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President Hipolito Mejia has proposed a package of social reforms designed to reduce poverty and protect the poor against the tax increases in his earlier reform package. Despite the tax increases, there may not be enough money to fund the social programs. Mejia's economic package (paquetazo), proposed last November and passed by Congress in December, was billed as an austerity program to deal with a US$437 million fiscal deficit and a US$1.5 billion foreign debt (see NotiCen, 2000-12-07).

The main feature of the tax portion of the package is an increase from 8% to 12% in the tax on manufactured goods and services (Impuesto a las Transferencias de Bienes Industrializados y de Servicios, ITBIS). It also includes a 3% tax on mortgages, a 1.5% tax on business gross receipts, and a ban on the importation of used vehicles, motorcycles, and electric appliances for the next five years. The bill also places a 12% tax on advertising and caps finance charges on credit cards at 4%. The bill contains some medical exemptions and exempts annual incomes below US$7,430 from payment of the income tax. Incomes between US$7,430 and US$12,384 will pay 15%, increasing to a 25% tax on incomes over US$18,576. Incomes under US$123,839 derived from industrial or commercial businesses are exempted from both the income and gross-receipts taxes.

Also included in the bill are taxes on caviar, liquor, cigarettes, and perfumes, with taxes on luxury items rising as high as 60%. As an environmental measure, the bill prohibits the importation of vehicles over five tons that are older than 15 years. The bill also reduces tariffs. A range of 3% to 20% replaces the old schedule, which ranged from 3% to 35%. Businesses were quick to complain.

Federacion Dominicana de Comerciantes (FDC) president Ivan Garcia said in December that his organization would challenge the tax portions in the Suprema Corte de Justicia (SCJ). He said the 1.5% gross- receipts tax was unconstitutional because Article Nine of the Constitution prohibits forced payment of "inequitable" taxes. Garcia said 80% of the small and medium-size businesses in the country would close under the weight of the new tax burden.

The Asociacion Nacional de Hoteles y Restaurantes (ASONAHORES) asked Mejia to seek changes in the bill to prevent the tourism industry from being "swept away" by the impact of higher taxes. Besides a 12% ITBIS tax on hotel rooms and airline tickets, the industry faces the 12% tax on food and beverages. Industry officials pointed out that a 5% tax on hotel rooms and a 10% tax on airline tickets already exist. Senate representatives admitted it was double taxation and said the new taxes were a typographical error. Nevertheless, private- sector leaders were skeptical.

Celso Marranzini, president of the Consejo Nacional de la Empresa Privada (CONEP), said he wondered if it was an error or an attempt to harm the sectors hit by the new tax scheme. "We have warned many times that tax experts should review those bills, but they paid no attention and

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acted in great haste," Marranzini said. In April, CONEP asked Mejia to reconsider some of the tax mechanisms, arguing that they discourage investment.

Moreover, tax consultant Remberto Diaz Nuez warned that the higher taxes would encourage tax evasion. He said that, since Dominicans are not accustomed to paying taxes anyway, the government should mount an education program, starting in the schools, to indoctrinate the public on the civic value of compliance with tax laws. Despite new taxes, economy officials said in April that the budget would run a deficit of more than US$633 million this year, necessitating an agreement with the International Monetary Fund (IMF) for a loan of between US$100 million and US$150 million.

Economists consulted by the government said the deficit should not be covered internally because state banks did not have the funds and the Banco Central, as a matter of policy, is not supposed to bail out the government because of the increase it would probably cause in prices and interest rates. Furthermore, to transfer funds from private banks to the public sector would harm investment. Mejia announces social package Parallel to the tax package, Mejia announced in January that he would soon unveil a "paquetazo social." This package would be aimed at poverty reduction. Mejia described it as a plan to compensate the poor for the tax increases in the economic paquetazo.

The resulting package includes a reduction in the price of propane gas, distribution of US$18.58 monthly to the poorest 300,000 families, free breakfasts for 400,000 students, and distribution of 40,000 free bicycles to rural students. The plan also calls for US$2.476 million for small and microenterprises, as well as money for road, school, and hospital construction, vaccination campaigns, and a program to create 150,000 jobs in environmental projects.

Another group of proposals under debate in Congress calls for improvements in health, pension, and other insurance. Mejia said the country needed a "reordering" that would improve social equality. He said he did not become president to make people like him but rather to do something about social marginalization. And these social proposals had nothing to do with election politics, Mejia said. Critics immediately attacked the social paquetazo as costly and ill conceived. Its cost, estimated at 25% of the budget, helped explain the deficit and the need for external funding.

Jose Tomas Perez, secretary general of the Partido de la Liberacion Dominicana (PLD), said Mejia had "sold" Congress on the tax and tariffs measures as a way to combat poverty but now proposed to go into debt to pay for the anti-poverty measures because the tax revenues would not cover the cost of the plan. Perez said the president should create jobs by harnessing the productive forces of the economy instead of proposing "paternalistic" programs financed with loans.

The daily El Siglo reported in mid-April that the centerpiece of the social paquetazo, a reduction in propane prices, had already been undermined by a reduction in the government subsidy, saving US$2.724 million monthly. The government is also considering reducing the subsidy for electricity, which would realize a US$6.19 million monthly savings. Electricity bills would rise by 20% but only for large power consumers, said officials. Most of the social measures are supposed to go into effect in May but have been slow to leave the drawing boards. And there are concerns that some expenditures cannot be funded because tax revenues in the first quarter were 5% lower than expected.

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El Siglo said the government has yet to say where the money will come from.

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