For this type of VAT, the relevant aspect is the final destination of the goods and not the residence of those involved in the transaction (i.e.it is levied on imports, but not on exports). Those taxed are all those who carry out transactions on the production-distribution chain of the economy. As it is a multi-phase tax, each taxpayer pays depending on the contribution that it makes to the final value of the good, and at the time of assessing the tax obligation, it facilitates the offsetting of the taxes paid on purchases subject to VAT.

The taxes included in the report are: personal income tax, corporate income tax, value added tax and Customs duties.

Table A17
Paraguay: most important tax expenditures, 2014
(Millions of guaraníes, percentages of GDP and percentages)

Concept	Millions of guaraníes		Percentages of GDP	
	2013	2014	2013	2014
Total	2 163 805.66	2 655 921.68	1.73	1.92
VAT credit for agro		381 347.79 (14.36)		0.28 (14.58)
VAT exemption on fuels	291 831.92 (13.49)	324 876.15 (12.23)	0.23 (13.29)	0.23 (11.98)
VAT exemption on education	230 539.89 (10.65)	256 644.00 (9.66)	0.18 (10.40)	0.19 (9.90)
Reduced VAT rate for consumer basket goods	173 857.50 (8.03)	194 098.82 (7.31)	0.14 (8.09)	0.14 (7.41)
Exemption on imported raw materials	129 194.02 (5.97)	154 768.75 (5.83)	0.10 (5.78)	0.11 (5.73)
VAT exemption for healthcare institutions	122 652.55 (5.67)	137 152.31 (5.16)	0.10 (5.78)	0.10 (5.21)
Incomes temporarily excluded from personal income tax	168 723.24 (7.80)	126 996.41 (4.78)	0.14 (8.09)	0.09 (4.69)
VAT exemption on cooperatives' interests	76 373.02 (3.53)	79 778.85 (3.00)	0.06 (3.47)	0.06 (3.13)
Reduced VAT rate on agricultural goods		77 897.41 (2.93)		0.06 (3.13)
Tariff exemption under national vehicle regime	62 348.86 (2.88)	62 805.89 (2.36)	0.05 (2.89)	0.05 (2.60)
Others	970 633.51 (44.86)	922 361.21 (34.73)	0.78 (45.09)	0.66 (34.41)

Source: Prepared by the author, on the basis of Deutsche Gesellschaft für Internationale Zusammenarbeit/Inter-American Center of Tax Administrations/Office of the Undersecretary of State for Taxation (GIZ/CIAT/SET), *Estimación de los gastos tributarios en la República del Paraguay 2013-2016*, Asunción, 2015.
Note: The quantities in brackets represent each concept as a proportion of the total tax expenditures for 2014.

Tax expenditures included in the comparative table of the main forgone revenues for Paraguay:

VAT on foods

- Reduced VAT rate for the sale of consumer basket goods[44] (0.15)

VAT on medical services and medicines

- VAT exemption for the sale of goods and services provided by healthcare institutions, social institutions, and so forth (0.10)
- VAT exemption for the sale of medicines (0.05)

VAT on educational services

- VAT exemption for catalogues of educational, cultural or scientific interest (0.00)
- VAT exemption for educational services provided by profit or non-profit private entities, recognized by the Ministry of Education and Science or by Law (0.19)
- VAT exemption for sales and imports for early childhood and pre-school educational entities, basic, middle, and technical school, tertiary institutions and universities, recognized by the Ministry of Education and Science or by Law (0.00)

Treatments for associations, foundations and cooperatives

- VAT exemption for services provided by non-profit sporting and cultural entities (0.05)
- VAT exemption on the sale of goods and services provided by associations, federations, foundations, mutual societies and other legal entities, provided that they are not-for-profit, and the incomes or profits are not distributed directly or indirectly among its associates or members, and they must only serve the purposes for which they were created (0.07)
- Income tax exemption for entities involved in social welfare, charity, charitable work, scientific, literary and artistic instruction, trade union activities, physical culture and sports, and cultural and/or religious dissemination, as well as associations, mutual societies, federations, foundations, corporations, legally recognized political parties. (0.00)
- Income tax exemption for cooperatives' incomes (0.03)
- Income tax exemption for non-profit entities in different sectors (0.01)

Treatments for fuels

- VAT exemption for petroleum fuels, including biofuels (0.25)

Treatments for economic zones

- The activities described in article 3 of this law that are carried out in Free Trade Zones and the results obtained by the Users shall be exempted from all national, departmental or municipal taxes, except for the tax regime contemplated in this Chapter, Single rate of 0.5% on the export value for taxpayers that sell to third countries. This rate shall be applied to the total gross income from sales to third countries. (0.01)

[44] Baked goods, meats, certain dairy products, vegetable oils, fats and margarines, certain infusions, among others.

Peru[45]

Income Tax is levied on income from capital, work and the combined application of both factors, these being understood to be incomes that come from a sustainable source that is likely to generate periodic revenue, including royalties, the proceeds from the sale of rural or urban lands, real estate and the proceeds from the sale, and exchange or habitual disposal of assets. It is also levied on capital gains, other income from third parties, established by the Income Tax Law, and fringe benefits, including entertainment allowances, established by the Income Tax Law. For the purposes of the Income Tax Law, any income from the disposal of capital assets, where capital assets are defined as those which are not intended to be traded in the course of a trade or business, constitutes a capital gain.

All taxable income obtained by taxpayers who, in accordance with the provisions of the Income Tax Law, are considered domiciled in the country, regardless of the nationality of the individuals, the place of incorporation of legal entities, or the location of the production source, is subject to income tax. In the case of taxpayers not domiciled in the country, branches, agencies or other permanent establishments of sole proprietorships, corporations and entities of any type incorporated abroad, the tax is levied only on taxable income from Peruvian sources.

The general sales tax is levied on the sale in the country of personal property, the provision or use of services in the country, construction contracts, the first sale of real estate made by the builders thereof and the importation of goods. A sale is understood to be any act whereby goods are transferred for consideration, regardless of the designation given to the contracts or negotiations that give rise to such a transfer and the conditions agreed upon by the parties, as well as the removal of goods by the owner, partner or owner of the company or the company itself, including those made as a discount or bonus, with the exception of those indicated by the General Sales Tax Law and the Selective Consumption Tax and their regulations.

The selective consumption tax is levied on sales in the country by producers and the importation of the goods specified in the General Sales Tax Law and the Selective Consumption Tax, sales in the country by the importer of the specified goods, and gambling and betting.

The taxes included in the report are: corporate income tax, personal income tax, general sales tax, selective consumption tax and ad valorem taxes.

Table A18
Peru: most important tax expenditures, 2019
(Millions of soles, percentages of GDP and percentages)

Concept	Millions of soles	Percentages of GDP
Total	17 240.15	2.13
General sales tax exemption on agricultural products	3 733.92 (21.66)	0.46 (21.60)
General sales tax exemption in the Amazon	2 288.44 (13.27)	0.28 (13.15)
Non-imposition of general sales tax on services for educational institutions	2 242.72 (13.01)	0.28 (13.15)
Non-imposition of personal income tax as compensation for length of service	1 281.06 (7.43)	0.16 (7.51)
Non-imposition of general sales tax on credit facilities provided by banks	838.58 (4.86)	0.10 (4.69)
Refund of tariff restriction benefit	827.26 (4.80)	0.10 (4.69)

[45] Source: https://www.sunat.gob.pe/legislacion/renta/tuo.html and https://www.sunat.gob.pe/legislacion/igv/ley/.

Concept	Millions of soles	Percentages of GDP
Non-imposition of general sales tax on life insurance policies	593.48 (3.44)	0.07 (3.29)
Deferral of corporate income tax- special depreciation for buildings and constructions	520.17 (3.02)	0.06 (2.82)
Non-imposition of general sales tax on gambling and betting	491.81 (2.85)	0.06 (2.82)
Exemption from general sales tax on public transport services	410.75 (2.38)	0.05 (2.35)
Others	4 011.98 (23.27)	0.51 (23.94)

Source: Prepared by the author, on the basis of National Tax and Customs Administration, "Informe No. 33-2018-SUNAT/1V3000", Lima, 2018 [online] https://www.mef.gob.pe/contenidos/tributos/doc/gastos_tributarios_SUNAT.pdf.
Note: The quantities in brackets represent each concept as a proportion of the total tax expenditures for 2019.

Tax expenditures included in the comparative table of the main forgone revenues for Peru:

VAT on foods

- Exemption from GST on agricultural products (0.46)

VAT on medical services and medicines

- Non-imposition of general sales tax on the importation of drugs for oncology, HIV and diabetes (0.01)

VAT on educational services

- Non-imposition of general sales tax on the importation and provision of services for public or private educational institutions (0.28)

Treatments for associations, foundations and cooperatives

- Na

Treatments for fuels

- Ad valorem tax exemption on activities related to the importation of hydrocarbons (0.00)
- General sales tax exemption on activities related to the importation of hydrocarbons (0.00)
- Refund of selective consumption tax on activities related to the domestic purchase of hydrocarbons (0.00)
- Refund of general sales tax on activities related to the domestic purchase of hydrocarbons (0.01)
- Personal income tax exemption on interests of credit unions (0.00)
- Corporate income tax exemption for affected foundations and non-profit associations (0.03)

Treatments for economic zones

- General sales tax exemption on the sale of fuels by petroleum companies to traders or final consumers located in the Amazon (0.02)
- Selective consumption tax exemption on the sale of fuels by petroleum companies to traders or final consumers located in the Amazon (0.03)
- General sales tax refund in the Amazon (0.01)
- Special tax credit of general sales tax in the Amazon (0.01)
- General sales tax exemption in the Amazon (0.28)
- General sales tax exemption on imports destined for the Amazon (0.03)

- Reduced corporate income tax rates (10%, 5%, 0%) in the Amazon (0.02)
- Corporate income tax exemption for companies that are established or stabilised in the Zona Franca Comercial de Tacna (ZOFRATACNA) and who carry out industrial, agro-industrial, maquila and service activities (0.00)
- Corporate income tax exemption on productive activities in the high Andes (0.00)
- Overlapping of differentiated corporate income tax rates between the agricultural sector rate and Amazon rates (0.00)
- Overlapping of general sales tax exemption for agricultural commodities between the General Sales Tax Law and the Law for the Promotion of Investment in the Amazon. (0.09)

Dominican Republic

Personal Income Tax is levied on all persons, national or foreign, who generate income from a Dominican source or financial profits from foreign incomes of residents in the country. A broad concept of income is used that covers all earnings or profits generated by an asset or activity, including increments on wealth and financial income. These benefits could be non-monetary. Income tax for salaried workers is based on the PAYE[46] method of withholdings and payments on account by the employer who releases them to make an annual sworn statement.

Corporate income tax is applied after making the deductions allowed on gross income. The deductions for assessing the taxable income include current expenses, as well as the payment of other taxes, fees and insurance premiums, as well as interests. It also includes deductions for capital depreciation, donations, research expenses, among others.

The tax on the transfer of industrialised goods and services (ITBIS) is a value added tax applied to the consumption of goods and services in general. This tax is effectively applied on the added value that each seller adds to the product, that is, it taxes the main destination, so it is considered a multiphase tax. At each level of sale, the amounts paid at the previous levels are deducted from the gross tax, as occurs at the time of importation for the purchase from a supplier or for receiving a service, among others. The only part of this tax that does not receive credit is final consumption.

Finally, selective consumption tax is the tax levied on the consumption of a certain group of goods, which may be imported or domestically produced. This type of tax seeks to tax the consumption of goods that have a negative externality and affect people's health, the life of animals and plants, morality or the environment.

The taxes included in the report are: corporate income tax, personal income tax, value added tax, tax on hydrocarbons, tax on imports, and tax on the use of goods and licenses.

Table A19
Dominican Republic: most important tax expenditures, 2021
(Millions of Dominican pesos, percentages of GDP and percentages)

Concept	Millions of Dominican pesos	Percentages of GDP
Total	217 487.2	4.44
ITBIS exemption on foods[a]	61 032.6 (28.06)	1.24 (27.93)
ITBIS exemption on health	23 060.1 (10.60)	0.47 (10.59)

[46] Pay as you earn (PAYE) which means a system of withholding applied to employees (wage earners).

Concept	Millions of Dominican pesos	Percentages of GDP
Corporate income tax exemption in the industrial free zone	19 063.7 (8.77)	0.39 (8.78)
ITBIS exemption on education	13 195.0 (6.07)	0.27 (6.08)
Exemption from tax on assets for corporate income tax credits	12 112.7 (5.57)	0.25 (5.63)
Exemption from selective consumption tax on fuels used in the electricity sector	11 596.4 (5.33)	0.24 (5.41)
ITBIS exemption for personal care services	8 650.8 (3.98)	0.18 (4.05)
Exemption from tax on real estate	8 263.5 (3.80)	0.17 (3.83)
Removal of incentives given for industrial free zone tariffs	5 869.6 (2.70)	0.12 (2.70)
Personal income tax exemption for Christmas salary	4 434.6 (2.04)	0.09 (2.03)
Others	50 208.20 (23.09)	1.02 (22.97)

Source: Prepared by the author, on the basis of Ministry of Finance of the Dominican Republic, *Gasto Tributario en República Dominicana: Estimación para el Presupuesto General del Estado del año 2021*, Santo Domingo, 2020
Note: The quantities in brackets represent each concept as a proportion of the total tax expenditures for 2021.
[a] This excludes yoghurt, sugar, coffee, chocolate, oil, butter and other edible oils.

Tax expenditures included in the comparative table of the main forgone revenues for the Dominican Republic

VAT on foods

- ITBIS exemption on foods (1.24)

VAT on medical services and medicines

- ITBIS exemption on health services (0.47)
- V AT on educational services
- ITBIS exemption on educational services (0.27)
- ITBIS exemption for institutions of higher education (0.00)

Treatments for associations, foundations and cooperatives

- Income tax exemption for private non-profit institutions (0.09)
- ITBIS exemption for private non-profit institutions (0.00)
- Exemption from tax on the transfer of non-profit private institutions' real estate (0.00)
- Exemption from tax on company formation and increase in share capital type of exempted companies (0.00)
- Exemption from ISC for non-profit institutions (0.00)
- Exemption from tariff tax to private non-profit institutions (0.00)

Treatments for fuels

- Exemptions from tax on hydrocarbons (0.33)

Treatments for economic zones

- Income tax exemption in the industrial free zone (0.39)
- Income tax exemption on border development (0.03)
- Asset tax exemption in the export processing zone (0.06)
- Asset tax exemption for border development (0.00)
- Tax exemption for real estate transfer in free zones (0.00)
- Tax exemption for real estate transfer for border development (0.00)
- Tax exemption for the registration of mortgages in the export processing zone (0.00)
- Exemption from tax on company formation and increase in share capital in free zones (0.00)
- Duty exemption for export processing zones (0.12)
- Duty exemption for border development (0.00)
- Exemption from tax on the use of goods in free zones (0.00)

Uruguay

Income tax on economic activities is levied on income from Uruguayan sources, understood to be income from activities carried out, assets located or rights used economically in Uruguay, regardless of the nationality, domicile or residence of those involved in the operations and the place where legal transactions are made. Taxable entities are companies with or without legal personality, permanent establishments of non-resident entities, autonomous entities and decentralized services forming part of the industrial and commercial sector of the State, closed-end credit investment funds, among others.

Personal income tax is levied on income from Uruguayan sources obtained by individuals. It includes investment income, capital gains, income from labour and certain income imputed to taxpayers. Taxable persons are individuals resident in Uruguayan territory.[47] This tax establishes that income is separated into two categories, defining a different form of liquidation for category I income (investment income and capital gains) and category II (labour income). In addition, some tax exceptions are not regarded as tax expenditures since they are understood to be part of the normal structure of the system, examples of this are the exemption for income from pension savings funds, and the reduction of personal income tax due to the deduction of social security contributions.

For Value Added Tax (VAT), the guideline is to tax all goods and services at a uniform rate. VAT in Uruguay is a general, multiphase tax, calculated on a financial basis in the debit-credit modality. It is levied on all transactions involving a service/contract and has an impact on final consumption due to its easy transferability. In the subjective aspect of VAT, it is not levied on taxpayers in general but on a taxable list. If an individual does not belong to any group of subjects included therein, they are not included in the scope of the tax. Regarding the spatial aspect of the tax, the Law establishes that the supply of goods and services within Uruguayan territory and the effective introduction of goods will be taxed, regardless of where the contract has been entered into and the domicile or nationality of the parties involved in such transactions. Regarding the temporal aspect, the Law establishes that the taxable event will be deemed to have taken place with the delivery or introduction of goods or the provision of services.

The taxes included in the report are: income tax on economic activities, personal income tax, value added tax (VAT), wealth tax, specific domestic tax, non-resident income tax and property transfer tax.

[47] Beginning in 2009, family units made up of residents have been included as taxpayers when they exercise the option to pay taxes jointly.

Table A20
Uruguay: most important tax expenditures, 2018–2019
(Millions of pesos, percentages of GDP and percentages)

Concept	Millions of pesos			Percentages of GDP[a]		
	2018	2019	2020	2018	2019	2020
Total	111 695.16	124 868.93	131 751.89	5.78	5.74	5.85
Exemption from wealth tax on assets that because of their features are included in some exemption	12 908.53 (11.56)	13 999.81 (11.21)	15 176.77 (11.52)	0.67 (11.56)	0.64 (11.21)	0.67 (11.52)
VAT exemption for health services provided to beneficiaries of the National Health Fund	10 588.47 (9.48)	11 390.32 (9.12)	12 155.90 (9.23)	0.55 (9.48)	0.52 (9.12)	0.54 (9.23)
VAT exemption for the sale of petroleum-based fuels	7 123.71 (6.38)	7 345.76 (5.88)	7 840.57 (5.95)	0.37 (6.38)	0.34 (5.88)	0.35 (5.95)
VAT exemption for educational services	4 510.60 (4.04)	5 018.33 (4.02)	5 355.63 (4.06)	0.23 (4.04)	0.23 (4.02)	0.24 (4.06)
Exemption from income tax on economic activities for free zones	4 458.88 (3.99)	4 194.72 (3.36)	4 452.65 (3.38)	0.23 (3.99)	0.19 (3.36)	0.20 (3.38)
Exemption from wealth tax for wealth located in free zones	3 690.07 (3.30)	4 162.34 (3.33)	4 512.27 (3.42)	0.19 (3.30)	0.19 (3.33)	0.20 (3.42)
VAT reduction for operations with debit cards (financial inclusion)	3 229.76 (2.89)	4 148.13 (3.32)	3 635.39 (2.76)	0.17 (2.89)	0.19 (3.32)	0.16 (2.76)
Reduced VAT rate for health services	3 841.17 (3.44)	4 130.60 (3.31)	4 408.24 (3.35)	0.20 (3.44)	0.19 (3.31)	0.20 (3.35)
Credit for income tax on economic activities for investment promotion	4 009.98 (3.59)	4 071.50 (3.26)	4 321.85 (3.28)	0.21 (3.59)	0.19 (3.26)	0.19 (3.28)
Reduced VAT rate for foods	3 792.42 (3.40)	3 918.90 (3.14)	4 182.31 (3.17)	0.20 (3.40)	0.18 (3.14)	0.19 (3.17)
Others	66 715.70 (47.94)	69 371.48 (50.04)	65 710.32 (49.87)	2.77 (47.94)	2.87 (50.04)	2.92 (49.87)

Source: Prepared by the author, on the basis of Tax Administration Department, *Estimación del Gasto Tributario en Uruguay 2017-2020*, Montevideo, 2021.
Note: The quantities in brackets represent each concept as a proportion of the total tax expenditures for 2019.
[a] An estimated GDP of 1,931.260 billion pesos was used for 2018, 2,174.316 billion pesos for 2019 and 2,253.124 billion pesos for 2020 according to ECLAC data.

Tax expenditures included in the comparative table of the main forgone revenues for Uruguay:

VAT on Foods

- VAT exemption for the sale of pasteurized, vitaminized, skimmed, powdered and flavoured milk. (0.06)
- Reduced VAT rate for foods[48] (0.18)
- Reduced VAT rate for the sale of poultry meat (0.02)

VAT on medical services and medicines

- Reduced VAT rate for health services (0.19)
- VAT exemption for health services provided to beneficiaries of the National Health Fund (0.52)
- VAT credit on the services of community healthcare institutions (0.07)
- Reduced VAT rate for medicine and pharmaceutical specialties (0.04)

[48] Includes bread, fish, meat and edible oils, rice, cereal flour and by-products of grain milling, pasta and noodles, household salt, sugar, yerba mate, coffee, tea, soap, edible fats.

VAT on educational services

- VAT exemption for educational and cultural institutions (0.23)

Treatments for associations, foundations and cooperatives

- Exemption from income tax on economic activities for income generated by production and consumption cooperatives (0.04)
- Exemption from income tax on economic activities for income generated by community healthcare institutions and by civic associations performing the same activities (0.00)
- Exemption from wealth tax for sanatoriums and community healthcare institutions (0.01)
- Exemption from wealth tax for cooperatives (0.01)

Treatments for fuels

- VAT exemption for the sale of petroleum-based fuels (0.34)
- VAT credit per litre of fuel (only naphtha) for taximeter cars (0.00)
- VAT refund included in the purchase of diesel oil for certain subsectors of the agricultural sector. (0.00)

Treatments for economic zones

- Exemption from income tax on economic activities for users of the free zones (0.19)
- Exemption from wealth tax for users of free trade zones (0.19)
- Specific domestic tax credit on the sale price of fuels sold at service stations located in some border towns (0.01)
- VAT exemption for operations carried out in free trade zones (0.00)
- Reduced personal income tax rate for subordinate personnel in free trade zones (0.04)

Annex 4
Glossary

Administrative facilities: Exceptions to the fulfilment of formal obligations that impact the integration of the tax base.

Credits: Amounts that are deducted from the payment of taxes or allow for a reduction in these taxes.

Deductions: Amounts that may be reduced or deducted from the tax base.

Deferrals: Delays in the payment of the tax.

Economic zone: Delimited geographic areas under special tax regulations.

Estimation methodology: With regard to the measurement of tax expenditures, three different approaches stand out: 1) revenue forgone; 2) revenue gain; and 3) outlay equivalent.

Exemptions: Amounts that are excluded from the value on which a tax is calculated (tax base).

Forgone revenue: According to the Organisation for Economic Co-operation and Development (OECD),[49] it refers to a transfer of public resources that is achieved by reducing tax obligations with respect to a reference framework or "benchmark", rather than by a direct public expenditure. For the Inter-American Center of Tax Administrations (CIAT),[50] they are defined as resources forgone by the State, by the existence

[49] See Kraan, (2004).
[50] See CIAT (2011).

of incentives or benefits that reduce the direct or indirect tax burden of certain taxpayers in relation to a reference tax system, in order to meet certain economic or social policy objectives.

Free Trade Zone: Delimited geographic areas that are meant to promote and develop the process for the industrialisation of goods and the provision of services intended primarily for external markets.

Outlay equivalent: It measures the cost of providing the same monetary benefit granted by the preferential tax treatment through a direct public expenditure.

Reduced rates: Rate that is lower than the general rate applicable to certain transactions or subjects.

Reference framework: "Normal" tax structure or point of comparison (benchmark) based on which tax expenditures are identified and measured. In general, this "normal" structure comprises those measures that form a fundamental part of its nature, such as the object, subject, base, rate or tariff, the regime applicable to overseas residents, among others. This structure may follow a legal or theoretical conceptual framework.

Revenue forgone: The estimation approach that measures the revenue lost because of the application of preferential treatment through a partial equilibrium exercise, assuming that taxpayers would not change their behaviour if the tax benefit did not exist.

Revenue gain: It quantifies the revenue earnings that would be gleaned by the removal of preferential treatment, for which reason any assumption about the change in behaviour of beneficiaries is considered.

Sustainable Development Goals (SDGs): Set of 17 goals geared toward economic, social and environmental sustainability, which comprise policy guidelines for the 193 Member States of the United Nations who approved the 2030 Agenda for Sustainable Development.

Tax benefits: These are preferential tax treatments, such as deductions, exemptions, credits and deferrals, among others, included in the tax code and other tax regulations, which mean a reduction in the tax liability of a taxpayer. These benefits are usually based on reasons of public interest (including support for strategic economic sectors), equity and social justice.

Tax incentive: Special tax provision that is granted to companies or investment projects that fulfil specific requirements and by virtue of which, a favourable deviation is allowed regarding the stipulations of the general tax code. They are usually designed to promote a change in the behaviour of economic agents.

The tax system is one of the main instruments used by the State to finance the provision of public goods and services. In the tax system, there are preferential treatments that seek to promote economic activity or support certain sectors. The public revenues forgone by these preferential treatments are known as tax expenditures.

The volume of tax expenditures in Latin America is considerable. On average, they were equivalent to 3.8% of GDP and accounted for 20.6% of tax revenues in 2020. Given the need to promote a transformative recovery and finance the implementation of the Sustainable Development Goals, methodologies for quantifying tax expenditures in order to assess their efficiency, effectiveness and equity must be improved.

This paper analyses reports on tax expenditures in countries of the region in order to provide a guide for estimating their costs. Based on the best practices identified in these reports, it proposes a set of elements to be taken into account for estimating, analysing and reporting on tax expenditures, with emphasis on the features of the most complete reports.

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