T20 POLICY BRIEF

Task Force 01
FIGHTING INEQUALITIES, POVERTY, AND HUNGER

Tax Justice in Latin America: A Call for Gender-Sensitive Tax Reforms in the Face of Austerity and Inequalities

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Abstract

Latin America is facing significant challenges in its tax system, exacerbated by increased austerity measures resulting from debt burdens. This has highlighted the relevance of taxation in a region burdened by regressive and inequitable tax regimes. In response to these challenges, Latin America has taken steps to engage in international discussions on global tax reform. The establishment of the Regional Platform for Tax Cooperation in Latin America and the Caribbean in 2023 signifies a proactive approach towards identifying common positions and advocating for reforms from a Latin American perspective. In addition to these efforts, a new regime for international tax governance under the auspices of the United Nations could facilitate the development of a more inclusive and effective international tax architecture and deliver ambitious policy reform measures. However, more concerted efforts are needed to address the root causes of tax inequity.

A critical aspect of tax policy in Latin America is its impact on women and marginalised communities. Austerity measures often disproportionately affect these groups, exacerbating inequalities and undermining their fundamental rights. Therefore, fiscal policies must acknowledge and address the disparate impact on vulnerable populations, particularly black women.

The policy brief provides an overview of Latin America's tax systems, recent reforms, and the impact of austerity measures and regressive fiscal policies on women's human rights. It examines Latin America's role in the global tax system, highlighting the effects of corporate and wealthy individual tax abuse. It also discusses the region's cooperation in global efforts for a more inclusive international tax framework under the United Nations. Specific harmful policies within regional tax systems are identified, followed by

recommendations to address these issues and create a tax system that prioritises and advances women's rights.

Keywords: Gender equality; Tax Justice; Latin America

Diagnosis of the issue: Latin American tax systems and gender equity

Low and inequitable tax revenues in Latin America

Tax systems are not gender-neutral. A low tax burden and the lack of efficient mechanisms to reduce tax evasion and avoidance reduce tax revenues and lead to a shortage of public resources. Latin America has large social debts and deficits in guaranteeing economic, social and cultural rights. Gender inequalities are persistent, and in some countries, there have been no notable reductions despite recent economic progress. This is why taxation from a gender perspective is a significant action point in the region.

The disproportionate burden of domestic and care work, together with the precarious employment conditions, wage discrimination, occupational segregation and lower asset endowments that women are forced to bear, require greater investment in all policies with explicit objectives to reduce gender gaps.

The low tax burden in Latin American countries is compounded by the exaggerated weight of indirect taxes. A tax system sustained by indirect taxes such as value-added tax or other taxes on consumption (including basic needs) deepens not only economic inequalities but also gender inequalities, accentuating their regressivity when it comes to lower-income women.

Given the weight of indirect taxes on low family income, the fewer resources available require more effort and time to optimise the intra-household allocation. This situation mainly affects low-income women and female-headed households. A fair tax structure based on direct taxation has great redistributive potential. However, the redistributive capacity and its power to reduce gaps can be reduced if the structure of deductions and exemptions has certain biases.

Tax exemptions generally privilege high-income sectors and corporations where women are under-represented. The high tax expenditures in the region have not been proven to ensure a positive net balance for women. In other words, we do not know whether tax losses have a counterpart benefit in job creation, technology transfer, and inclusion of Micro, small and medium enterprises (MSMEs) in productive chains, among other objectives expected from incentive policies.

Tax expenditures in Latin America represent about 3.7% of Gross Domestic Product (GDP) (ECLAC 2023, 4). They derive from indirect taxes, especially Valued Added Tax (VAT), and direct taxes. In the latter case, they contribute to the inequity of the tax system, as the primary beneficiaries are higher-income taxpayers. While a large part of VAT tax deductions is directed towards consumer goods, health and education, which would be expected to positively affect lower-income sectors, a study in Mexico found that tax expenditures derived from VAT on health and education were concentrated in the highest deciles of the income distribution. The highest income decile concentrates 29% of the benefit in education and 34% of the exemption for the consumption of health services (ECLAC 2019, 125). In the case of income taxes, in most other countries except Mexico and Peru, the fiscal cost of preferential corporate income tax treatments exceeds that of individuals.

Tax expenditures targeted at corporations are part of the incentives for Foreign Direct Investment and the promotion of free trade zones. Neither of these mechanisms has been evaluated to assess the efficiency and results of the tax incentives policy. On the contrary, evidence indicates the relevance of other determinants of external capital attraction (Rojas, 2019; Valencia et al., 2019; Bejarano, 2017).

Tax expenditures are not gender-neutral. Tax exemptions benefiting those with the highest economic levels or multinational corporations do not contribute to narrowing the gaps, given that they are over-represented in the lower income brackets and in micro and small or informal enterprises that do not benefit from tax privileges. On the other hand, the uncollected resources reduce the fiscal space to finance policies that women need.

Tax evasion and avoidance add to the mechanisms that erode the tax system. The latest estimate by the Economic Commission for Latin America and the Caribbean (ECLAC) indicates that the cost of tax evasion and avoidance in Latin America was around 6.3% of GDP in 2017, 1.5% generated by illicit financial flows out of the region due to price manipulation of international trade in goods (ECLAC, 2019). Instead of becoming an instrument for the development and well-being of the population and women in particular, tax policy contributes to the persistence of inequality, including gender inequality.

The return of debt and austerity to ensure sustainability

When revenues are insufficient to finance public spending, borrowing is the other source of financing. Over the last decade, Latin America has embarked on a dangerous return to indebtedness with objectives related to improving its infrastructure, which has generally not considered works needed by women, such as care services or assets for family agriculture.

On the other hand, the repayment of debts from previous decades generated structural adjustment or "austerity" policies that, by not considering gender inequalities, have had substantial repercussions on women's lives. From a gender perspective, it is a priority to incorporate these aspects, considering that the adjustments directly affect women, further limiting their opportunities and capabilities.

The debt sustainability analysis and fiscal rules only consider the reduction of expenditures and not the progressive increase of revenues as a mechanism to guarantee debt repayment, preventing the guarantee of human rights, women's economic autonomy, and the reduction of inequalities (Serafini, Miranda, 2023). The increase in debt is also taking new forms that underestimate the weight of debt, such as the contingent liabilities of Public-Private Partnerships. This makes the future picture even more complex and makes the real risks of indebtedness invisible (Fresnillo and Serafini, 2020).

Policy recommendations

Domestic tax systems are increasingly connected with international taxation, among other things, because of the capacity of multinational enterprises (MNE) and high-network individuals to move their activities, income and wealth across the planet, often to avoid taxes. In our region, the Economic Commission for Latin America and the Caribbean (ECLAC) estimates that countries lose over 6% of their GDP to tax abuse and an additional 1.8% of their GDP to international, illicit financial flows (ECLAC, 2016). International tax abuse has a clear impact on gender justice, as it centrally drains resources needed to advance gender equality (as discussed in the previous section, it is women who bear the most significant burden of the "austerity measures" adopted when states allege scarcity of resources).

This is a crucial reason for the G20 to play a new, innovative role in international taxation, which helps bridge the gap between tax cooperation and gender equality. Countries in the region are already undertaking efforts to reshape international taxation rules. In 2023, some countries launched the Latin America and Caribbean Platform on Tax (PT-LAC) to facilitate a permanent and collaborative framework for addressing tax-related challenges. Notably, one of the platform's key priorities is to promote tax progressivity after recognising the connection between taxation and inequality and the urgent need to address historical disparities in the region.

Moreover, many countries participating in the PT-LAC and others from the region have played a key role in supporting the current drafting of a Framework Convention on Tax at the United Nations. It is essential that G20 countries further support this process, as it is the result of years-long demands of Global South countries (led by the African

Group) and dozens of civil society organisations (Global Alliance for Tax Justice, 2022). Making the United Nations (UN) the forum for international tax cooperation is relevant for gender equality, at the very least, for two reasons. First, the main concerns leading to demands to move tax cooperation to the UN emerged from the lack of inclusivity of the current main forum for international taxation, the OECD's "Inclusive Framework" - established by the OECD and the G20. As documented in 2023 by the UN Secretary-General, OECD-related fora have barriers, in practice, for developing countries to influence decision-making processes (Secretary General, 2023).

Furthermore, the expected benefits from the measures proposed at such fora are extensively regarded as minimal for developing countries, especially when compared to their cost of implementation (Idem). Instead, the UN would allow for more effective participation and due consideration of each country's needs and capacities, which is crucial considering the particularly pressing need for tax reforms that women from developing countries face. Furthermore, given the UN's existing mechanisms to promote gender equality and human rights, moving international tax debates from the OECD to the UN would further facilitate gender mainstreaming in taxation.

Action points for G20 countries:

1. **Promote progressive taxation at the domestic and international levels and a just redistribution among countries** in line with efforts made, for example, at the PT-LAC. Promote and adopt progressive fiscal policies to guarantee sufficient, non-transferable, sustainable resources that cover every level and area of public policy aimed at reversing gender inequalities and guaranteeing women's rights (Principles for Human Rights in Fiscal Policy, 6.4).

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2. “**Incorporate a gender approach across the entire budget cycle**, including an intersectional perspective. Monitor the evolution of the amount, level, and composition of spending of the budget allocated to policies aimed at reducing gender inequalities, guaranteeing women’s rights, and disseminating information about these allocations.” (Principles for Human Rights in Fiscal Policy, 6.3)

3. “**Ensure the participation of women in the processes of producing, executing, and monitoring fiscal policy**. Include rural, Indigenous, Afro-descendent and migrant women, using commitments to gender parity within government departments/institutions to democratise the exercise of political power. Analyse economic programs from a gender perspective, including macroeconomic stability and external debt programs, to evaluate their impacts and adapt them to promote a more equal distribution of goods, wealth, opportunities, income and services.” (Principles for Human Rights in Fiscal Policy, 6.5)

4. **Proactively support global coordination efforts for global tax negotiations**, especially by engaging in and supporting the process to develop a globally inclusive UN Tax Convention.

5. **Recognise the disparate impact of austerity measures on women and other vulnerable populations and adopt gender-sensitive strategies in developing tax policy**. This should include an analysis of tax systems and their impacts on the most vulnerable groups of the population, especially women. The outcome should be preventing and correcting labour market exclusion, ensuring an adequate level of social protection, and bolstering and expanding social services.

6. **Promote broader tax reforms that address the deficiencies of income and wealth taxes in promoting equality** and **redistribute the tax burden from consumer taxes to wealth and income taxes**.

7. **Promote taxes for the reparation of the historical and current violence against black people and black women especially**.

8. **Improve transparency over legal vehicles: Require multinationals to publish disaggregated country-by-country reports**.

9. **Collect and publish tax statistics disaggregated by gender and race**.

10. **Countries should conduct and publish information on the gender impact of the county's tax policies and actively publish statistics that allow for the analysis of the impact of gender and race on tax policies.**

11. **Publish statistics on each country's efforts to create a more progressive tax system.**

12. **Continue active, engaged, and decisive participation in regional efforts** to agree on inclusive, sustainable, and equitable tax standards to address the issues that disproportionately affect women, including rising poverty and inequality.

13. Promote rules for greater transparency of tax incentives and tax expenditures for multinationals and corporations that generate negative socio-environmental impacts in Indigenous territories, more especially on women.

Scenario of outcomes: opportunities for policy implementation

a. *Advancement of International Tax Convention at the UN level*

As negotiations progress throughout 2024, there is potential for substantial headway in shaping the Terms of Reference for this Convention with a strong focus on upholding human rights and promoting equality. Transitioning tax cooperation to the UN can enable a more inclusive and participatory approach, ensuring that each country's distinct needs and capacities are duly considered. This shift is particularly crucial given the pressing need for tax reforms encountered by women in developing countries. By embracing the UN framework, countries can collaboratively address gender disparities in taxation, ultimately fostering more equitable and effective policies that empower women and promote socio-economic development.

b. *Progress in Wealth Taxation*

The Committee of Experts on International Cooperation in Tax Matters' work on wealth taxation offers another promising avenue. As discussions continue to evolve, there is an opportunity to integrate gender-sensitive perspectives into these deliberations. By addressing wealth disparities and ensuring equitable taxation, this initiative can contribute to narrowing the gender gap in financial resources and opportunities.

c. *Expansion of PTLAC membership*

The Regional Platform for Tax Cooperation for Latin America and the Caribbean (PTLAC) is gaining momentum, with more countries expressing interest in joining and actively participating in knowledge exchange. This expansion allows for collaboration among nations to develop and implement gender-inclusive tax policies. By sharing best practices, experiences, and expertise, countries can effectively address gender-based taxation challenges and enhance their policies' effectiveness.

d. *Brazilian Presidency of G20*

After ten years in the National Congress, the Chamber of Deputies finally approved a tax reform bill in July 2023 with positive points for women, such as the tax exemption policy for menstrual products and the national basic basket. The reform also provides that specific reductions in tax rates will be evaluated every five years, considering their impact on equality between men and women. However, the text regarding gender and race specificities was removed from the refund policy. Black women are proportionally more burdened with indirect taxes. At the same time, the State uses such gender and race tags to carry out affirmative public policies - segmentation made possible by the National Census - making it essential that such data is used to formulate the rules of a new tax system.

The government chose to separate the tax reform into two phases, the first based on indirect taxes that affect consumption and the second on taxes that affect income. The first part of the tax reform, focused on consumption, was approved in the Parliament and promulgated by President Lula on December 20, 2023. In 2024, the process of regulating the approved text begins. The government has not yet sent the proposal for the second phase to the National Congress. The tax reform approved to date is insufficient to address the structural inequalities of the Brazilian tax system because it does not present proposals to improve the progressiveness of income or assets, except for modifying inheritance taxes, which have now become progressive. This means that the low-income population, black people and women will continue to be the most disadvantaged by the tax system. There is still a need to increase taxation on income and assets, regulate the tax on large fortunes, and institute a tax on dividends, among other recommended changes.

Despite those challenges, Brazil's presidency over the G20 in 2024 presents a crucial opportunity to address gender issues within taxation systems in Brazil and across Latin America. By leveraging its leadership role, Brazil can advocate for discussions on gender-responsive tax reforms and propose tailored solutions to promote gender equality. This presents a significant step towards fostering greater awareness and cooperation among G20 nations to implement more equitable and inclusive tax systems benefiting women.

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