Working Papers

ISSN 2219-780X

3
OCTOBER 2017

Tax policy: What to tax, how to tax, what objectives should be sought by the tax system?

CIAT

Tax Studies & Research Directorate

Tax policy: What to tax, how to tax, what objectives should be sought by the tax system?

TAX POLICY: WHAT TO TAX, HOW TO TAX, WHAT OBJECTIVES SHOULD BE SOUGHT BY THE TAX SYSTEM?

Santiago Díaz de Sarralde Miguez
CIAT Tax Studies and Research Director

OVERVIEW

This working paper[1] provides a framework for reflection, not a final answer, to the questions raised in its title, based on a synthetic panorama of taxation in Latin America and the Caribbean within the global environment, its level, structure, effects, shortcomings and heterogeneity.

These characteristics are then considered into the relationship scheme that configures in each society its "tax model": the defining and changing characteristics of the Economy; the decisions regarding Public expenditure; the internal and international interdependencies with other tax jurisdictions; the practical configuration of the regulations, their control and social acceptance; and, in greater detail, the relations between the various manifestations of economic capacity (income from capital and labor; consumption and savings; accumulation and transfer of wealth; intermediation of corporations and legal entities) and their specific taxation.

Finally, the most recent options to address the challenges facing tax systems will be reviewed: the last theoretical contributions to the definition of the overall structure of the tax system (Mirrlees report and antecedents; the "standard" model; the role of fiscal rules); The configuration of international taxation (BEPS; DBCFT; Common Consolidated Corporate Tax Base -CCCTB- in the EU; E-commerce and collaborative economics; tax amnesties; exit-tax); the alternatives for taxation of sources and uses of income (personalization of VAT; green taxation; taxes on "junk food"; taxation of "robots"; wealth taxation; integration of income and assets taxation); and challenges and options in the field of sub-national financing.

1 A previous version of this work was presented at the 51° CIAT General Assembly "Advances of the Tax Administrations towards greater Taxpayer Equity" Asunción, Paraguay, 24 to 27 April, 2017.

CONTENT

1. A brief overview of taxation in Latin America and the Caribbean (LAC) ____ 6

2. Taxation: Purposes, means and objectives ____ 8

   2.1. Economy and public spending ____ 9

   2.2. The tax bases and their relationships ____ 13

   2.3. The "other" tax systems and the practical control of tax obligations ____ 24

3. Alternatives ____ 26

   3.1. The overall structure of the tax system ____ 26

   3.2. Configuration of the international taxation ____ 29

   3.3. Alternatives of taxation by sources and uses of income ____ 33

   3.4. Sub-national Financing ____ 36

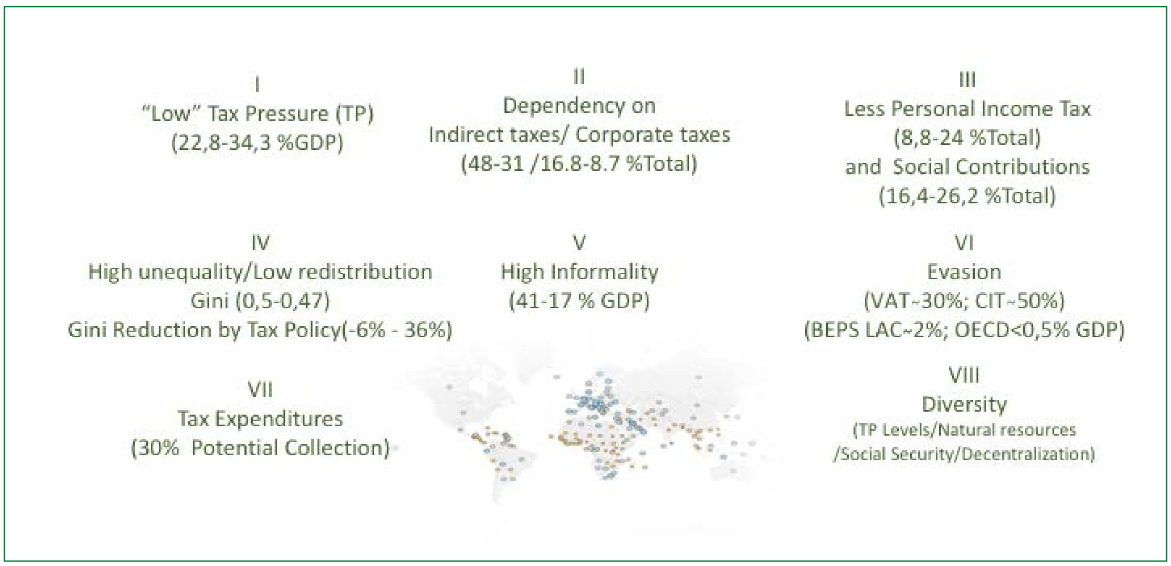
4. Final comments ____ 38

5. References ____ 39

1. A BRIEF OVERVIEW OF TAXATION IN LATIN AMERICA AND THE CARIBBEAN (LAC)

We rely every day on ever-improving sources of data and analysis regarding the reality of tax systems in Latin America and the Caribbean, thanks to the efforts of countries and institutions such as ECLAC, IDB, OECD, IMF, UN and CIAT, among others, and, with only small differences in measurement, we can agree on some basic features of taxation in the region as synthesized in table 1, comparing LAC to the OECD average.

Table 1. LAC-OECD Tax Panorama



Sources: OECD, CIAT, IDB, ECLAC (2017) for collection figures; Pecho and al (2012), Gómez Baini and Morán (2016), Cobham and Jansky (2017) for evasion; Gómez Sabaini and Morán (2013) for informality; Hanni, Martner and Podesta (2015) for the redistributive capacity of the tax policy; [2] CIAT (2014) for tax expenditure.

2 At IDB, OECD (2016), page 27, a similar result is achieved in comparison with the EU: "Although inequality before direct taxation, social contributions and direct transfers are not very different between the two groups, with these tax instruments, the LAC region barely manages to reduce it by 5% (a decrease in the Gini index of 0.53 to 0.50). By comparison, EU countries reduce inequality by more than 40% (a decrease in the Gini coefficient from 0.50 to 0.29). "

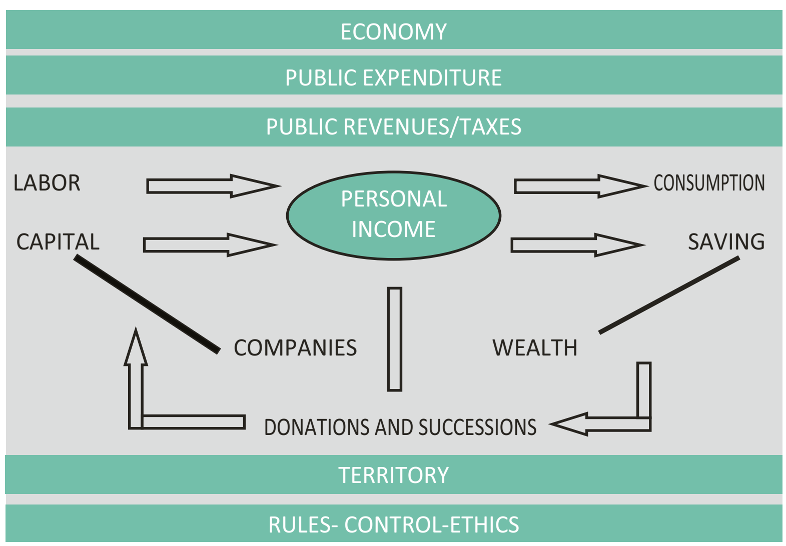
1. Relatively low Tax Pressure: 22.8% of GDP, eleven and a half points less than OECD -2015-. We must highlight that this is the lowest distance registered and that there are great differences between countries.
2. Greater dependency on indirect taxation (almost fifty percent of total-31.8% VAT, 16.1% selective-, compared to one-third on average in OECD -20.7% VAT, 9.6% selective-; however, we must point out that this distance has been reduced through time) and on taxation of corporate income (16.8% of the total, 8.7% in the OECD).
3. Less participation of taxation on personal income (8.8% of the total, 24% in the OECD) and social contributions (16.4% vs. 26.2%)
4. High inequality in income distribution and poor redistributive capacity of fiscal policy (in OECD the inequality-Gini index of 0.47-is reduced by 36%; in ALC 6%-starting from a Gini index of 0.5-).
5. High informality (41% vs. 17% in OECD).
6. High evasion, especially in corporate income tax. High impact of base erosion and profit shifting to avoid taxation.
7. High tax expenditures (around 30% of the potential revenue).
8. Diversity of national experiences: in taxation levels (ranging from 12.4% in Guatemala and 13.7% in the Dominican Republic to 32.0% in Brazil, 32.1% in Argentina and 38.6% in Cuba); dependency on income from natural resources (recent negative impact from commodity prices); financing regimes and social security benefits; fiscal decentralization to sub-national governments.

Despite the broad consensus on these basic traits, we should not be surprised at the diversity of interpretations in terms of their ultimate causes, relative goodness of each country's situation and possible venues of reform and improvement. Almost all the economics handbooks ask three basic questions to which the discipline should be able to respond: What to produce, how and for whom? Choice of objectives, efficient means and fair results. And this scheme of reasoning applies also to the design of the taxes, the "prices" of the collective action and the coexistence.

2. TAXATION: PURPOSES, MEANS AND OBJECTIVES

These questions lead us to consider what the "tax model" is, or what it should be. A complex issue, as this model is, at the same time, a reflection of the collective objectives in terms of the configuration of an economy and a consequence of its own structure, with causality flows in both directions. And, from this point of view, when we talk about "an economy" it is necessary to understand it in a broad sense, with connotations that would bring us closer to the concept of society than to the simple representation of the relations of production and consumption between "economic agents". What role should the collective action organized through the state have? What configuration and level of public spending is desired and what are the consequences on the private activity? What structure should the tax system have to finance these policies and what are their effects on the economy? How should it be spatially configured, given the different competencies in this matter in and out of the country and what limitations does this factor introduce? How is administered the system and what is its degree of acceptance by the citizenry? How are taxed the different sources and uses of income?

Table 2. What to tax, how and for what

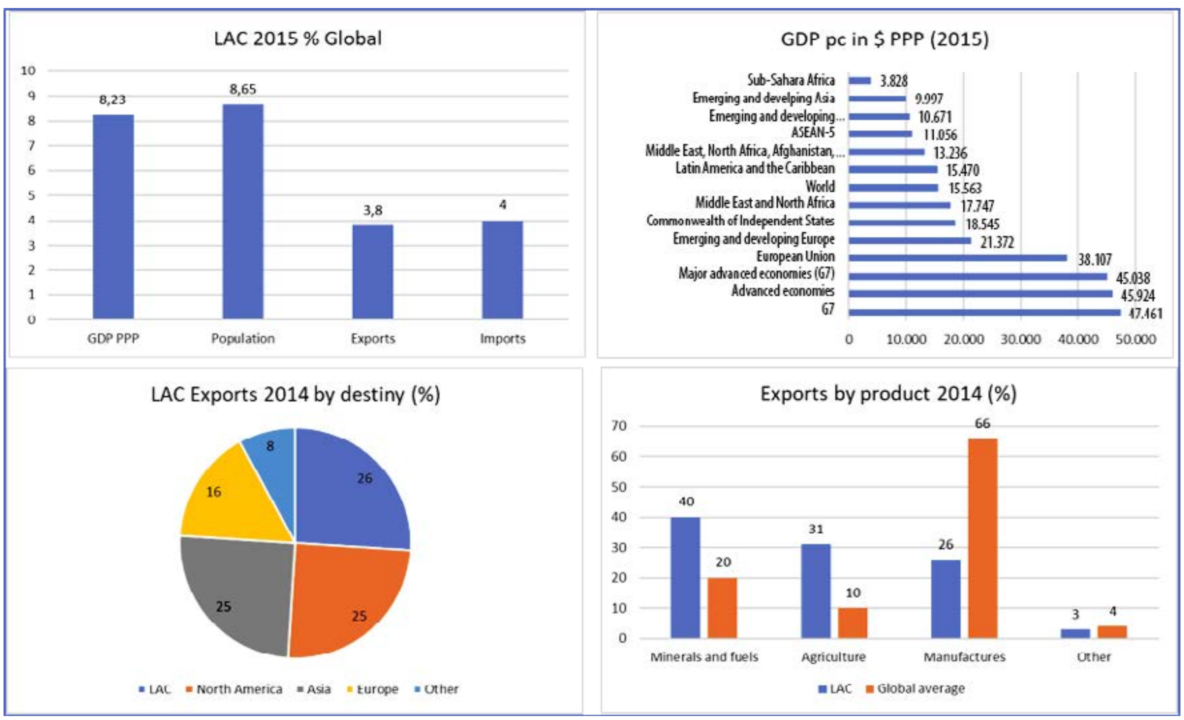


Source: Own elaboration

2.1. Economy and public spending

The first conditioning factor of the fiscal system is the economic system on which it is based. As for the structure and characteristics of the LAC economies, as a whole they represents around 8% of world GDP (in purchasing power parity), a percentage similar to their participation in total population, having dropped 4 points since 1980, although it should be taken into account that during this period, the G7 countries have passed from 50 to 30% , declines in relative terms that are mainly explained by the growth of the emerging and developing Asian countries in this period, which have gone from 10% to 30%. In terms of average income (per capita GDP) the region is around fifteen thousand dollars, with a distance that has been widening with respect to the more developed countries (three times less than the G7 average in 2015; In 1980 2.5 times less), although most of their economies fall within the category of “middle-income countries.”

Table 3. Economy in LAC



Source: own elaboration, from data of the World Trade Organization (WTO International Trade Statistics) and the International Monetary Fund (World Economic Outlook database)

In commercial terms, the region accounts for 3.8% of merchandise exports and 4% of imports, with a decreasing role since the middle of the last century. As for the destination, 75% of exports are distributed almost equally between North America, Asia and the region itself, while Europe represents 16%, highlighting the low percentage of interregional trade, much lower than the European, North American and even African. By products, the most characteristic trait is the high weight of agricultural products, 31%, and fuels and minerals, 40%, compared to the low share of manufactured goods, 26% (the world average is 10, 20 and 66%, respectively). To these characteristics, we must add the aforementioned high inequality, not corrected by the tax policy, the high informality and, as always, the wide heterogeneity among the countries of the region. In 2015 and 2016 the region as a whole has undergone a recession, owing to problems in major South American economies, the brake on trade and global growth, and the evolution of international prices of their major exports, a recession expected to be overcome in 2017.

While this synthesis is incomplete, it is useful to highlight the potential impact of the structural factors of the region's economy when it comes to determining the level, structure and evolution of its tax revenues.

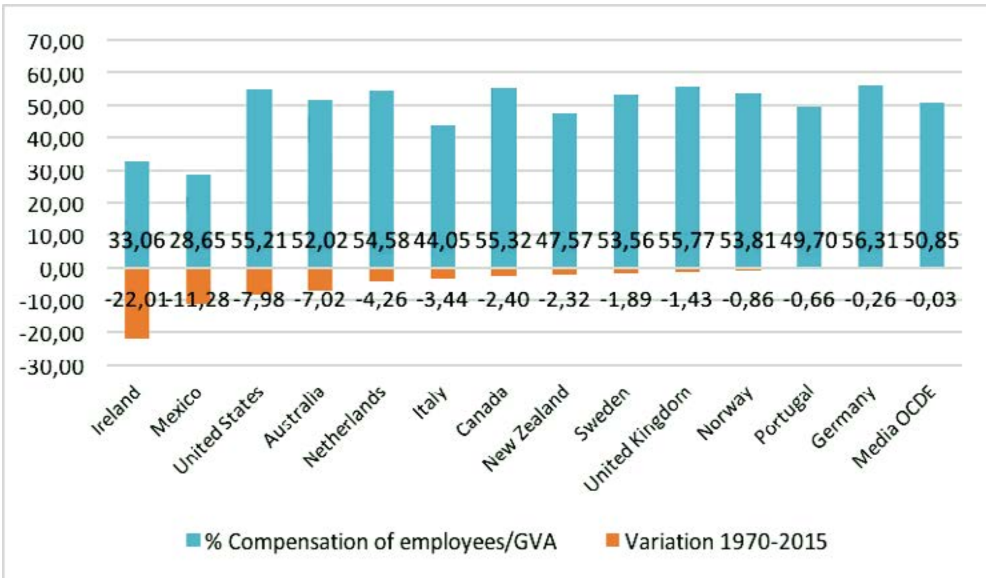
At the same time, we must take into account as a part of a globalized economy the international trends and their impact on the fiscal system: the role of multinational enterprises and their possible diversion of taxable profits[3]; the technological innovations and their effects on the labor market [4]; The same transformation of the labor market in terms of job stability, changes

3 "The Organization for Economic Co-operation and Development (OECD) estimates that tax administrations worldwide are losing between $100 billion and $240 billion per year, which amounts to between 4% and 10% of the income tax on legal entities." The estimates of the United Nations Conference on Trade and Development (UNCTAD), based on another methodology, point to a similar outcome, but reveal that losses in developing countries could be much larger in absolute and relative terms. "The estimated tax losses of the region as a result of the manipulation of foreign trade prices around $31 billion in 2013 (0.5 points of GDP). This result corresponds to between 10% and 15% of the actual income tax collection of legal entities in that year. It is worth mentioning that, at the country level, the potential losses are scattered and the oversizing of the illicit outputs estimated in countries such as Costa Rica (mainly for integrated circuits and electronic microstructures) and Mexico (for their high integration in value chains in different sectors) is highlighted. See "Evasion from international operations of multinational companies and high net worth individuals", page 125 of ECLAC (2016). Other estimates, Cobham and Jansky (2017), increase even the amount of losses and provide disaggregated data at the country level: 500-650 trillion dollars (2013), in relative terms the loss would be greater in low-and middle-income countries and, by regions, sub-Saharan Africa, LAC and South Asia; Argentina would lose between 21 and 24 trillion – only surpassed in absolute value by the US, Japan, China and India – which would amount to 4-5% of its GDP, the eighth largest economy in the world that would lost the most in relative terms.

4 Just as an example: A 2013 study published by the University of Oxford (Frey and Osborne (2013)) concludes that 47% of U.S. jobs are at risk; The publication of 2016, "the Future of Jobs" of the World Economic Forum, anticipates net losses of more than 5 million jobs to 2020 in the countries analyzed; In a recent issue of one of the journals of the International Monetary Fund itself (Finance & Development, September 2016) we can find articles warning of the risks and "dark sides" of the development of intelligent technology.

and structural differences in the weight of wages in the national income in the region and in each country[5] and the conversion of part of the labor income into mixed or corporate income, encouraged by a different treatment of one or other legal figures in the tax systems[6]; recent protectionist trends and, in particular, the possible orientations of US policy in this regard[7]; the challenges of the digital economy, e-commerce and the so-called "collaborative economy"; and the ageing of the population, particularly in the most developed countries; etc.

Chart 1. OECD: Participation of wages in GVA and variation



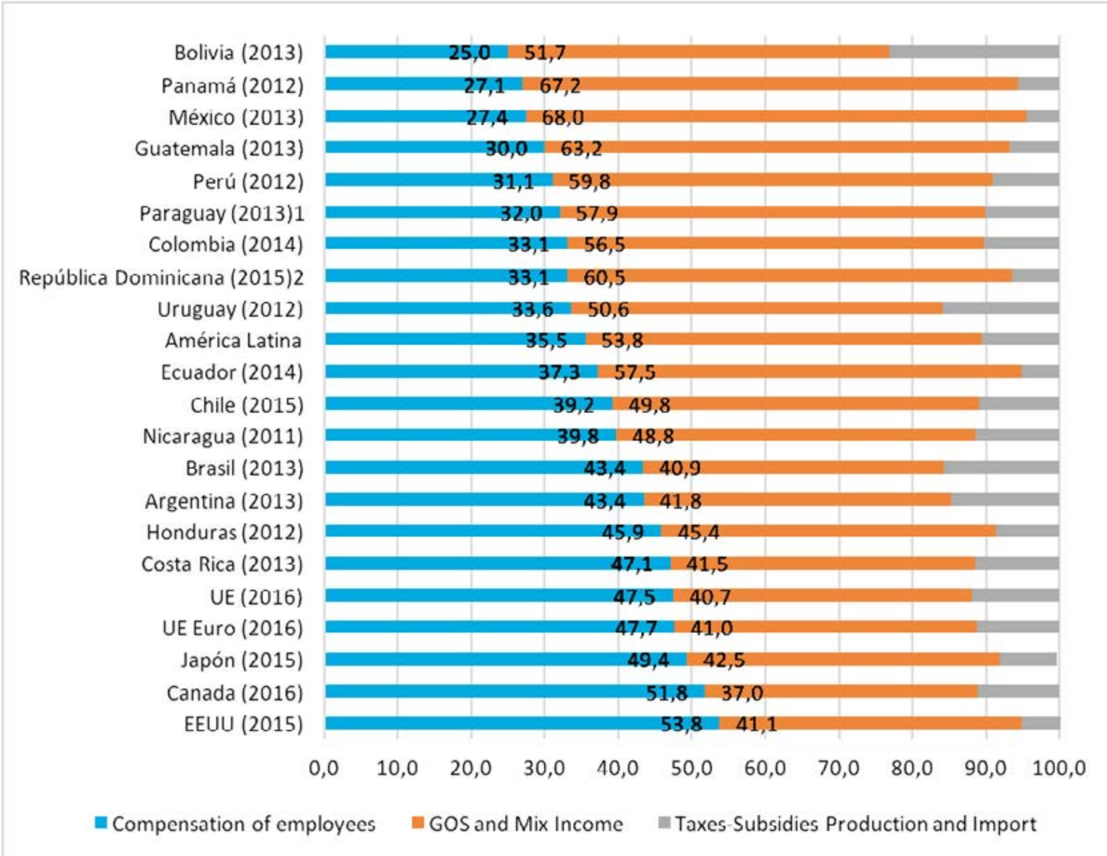
Source: OCDEStat. Selection of countries with a decrease in the participation of wages in Gross Added Value (GAV) in the period 1970-2015.

5 Between 1990 and 2009, the share of wages decreased in 26 of the 30 OECD-countries (OECD, 2012). Chart 1 provides data from OECD countries that recorded a decline in the broader period of 1970-2015. Graph 2 shows the unequal distribution of GDP by sources of income. Of average in the selected countries of Latin America the remuneration of wage earners accounts for 35.5% of the GDP, compared to 47.5% in the European Union and to 53.8% in the USA. These differences in the economic structure logically condition the levy capacity of the direct taxes, raising the corresponding to the tax on the income of companies and reducing the ones of the Personal income tax or the social contributions.

6 For example, for Brazil, Trengrouse and Afonso (2017) analyze the issue of "Transfiguration of work into capital" and conclude that Brazil, with one of the world's highest tax burdens on wage incomes, promotes the transformation of workers into self-employed workers or companies. In another 2014 study, Afonso already pointed out that both the "rich" and the very "rich" are ceasing to own their assets as "individuals" to declare them as "companies" or "corporations." On the other hand, the analysis of personal income tax records shows that higher revenue and tax rates are generally paid by employees without the ability to transform their work activity into a self-employed activity (especially public employees). In Spain, the declared wage income (and therefore its taxation) is also much higher than those of self-employed professionals or entrepreneurs. In 2015 average Labor revenues amount to 20,159 euros per year, compared to 9,179 of economic activity yields, less than half. With respect to the declared total income base, the yields of the work account for more than 80% of the total (source: Statistics of income tax deponents, Tax agency of Spain).

7 One aspect on which we will return when analyzing the proposals of BTA (Border Tax Adjustment) and DBCFT (Destination Base Cash Flow taxation).

Chart 2. GDP by source of revenue



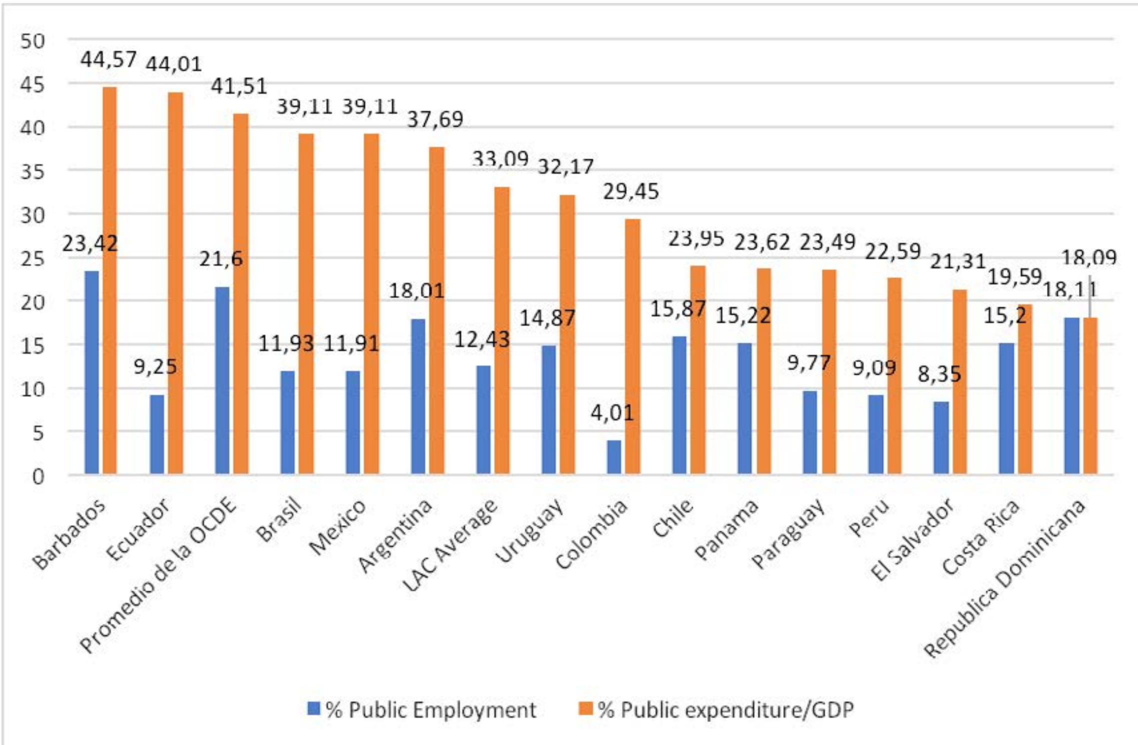
Sources: National Accounts Statistics: Main Aggregates and detailed tables 2015, Department of Economic and Social Affairs, Statistics Division, United Nations, New York, 2016. (1) Central Bank of Paraguay. (2) Central Bank of the Dominican Republic.
Note: GOS (gross operating surplus)

On the other hand, the tax system has a subordinated role and, to some extent, passive in relation to democratic decisions regarding the level and structure of public expenditure. [8] Should the public benefits be universal or focus on the most needy citizens only? Are these benefits better provided in kind- health, education-or through monetary transfers? Should we resort to public "production" of benefits or is it better to use the public "provision", reserving the final practical phase to the market? How do we organize and fund pensions, health care,

8 As also stated on page 32 of OECD, CIAT, IDB, ECLAC (2017): "The degree of state involvement in social security financing is another important factor in explaining the levels of tax collection in the LAC region." From 1980 onwards, many LAC countries privatized their health, welfare and social security systems to a greater or lesser extent. Chile, El Salvador and Mexico are examples of countries that have migrated their pension schemes to individual account programs administered by the private sector. In Colombia and Peru, public and private systems compete and employees can determine their affiliation to one or the other. On the other hand, Argentina, Brazil and Uruguay follow a model in which public and private systems are complementary. Reforms have been carried out in these three countries to expand coverage of social security systems and include those excluded. This has also been an important factor in the increase in tax collection".

education, or unemployment insurance? Does it make sense to think of a universal basic income? Should redistribution be fundamentally instrumented on the expenditure side or should it be supported by the progressiveness of the tax system? The response that we give to these issues will be reflected in the tax system, as in the opposite way, their design and strength condition the capacity to implement these policies.[9]

Chart 3. Public spending and employment (2014)



Source: 2016 Panorama of public administrations in Latin America and the Caribbean. IDB and OECD.

2.2. The tax bases and their relationships

Once considered the general economic framework and the desired configuration in terms of public expenditure, the analysis and design of the public revenue implies, in addition, the consideration of the relations between multiple elements: the sources of income (capital and/

9 As shown in Graph 3, public spending in the region is eight points below the OECD average, while public employment is nine points below. Moreover, "in LAC countries, social spending is only 15% of GDP;" 60% lower than the OECD average. An analysis of the composition of social spending in Latin America and the Caribbean indicates that spending on education accounts for an average of 4.6% of GDP (5.3% in the OECD) and spending on health, 4% of GDP (6.2% in the OECD), albeit with considerable differences between the various countries in the region. Regarding contributory pensions, average spending is 3.8% of GDP; Less than half of the OECD average, and with respect to direct transfers, just 1.7% of GDP, slightly more than one-third of the OECD average (Lustig et al., 2013 and Lustig, 2016) "IDB-OECD (2016), page 32.

or labor); its uses (consumption, savings); the accumulation of revenues and their transfer (wealth, inheritance, donations); and the different formal mechanisms of organization of economic activity (societies, self-employment, employee).

Within this scheme, **direct taxation and, in particular, the one that falls on the personal income** plays a central role in the design of the tax systems, to the extent that such income traditionally constitutes the most complete indicator of the ability to pay for individuals, which is essential in terms of equity[10], and that it is one of the main determinants factors of the most relevant economic decisions: labor offer, savings, consumption and investment.

For this reason, the design of the personal income tax is at the heart of the reflection on the optimal taxation and the so-called "Fundamental Tax Reform", as a nominative grouping of various theories that advocate a radical transformation of the tax systems in order to correct the multiple failures observed as a result of their configuration in a difficult balance between the theoretical guides provided by the taxation principles and practical demands of economic reality , which has resulted in the existence of a multiplicity of tax figures, the duplication of taxes on the different manifestations of the capacity to pay and the complexity of the tax system.

In a very simplified way, we could identify two major lines of reform. On the one hand, "Comprehensive Taxation", which focuses its attention on eliminating the exceptions to the generalized taxation of income sources and the tax incentives that erode the bases, distort the economic activity, introduce inequities and complicate taxation, allowing the reduction of tax rates without losing revenue.

On the other, "Expenditure Taxation" which, along with the foregoing, poses a radical change in the tax base of the personal taxation, transferring it to the -personal- spending and exempting the revenues derived from savings, incentivizing investment. Since income, consumption, job offer and savings decisions vary throughout life, adapting to the needs and capacities of each age, the optimal design of the taxes and the study of their effects must take into account this fact if we intend to be efficient and fair, from the point of view of the complete life cycle of the individuals, and not merely in isolated moments, adopting a life-cycle perspective. Considering its value throughout the life cycle, the only difference between the income of an individual and its consumption would be donations and inheritances, consumption being also more stable than income throughout the life. Thus considered, saving would have no more role than to

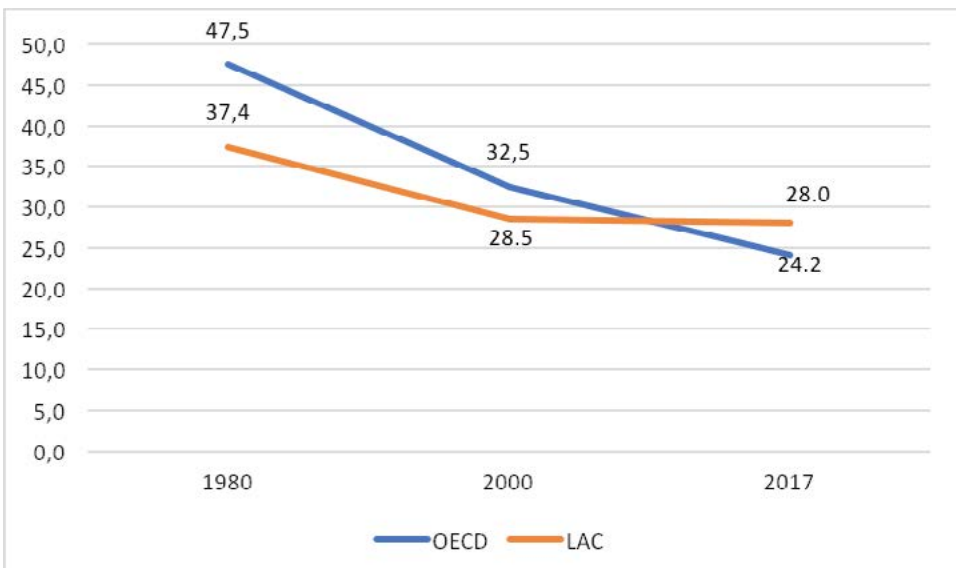
10 Compared to consumption or wealth, which would provide complementary, indirect and incomplete indicators of wealth, without implying that they cannot play a relevant role in making a global system design. As we will see, this viewpoint has been questioned from a theoretical point of view with the proposal for the assessment of personal expenditure.

accumulate resources to soften the consumption patterns throughout the cycle, flattening the logical alterations in income levels, so it should be avoided to distort, through taxation, the decisions of the individual between its present and future consumption. This reasoning would lead to the theoretical superiority of consumption as the basis for personal taxation, along with the complementary taxation of wealth transfers taking a much more relevant role, and it would be at the base of the different proposals for a taxation on personal spending.

As a transversal element to the different formalizations of the previous proposals, we have the proposals for establishing a single tax rate ("Flat tax") in order to simplify the tax and reduce the costs that formal progressivity can introduce in terms of efficiency.

Although it cannot be said that such theoretical models of reform have been applied in a pure and integrated way in the tax reforms observed in the real world, they have conditioned their general characteristics and, above all, their motivations. On the one hand, a tendency to decrease the maximum marginal rates can be observed, both in the corporate income tax [11] and in the personal income tax, accompanied in the latter case of a flattening of the rates by means of the reduction of the number of brackets, arriving, in the extreme end, to single rate models[12].

Chart 4. Corporate tax rates



Sources: CIATData and OECD Tax Database.

11 Although much less pronounced in LAC than in the OECD average in recent years.
12 Such as, for example, Bolivia in LAC, Latvia, Estonia, Hungary or the Czech Republic, within the OECD; Hong Kong, Russia, Serbia, Ukraine, Iraq, Georgia, Mongolia or Iceland.

Table 4. Wage Taxation Rates

	Wage Taxation Rates			Corporate Rate
	Minimum rate	Maximum Rate	Brackets (not zero)	Maximum General rate
Argentina	5	35	9	35,0
Bolivia	13	13	1	25,0
Brazil	7,5	27,5	4	34,0
Chile	4	35	6	24,0
Colombia	19	33	3	40,0
Costa Rica	10	15	2	30,0
Ecuador	5	35	8	22,0
El Salvador	10	30	3	30,0
Guatemala	5	7	2	25,0
Honduras	15	25	3	30,0
Mexico	1,92	35	11	30,0
Nicaragua	15	30	4	30,0
Panama	15	25	2	25,0
Paraguay	8	10	2	10,0
Peru	8	30	5	28,0
Dominican Rep.	15	25	3	27,0
Uruguay	10	30	6	25.0
Venezuela	6	34	8	34.0
AVERAGE LA	**9.6**	**26.4**	**4.6**	**28.0**
OECD AVERAGE	**13.8**	**35.5**	**4.7**	**24.18**

Source: CIATData and International Bureau of Fiscal documentation (IBFD)-2017-; OECD Tax Database-2016 for salaries; 2017 in societies-

NOTES: In all cases, wage taxation includes a non-taxed minimum instrumented in different ways. This threshold is higher, in terms of per capita GDP in Latin America (1.4 times) than in developed countries (0.3 times in Western Europe), justified by the lower level of income and the need to leave tax-free the necessary income for survival; it is however more difficult to justify that the application of the maximum rate is delayed much more in LA (7 times the GDP pc; compared to 4 average in developed countries), see ECLAC (2017), page 77.
In this table, the OECD data includes only the central government's personal income taxes, however, it should be taken into account that up to thirteen countries introduce decentralized, local or state charges that raise marginal rates.

On the other hand, capital incomes- interest, dividends, capital gains- are those that have received a more clearly favorable tax treatment (reduced rates; exemptions; "Dual" or "semi-dual" models) in relation to the labor income[13]. With regard to this last point, their special treatment would be justified- in addition to the objective of not distorting the savings and investment decisions- because of the greater elasticity of their offer thanks to the mobility

13 These kinds of regimes, more or less explicit, are now more the rule than the exception. See BID (2012), pages 188 and below.

in their location, in order to minimize the so-called "excess of burden", which is the basis of the "Theory of Optimal Taxation".[14]

Despite all of the foregoing, the taxation of capital incomes is essential from the point of view of equity, efficiency [15], minimization of tax avoidance and, perhaps more importantly, the social perception of the tax system as a fair construction in the distribution of charges, without which the sustainability of a democratic state is more difficult. Moreover, we cannot ignore that this source of income is more concentrated on taxpayers with high levels of revenue and, generally, with greater capacity for political influence in determining the tax policy.

The taxation of corporate income, when it is carried out under a corporate legal form, could play a secondary role, and even superfluous, in a developed tax system that would allow the full taxation of all the sources of income of individuals, in the sense that they are the ultimate recipients of the capacity of payment generated in the companies.

However, practical reality is very different. On the one hand, the taxation of the capital income of individuals is limited by different factors (the privileged tax treatments, the difficulty of evaluating the returns that are not made effective by means of a transfer of revenue to the owners, the administrative complexity of controlling the personal incomes-more numerous and disaggregated than corporate revenues-, the geographical situation of the owners in other foreign tax jurisdictions, etc.). On the other hand, in practice the design of the tax systems has been oriented to use the corporate taxation for regulatory purposes[16], introducing incentives and disincentives for different activities, according to the general planning of the economic activity.

14 From a technical perspective, their taxation is also complex, to the extent that it requires taking into account the inflationary component of yields, valuing values adequately, having adequate administrative records, correcting the excess of progressivity in the event that their generation period exceeds the year and the tax progressive, take into account both losses and earnings, correct double taxation if they come from previously taxed economic , etc.
Moreover, fiscal legislation should also prevent incomes from being treated differently depending on whether they are manifested periodically or in cycles higher than the tax period, usually annual. Which affects in particular the treatment of the capital yields with respect to the patrimonial variations, since these, even if they are an income of the capital equivalent to dividends or interests, are not taxed as they are generated, but only when they are received, resulting in less effective taxation, favoring, arbitrarily, investment vehicles over others and encouraging the blocking of the investment (lock-in).

15 Despite the theoretical arguments, the elasticity of capital is not absolute and the taxation of labor also incorporates efficiency costs. In addition, it would be worth considering its efficient use to control the explosive dynamics associated with the creation of stock, real estate and financial bubbles in general.

16 Particularly the attraction of investments.

In short, the taxes on the corporate income have ended up having a very relevant role as a means of withholding the capital income of individuals[17], mechanism of contribution to the redistributive capacity of the tax system[18], and regulatory instrument[19].

With these premises, the main difficulties for the optimal theoretical design of corporate taxation are focused on the proper calculation of taxable profit in order not to distort the exercise of economic activity. In general, the starting point is the accounting profit, on which the necessary tax adjustments are made to prevent its manipulation to reduce the tax payment[20]. However, some elements are hardly quantifiable, and in particular the cost of equity is generally not considered deductible, which is considered to introduce unwanted bias in favor of external financing[21].

In addition, it is necessary to take into account the risks of manipulation associated with the operations between related entities, both at an international and national level. To prevent it specific rules are proposed for the correction of transfer pricing and preventive rules for thin-capitalization[22]. In this respect, the European case deserves special attention given the project for the creation of a common consolidated corporate tax base (CCCTB) for corporate groups, with advantages -in terms of market unit and limitation of the problems associated with transfer pricing- and its practical difficulties -the homogenization of the tax bases and, above all, the distribution rules for the bases between jurisdictions (assets, sales, personnel costs, etc.)-.

Also the existence of special regimes hinders the design and analysis of the tax, in particular as they affects the small business activities and the granting of specific tax benefits by industry or localization. In this regard, it would be preferable to focus the incentives by activity and not by size of the company, giving up the use of reduced rates and simplifying to the maximum the tax to reduce the compliance costs, especially burdensome for small businesses.

17 In general, with some method of correction of double taxation, in case it occurs.

18 Although their final incidence is a controversial issue.

19 In addition, corporate taxation is justified because of the particular advantage that its legal regime of limited liability confers.

20 Accounting is an exercise with a wide range of options, even without considering the fiscal consequences, between the application of the principle of "faithful image" and that of "evaluative precaution". This affects multiple items such as provisions, depreciation, dividend distribution, stock valuation, etc.

21 Given the deductible nature of interest. In the face of this problem, there are several theoretical solutions which, however, have not been implemented in general, given their technical difficulties and their collection risk (an exclusive cash-flow taxation; accelerated amortization of investments, without discounting interests; the introduction of a allowance for corporate equity (ACE); etc. See, for example, Mirrlees Report (2011) and the alternative named Destination Based Cash Flow Taxation -DBCFT-).

22 As we will see later, the OECD's BEPS initiative has given impulse to the implementation of these anti-avoidance procedures.

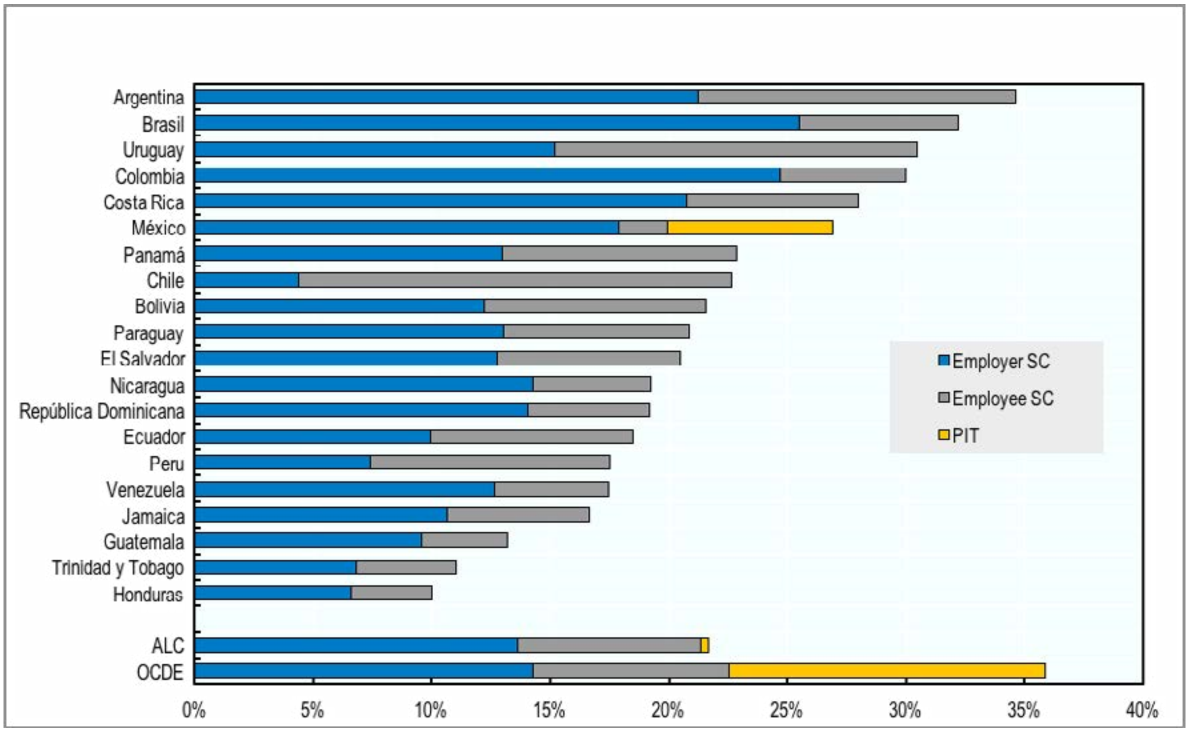
In addition, it should be taken into account that the practical difficulties in calculating and controlling the taxable profit have encouraged the creation of "heterodox" taxes by means of profits approximations, limitations of deductible expenses and introduction of "minimum" levies based on sales figures or volume of assets[23]. Taxes that, in the case of gross company income, are also used as a source of funding for local governments, despite the fact that theoretical considerations regarding its efficiency and ease of administration would discourage its use.

At this point, even briefly, it is necessary to refer to **social security contributions**, which are located in a limbo difficult to handle in terms of their consideration or not as tax revenue despite their inclusion -and relevant weight- in the concept of fiscal pressure. On the one hand, their administration and budgetary allocation -which is usually done separately from the rest of the taxes- and their connection -more or less directly- with the benefits they finance, distinguish them. However, from an economic standpoint it is difficult to separate their effects, by affecting in a coercive way the labor income and the business costs linked to it. The reflections on their reform should therefore be incorporated into the proposed framework. [24]

23 "For example, in Argentina it applies on the value of the gross assets, which, in the case of mobility of capital, constitutes a substitute for the income of the companies, while Costa Rica has opted to tax the fixed assets of the companies." The equity or net assets are widely used as taxable base of these taxes in Colombia, Ecuador, Panama and Uruguay, although with different levels of aliquots. In Guatemala the solidarity tax is applied, which is taxed at a rate of 1% of 25% of the net asset or the gross income, depending on which one is higher. It is worth noting that in Mexico, a levy called single rate business tax (IETU: Impuesto Especial a Tasa Única) was in force from 2008 until its abrogation in October of 2013, which consisted of a uniform aliquot (17.5%) on the net cash flow of the remuneration to the factors of production. ECLAC (2017) "consensus and conflicts in Latin America's Tax Policy", page 397. The limitation of expenditure is applied in Guatemala and Panama (where it is taxed on the largest of two quantities: the one paid in normal form or taxable net income resulting from deducting the total taxable income of the taxpayer, 95.33%, or in other words the taxable income resulting from applying a rate of 4.67 to the total taxable income)

24 As shown in Figure 5, in Latin America the weight of social security contributions is essential to analyzing the tax wedge on salaries and is at relative levels very similar to those in developed countries, while the imposition on personal income is irrelevant in the region and this is the big difference from the OECD average.

Chart 5. Tax wedge for personal income and social contributions 2013

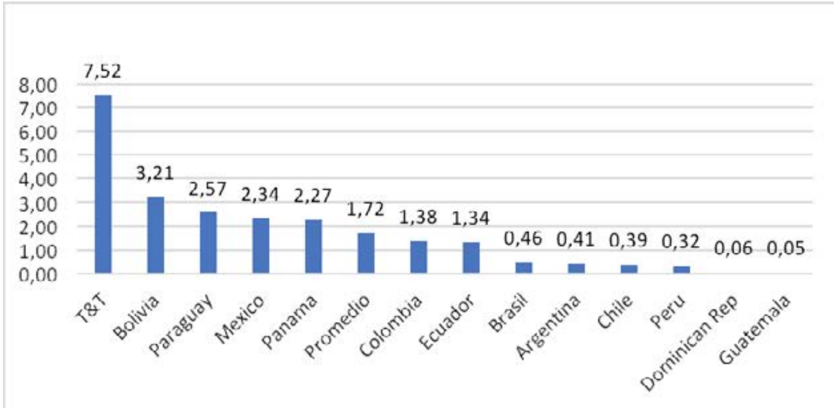


Source: Taxing Wages OECD, CIAT, IDB (2016)
Note: Fiscal wedge measured as a percentage of labor costs for a childless and average-wage single worker.

In addition, **the public revenues derived from the exploitation of natural resources or infrastructure** complicate the analysis of public incomes and, although, again, their budget categorization does not include them in the tax section, responding to the organizational options of each state, their joint consideration improves the analysis of the sustainability, efficiency and equity of the public policy financing mechanisms[25].

25 For all these reasons, CIAT's and IDB's statistical efforts were combined to build a new basis of tax revenue statistics under a new methodology that, in addition to the usual tax revenues, includes compulsory contributions to private health and pension systems and income from natural resources (royalties and other extraordinary levies on extractive companies of publicly owned resources) , under the concept of Equivalent Fiscal pressure.

Chart 6. Income from Natural Resources and Infrastructure (% GDP; 2015)



Source: CIATData (CIAT-IDB collection database). Includes income for these categories not classified as taxes.

Neutrality and coordination between the various items of direct taxation. An essential aspect, which does not always receive sufficient attention, would be to preserve fiscal neutrality in the choice of the various legal options -employee; self-employed; corpotarion- for the performance of the activity and the perception of the yields. To this end, the applicable rates should be modulated, so that there is homogeneity between the taxation of salaries, self-employed persons and companies. This modulation must satisfy the following identity: (1- Capital Tax Rate) x (1- Corporate Tax Rate) = (1- Labor Tax Rate). Thus the tax structure would not alter the decision between collecting income as corporate income, working as self-employed or receiving a salary, because the net income tax would be the same in all cases.

This would be the result sought by the linear taxation systems (Flat-tax) in which the tax rates of personal income and corporations -with total correction of double taxation- are aligned, while at the cost of reducing progressivity, revenue and redistributive capacity. Dual models, excluding capital income from the base taxed at a progressive rate and subjecting it to lower tax rates, close to the corporate taxation, would also aim to mitigate this problem, with a lower cost than the structure of linear taxation previously commented, preserving progressivity for the rest of the revenues. However, this structure is unfair from the point of view of equal treatment of income sources and promotes tax avoidance through formal conversion of income from labor into capital incomes. An alternative solution could, as recommended by the Mirrlees report, sought to establish a single tax schedule for labor, capital and economic activities in the personal income tax and modulate the rates applicable to capital incomes to the extent that they have been previously taxed by the corporate tax, thereby eliminating double taxation.

The taxation on wealth and property is perhaps one of the areas most discussed within direct taxation, with very diverse positions according to the tax figure under consideration and, in some cases, technical and ideological considerations.

The taxation on transfers of wealth-donations and legacies-has a greater theoretical and practical support, being present in most of the tax systems, although with a reduced collection importance. Their defense is based on their role as a system closure element, without which the "uncashed" capital gains would not be taxed at any time, and as a factor in promoting equal opportunities within a reality of increasing concentration in the wealth distribution[26]. However, the technical, economic and social difficulties for the application of this tax can be very relevant in cases such as the transmission of an active business (whose taxation could jeopardize the viability) or savings that would have effectively been charged with the income tax, so their taxation could be considered unfair and inefficient. All this causes that material and personal exemptions are created, in the end undermining the initial purpose.

On the other hand, the taxes on the net wealth are the most reviled, both for technical reasons (the difficulty of homogeneous valuation of the assets) as economic (considering an additional taxation of the saved income, with negative consequences on the investment, competitiveness and growth)[27].

However, their defenders claim on their role in tax control, income redistribution and the taxation of capital gains that escape from taxation on personal income. Currently, the tax structure of personal income tax excludes, in general, revenues and capital gains channeled through various financial instruments until the time of their liquidation, circumstance that is often postponed indefinitely. This way, the declared income would not really reflect the economic capacity of the subjects, both for the privileged treatment of the incomes and capital gains as for the existence of special regimes for some economic activities, not only in the payment of taxes but also in the access to services that require income verification through the PIT (scholarships, nurseries, co-payments, housing, etc.). In these circumstances, the assets would constitute a fundamental indicator of the capacity of payment which, if not

26 In theory, this taxation should be global — and if possible throughout the life time — of all wealth transfers (donations and inheritances) received by taxable individuals, although it is admitted that this measure would have a high administrative complexity.

27 It is only in force in 6 of the 35 OECD members (Spain, France, Italy, Luxembourg, Norway and Switzerland;) although it would be necessary to add Holland, which indirectly taxes it as related to the personal income tax), and at the LAC level, in 4 of 24 (Argentina, Colombia, Uruguay and Guyana), in any case its revenue contribution-except in Switzerland-is very limited, Benítez and Velayos (2017).

observed and taken into account by other means, could be taxed separately with a specific tax or integrated with the taxation on the personal income[28].

Finally, property taxes (mostly real estate and motor vehicles) are often defended for their role as indirect indices of the ability to pay (something in fact little defensible if the personal income tax and/or wealth were functioning correctly) and, especially in the case of real estate, as an appropriate basis -given their immobility- for the taxation by local entities.

In this whole scheme, **taxes on consumption and, fundamentally, value-added taxes** present, in comparison with the other pillars available to achieve the collecting sufficiency, known advantages in terms of neutrality, efficiency and management, and certain drawbacks, especially in terms of fairness and compliance costs. In addition, the most common solutions to these inconveniences (differentiation of types and exemptions; simplified regimes for small entrepreneurs) are counter-productive and of dubious efficiency. The justification of taxation on consumption is based on its collection capacity and, obviously, it is a double taxation of the income sources that have previously supported the taxation on income. However, their success is indisputable and since the idea of the value-added tax arose in the first half of the twentieth century, it spread progressively throughout the world: France in 1954, almost ten countries at the end of the sixties, forty-eight in the late 1980s ... and more than 160 countries today, with the almost only notable exception of the US.

Selective taxation on specific consumptions presents different characteristics. It has served as a substitute for tariffs in the context of negotiating international trade agreements, as a disincentive to the consumption of potentially harmful goods to health (tobacco, alcohol and, more recently, "junk" food or sweetened beverages) and corrective of negative external effects (fuels; pollution). In this last role, its analysis is linked with what is known as green taxation and its potential "double dividend" by contributing to reduce pollution and replace, at least in part, the revenues obtained through more distorting taxes.

28 This is the existing model in the Netherlands, where a portion of the basis of the personal income tax is determined by attributing a return of 4% to the average annual value of the subject's equity property, which is taxed at a fixed rate of 30%, which is equivalent to a 1.2% tax on the value of net capital. Only the capital susceptible to saving and investment is considered, therefore, housing and owned company do not enter the estimated base (their yields are taxed in other sections of the income tax). For example, deposits, second and other houses, stocks, etc. would enter. Are exempt: private means of transport, some incentive for investments (environment, art if not investment, investments in start-ups with limits, etc.). In addition, there is a minimum general exempt of 21,139 euros, increased for taxpayers of more than 65 and taxpayers with dependent children.

2.3. The “other” tax systems and the practical control of tax obligations

Finally, and without entering into many details, two other dimensions are fundamental to determine the best way to design the fiscal system: the coexistence of a central national tax system with other international and sub-national tax competencies; and the practical embodiment of the tax system in norms, the administrative capacity to manage and enforce them, and their social acceptance.

The internal decentralization of the tax policy[29], giving competence to local, regional, provincial or state governments -within a federation- is a cornerstone in the framework of the theories of tax federalism. The first recommendation in this area is that the competences in the scope of revenue should continue and correspond to those granted in the expenditure side[30], so that the proximity in the provision of services to the citizen with a margin of autonomy is linked to the responsibility in their financing and can be democratically valued by the voters.

29 “The percentage of total tax revenues collected by sub-national governments is less than 8%, with the exception of Argentina, Brazil and Colombia, for the 15 LAC countries for which data is available in 2014. In Brazil, states and municipalities collect more than 30% of all tax revenues, indicating a high degree of tax decentralization in favor of sub-national governments. A large part of the VAT (ICMS – Imposto on operações related to transit of goods and interstate and intermunicipal Transport and of Comunication services) is collected at the state government level. The collection of sub-national governments in Argentina and Colombia accounts for more than 15% of the total national collection. Argentina has a substantial collection at the provincial level, which is explained in large part by the gross income tax (...). Taxes that are most often allocated to sub-national governments are property taxes, motor vehicles, and taxes on specific services and municipal fees (...). Brazil and Mexico are the only two countries that use tax bases different from those described above. In 2014, 5% of the subnational income in Brazil and 41% of the subnational collection in Mexico proceeded from income taxes and payroll taxes. In OECD member countries, sub-national entities tend to have taxes whose bases are much broader. A significant proportion of the collection of sub-national governments in OECD countries originated in income and utility taxes (accounted for more than one-third of the total average collection at the sub-national level). OECD, CIAT, IDB, ECLAC (2017), pages 71 and 72.

30 “In 2014, central governments of LAC collected an average of 44.2% of total income, followed by state governments (18.1%) and local governments (12.2%), while the remainder was collected through social security funds. For the same year, on average, 55.5% of public administration expenditure in LAC was managed by the central government, while state governments, local governments and social security funds contributed 23.8%, 16.4% and 4.3% of expenditure, respectively. A common trend in many LAC countries is that sub-national governments are highly dependent on central government transfers as their primary source of income. IDB, OECD (2016), page 62.

Table 5. Fiscal decentralization guides and options

Figure 1. Tax Decentralization Guidelines	
1.	Tax assignment should follow expenditure responsibilities
2.	The benefit principle
3.	Evenly distributed tax bases
4.	Immobile tax bases
5.	Visibility of tax choices
6.	Efficient tax administration
7.	Fiscal responsibility at the margin
8.	Stability, predictability, sustainability
9.	Global approach: taxes-transfers-borrowing
10.	Hard budget constraint

Figure 2. Tax Decentralization Menu
TRADITIONAL CANDIDATES • Service-related taxes: rates, special taxes, public prices, license fees • Property taxes (ownership/ transmission/ increase in value) • Motor vehicle taxes
OTHER OPTIONS OF WIDE TAX BASE • Consumption: • Business encumbrance: • Personal income encumbrance

Source: Own elaboration

Despite its conceptual clarity, the concretion of this ambitious principle for organizing public activity faces numerous practical difficulties that we must attempt to overcome using the guidelines available for fiscal decentralization and the catalogue of options available in the international experience.

As regards the challenges that **international taxation** imposes on the configuration of the tax system, there is no need to emphasize much of its relevance, especially given the available data regarding its potential effect on tax evasion and the current uncertainty regarding the evolution of trade policies.

To conclude this section, we must briefly discuss the last resource for the support of a tax system: **the legal transcription of tax provisions, the administration and control of tax obligations and their connections with public Ethics in this matter.** These issues, more related to the tax administration, would need a much broader space.[31] However, their importance must be stressed in the overall framework of the tax policy design.

31 See, inter alia, CIAT-IDB (2012), CIAT (2016) regarding the state and characteristics of the tax administrations and CIAT (2015) in relation to cooperative relations initiatives.

Complex rules, with frequent changes, lack of tax certainty, complexity, and high compliance costs can ruin any theoretical design even if it seems perfect on paper. Tax administrations have improved -especially in methods of massive control- but they continue to find difficulties in international and more sophisticated tax fraud. Factors such as the special treatment of capital by comparison to labor -although it may be justified on grounds of "efficiency"-, amnesties or fiscal regularizations -even though they may be profitable and consistent ex post-, cutbacks and shortfalls in public benefits –despite being backed by the need for budgetary stability– inefficiency and corruption deteriorate tax ethics and the citizen's support for the system.

The tax administration must keep improving its performance. Exercising their role in accordance with the laws in force, but also being prepared to enforce laws that may be approved in the future. A future discussed in the last heading of this work.

3. ALTERNATIVES

All features above mentioned, the relations between the economy, the society and the tax system, impose challenges on the sustainability of tax revenues that will have to be addressed when deciding what to tax, how, and for what. But what other options do we have to make these decisions? This last section collects some of the most recent alternatives proposed, with a summarized panorama and a catalog of references for further analysis.

3.1. The overall structure of the tax system

Among the latest theoretical contributions to the definition of the overall structure of the fiscal system, the **Mirrlees Review** (2011) plays a fundamental role. Following the tradition of past reports -such as the Meade Report (1978) on direct taxation- the Institute for Fiscal Studies (IFS) of the United Kingdom invited more than sixty of the most reputable economists in the field to elaborate an ideal model, but feasible to implement, for the global reform of the tax system. After four years of work and under the leadership of the Nobel Prize for Economics, James Mirrlees, the results were published, and constitute a current reference in this area.

The approach adopted by the report is clear: a vision of taxes as a system, not in isolation, seeking coordinated and stable solutions to finance the public spending; fulfilling the redistributive objectives by minimizing conflicts with efficiency; and seek neutrality as a reference, in general, to assess the system. In other words: equity, efficiency and coordinated vision, considering the level of expenditure and the scope of redistribution as targets externally determined in accordance with citizens' preferences.

Table 6: The Mirrlees Review

LABOR	CAPITAL	BUSINESS
Homogeneous taxation of all income sources, with deduction of expenses associated to the generation of revenues. Progressivity basis and redistributive capacity of the tax system. Specific exemptions.		
Broad base. Exempted minimum and simple structure of marginal rates (2 or 3). Rationalization of effective marginal rates and limitation-elimination of deductions decreasing according to the income level.		
Consideration of the family unit: impossibility of simultaneous objectives of progressivity and neutrality. The most adequate is individual taxation of income and joint consideration thereof for access to social benefits. In any case, danger of disincentives.		
Consider and diminish disincentives on taxpayers with greater elasticity in the labor offer: salaries in extremes of distribution; women with small children; over 55 years of age.	Neutrality in consumption-savings decisions and between different assets Exemption of "normal profitability" of savings (approximated by public debt within medium term), through a reduction in the base (RRA) combined with the exemption of assets without risk (deposits, ISAs) Rest of income from savings taxed at the general rate Correction of double taxation in dividends and capital gains (with compensation of losses) modulating the rate Special system for savings in pensions with exemption up to payment (EET)	Neutral taxation of income from salaries, autonomous, small and large businesses and capital Focus tax benefits by activity, not by dimension; not reduced rates Simplification to reduce compliance costs Integral compensation for losses Income tax exemption of autonomous of "normal profitability" of assets and taxation at the general rate (including social contributions equivalent to those of the worker) Rendering equal the rates applicable to labor and to benefits distributed
Integration of taxes and social benefits: - Integrate in the rate the taxation of income from salaries with social contributions (employee – mainly – and employer) - Simplify the system of social benefits and tax deductions	Global taxation of all wealth transfers (donations and inheritance) Administrative complexity: second-best (no taxation or limitation of RRA) Taxation of the "dead's surplus" Taxation of housing according to savings guidelines	Application to corporate taxation of an Allowance for Corporate Equity (ACE), without increasing the nominal rate Compensation of collection loss with taxation of bases less mobile than capital (labor; consumption).

Source: Own elaboration

Table 6 summarizes some of its main recommendations: to maintain a homogeneous but simple taxation of all sources of income on a single basis with correction of double taxation, to integrate as much as possible the social benefits and social contributions, to promote neutrality in terms of personal savings (through the exemption of "normal profitability") and business savings (through a deduction for self-financing), and use the taxation on assets transfers as a closing element of the system. In short, faced with more radical options proposed in the past (such as the substitution of personal income taxation with the taxation of consumption at that same level), the report opts for an intermediate path and, in principle, with fewer practical drawbacks, albeit without deviating from orthodoxy in terms of the conception of efficiency in tax matters. Both the report itself and its adaptation for Spain[32] are available on the internet and are recommended to ponder and learn in greater detail the many relevant contributions contained in this work.

On the other hand, the model that we could currently consider as "**standard**" regarding the configuration of the tax system and sponsored by the main international institutions proposes: to broaden the tax bases -eliminating tax expenditures-; to reduce the rates, particularly on corporate income and higher marginal rates on personal income; promoting homogeneous indirect taxation -without VAT rates differentiation by products-; to reinforce the taxation of residential real estate properties; and introduce incentives to savings- in general through lower capital taxation- and investment in Research and Development- as an exception to the disappearance of tax incentives- . All this, sometimes accompanied by a reduction in the non-wage labor costs factor -the social contributions paid by employers, essentially- would constitute what has been called "growth-friendly tax policy". [33]

Finally, while it is not specifically a proposal for a reform of the tax system, it is necessary to tackle in this section the consolidation of the trend to implement "**Tax Rules**" in order to preserve the budgetary stability, to the extent that these rules, if effective, clearly condition the response, at least in the short and medium term, that can be given to the issues raised in this work[34].

32 Viñuela (coord.) (2014)
33 See, for example, OECD (2010), or IMF (2015)
34 See, for example, Alberoa et al (2017).

3.2. Configuration of the international taxation

The OECD's **BEPS** (Base Erosion and Profit shifting) [35] initiative is now the basic framework for fighting fraud and international tax avoidance within a cooperative approach. It identifies the main paths of evasion (transfer pricing, hybrid mechanisms, treaty abuse, manipulation of financing costs, etc.) and proposes alternatives to mitigate their most damaging effects. Its practical application, however, is not without problems, because of the definition of its objectives, the development of paths to solutions and the commitments it requires from the participating countries.

Table 7: BEPS Actions

• **Action 1**	Addressing the tax challenges of the digital economy
• **Action 2**	Neutralizing the effects of hybrid mismatch arrangements
• **Action 3**	Designing effective Controlled Foreign Companies (CFC) rules
• **Action 4**	Limiting base erosion involving interest deductions and other financial payments
• **Action 5**	Countering harmful tax practices more effectively, taking into account transparency and substance
• **Action 6**	Preventing treaty abuse
• **Action 7**	Prevent the artificial avoidance of permanent establishment status (PE)
• **Actions 8-10**	10 Ensuring that transfer pricing outcomes are in line with value creation
• Action **11**	Measuring and monitoring BEPS
• **Action 12**	Requesting from taxpayers the disclosure of aggressive tax planning schemes
• **Action 13**	Reexamining transfer pricing documentation
• **Action 14**	Making dispute resolution mechanisms more effective
• **Action 15**	Develop a multilateral instrument that may modify the bilateral tax treaties

Against this option, a proposal called the Destination Based Cash-Flow Taxation (DBCFT) [36] has recently been propelled the public scene, which, in addition to an academic construction, constitutes a relevant element of the program that the current executive of the USA presented to the elections. In a very brief way (and therefore necessarily incomplete), the proposed alternative is based on two elements.

35 http://www.oecd.org/tax/beps/
36 Auerbach et al (2017)

On the one hand, the calculation of the tax base would be the cash flow, understood as the difference between payments and charges for non-financial (real-world) activities. Interests would not be considered, neither the charged nor the paid, and the purchase of fixed assets would be deductible entirely at the time of payment.

On the other hand, a "border tax adjustment" would take place, consisting in that foreign payments and imports in general would not be deductible, while export earnings would be exempt.

This way, it is intended to curb the erosion of the taxable bases and the shifting of benefits to low taxation territories (abuse in the payment of interest destined to other jurisdictions, offshoring of patents to displace taxation, transfer pricing) while eliminating the complexity of traditional corporate income taxes in the treatment of asset depreciation, the "inefficiency" in the treatment of the different sources of financing of the business activity (deductible interest versus non-deductible dividends, although the existence of this problem actually depends on the mechanisms of integration with the taxation of the personal income) and the displacement of the production of national companies to other territories.

Table 8. Destination Based Cash-Flow Taxation

ACTUAL CASH FLOW BASE		
COLLECTIONS	LESS	PAYMENTS
NO	INTEREST	NO
	ACQUISITION OF ASSETS	YES
TAX ADJUSTMENT AT BORDER		
	IMPORTS	NO
NO	EXPORTS	

Source: Own elaboration

Faced with these potential advantages, it should be taken into account that this tax would replace the current corporate income tax, thus its effects would be theoretically equivalent to giving an export subsidy in a percentage equal to the rate of such tax while introducing an extra levy on non-deductible imports (a generalized "tariff" -on all products and provenances-, in the same percentage). Trade agreements would be severely affected and, in principle, this could unleash "trade wars." In addition, in its theoretical configuration-and accompanied by a reduction in the taxation of salaries-, it would be tantamount to a tax on the value added at a single rate, taxing the consumption "at destination"[37]. That is, it would cease to have the characteristics of a direct income tax to happen to acquire those of a consumption tax, with the consequent distributive consequences. On the other hand, the proposals do not usually specify what would be the relationship with the personal income tax, which would be essential to determine most of its effects on equity and efficiency. On the other hand, by not taxing the profits in classical terms, it could be left out of the scope of the current provisions of the conventions to avoid double international taxation, distorting investment and localization decisions. Finally, the transition from one model to another would cause important management issues (what to do with investments in already realized gains; how to deal with financing decisions prior to its entry into force? etc.) and of economic nature (what would be its effect on the companies currently dependent on imports for well-founded economic reasons?; how would the price increase of imports affect the domestic prices?; how would the exchange rates react?; etc.) [38], without being able to anticipate how the different countries would react (is the proposal equally interesting for all of them?; how to deal with the exports of natural resources, should they be exempt from taxation in the country of origin?; what would happen to the countries dependent on tourism, in which domestic prices are essential to the operation of their payments balance by being an equivalent to their exports?; etc.).

Although the possibilities for this proposal to become a law seem reduced at the time of writing this work, it is essential to analyze, discuss and reflect on its possible consequences, since there is no doubt that they would be overwhelming.

An option- totally contrary to the previous one in its orientation and content - to avoid the main problems arising from international taxation is the proposal of introduction of a **Common Consolidated Corporate Tax Base** (CCCTB) in the EU[39], already mentioned in the previous section. This proposal, with a theoretical background in the Ruding report (1992), seeks to

37 However, it should not be confused with the operation of VAT currently in force in the vast majority of countries except the US, neutral in relation to international trade (external or domestic producers face the same rates of taxation of their sales).

38 On this particular it is very interesting to consult the study of Nicholson and Noonan (2014).

39 See https://ec.europa.eu/taxation_customs/business/company-tax/common-consolidated-corporate-tax-base-ccctb_en

solve the obvious problems faced by highly integrated economies with freedom of trade and capital flows in preserving their fiscal autonomy. However, its practical application in the EU has repeatedly clashed with the Member States ‘ mistrusts (and veto capacity in fiscal matters), reason why the last draft proposal relax the ambitions, opting to be limited to the coordination of the legal definition of the bases at European level, leaving their consolidation and their joint taxation for later stages.

In front of these reform proposals for the future, what is already a reality is the extension of **electronic commerce and other forms of the digital economy** as the so-called "collaborative economy"[40]. All this has introduced transcendental changes in the business models, it is no longer easy to identify the simple duality buyer-seller, and we must take into account the notion of the "affiliates" and the sales platforms. The offshoring of activities for tax purposes is much simpler, there are clear difficulties of identifying the tax payer and, even, there are conceptual and census problems to define them. In this situation, the EU has recently introduced changes in e-commerce taxation[41], generalizing the principle of destination, eliminating the minimum thresholds for the taxation of shipments and simplifying, in parallel, the administrative obligations of the companies (through the so-called "one-stop-shops"). On the other hand, the tax administrations begin to use the most advanced technological instruments to identify the transactions and the subjects involved, tracing the web and adding and analyzing the results, acting in some way like the private companies in their commercial exploitation of the so-called "big Data".

Finally, we can include at least one short reference to two relevant complementary elements in this section. First, the use of "**tax amnesties**" as part of the tax policy after episodes of capital evasions, which continues to be a practice, too frequent in my opinion. As discussed above, these measures can be fully justified after the crises and even be profitable, however, in the long term they may be a perverse incentive for the future tax avoiders, they weaken the tax morale of the honest taxpayers and are a symptom of structural weaknesses in the functioning of a society and an economy.[42] Secondly, and somehow in the opposite way, there is the phenomenon of the "exit-tax" introduced in numerous legislations and which are intended to tax the latent capital gains not taxed in a jurisdiction before their possible transfer to another country by the taxable subject.[43] This tax item is relatively new and has caused controversy,

40 See González (2017).

41 See "Digital Single Market-Modernizing VAT for cross border e-Commerce", available at: https://ec.europa.eu/taxation_customs/business/vat/digital-single-market-modernising-vat-cross-border-ecommerce_en

42 Le Borgne and Baer (2008) and OECD (2015)

43 An interesting reflection on this topic can be found at: http://kluwertaxblog.com/2015/11/27/fifty-shades-of-fair-exit-taxation-of-corporations/

especially in a space with freedom of establishment like the EU, however, it is being revealed as a fundamental element to ensure the principle of territoriality in taxation[44], and at the same time it reveals the shortcomings of the current system to compute the generated income.

3.3. Alternatives of taxation by sources and uses of income

The search for new tax bases to improve or transform tax systems has generated proposals from both the side of taxation at source as well as the side of taxation in the uses of the income.

Beginning with the "uses", in view of the growing role of the **VAT**, the concern for its distributive effects and the inefficiency of the mechanisms used to remedy them (exemptions and reduced rates), proposals have emerged to "**personalize" this taxation** [45] that we can classify in two options: a) introducing a mechanism to focus the exemption on certain individuals (reversing the logic used in the universal system applied in most countries: instead of identifying the goods and services considered to be of social interest and then introduce multiple rates and/ or exemptions to the taxable base to reverse the regressive aspect of VAT, identifying the population that we wish to benefit and subsequently exempts from the tax this population when they consume this limited set of goods and services); b) eliminate all exemptions and reduced rates and implement monetary compensation to correct the regressive effects of VAT on a given group of taxpayers. The theoretical proposal of Ainsworth, the Digital VAT (D-VAT in its original proposal), and the Japanese experience, would be framed in the first option, while the Canadian experience and the theoretical proposal of P-VAT (Personalized VAT) would be classified in the second type of the solution previously mentioned.

Also in the field of consumption taxes, we find the different experiences of **taxation of what we can call "junk food- or junk drink"**, in the form of selective taxation on certain goods (complementary to other preventive actions, of information and education) as a way to reduce the consumption of products harmful to the health[46]; for some of these taxes -criticized for their interventionist component and their regressive consequences- there is already some evidence as to their design and effects.

Finally, the **green taxation** continues to be a road to explore and consolidate[47]. On one hand, its small-scale use on specific products seems to have a potential effect on behavior modification (taxes on plastic bags, containers, waste, vehicles, water consumption, etc.), while its application on the main sources of pollution (energy, transport, production) is facing

44 See http://europa.eu/rapid/press-release_MEMO-16-2265_en.htm
45 See Barreix et al (2012).
46 See Cornelsen and Reido (2015).
47 See, for example, Jiménez (2017).

greater reticence for its potential negative effects on competitiveness and , in some cases, lower incomes, as well as the difficulty of its application in the "diffuse" polluting sectors with greater technical difficulty of controlling polluting emissions.

Table 9. Environmental taxes

Countries	(in % of GDP)				(% of Total)	(Relative %)		
	TOTAL	Energy	Vehic. and transp.	Others		Energy	Vehic. and transp.	Others
OECD Asia/Oceania	1,83	1,21	0,61	0,01	6,57	66,25	33,13	0,61
OECD Europe	2,49	1,82	0,55	0,12	6,79	73,05	22,17	4,78
OECD America	0,70	0,43	0,24	0,03	2,71	61,56	34,63	3,82
OECD Total	1,61	1,12	0,43	0,06	5,31	69,63	26,54	3,82
Latin America	1,22	0,90	0,29	0,03	6,79	71,35	25,66	2,99
Argentina	1,12	0,88	0,24	0,00	3,91	78,71	21,20	0,09
Brazil	0,66	0,01	0,60	0,05	1,94	1,52	91,41	7,07
Chile	1,20	0,92	0,25	0,03	5,67	76,59	20,54	2,87
Colombia	0,99	0,70	0,07	0,22	4,94	70,71	7,07	22,22
Costa Rica	2,21	1,52	0,68	0,00	10,12	68,87	30,95	0,18
Dominican Rep.	2,02	1,59	0,42	0,00	14,68	78,90	21,04	0,06
Guatemala	0,83	0,54	0,29	0,00	6,96	65,00	35,00	0,00
Honduras	2,17	2,17	0,00	0,00	11,02	100,00	0,00	0,00
Mexico	0,06	-0,07	0,12	0,01	..	..	..	..
Nicaragua	1,29	1,29	0,00	0,00	6,39	99,94	0,00	0,06
Peru	0,45	0,42	0,03	0,00	3,02	92,34	7,49	0,17
Uruguay	1,69	0,88	0,80	0,00	6,05	52,22	47,55	0,23

Source: OECD. Stat
Note: 2014 or last available year.

Moving on to the new alternatives for the taxation of sources of income, the latest novelty would be the "**taxation of robots",** a proposal that has provoked debate despite its lack of clear definition[48]. This reaction is understandable given the accumulation of studies that anticipate the destruction of an enormous part of the current jobs because of the technological revolution in progress or, at least, highlight the possible existing risks, especially in the short/medium term. However, at present the debate should in my opinion serve more to be aware of the accelerated transformation of the labor world and with it, of the wages and most of the tax bases that -directly or indirectly- fall on them, forcing us to think about the future of taxation in the face of the scenario of pressing needs for financing new policies of income support and education where the transformation of technological relations can lead us.

48 See "Tax on robots?" available on CIATBlog: https://www.ciat.org/impuestos-sobre-los-robots/

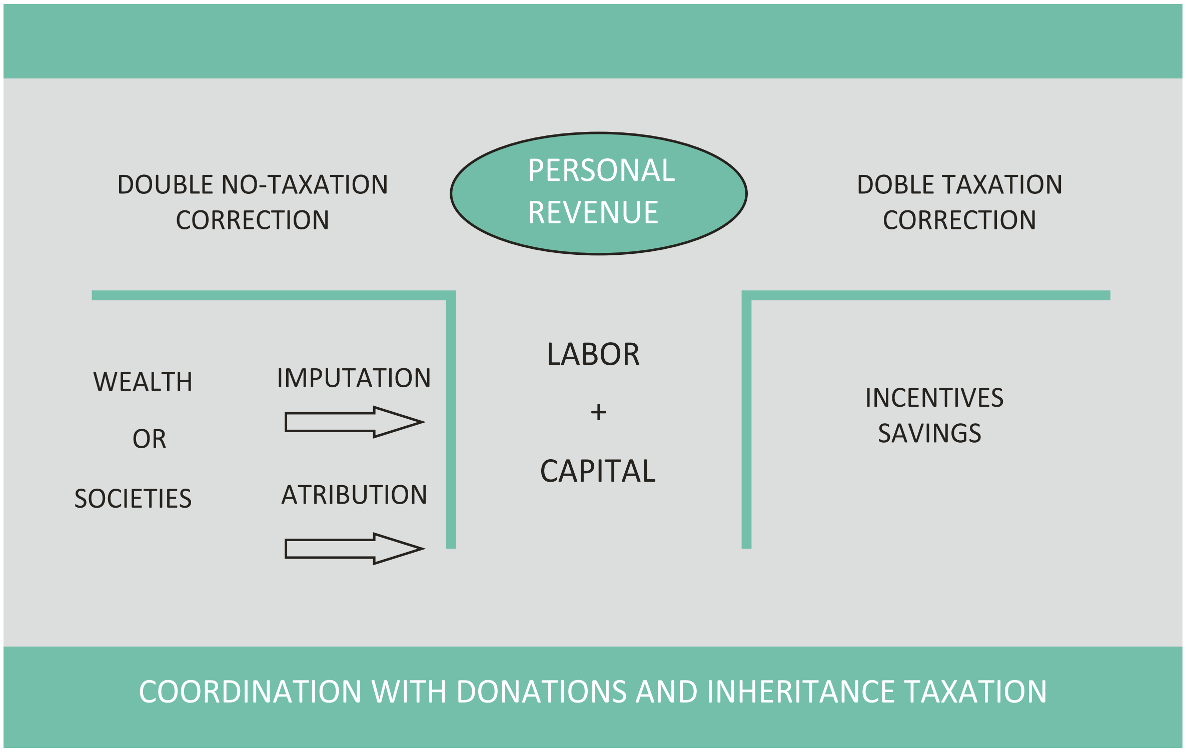
In fact, the recent global crisis had already opened a debate on the direction that the distribution of income was taking, with authors such as **Piketty**[49] warning us that the accumulation of income that is produced by the increasing capital rate of return and productivity in the globalized and technologically unified markets. As a solution to this process, this author proposes the recovery of the **taxation on capital in the form of wealth or assets**, if possible at international level and at high rates.

From a different approach, there are still incipient alternatives of **global taxation on income and wealth**[50] that would seek to combine in a single taxation the tax on the income explicitly manifested (preferably homogeneously for all the income sources) with the taxation of the implicit incomes of the personal assets, correcting both the double taxation of the declared income as well as the "double non-taxation" of the capital revenue that currently escape completely or partially from taxation. Of course, in order to be effective, a global taxation like the one proposed, anchored in the knowledge of the taxpayers' assets, would require a greater capacity to manage the information by the tax administration, the same capacity necessary, after all, to fight against tax fraud. In addition, this proposal should be coordinated with the introduction of neutral and equitable long-term savings incentives –through the creation of personalized savings accounts-, the reform of corporate taxation -to reinforce the role of corporate tax as a supplement to the income tax- and the transformation of the inheritance and donations taxes, to avoid the double taxation of average and low incomes and to avoid jeopardizing those transfers actually linked to a productive activity.

49 Picketty (2014).

50 Related to this integration would be: the model of personal income taxation (already commented,) in the Netherlands, including an income imputed by the property of assets taxed at proportional rate; the Chilean reform of 2014 and its taxation of the "attributed income"-not only the one distributed-by shareholding in the companies; the proposal to Spain, by Díaz de Sarralde, Garciamartín (2015), which would combine the homogeneous assessment of all sources of income-with correction of double taxation, inflation and excessive escalation in multiannual incomes-with an attribution of income derived from the valuation of the Dutch-style heritage-to compensate with the income actually declared; and the proposal of Barreix, Roca and Velayos (2017) that combines Chilean "attributed income" with the overall taxation proposed by Díaz de Sarralde and Garcimartín.

Table 10. Global Revenue Taxation



Source: own elaboration from proposals collected in footnote 49.

3.4. Sub-national Financing.

Finally, we should not omit the financing of the levels of administration closest to the citizens in order to increase the shared responsibility of these administrations towards them, making parallel the decentralization of competencies for both expenditure and revenue.

While this topic moves us away from the core of the debate on options for the reform of the tax system, it is worth at least to underline its connection and importance. Particularly worrisome is the phenomenon of large urban areas that concentrate a large part of the population in most countries and are responsible for much of the public services closest to the daily life of this population.

Currently, the funding structure of sub-national governments in the region shows less decentralization of taxes than the OECD average and a growing weight of transfers. Sub-national tax revenues are derived mainly from indirect taxes on consumption and sales, from recurrent taxes on real estate ownership and on license fees for companies and motor vehicles. Facing this panorama and in the framework of a comprehensive reform of the tax systems, we could explore possible aspects of **participation in the taxation of personal income**, which, although non-existent in Latin America, is the main source of financial autonomy in the most advanced local governments of the OECD, mainly in the Nordic countries.

Table 11. PIT decentralization in the OECD

Country	Level of government	Tax base	Progressive rates	Tax administration	% of Taxes
Belgium	L	CB	Yes	Central	34.0
Canada	S	BIe	Yes*	Central*	36.0
Denmark	L	BI	No	Central	87.1
Finland	L	BII	No	Central	87.1
Iceland	L	BI	No	Central	81.5
Italy	R and L	BI	Yes	Central	23.6
Japan	L*	BI	No	Local*	34.8
Korea	R and L	CN	No	Central	9.8
Norway	R and L*	BI	No	Central	87.7
Spain	S	BI*	Yes	Central*	41.2
Sweden	L*	BI	No	Central	97.3
Switzerland	S	BIe	Yes	Central/State	62.2
	L	CN	No	State/Local	69.2
USA*	S	BIe	Yes	Central/State	35.1
	L	BII	No	State/Local	3.7

Source: Own elaboration from OECD StatExtracts and countries´ legislation.
Notes: S-State (in the case of Spain, this means the Autonomous Communities); R-Region; L-Local.
Net tax rate (after deductions) of the central personal income tax -CN; Gross tax (before deductions) of personal income tax - CB; Taxable base of the central personal income tax-BI; Taxable base of the central personal income tax modified by the state government- BIe; Taxable base of the central personal income tax modified by the local government-BII.

4. FINAL COMMENTS

CIAT's purpose is to continue providing bases for the analysis of the issues presented. To do this, first of all, we will proceed to update and extend the databases offered through CIATData:

- CIAT-IDB database on collection (with improvements in accessibility, graphical presentation and data organization for the computation).
- Tax rates in Latin America: historical tax rates of value-added taxes (VAT), income of legal entities, income of individuals and Financial Transactions.
- Database of tax expenditures in force in the countries of the region under the jurisdiction of central, national or federal governments.
- Tax administration: New ISORA Database (International Survey on Revenue Administrations).

In addition, we will keep carrying out studies to deepen the interpretation of these data:

- Evolution of the collection in Latin America (CIAT-IDB database)
- Tax expenditures in Latin America (Tax Expenditure Database): Quantification, evolution and modalities.
- Value Added Tax: Revenue, efficiency, tax expenditures and inefficiencies in Latin America.
- The taxation on personal and corporate income: collection, efficiency, tax expenditure and inefficiencies in Latin America.
- Taxes on wealth or assets of individuals with special mention to Latin America and the Caribbean.
- Tax Administration in Latin America and the Caribbean: organization, means and results.

5. REFERENCES

Afonso, J.R. (2014) "Imposto de renda e distribuição de renda e riqueza: as estatísticas fiscais e um debate premente no Brasil" Revista de Estudos Tributários e Aduaneiros, Brasília-DF, ano I, n.01, p. 28-60. Available on http://www.revistadareceitafederal.receita.fazenda.gov.br/index.php/revistadareceitafederal/article/download/97/3

Afonso, J.R. (2016) "Imposto de renda, baixo e diferenciado". Conjuntura Econômica. Novembro 2016. Available on http://www.joserobertoafonso.com.br/attachment/20425

Alberola, E., Kataryniuk, I., Melguizo, A. y Orozco, R. (2017) "Fiscal policy and the cycle in Latin América". Ed. OCDE. OECD DEVELOPMENT CENTRE. Working Paper No. 336. Available on http://www.oecd-ilibrary.org/

Auerbach, A., Devereux, M., Keen, M. and Vella, J. (2017) "Destination-Based Cash Flow Taxation" Oxford University Centre for Business Taxation. WP 17/01. Available on https://eml.berkeley.edu/~auerbach/CBTWP1701.pdf

Barreix, A. Benitez, J.C., Pecho, M. (2017) "Revisiting personal income tax in Latin America: Evolution and impact", OECD Development Centre Working Papers nº 338. Available on http://www.oecd-ilibrary.org/development/revisiting-personal-income-tax-in-latin-america_16d42b4a-en

Barreix, A. Roca, J. y Velayos, F. (2017) "Quo Vadis, impuesto a la renta? Hacia el IRPF-CD" en CIAT (2017) "CIAT: 50 años en el quehacer tributario de América Latina", CIAT. Available on español e inglés en https://www.ciat.org/publicaciones/

Barreix, A., Bès, M., Díaz de Sarralde, S. y Velayos, F. (2012) "El impuesto al valor agregado: que sea lo que es", Capítulo 9 de "Recaudar no basta", BID. Available on https://publications.iadb.org/handle/11319/3473

Benitez, J.C. y Velayos, F. (2017) "Impuestos a la riqueza o al patrimonio de las personas físicas con especial mención a América Latina y el Caribe", CIAT *Mimeo*.

BID-OCDE (2016) "Panorama de las Administraciones Públicas en América Latina y el Caribe". Ediciones OCDE. Paris. Available on https://publications.iadb.org/handle/11319/7979

CEPAL (2016) "Estudio Económico de América Latina y el Caribe". Ed. CEPAL. Available on http://www.cepal.org/es/publicaciones/40326-estudio-economico-america-latina-caribe-2016-la-agenda-2030-desarrollo

CEPAL (2017) “Consensos y conflictos en la política tributaria de América Latina”, Ed. CEPAL. Available on http://www.cepal.org/es/publicaciones/41048-consensos-conflictos-la-politica-tributaria-america-latina

CEPAL, OXFAM (2016) “Tributación para un crecimiento inclusivo”. Ed. CEPAL. Available on http://www.cepal.org/es/publicaciones/39949-tributacion-un-crecimiento-inclusivo

CIAT (2015) “Cooperative Tax Relationship or Compliance: Current situation in the CIAT Countries”. Ed. CIAT. Available in Spanish and English on https://www.ciat.org/publicaciones/

CIAT (2016) “Las Administraciones de Ingresos en América Latina y el Caribe (2011 -2013)”, Ed. CIAT. Available on español e inglés en https://www.ciat.org/publicaciones/

CIAT (2017) “CIAT: 50 años en el quehacer tributario de América Latina”, Ed. CIAT. Available on español e inglés en https://www.ciat.org/publicaciones/

CIAT-BID-CAPTAC/RD (2012) “Estado de la administración tributaria en América Latina: 2006–2010”, Ed. CIAT. Available on español e inglés en https://www.ciat.org/publicaciones/

Cobham, A., Jansky, P. (2017) “Global Distribution of Revenue Loss from Tax Avoidance”. United Nations University. Available on https://www.wider.unu.edu/publication/global-distribution-revenue-loss-tax-avoidance

Cornelsen, L. y Carreido, A., (2015) “Health-related taxes on food and beverages”, Food Research Collaboration Policy Brief. Available on http://foodresearch.org.uk/wp-content/uploads/2015/06/Food-and-beverages-taxes-final-amended.pdf

Díaz de Sarralde, S. y Garcimartín, C. (2015) “¿Hay alternativas al modelo fiscal dominante? Una propuesta de impuesto global sobre la renta de las personas físicas”, Ekonomiaz N.º 88, 2.º semestre, 2015. Available on http://www.euskadi.eus/web01-a2ogaeko/es/k86aEkonomiazWar/ekonomiaz/downloadPDF?R01HNoPortal=true&idpubl=84&registro=9

FMI (2015) “Fiscal Policy and Long-Term Growth” IMF Policy Paper April 2015. Available on https://www.imf.org/external/np/pp/eng/2015/042015.pdf

Frey, C. and Osborne, M. (2013) “The Future of Employment” Oxford Martin School. Oxford University. Working paper. Available on http://www.oxfordmartin.ox.ac.uk/downloads/academic/future-of-employment.pdf

Gómez Sabaini, J.C., Morán, D. (2013) “Política Tributaria en América Latina: agenda para una segunda generación de reformas”, CEPAL, Serie Macroeconomía del Desarrollo, nº 133.

Available on http://www.cepal.org/es/publicaciones/5368-politica-tributaria-america-latina-agenda-segunda-generacion-reformas

Gómez Sabaini, J.C., Morán, D. (2016) "Evasión Tributaria en América Latina" CEPAL, Serie Macroeconomía del Desarrollo, nº 172. Available on http://www.cepal.org/es/publicaciones/39902-evasion-tributaria-america-latina-nuevos-antiguos-desafios-la-cuantificacion

González, I. (2017) "El control del comercio electrónico y la economía colaborativa" en Revista de Administración Tributaria nº42, junio 2017, CIAT, AEAT, IEF. Available on español e inglés en https://www.ciat.org/publicaciones/

Hanni, M, Martner, R., Podesta, A. (2015) "El potencial redistributivo de fiscalidad en América Latina", Revista CEPAL, nº 111, Agosto 2015, p. 13. Available on http://www.cepal.org/es/publicaciones/38781-potencial-redistributivo-la-fiscalidad-america-latina

Jiménez, J.P, (2017) "Reformas fiscales ambientales: el rol de los tributos" en CEPAL (2017) "Consensos y conflictos en la política tributaria de América Latina".

Keen, M. (2013) "The Anatomy of VAT", IMF Working Paper 13/11. Available on http://www.imf.org/external/pubs/cat/longres_gsause.aspx?sk=40543&gsa=true

Le Borgne, E. y Baer, K. (2008) "Tax Amnesties: Theory, Trends, and Some Alternatives". IMF

Meade, J.E. (Dir,) (1978) "The Structure and Reform of Direct Taxatio", IFS, Institute for Fiscal Studies. Available on https://www.ifs.org.uk/docs/meade.pdf

Mirrlees, J. (Dir.) (2011) "Tax by Design", Oxford University Press. Available on https://www.ifs.org.uk/publications/5353

Nicholson, J. and Noonan, R. (2014) "What is Made in America?" U.S. Department of Commerce Economics and Statistics Administration. ESA Issue Brief nº 04-14. Available on: http://www.esa.doc.gov/sites/default/files/whatismadeinamerica_0.pdf

OCDE (2010) "Tax Policy Reform and Economic Growth" Tax Policy Studies nº20. Available on http://www.oecd-ilibrary.org/

OCDE (2015) "Update on Voluntary Disclosure Programs: A pathway to tax compliance", Ed. OCDE. Available on http://www.oecd.org/ctp/exchange-of-tax-information/update-on-voluntary-disclosure-programmes-a-pathwaypto-tax-compliance.htm

OCDE (2016a) "Revenue Statistics". Ed. OCDE. Available on http://www.oecd-ilibrary.org/

OCDE (2016b) "Consumption Tax Trends". Ed. OCDE. Available on http://www.oecd-ilibrary.org/

OCDE, CEPAL, BID, CIAT (2017) "Estadísticas Tributarias en América Latina y el Caribe 2017", Ed. OCDE. Available on http://www.oecd-ilibrary.org/

OECD (2012) "Employment Outlook". Ed. OCDE. Available on http://www.oecd-ilibrary.org/

OECD, CIAT, IDB (2016) "Taxing Wages in Latin America and the Caribbean", Ed. OCDE. Available on http://www.oecd-ilibrary.org/

Pecho, M., Sánchez, J., Peláez, F. (2012) "Estimación del Incumplimiento Tributario en América Latina: 2000-2010" Documento de trabajo 2/2012. CIAT. Available on español e inglés en https://www.ciat.org/publicaciones/

Picketty, T. (2014) "Capital in the 21st century". Harvard University Press.

Ruding, O. (Dir.) (1992) "Report of the Committee of Independent Experts on company taxation". EU Commission - Working Document.

Trengrouse, P. y Afonso, J.R. (2017) "A transfiguração do trabalho em capital". Globo, 5 de febrero de 2017. Available on https://oglobo.globo.com/opiniao/a-transfiguracao-do-trabalho-em-capital-20873173

Viñuela (coord.) (2014) "El Informe Mirrlees: Opciones para España" Available on http://sgfm.elcorteingles.es/SGFM/FRA/recursos/doc/Libros/712017490_236201413248.pdf

World Economic Forum (2016) "The Future of Jobs Employment, Skills and Workforce Strategy for the Fourth Industrial Revolution", Ed. World Economic Forum. Available on http://www3.weforum.org/docs/WEF_Future_of_Jobs.pdf

Serie
Documentos de Trabajo

CIAT

Secretaria Ejecutiva del CIAT
Apartado: 0834-02129, Panama, Republica de Panama Telefono: (507) 3072428
Fax: (507) 2644926
Correo electronico: ciat@ciat.org
Sitio Web: www.ciat.org