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FEATURED Q&A

Will Colombia's Tax Reform Get a Green Light in Congress?



Colombian President Iván Duque has proposed a \$6.38 billion tax reform plan. // File Photo: Colombian Government.

Q The government of Colombian President Iván Duque on April 15 formally submitted to Congress its tax reform proposal, which includes scrapping many deductions and increasing levies on individuals and businesses and aims to increase annual tax collection by \$6.38 billion, or 2 percent of GDP. The government has forecast a fiscal deficit of about \$26 billion this year, or about 8.6 percent of GDP, in part due to increased government spending in the face of the pandemic. What are the most significant parts of Duque's tax reform proposal? How much opposition does the reform face in Congress, and will lawmakers significantly modify it? How important is the tax reform to maintaining Colombia's fiscal sustainability, and should the government be taking additional measures in order to close the deficit?

A Maria F. Valdés, coordinator of tax issues at Friedrich-Ebert-Stiftung in Colombia: "The proposal is the most revenue-ambitious tax reform in recent Colombian history. Most of its revenue, 69 percent, will be used to pay down the national debt, given that government finances have deteriorated enough that the country's credit rating could be downgraded. The remaining 31 percent of revenue will be used to finance expenditure initiatives, such as an unconditional solidarity cash transfer for the poorest 40 percent of Colombian citizens. Seventy-three percent of the revenue will come from personal income tax, mainly by widening its tax base. If the law passes, Colombians with monthly incomes as low as 2,500,000 pesos (\$690) will pay income taxes. Currently, people start paying income tax

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TODAY'S NEWS

POLITICAL

Mexican Court Strikes Candidates From State Ballots

Mexico's top electoral court ordered the removal of two gubernatorial candidates of the ruling Morena party from the ballot ahead of the country's June 6 midterm elections.

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BUSINESS

América Móvil Reports 5.7% Rise in Operating Profit for Q1

Mexico-based América Móvil a 5.7 percent rise in operating profit for the first quarter, though total revenues for the quarter were nearly flat as compared to the same quarter last year.

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POLITICAL

Brazilian Senate Begins Probe of Bolsonaro's Response to Crisis

Brazil's Senate began its investigation into President Jair Bolsonaro's handling of the Covid-19 pandemic.

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Bolsonaro // File Photo: Brazilian Government.

POLITICAL NEWS

Mexican Court Strikes Candidates From State Ballots

Mexico's top electoral court on Tuesday ordered the removal from the ballot of two gubernatorial candidates of the ruling Morena party ahead of the country's June 6 midterm elections, the Associated Press reported. The Federal Electoral Tribunal ruled that the two candidates, Félix Salgado Macedonio of Guerrero state and Raúl Morón Orozco of Michoacán state, violated election rules by failing to report how much money they spent on their primary races. Mexico has strict limits on private donations and personal spending by candidates, instead financing campaigns largely with government funds in order to encourage equity. However, President Andrés Manuel López Obrador's Morena party has argued that it does not hold primaries because it nominates candidates based on polls instead of votes, the AP reported. Two women have accused Salgado of rape, but he has not been charged and denies the allegations. López Obrador has supported Salgado's right to run, angering women's

groups. López Obrador said calls for Salgado, a former mayor of Acapulco, to withdraw from the gubernatorial race are politically motivated, Reuters reported. On Monday, Salgado said in a social media post that he would hold a rally on Wednesday in Chipancingo, Guerrero's state capital. "The people have the final say. With the people, anything, without the people, nothing."

Brazil's Senate Opens Probe of Bolsonaro's Pandemic Response

Brazil's Senate on Tuesday began its investigation into President Jair Bolsonaro's handling of the Covid-19 pandemic, the Associated Press reported. The investigation is not formally aimed at determining whether Bolsonaro should face criminal charges, but it could jeopardize his changes for re-election next year, the wire service reported. For the past year, Bolsonaro has consistently downplayed the threat of the novel coronavirus, touted unproven remedies for it, resisted lockdown measures and said Brazilians should stop "whining" about the disease. Since the pandemic began, Brazil has recorded more than 14.4 million cases of Covid-19, more than any other country

NEWS BRIEFS

U.S. Agents to Train Some Guatemalan Security Personnel

The United States this week agreed to train Guatemalan security personnel as part of a "joint task force for border protection," said Pedro Brolo, Guatemala's foreign minister, the Associated Press reported. Under the plan, the United States will send 16 employees of the Department of Homeland Security to aid in the effort, which will be led on the Guatemalan side by the Division of Border Ports and Airports. The United States will also help Guatemala to build shelters for returned migrants, according to the report.

Walmex Reports Slight Increase in Profit Year-on-Year for First Quarter

Walmart de México y Centroamérica, or Walmex, on Tuesday announced that its total revenues in the first quarter of the year fell 0.3 percent from the same period last year. While total sales in its main Mexico market grew 0.5 percent, sales in Central America fell 2.7 percent due largely to pandemic-led economic restrictions, Reuters reported. Profits rose to \$493 million in the quarter, an increase of 0.7 percent as compared to the same quarter last year.

Paraguay's Central Bank Lowers Growth Forecast

Paraguay's central bank on Tuesday lowered its forecast for economic growth this year to 3.5 percent from 4 percent, Reuters reported. The reduction came as a result of a surge in Covid-19 cases and a slow rollout of vaccines against the disease, the central bank said. The central bank also cited new restrictions aimed at curbing infections and an unclear economic outlook. However, the central bank pointed to economic strength in agriculture and livestock.

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at twice that amount. The second source of revenue, 31 percent, will come from the VAT, where many products will be taxed at higher rates. The reform also proposes important green taxes, such as a more ambitious tax on carbon emissions and taxes on polluting cars. In Congress, only a few parties actually support it. According to a recent poll, the general population also opposes it, with 82 percent of Colombians saying they would not vote for a presidential candidate in 2022 who supported this reform. Most criticize it for being too radical and, rightly so, for excessively hurting the middle class, a segment where the majority does not earn the legal minimum wage, while not taxing the richest, in a country with one of the highest concentrations of income at the top in the

world. However, in Colombia, Congress has never declined any tax proposal, and this time is unlikely to be different. Regardless of its unpopularity, this tax reform will pass with major modifications and reduced revenue potential."

A

Richard Francis, senior director at Fitch Ratings:

"Tax reform is a critical factor for Colombia's public debt dynamics and will therefore be significant in Fitch's resolution of the Negative Outlook on Colombia's 'BBB-' sovereign rating. The government's tax reform proposal targets a permanent increase in revenues worth 1.4 percent of GDP by 2024, net of transfers to sub-national governments and new social spending com-

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in the world except for the United States and India, according to Johns Hopkins University. More than 395,000 people are confirmed to have died of the disease in Brazil, more than any other country except the United States. The 11-member Senate committee that is heading the investigation on Tuesday elected centrist Senator Omar Aziz as its president, Bloomberg News reported. Aziz appointed Senator Renan

“It’s potentially explosive.”

— Michael Mohallem

Calheiros, a critic of Bolsonaro, as the committee’s rapporteur. Efforts to remove Bolsonaro from office are unlikely as the president has solid support among centrist parties in Congress and is on good terms with the speaker of the lower house of Congress, Bloomberg News reported. However, the investigation will open opportunities for Bolsonaro’s critics to attack him. “It’s potentially explosive,” Michael Mohallem, a Rio de Janeiro-based constitutional law expert, told Bloomberg News. The investigation could weaken Bolsonaro’s chances of re-election against his main political rival, former President Luiz Inácio Lula da Silva, who can run for the office again after Brazil’s Supreme Court this year annulled his two convictions on corruption charges. “Lula is already a de-facto candidate for the 2022 presidential election—and, in all likelihood, a competitive one at that,” Oliver Stuenkel, a professor at the Getúlio Vargas Foundation, told the Advisor in a [Q&A](#) published March 17.

BUSINESS NEWS

América Móvil Reports 5.7% Rise in Operating Profit

Mexico-based telecommunications service provider América Móvil on Tuesday reported first quarter revenues of 248 billion pesos (\$12.42 billion), a figure that remained nearly

THE DIALOGUE CONTINUES

Will the End of the Castro Era Mean Change in Cuba?

Q The Castro era has come to an end in Cuba as Raúl Castro, at age 89, stepped down on April 16 as the head of Cuba’s Communist Party. As expected, Cuban President Miguel Díaz-Canel succeeded him in the post. What will change in Cuba with Raúl Castro’s departure from the party’s leadership? To what extent will the younger generation of Cuba’s leaders be willing to make further market-style reforms to the country’s economy? To what extent will the Covid-19 pandemic accelerate political or economic changes in Cuba?

A Sarah Coker, development and communications coordinator at the Center for Democracy in the Americas: “The lack of a Castro in the top echelons of Cuba’s leadership is unlikely to usher in sudden or dramatic change at the structural level. Cuban President Miguel Díaz-Canel, who assumes the position of first secretary of Cuba’s Communist Party, has already demonstrated a clear commitment to continuity and loyalty to Cuba’s old guard, even as that generation fades from the picture and new leaders are ushered in. The transition may, however, be a catalyst for slower, structural change in

flat in peso terms from the same quarter last year. However, operating profit, at 41.1 billion pesos, was up 5.7 percent, due to financing costs that fell 55 percent, resulting in a swing in net profits to 1.8 billion pesos from a 28.9 billion loss a year before. At constant exchange rates, service revenues expanded 1.2 percent year-on-year. A sharp depreciation of the Brazilian real currency vis-à-vis the Mexican peso, a difference of 20.4 percent, also pushed quarterly revenue in pesos down, the company said in an earnings statement. América Móvil, which is controlled by the family of business magnate Carlos Slim, said it added six million wireless

subscribers in the quarter, one third more than a year before, with Brazil, Mexico and Colombia the main contributors. It also added 246,000 broadband accesses in the period, most of those in Colombia, Ecuador and Peru. Daniel Hajj, the company’s longtime chief executive, said in February he plans to invest about \$8 billion this year to boost its network infrastructure and acquire additional 5G spectrum in markets including Brazil, Colombia and the Dominican Republic, RCR Wireless reported. “In recent years we have been investing in our networks. We have the best networks in Latin America and we are prepared to do 5G,” he said.

EDITOR’S NOTE: The comment above is a continuation of the [Q&A](#) published in the April 21 issue of the Advisor.

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mitments, but Congress is likely to amend it. The proposal is part of the government's strategy to stabilize the debt/GDP ratio over the next five years. Other measures include allowing the roll-off of transitory pandemic-related spending (higher-than-expected pandemic spending plans in 2021 partly reflect under-spending in 2020) and improving tax administration. These should yield some fiscal benefits, as will economic recovery, higher oil prices, and potential one-off measures such as asset sales. However, Fitch believes that a permanent increase in tax revenues would be necessary to stabilize and start to reduce the public debt burden. Credible tax reform would also anchor medium-term fiscal expectations, supporting policy credibility and reducing vulnerability to shocks. The proposal's heavy reliance on personal income tax measures increases uncertainty around the eventual revenue impact, which will depend on compliance, although this could be improved by broadening the tax base and reducing exemptions. The ultimate impact of tax reform will depend on how much Congress amends and potentially dilutes the proposal."

A **Mariana Zepeda, Latin America analyst at FrontierView:** "This long-awaited tax reform is one of Colombia's most ambitious. Not only does the 'Ley de Solidaridad Sostenible' aim to protect Colombia's hard-fought fiscal credibility, it also expands social spending. While both goals are crucial to tackling Colombia's fiscal and social challenges, pursuing them will be difficult, particularly in a post-pandemic context. The most controversial aspects of the reform include expanding the income tax base and higher VAT costs, particularly for certain income deciles. As a result, the current tax bill would not only directly affect middle class

households, it could also push up costs for producers who lose access to VAT exemptions along the supply chain, likely raising costs for consumers down the line. Protests are already brewing, and according to a recent Polimétrica poll, 82 percent of Colombians would not vote for a presidential candidate who supports the bill. With 2022 elections looming, voting for the bill would

“This long-awaited tax reform is one of Colombia's most ambitious.”

– Mariana Zepeda

come at a high political cost, and even key members of the Centro Democrático have refused to get on board. But the Duque administration has limited options. Duque himself has referred to Colombia's fiscal situation as a ticking time bomb. Poverty levels are rising, and it is crucial for the country to retain its investment grade rating. Not only would rising debt costs in the wake of the pandemic—during which Colombia's debt has ballooned—be catastrophic for the country, a downgrade would also hit Colombia's competitiveness, limiting its access to capital, constraining investment and likely weakening the peso further. But under the current social and political context, it is clear that compromises will be required; what is less clear is whether a revised reform would reach the 1.4-5 percent of GDP tax collection threshold that rating agencies will likely require to stem a credit downgrade."

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org.

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