



How do the Tax Burden and the Fiscal Space in Latin America look like? Evidence through Laffer Curves

Download Other Working Papers Keep in mind

The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). It contributes to the dissemination and promotion of the work by researchers from the institution. This series is indexed at Research Papers in Economics (RePEc).

On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.

AUTHOR OR EDITOR Ignacio Lozano-Espitia Fernando Arias-Rodríguez

The series Borradores de Economía (Working Papers on Economics) contributes to the dissemination and promotion of the work by researchers from the institution. On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. This series is indexed at Research Papers in Economics (RePEc)

Publication Date: Thursday, 21 of May 2020

The opinions contained in this document are the sole responsibility of the author and do not commit Banco de la República or its Board of Directors.

Abstract

How much fiscal space do Latin American countries have to increase their tax burdens in the long term? This paper provides an answer through Laffer curves estimates for taxes on labor, capital, and consumption for the six largest emerging economies of the region: Argentina, Brazil, Chile, Colombia, Mexico, and Peru. Estimates are made using a neoclassical growth model with second-generation human capital and employing data from the national accounts system for the period from 1994 to 2017. Our findings allow us to compare the recent effective tax rates on factor returns against those which would maximize the government's revenues, and therefore to derive the potential tax-related fiscal space. Results suggest that joint fiscal space on labor and capital taxes would reach 6.5% of GDP for the region, on average, and that there are important differences among the countries.