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Since 1996, the Guatemalan government has been under pressure to reform its taxation system. The two presidents who have confronted the problem have been unable to come to agreement on the issue with the private sector, labor, and nongovernmental organizations. The most recent attempt to pass a new fiscal-reform package, relying on the value-added tax (impuesto al valor agregado, IVA), has failed, exposing Guatemala to a possible backlash from foreign investors and donor countries.

Under terms of the 1996 peace accords, Guatemala was to increase its tax collection from 8% to 12% of GDP by 2000. Failure to make sufficient progress caused problems with donor nations, the European Union (EU), and UN Secretary General Kofi Annan. Annan told the General Assembly in 1998 that he was disturbed by the government's unwillingness even to tax alcoholic beverages to move toward the 12% target (see NotiCen, 1997-10-30, 1998-10-29). The 1998 tax bill also failed to reach even the incremental goal for that year and relied heavily on regressive instead of progressive tax measures (see NotiCen, 1998-03-19).

President Alvaro Arzu (1996-2000) was unable to get the tax reforms passed and finally postponed the deadline to 2002, leaving the problem for his successor. Some 130 private- sector, labor, grassroots, and other organizations formed a Pacto Fiscal to pursue tax reform by reaching a broad national consensus.

Earlier this year, Congress passed a tax bill to partially meet the 12% goal. The bill raised income, user, and other taxes, but the controversial IVA was left untouched. The reforms were unpopular with some because the government seemed to have bypassed recommendations from the Pacto Fiscal's follow-up commission (Comision de Acompanamiento de los Acuerdos de Paz, CA).

In particular, the CA members objected to the Frente Republicano Guatemalteco (FRG)-controlled Congress' refusal to adopt its proposal for an increase in the IVA rate from 10% to 12%. But the IVA increase depends on support from labor, which generally backs the increase but expects in return an increase in income-tax (Impuesto Sobre la Renta, ISR) rates, an across-the-board wage hike, controls on tax evasion, and the elimination of tax giveaways to special interests.

IVA reform dies

When President Alfonso Portillo presented his economic plan (Matriz de Politica Economica 2000-2004) in May, he included a wage increase for public and private-sector workers. The ultimate failure to agree on an IVA increase was caused in part by the inability of Portillo and the business sector to agree on the wage hike as the price for the increase. In September, the administration abandoned any further attempt to raise the IVA and was sharply criticized for it by the private sector and the CA.

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Cesar Garcia of the Comite Coordinador de Asociaciones Agricolas, Industriales, Comerciales y Financieras (CACIF) reminded Portillo that the rate hike was the only quick way to meet the 12% goal. He said the measure had consensus among the interest groups including CACIF represented in the pact. But some labor spokespersons said the tax raise was supposed to have been linked to wage increases of around 4%, something that has not happened.

Later in September, Portillo said he would support the IVA increase only if the private sector accepted wage increases. "It's up to the private sector," he said. "If there is a wage increment, we go with the IVA." Then on Oct. 3, Portillo sent Congress a new tax package that skirted the IVA increase. Instead, it reduces the amount of IVA expenses taxpayers can deduct from their income tax. By 2004, the amount of IVA tax credit permitted would decline from the current 100% to 25%.

In addition, the package contains changes in the cost of revenue stamps and makes changes in various tax exemptions. The latter includes a reduction in tax credits for exporters. Manfredo Chocano, a researcher with the Centro de Investigaciones Economicas Nacionales (CIEN), generally approved reducing the write-off for IVA expenses but criticized the increased tax on exporters. He warned that to increase their taxes when the country has oriented its economy toward the promotion of exports "is a very grave error."

Despite the new package, there is no guarantee the increase will be sufficient and the collection rate high enough to meet the revenue goal next year. For now, the experiment in writing tax law by consensus has not produced the intended results. There are renewed warnings about the implications of missing the 12% goal.

Except for Haiti, Guatemala has the worst tax-collection record in the hemisphere. Most of its neighbors collect taxes equal to 14% of GDP. Carlos Barbery, Inter-American Development Bank (IDB) representative in Guatemala, said that without the IVA increase the 12% goal is out of reach. The ensuing growth in the fiscal deficit would have a negative effect on foreign investment and might deflate donor-country interest in continued aid to Guatemala. Barbery noted that the tax revenues in donor countries averaged 30% of GDP. [Sources: Notimex, 05/07/00, 05/10/00, 05/25/00; Siglo Veintiuno (Guatemala), 09/19/99; Inforpress Centroamericana (Guatemala), 09/29/00; Prensa Libre (Guatemala), 09/27/00, 10/04/00]

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