

From tax reform to pandemic and beyond – what’s next for tax policy in Latin America

Before the COVID-19 pandemic hit, the countries of Latin America were engaged in a variety of tax reform efforts and initiatives to turn around economies. Some countries focused on broadening or adjusting their tax revenue bases and strengthening compliance, and some recently joined the Organisation for Economic Co-operation and Development (OECD), making alignment with OECD standards a focal point of tax policy in the region.

Then came the COVID-19 crisis. The region has generally been hard-hit, and many economists are predicting a resulting 5.3% contraction, with a recovery expected to follow.¹ The responses to the pandemic among Latin American countries have included economic relief and tax changes, such as allowing taxpayers to defer tax payments or make installment payments, and providing tax exemptions, credits and incentives. Some countries in the region are also considering wealth taxes to help shore up revenue in economies that have been battered by the pandemic.

Looking ahead, while each country’s path will vary, the region overall is expected to face increasing fiscal deficits. More efforts at tax collections, increased enforcement and audit activity, and potential litigation may be the short-term response. Trade developments may also shape the region’s policies, as companies may look to “nearshore” their supply chains in Latin American countries that might have favorable labor costs and currency values. Additionally, the OECD’s activities are likely to play a role as more Latin American countries align their policies with the organization’s varied and evolving proposals.

Given these rapid shifts in the regional tax policy environment, companies need to understand what is driving tax developments in the region as they plan for a post-pandemic world. We take a look at the tax reform efforts, COVID-19 responses and tax policy outlook scenarios for seven Latin American countries to gain insights about what tax developments may be on the horizon.

¹ “Beyond COVID-19: a Latin American tax perspective on the economic challenges,” EY webcast, https://www.ey.com/en_us/webcasts/2020/05/beyond-covid-19-a-latin-american-tax-perspective-on-the-economic-challenges, May 26, 2020.

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