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Dominican Republic Fiscal Reform Heads to Chamber of Deputies

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In recent weeks, the issue of fiscal reform has caused tensions in the Dominican Republic, especially because some have argued that public spending spiraled out of control under the administration of outgoing President Leonel Fernández (1996-2000, 2004-2012), who has been accused of causing the country’s huge public debt, a debt that newly elected President Danilo Medina (NotiCen, May 31, 2012) seeks to curb.

Medina’s fiscal-reform proposal seeks to raise RD$46 billion (Dominican pesos)—slightly above US$1.17 billion—has met with negative reactions. However, the Senate approved it with 30 of 32 votes, all of which, with one exception, belong to the official Partido de la Liberación Dominicana (PLD). The two legislators who voted against the initiative did not attend the debate. On Nov. 2, the bill (Ley para el Fortalecimiento de la Capacidad Recaudatoria del Estado para la Sostenibilidad Fiscal y el Desarrollo Sostenible or Reforma Tributaria) was approved after two consecutive readings and with some amendments.

With the initial draft, the government sought to obtain around RD$53 billion (US$1.35 billion) during the following three years. However, the draft that was finally sent to the Senate was modified, reducing the amount to US$1.18 billion.

The amendments favor various sectors. For instance, export-processing zones are required to pay 10% less than in the original version, said Congress president Reinaldo Pared Pérez. The changes would also benefit beauty salons, nongovernmental organizations (NGOs), the renewable energy sector, and film producers, among others.

Added to this, real estate assets will only be taxed when their value exceeds RD$6.5 million (US$165,000), rather than RD$5 million (US$126), the figure established in the original version. Another amendment stipulates that, as soon as the fiscal-reform is approved, the government should grant a fiscal amnesty to people and corporations that have fallen behind on their income tax payments.

The executive sent this bill to the Congress on Aug. 24, where it was studied by a bicameral commission. After a process of consultation and revision with 30 representatives of different sectors, the bill will be sent to the Chamber of Deputies, prior to its next session on Nov. 6.

No one supports bill

Criticism of the new bill focuses on the country’s public debt, which totaled RD$148.5 billion (around US$3.8 billion), the equivalent of 6.5% of the country’s GDP.

Civil-society organizations have demanded that the attorney general’s office investigate those responsible" for the huge public debt that the government is now trying to solve by approving a fiscal reform.
Former President Hipólito Mejía (2000-2004), a candidate in the last election, has rejected the initiative, as has Miguel Vargas, president of the Partido Revolucionario Dominicano (PRD), who also rejects the fiscal-reform proposal that President Medina put forward to Congress.

Representatives of the Coalición Educación Digna told Prensa Latina news agency that "the Medina administration's bill will only bring more problems and misery for the poor, as the measures announced are against the people’s interests."

On Oct. 30, "black Tuesday," dozens of social organizations reiterated their opposition to the bill calling for an end to tax hikes.

The PRD’s Comisión Económica has highlighted the problems that Dominican society could face, if the bill is approved. The commission’s coordinator, Arturo Martínez Moya, has warned the government that if it decides to impose a "fiscal package" using its majority in Congress, tax revenue will not increase as people will curb their spending when they have to pay more for basic supplies.

Martínez told the local media that the government is trying to get people to pay more taxes so that the outgoing administration can increase public spending without explaining why it incurred such a huge deficit in 2012. "Tax hikes make things more expensive and reduce people’s expendable income, as people are relying on the same salaries to buy basic consumer supplies," he said.

One of the direct and indirect consequences of the fiscal reform is that it would raise prices by more than 30%. This, together with a 10% tax on savings, will reduce people’s spending and can lead to capital flight, said the PRD leader. He added that "wastage" and a series of past tax hikes have reduced savings to a mere 4% of the country’s GDP, whereas the Latin American average is 20%.

Martínez said that the government must explain why the central government's public debt has increased and what will happen to those who violated the Constitution and the Budget Law, before taxes are increased. He added that the government should explain why the public debt rose so much and whether public officials who violated the Constitution as well as the Budget Law could be paid, before the tax hike takes place.

Martínez also accused the PLD government of allowing public debt to exceed RD$420 billion (more than US$16 billion) and increasing fiscal deficit from more than RD$9.4 billion (US$341 million) in 2004 to RD$26 billion (US$1.03 billion) in 2012.

Will fiscal-reform package be approved?

Although the Medina administration’s reform proposal has met with opposition, it appears to be well aware of what the reform entails. Political analyst Orlando Gil said the government would use every means at its disposal to achieve approval of this project. "What use is a majority in the Senate and the Chamber of Deputies if he cannot use them when he pleases?" Gil recently asked, alluding to the control that President Medina has in Congress.

For now, it seems that the social organizations that were listened to by the Senate agree with the proposal. The PRD’s Comisión Económica has insisted that the executive’s proposal is nothing more than "a fiscal patch that does not take people into account, contrary to what President Danilo Medina has said. It leaves to one side the fact that the Dominican Republic is one of the four countries in Latin America and the Caribbean where hunger is most acute, according to the Global
Hunger Index, that around 40% of its population lives in poverty, and it has one of the most unequal income distributions in the world."

President Medina has said that fiscal reform is "timely," "necessary," and "unavoidable." The reform was approved in the Senate a few days before a new visit by members of the International Monetary Fund (IMF) was announced, during which a new contingency agreement could be reached.

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