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For the sixth time since 1997, and the third time in less than a year, a tax-reform package was being considered in the Nicaraguan Asamblea Nacional (AN). This latest, the third to be sent to the Asamblea by the government of President Enrique Bolanos in seven months, had the potential to raise taxes for some sectors to the highest level in Central America. The package is designed to comply with the demands of the International Monetary Fund (IMF), pursuant to an agreement signed last December (see NotiCen, 2003-01-30).

The proposed taxation schedule would, according to analyst Julio Francisco Baez, increase collections by at least 1% of GDP, or about US$25 million. The aim is to reduce the public deficit, currently calculated at 12.5% of GDP, estimated at US$2.56 billion in 2002. But these fiscal benefits come at a price.

"The reform comes at a time of economic contraction for Nicaragua. New taxes amplify the regressive nature of the taxation system in the short term, which will cause a reduction of personal disposable income for every Nicaraguan. That, in turn, could cause a prolongation of the economic recession that has been going on in Nicaragua since March of 2002," said economist Nestor Avendano. Avendano was a member of the Comite Tecnico de Consulta that worked with the administration in writing the proposal.

A harsher analysis was provided by Anastasio Somarriba, president of the business organization Consejo Superior de la Empresa Privada (COSEP), who said the plan would "contribute to the risk of paralyzing the economy completely." While a negative review of the plan from the private sector was not surprising, a similar critique from a member of the Comite Tecnico would have been, were it not for an explanation offered by Baez: the proposal that the Comite sent to the president, representing months of work, was not the same proposal that the president sent to the AN.

Baez also worked with the Comite on the reform. "There are substantial differences in some cases, and this is the reason that I, in my role as member of the Comite Tecnico, want to make an urgent call that this law is a kind of 'surprise attack' that should not be passed without planned consultation," said Baez. He said that the legislative and executive branches ran the risk of approving a law that veers far afield from its name: Equidad Fiscal.

One incongruency that Baez found was in profits on financing, which the Comite fashioned to fall into line with the logic of mainstream Latin American tax practice. "This has two aspects," he explained, taxes will be due on "the interest derived from savings or bank deposits greater than US $5,000 and on the interest on bonds. But, surprisingly, we found that the tax was not incorporated into the bond interest." The inequity is that relatively small savers would be taxed 10% on interest, while those who invest millions in government bonds pay nothing.

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Another piece of evidence, for Baez, of a sneak attack was that a few months ago the Extraordinary Tax Law imposed on the private banking system was enacted. It disappeared in the new reform. "This is a tax that the banks themselves said they wanted to pay, but now it turns out that, in less than 90 days, it is overturned," said Baez. "The Comite Tecnico never discussed that. Rather, we announced that we could be at the threshold of something delicate if unrestricted support continued to be given to one sector of the economy at the expense of others."

At the heart of the tax reform, continued Baez, was the reduction and rationalization of exemptions. The Comite drew up an inventory of existing exemptions, but "what happened was that at the moment of truth in the selection of exemptions, items that should have been diminished remained untouchable, like tourism, whereas the Comite Tecnico determined that the exemption should be given in the investment phase but not in the phase of operations." Baez also told the press that the tax-reform legislation was not meant to be sent to the AN as a single piece of legislation. It was originally conceived as part of a package that was to include a law of fiscal responsibility and an administrative-career law. The three together would, in his opinion, have brought Nicaragua in line with the rest of Latin America.

Instead, there was only an article in the tax law saying that the executive would send the AN these initiatives, along with a tax code, at a later date. The Comite also meant for the sales tax (impuesto general a las ventas, IGV) to be reduced from 15% to 14% to remove from Nicaragua the distinction of having the highest such tax in the hemisphere. But, with the scuttling of the exemption reductions, the administration found it necessary to postpone a reduction of IGV until May of next year to meet its deficit- reduction criteria. And even that would be subject to conditions that Baez said would be "difficult to comply with."

The AN received the reform measure on April 24, with the task of approving all of its 142 articles in a single session. COSEP assailed it immediately, characterizing it as anti- competitive, a disincentive to investment, anti-export, and likely to increase the deficit in the trade-balance. Enrique Periera Solorzano of the American Chamber of Commerce (AMCHAM) said it would scare away foreign investment. Together, they called upon the AN to hear their plea before approving the reform.

By April 29, however, the AN had managed to approve just 62 of the articles of the reform with 48 votes in favor and one against, after the Arnoldista faction (see NotiCen, 2002- 09-12) of the Partido Liberal Nacionalista (PLN) and some others walked out in an attempt to break the quorum in support of the business community's petition to be heard on their issues. The reform passed with just one vote more than would have been necessary had all 91 deputies been present. It fell to the opposition Frente Sandinista de Liberacion Nacional (FSLN), along with the Camino Cristiano and some dissident PLN deputies, to pass Bolanos' reform.

FSLN leader and ex-president Daniel Ortega (1979-1990) saw the reform as the culmination of a long fight. "For the first time since 1990, a consensus has been reached between the government and the opposition to bring forth an integral proposal of tax and budget reform that favors the social sectors," he said. Ortega told reporters that the bill would protect the basic basket of goods from taxation, and he also heralded the IGV reduction as a victory for the people.

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