

A few lessons from our engagement in Colombia

Discussion: Towards Poverty and Inequality reduction in Colombia: Analyzing the 2012's Tax Reform

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Enabling environment when the dialogue started

- Economic context:

- Strong economic performance (quick recovery from financial crisis)
- Stable macro framework (good track record of reforms, prudent macro management)
- Some poverty reduction,
- but stubbornly high inequality

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- Political context:

- Government counted with high popularity and strong parliamentary support.
- Commitment with a fiscal reform agenda.

Policy dialogue benefited from a combination of instruments and expertise.....

- Analytical Work (Macro/Fiscal+Poverty+Governance):
 - Fiscal Policy and Equity Analysis
 - Tax expenditure study
 - Ex-ante and ex-post reform simulation
- Convening services:
 - Local Conferences (Equity day, Tax conference at BanRep, OECD-IDB-DIAN-CIAT regional conference on tax policy, etc);
 - Local Press (Caracaol, CM&, ANIF review, etc);
- Lending:
 - DPLs+ PSIA helped validate and promote good reforms, and opens a space for policy dialogue beyond the supported reforms.

.....*led to concrete contributions*

- *2012 tax reform* objectives → **Fiscal Policy and Equity Analysis** recommendations, including:
 - the introduction of an alternative minimum income tax (IMAN),
 - specific elements to increase tax system progressivity (declaration by independent workers, taxing pension income, reducing the income tax threshold, reducing deductions in the personal income tax).
- *2012 tax reform* VAT simplification → **Tax Expenditures Study** recommendations: VAT system is complex, regressive and has high administrative costs for the tax authority and high compliance costs for tax payers, should simplify and reduce the number of tariffs.
- Finally, the Bank's **Ex-ante Reform Simulation** → presentation of the *2012 tax reform* proposal to congress, and discussions.

Going forward

- Economic and Political context have change: Low oil prices reduced growth and tightened fiscal conditions. Peace negotiation absorbed political capital.
- Policy dialogue focused only on equity is unlikely, but equity should still be an important part of the equation.
- Future efforts could focus on:
 - Sharing lessons and helping sustain gains from the 2012 reforms (preventing reversals)
 - Ensuring that tough fiscal reforms ahead (both on tax and revenues) are well informed about potential distributional impacts: *stability+ equity + efficiency*