

Latin America Taxes Fall

Latin America's best and worst tax environments.

BY LATINVEX STAFF

As Chile's new president Michelle Bachelet plans to raise corporate taxes, a *Latinvex* analysis shows that Latin America's average corporate tax rates fell from 28 percent last year to 27 percent this year.

Meanwhile, the average number of payments fell from 30 to 26.9, while the hours necessary to comply with tax payments fell slightly -- from 502 to 501.

And thanks to a dramatic reduction in the number of payments -- along with a modest reduction in the hours -- Guatemala has become the country with the third-best tax environment in Latin America after Chile and Colombia, according to the latest Latin America Tax Ranking from *Latinvex*.

The ranking is based on data from KPMG, The World Bank and The Heritage Foundation.

The ranking also shows that the Pacific Alliance has the best tax environment compared with other trade and economic groups such as Mercosur and CAFTA.

CHILE

Bachelet, who assumed Chile's presidency last week, has pledged to increase the corporate tax rate from 20 percent to 25 percent to help finance her increase in spending on education and health. The move has been criticized by former finance minister Felipe Larrain.

"If you put forward that kind of plan and tell me that won't affect investment, I don't know where that would be true," he told [Reuters](#).

However, on the whole, the business community now appears to have accepted a significant income tax increase as inevitable, given strong pressure from the student movement and civil society more broadly as well as opposition gains in the 2013 parliamentary elections, argues London School of Economic assistant professor **Tasha Fairfield** in a new Wilson Center [report](#) on tax reform in Chile.

The rate increase will be the second in two years. Last year the rate was increased from 18.5 percent in 2012 to 20 percent.

Meanwhile, the number of tax payments in Chile has grown the past year -- from six last year to 7 now.

As a result, Chile's score on the ranking worsened slightly, although it still remains the Latin American country with the best tax environment.

Chile current corporate tax rate of 20 percent is the second-lowest in Latin America (only Paraguay has a lower rate). Meanwhile, Chile shares a second place with Guatemala in terms of the lowest number of tax payments per year (seven).

And it ranks among the six countries with the fewest number of hours necessary to comply with tax payments (291).

COLOMBIA

Second-ranked Colombia kept its score last year, although it worsened in the category of number of payments, going from nine last year to 10 today.

Colombia remains the Latin American country with the second-lowest amount of hours necessary to comply with tax payments (203).

And Colombia's corporate tax rate of 25 percent ranks as the fourth-lowest in Latin America (only three other countries have lower rates while three other nations have the same rate).

MEXICO AND BRAZIL

Mexico slightly improved its tax burden, with the amount of hours falling from 337 to 334. However, some sectors in Mexico have criticized new taxes on mining and soft drinks and so called junk food.

Mexico has Latin America's least number of tax payments (6), but ranks among the bottom worst in terms of number of hours (334) and corporate tax rates (30 percent).

As a result of improvements in tax rates in Guatemala and the Dominican Republic, both countries passed Mexico on the Latin American Tax Ranking and Mexico now ranks fifth – down two spots from last year's ranking.

Brazil continues to have Latin America's worst tax burden. The number of hours necessary to comply with paying taxes (2,600) remains the highest in Latin America and the highest worldwide.

And its corporate tax rate of 34 percent ranks among the three highest in Latin America.

However, the number of tax payments (9) ranks as among the fifth best in the region.

CAFTA IMPROVES

The Central American Free Trade Agreement (CAFTA) saw several improvements.

The Dominican Republic, the largest economy in CAFTA, reduced the corporate tax rate from 29 percent last year to 28 percent this year. (Next year it is scheduled to fall further to 27 percent).

Guatemala, the second-largest CAFTA economy, improved dramatically. The number of payments fell from 24 to 7, while the hours fell from 332 to 326.

Costa Rica also improved. The number of payments fell from 23 to 22.

PERU, PARAGUAY AND VENEZUELA

Peru (ranked sixth on the Latin America Tax Ranking) worsened its tax burden, with the number of hours growing from 283 to 293. Peru still ranks among the best countries in terms of number of hours and number of payments, although its corporate tax rate of 30 percent is among the bottom half in Latin America.

Paraguay (ranked seventh on the tax ranking) improved its tax burden. The number of payments fell from 35 to 28, while the hours fell from 387 to 384. The country continues to boast the lowest corporate tax in Latin America – only 10 percent.

Venezuela (ranked second-worst on the tax ranking) continues to be among the worst country in number of payments (71) and among the three worst countries in terms of corporate tax rates and number of hours necessary to comply with tax payments. Venezuela's number of hours (792) is the sixth-highest in the world.

PACIFIC ALLIANCE

The Pacific Alliance has the best tax environment in Latin America compared with trade blocks like Mercosur and CAFTA. It has the lowest average tax rate (26 percent versus 28 percent for Mercosur and 29 percent for CAFTA).

It also has the fewest tax payments (8 versus 30 in Mercosur and CAFTA).

And it has the second-fewest hours necessary to comply with paying taxes (280 versus 271 in CAFTA and 898 in Mercosur).

Other noticeable developments:

Panama improved. The number of payments fell from 60 to 52, while the hours fell from 431 to 417.

Despite its urgent need for more investments, Haiti worsened its tax burden by increasing the number of payments from 46 to 47. But it has Latin America's lowest number of hours necessary to comply with tax payments (184).

Bolivia has the world's second-highest number of hours (1,025) necessary to comply with tax payments.