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Tax-Administration Privatization Initiative Causes Controversy

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With tax revenue repeatedly falling below targets, President Otto Pérez Molina has argued that privatizing Guatemala’s tax-collection system, which has the highest overhead costs in Central America, is the only way to achieve greater transparency and efficiency. However, his privatization plan has been mired in corruption allegations since the local media exposed that he had held talks with an Argentine company that would allegedly receive a lucrative contract to modernize Guatemala’s tax-collection system long before the public bid was announced.

As a result of the scandal, the tax authority’s directors rejected Pérez Molina’s privatization initiative, which provoked the president’s ire and led him to announce on June 21 that they would be sacked and replaced. The issue has tarnished the government’s image and reinforced perceptions that President Pérez Molina has an authoritarian approach to leadership.

Guatemala’s chronic fiscal-revenue shortfall, which totaled US$78.8 million by the end of May, has led to concerns that the country’s tax authority (Superintendencia de Administración Tributaria, SAT) will be unable to meet the US$6.6 billion tax-collection target needed to fund this year’s budget, which would pose a serious threat to public finance a year before general elections are scheduled to take place.

As well as being ineffective, Guatemala’s tax-collection system is the most expensive in Central America. The Instituto Centroamericano de Estudios Fiscales (ICEFI), a local think tank, says SAT spends 2.3% of the yearly tax revenue collected on administrative costs, whereas, on average, its regional neighbors spend 1.4% (Panama spends as little as 0.5%), which would appear to bolster Pérez Molina’s argument that privatization is the only way to achieve greater efficiency. Privatizing the tax-collection system has been in the cards for a number of years and had already been discussed by the Congressional Commission on Public Finance, under the previous Unidad Nacional de la Esperanza (UNE) administration.

On June 11, SAT’s board of directors passed a resolution (Dictamen DCC-SAT-045-2014) authorizing SAT Superintendent Carlos Muñoz to issue a call for tenders. However, after the local media published evidence that the government has held talks with Argentine firm Kolektor since 2012, that the company paid for SAT employees to travel to Argentina to take part in training courses, and that SAT had paid Kolektor’s CEO’s travel and private-security expenses during a number of recent trips to Guatemala, SAT’s board of directors made a U-turn and voted to scrap the resolution and cancel the bid.

It has also emerged that Kolektor has a dubious track record in Argentina, where the company was accused of bribing the province of Córdoba’s local authorities in exchange for awarding the company a lucrative contract to collect local taxes.

The decision of SAT’s board of directors to cancel the bid angered President Pérez Molina who branded the board "irresponsible" and threatened to sack them. Pérez Molina has accused his critics
of favoring tax evasion. "When one tries to impose tighter control measures and raise taxes, there will always be people who are used to evading taxes and not paying. They are the ones who are against this," he said.

Vice President Roxana Baldetti has, however, admitted that engaging in talks with a potential bidder before a call for tenders had been made was "a mistake," and she has blamed former SAT superintendent Miguel Gutiérrez, who stepped down in March 2013, for allowing the institution’s employees to accept trips sponsored by Kolektor. Gutiérrez denies the allegations.

**President Pérez Molina accused of authoritarianism**

In the midst of the scandal, President Pérez Molina launched an attack on the press, particularly Prensa Libre newspaper, which it has accused of "siding with business-sector interests," and, in response, Prensa Libre accused the president of harassing its director, Miguel Ángel Méndez Zetina, and infringing on the media’s right to freedom of expression.

On June 27, Prensa Libre published an editorial entitled "No more phone calls, Mr. President," which reads: "In the past few months, the president has been calling our editorial director. We had been tolerant enough not to make this known to the public but his last call was even more unacceptable because he openly accused this newspaper of 'serving the interests of the business sector,' which allegedly wishes to sabotage the government’s attempts to curb tax evasion. This is unacceptable and we strongly reject such claims."

Critics accuse President Pérez Molina of handling the crisis in an authoritarian manner. The legality of his intentions to sack SAT's board of directors has also been the subject of debate among legal experts; whereas some argue that the president cannot legally do this for reasons other than gross negligence, insanity, or high treason, others have argued that it could be legally done on the grounds that SAT’s incompetence has led to the tax-revenue shortfall.

"It’s a faux pas to come out and say this. He should really seek advice before making these statements. Someone should explain to him that SAT is a decentralized and autonomous institution. He’s not the king of Guatemala," says ICEFI’s senior economist Ricardo Barrientos.

This is not the first time that Guatemala’s fiscal woes have sparked a political crisis. In October 2013, President Pérez Molina ordered 12 customs offices to be taken over by the military in an attempt to tackle smuggling, one of the problems that has been blamed for falling tax revenue (NotiCen, Nov. 21, 2013). The president went ahead with the intervention despite challenges to its legality, arguing that it was the only way to tackle corruption and boost SAT’s revenue collection. However, in the long term, no significant results were achieved.

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