LOOKING FORWARD: THE TAX REFORM AGENDA IN COLOMBIA

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Tax reforms in Colombia

- The objective of the 2012 tax reform was to make the tax system more progressive while being revenue neutral
  - Reduction in payroll taxes
  - CIT lowered (33% ➔ 25%), but CREE (9%) introduced
  - IMAN & IMAS introduced – minimum alternative income tax
  - VAT rates simplified + new excise taxes
- However, a comprehensive tax reform remains a key priority for Colombia
  - Relatively low tax collections – 14.2% of GDP (Central Government)
  - Tax exemptions very high (3% - 4.5% of GDP)
  - Tax evasion is wide-spread (~40% of VAT and income tax)

What has happened since 2012?

- Constitutional Court ruled against part of the personal income tax reforms
  - IMAN and IMAS taxpayers are entitled to deduct 25% of income (like under regular PIT)
- Leads to an estimated loss of COP335 billion per year in tax revenues
- Lowers the effective rate for high income taxpayers under IMAN
  - From around 15% for high income earners to around 10%
  - This partially reverses the improved progressivity

What has happened since 2012?

- Another tax reform in December 2014 – but with "expiration date"
  - This time, objective was to raise additional revenue to compensate for lower oil revenues
  - Maintain CREE at 9% + additional CREE surcharge (until 2018) for corporations with profits >COP800 million
  - Financial transactions tax and net wealth tax (with modifications) extended until 2018
- The reform also created a Commission to propose comprehensive tax reforms going forward

What is on the agenda for 2016 onwards?

- Tax commission is studying various options, including
  - VAT rates and exemptions/exclusions
  - Corporate and personal income tax
  - Special regime for non-profit organizations
  - Special regime for MSMEs (IMAS)
  - Regional taxes (local business tax, tobacco tax)
  - Green taxes
  - Tax administration reforms
- Context: increased fiscal pressures, expiration of temporary taxes from 2019
- Revenue mobilization vs. simplification vs. distributional impact
- Support through new DPL series (fiscal & growth) and PER