

# Tax Insights from Latin American and Caribbean in the Context of COVID-19

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## Abstract

Appearing in early 2020, the Covid-19 pandemic has forced Latin American and Caribbean (LAC) countries to implement tax measures to support taxpayers and sustain tax revenue through the outbreak. Policy makers need to assess the implementation of these measures and future policies while considering current issues such as lack of fiscal space, shortage of economic flows, rushing digitalization and falling tax morale in the region. This contribution covers the current scenario in LAC and provides tax insights to be considered as the region moves forward after the crisis.

**Keywords:** Covid-19; Latin America; Caribbean; Fiscal Space; Tax Administration; Tax Compliance; Tax Morale; Government Support.

## 1. Introduction

The Covid-19 pandemic has highlighted the economic and health shortages of countries around the world, being Latin America and Caribbean (LAC) on the most vulnerable side of the crisis. Reviewing and updating fiscal policy is essential in aiding governments in dealing with the pandemic. The emergency has required quick tax policy responses to support taxpayers and sustain tax revenue through the outbreak. As in other regions [1], benefits obtained by these measures may apply automatically or conditionally depending on circumstances such as taxpayer category or size. In addition, tax incentives for specific sectors or activities with a higher probability of economic decline have been implemented.

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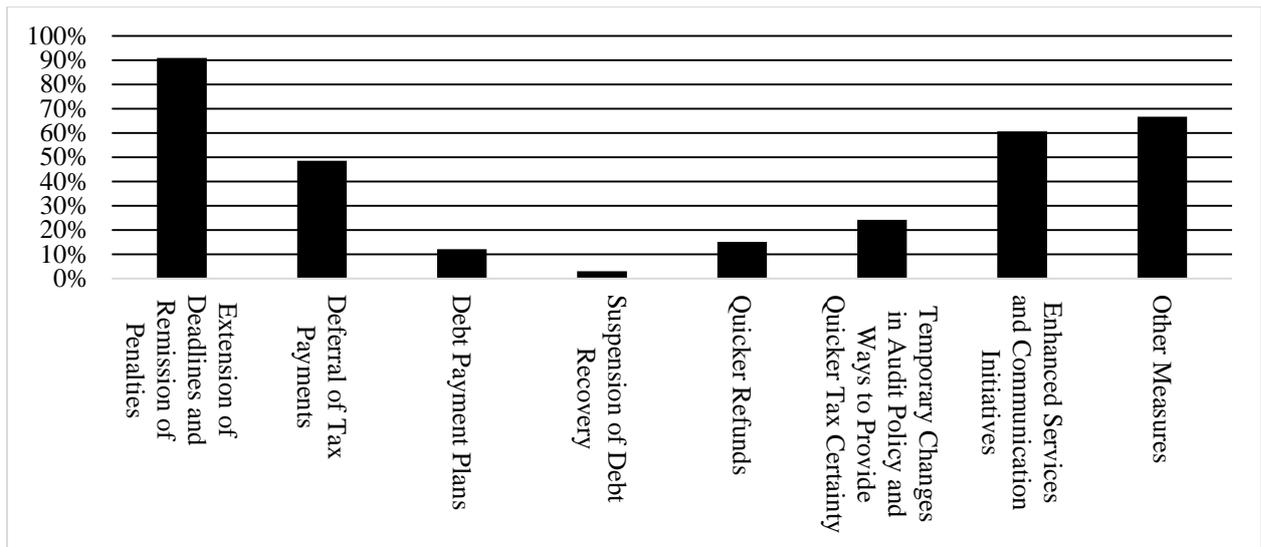
From an administrative perspective, many of the measures on business continuity considerations recommended by the OECD, the Intra-European Organization of Tax Administrations (IOTA) and the Inter-American Center of Tax Administrations (CIAT) has also being considered [2]. Digital transformation and prioritization or suspension key functions, such as tax collection and audits, are challenges endured by the LAC Tax Administrations. For example, the temporary suspension of audits and debt recovery functions have been enacted to alleviate taxpayers from administrative burden but may have an impact on current tax morale and future tax compliance. Even if the emergency measures enacted by LAC countries follow the Organization for Economic Cooperation and Development's (OECD) suggested action plan [3], the authors recommend reviewing the possible short- and long-term impact of these schemes in a LAC perspective, with special emphasis on key terms such as fiscal space and cooperative compliance. A recent report issued by the World Bank [4] establishes a pessimistic portrait of LAC's future as the Covid-19 Pandemic follows several years of disappointing economic performance. This, along with overall uncertainty, demands the evaluation on balancing the businesses and households' liquidity with governments' tax revenue.

## **2. Methodology**

The research design for this study is an analytical research based on both quantitative and qualitative methods. This research has been carried out by collecting, analyzing and interpreting information from 34 countries of the LAC region, excluding non-independent countries and territories. Quantitative methods have been mainly used on the collection of economic data and statistics that measure the evolution of taxation and sector trends in the region. On the other hand, qualitative methods have ensured a critical analysis on variations and new opportunities regarding enacted tax policies.

## **3. Fiscal Space and LAC Trends**

Undoubtedly, the measures implemented by countries to minimize the health and economic impact of the COVID-19 pandemic are not without sacrifices from the private and public sector. In respect with the latter, fiscal sacrifices are made in order to implement fiscal stimulus measures, but the magnitude of such measures will depend on the specific fiscal space of each country. Fiscal space, as defined by the International Monetary Fund, is "the room to raise spending or lower taxes relative to a pre-existing baseline, without endangering market access and debt sustainability" [5]. This concept is now more important than ever as LAC countries are struggling on keeping up with budgetary demands arising from the crisis while maintaining tax collection afloat. In general, developed countries with solid economies will be able to implement more sizeable fiscal stimulus rather than developing countries, undermining potential fiscal measures to face the economic consequences of the pandemic. In a recent report published by the World Bank [6] data shows that governments in LAC with less foreign debt as a percent of their Gross Domestic Product (GDP), are able to implement larger stimulus packages, a stark contrast to countries who have a larger foreign debt to GDP percentage. In order to maintain uniformity regarding the classification of tax measures implemented by Latin American countries amid the COVID-19 pandemic, in this article such measures are classified as followed: extension of deadlines, deferral of payments, debt payment plans, suspension of debt recovery, quicker refunds, temporary changes in audit policy, enhanced services, and other tax measures.



**Figure 1:** Trends of Measures Taken by LAC Countries

Source: Own elaboration.

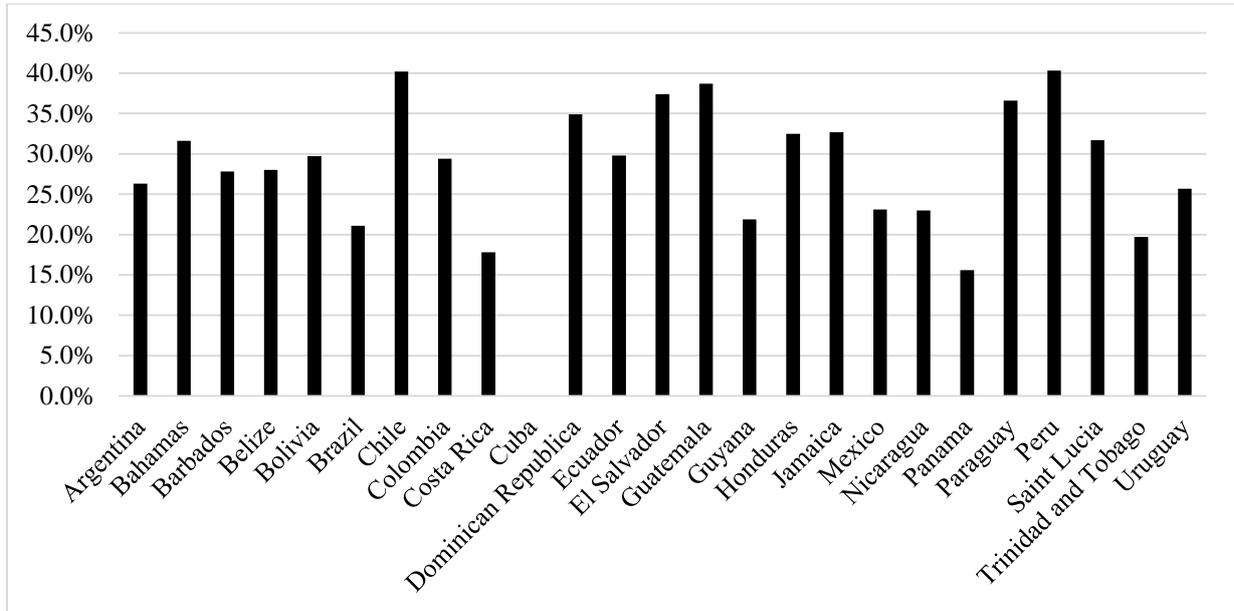
As shown in the previous figure, fiscal measures implemented by developing countries tend to be directed to safeguard households and businesses liquidity, easing tax burdens on the short term, an exemption of VAT, rather than direct cash transfers to stimulate consume, because they lack fiscal space to destine budgetary funds to said stimulus packages. As the extension of deadlines is a key measure implemented by LAC countries, most of these deadlines have been extended for only a few months or have been restricted to a specific type of tax or taxpayer category. Not only actions were destined for taxpayers but also for tax administrations in the sense of expediting processes such as tax refunds and efforts in enhancing communications towards taxpayers to maintain a level of information and avoid uncertainty on the measures being put in place. It was no surprise that the extension of several deadlines regarding filings would be the most adopted measure amongst LAC countries as social distancing measures are being enacted and to file information often requires taxpayers physical mobility in instances where electronic presentation is not available or taxpayers do not have access to such resources. As the most common liquidity-seeking tax measures implemented, Figure 1 shows that the deferral of advanced payments and the postponement of several kinds of taxes payment were put in place by countries. Also, some countries opted for reduction rate on selected taxes such as social contributions amongst others. And of course, VAT exemptions on medical supplies is becoming a fiscal trend to support the fight against COVID-19. In summary, Figure 1 shows a collection of measures and tax sacrifices that LAC countries are willing to make in order to support businesses, which will most likely impact public finances and debt levels in the short and medium term as countries destined the available funds to the most urged sector being the healthcare system. It is worth noting that LAC jurisdictions are enacting new tax measures in a recurrent basis. This issue is an evident limitation in this paper and, therefore, available information must be updated regularly in further research.

#### **4. Economic Flows in LAC Jurisdictions**

Global Markets have been severely compromised by the effects of the COVID-19 pandemic and the much necessary social distancing measures implemented (e.g. lockdowns, which can vary on duration and frequency dependent on the evolution of the stages of the pandemic), to reduce contagion and overwhelming of the medical system in each country. Naturally, as international trade and economic activity reduces, an impact will be perceived in the amount of tax revenue collected by countries. Forecasting the impact on tax revenue of the current events poses a troublesome task, as the lay of the land is constantly changing. Tax revenue must be seen in subcategories from within as many sources of tax revenue for fiscal authorities will be affected in different magnitudes during this pandemic period. As stated by the Department of Fiscal Affairs of the International Monetary Fund (IMF) [7] traditional forecasting measures focalized on tax buoyancy, percent change in tax revenue for every percent one percent change in GDP, will most likely overestimate revenue perceived by countries during the pandemic. Also, the size of each taxpayer will be a relevant factor in determining business continuity and recovery period during and after the pandemic, as large taxpayers will more often possess a diversified mix of income and can receive support from its parent companies. In contrast to small taxpayers, that will often have a unique source of revenue, and their continuity will be greatly dependent on support and policies issued by governments and the evolution of the pandemic. The Department of Fiscal Affairs of the IMF suggests a continuously revised and updated forecast measure targeted to specific sectors, as it would be more precise and easily adjusted. Nonetheless, tax income to GDP ratio is a key metric to understand how much tax is being collected in relation to the value of goods and services produced by each country in a determined period. The OECD [8] indicates that in 2018 the average tax collection for the LAC region in relation to GDP was 23.1% showing considerable divergences between some jurisdictions. The greatest contributor in terms of tax collections for the LAC regions has been taxes on goods and services in the form of VAT and taxes on profits. LAC is a region characterized by large levels of inequality within their countries in several aspects such as income, healthcare access, education, amongst others, which will only be more noticeable because of the COVID-19 pandemic. It is worth stating that since the 2000s [9], through a wave of tax reforms, the tax mix of the LAC region has been transformed. Contribution from direct taxes increased in 6 point whilst contribution from indirect taxes decreased by 7 points. Evidence states that direct taxation tends to decrease inequality whilst indirect taxation increases. This correlation exists as taxpayers who have lower income has to absorb this fiscal burden, while high income taxpayers would be barely impacted. In many countries of the LAC region, indirect taxes remain their greatest source of fiscal revenue, hence contributing to inequality from a fiscal standpoint.

A report by CEPAL (Comisión Económica para América Latina y el Caribe) [11] points the following industries as the most affected depending on the combination of the effects of demand and supply it has had on each one:

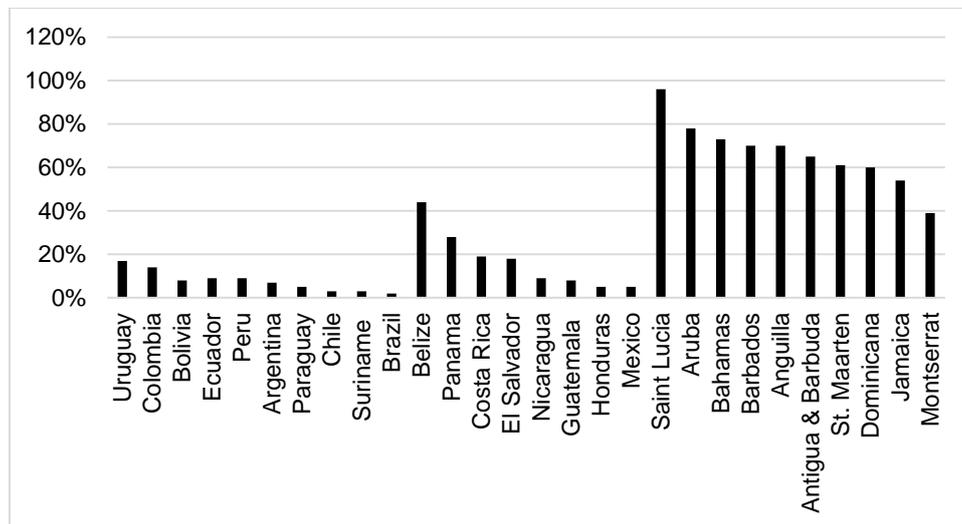
- **Strong Impact:** Tourism Services, Commerce, Traditional Culture Industry, Goods Restoration, Hotels and Restaurants, Transport, Fashion, Automotive Industry.
- **Significative Impact:** Mining, Electricity, Gas, Water, Construction supplies and construction, Business Services, Financial Activities, Drinks, Woods and Furniture, Chemical Industry, Electronics.
- **Moderate Impact:** Cattle Raising, Agriculture, Fishing, Food Production for the Domestic Market, Medical Supplies, Medicines, Telecommunications, Containers.



**Figure 2:** Percentage of Value Added Taxes to LAC Tax Structure<sup>a</sup>

Source: Revenue Statistics in Latin America and the Caribbean [10].

It is to be expected that businesses that require physical presence would be the ones that are mostly affected rather than those who are being greatly demanded by consumers such as communications, medical supplies, and those related to food safety. The previously sector contribute to GDP as follows: Strong Impacted sector in a 24.6%, significative impacted sectors in a 61.3% and moderate impacted sectors in a 14.1%.



**Figure 3:** Tourism as a Share in Total Exports

Source: Own Elaboration with data form the World Tourism Organization [12]

<sup>a</sup> Information not available for Cuba.

Figure 3 depicts the amount of export from international tourism (considering receipts in destination and passenger transport, and items from the balance of payments from each country) with information updated to 2018. Clearly, countries from the Caribbean are being strongly impacted as tourism related products contribute immensely to their percentage of exports with a regional average of 67%. For the South American region, specifically in Uruguay, tourism contributes to 20% of their exports. In Central America, Belize with a 46% and Panama with a 28% are the most affected countries. The countries enlisted in Figure 3 will have a high share of indirect taxes in the form of VAT as a mix of their tax revenue. They will need to implement fiscal incentives to the sector to attenuate the impact of COVID-19 and prompt a sustainable recovery. Deferring tax obligations and deadlines is not enough from a fiscal standpoint as countries need to implement more creative measures to aid their most important and vulnerable economic sectors. Industry wise, CEPAL states that 2.7 million businesses could close because of diminishing income and discontinuation of commercial activities.

- In Colombia, 96% of business registered drop in sales with three quarters of the total, being drops over 50%.
- In Brazil, 76% of the industrial business slowed or halted their production, suffering also from difficulties in obtaining working capital.
- In Argentina [13], the manufacturing industrial production has suffered in their outputs being the top five being: Vehicles industry with -89%, other transport equipment -82%, clothing, footwear and leather with -75%, non-metallic mineral products -71% and Basic Metallic Industry with -65%.
- In Chile [14], according to a survey performed by the National Chamber of Commerce, Service and Tourism, 60% of businesses expressed performing with a 30% output and 30% are not operating at all. Regarding sales, commerce businesses experience a 51% drop while hospitality services experience a 97% drop and food and restaurants an 83.7% drop.
- In Uruguay [15], the Chamber of Commerce and Services of Uruguay, surveyed businesses in which 76.8% expect further drop in sales through 2020 and 23.1% of businesses answered that they had more of 50% of personnel under unemployment insurance.
- In the Central American region, the publication shows that 50% of business would need close to a year to recover the billing lever Pre COVID-19, and a longer period or small business.

Data suggests that the most impacted business will be approximately 1.5 million wholesale and retail stores with over 4 million jobs terminated, followed by hotels and restaurants, other community activities, and real estate business and rental.

A recent report published by CIAT shows how the pandemic has affected tax collection, reflecting a sharp drop in April at an average of -25.47% throughout the region, as the following table shows:

**Table 1:** Evolution of Income Tax Collection in LAC Tax Administrations

Countries	March	April	May
Argentina	-8.16%	-23.39%	-23.65%
Brasil	3.67%	-28.79%	
Colombia	-5.04%	-31.87%	
Costa Rica	2.65%	-24.12%	
Ecuador	6.15%	-35.59%	-6.86%
El Salvador	0.49%	-30.48%	-13.88%
Guatemala	-29.48%	9.56%	
Mexico	30.08%	-15.27%	
Panama	-41.93%	-53.80%	
Peru	-15.86%	-36.56%	22.03%
Dominican Republic	15.61%		
Uruguay	2.91%	-9.88%	-19.61%
Average	-3.24%	-25.47%	-8.39%

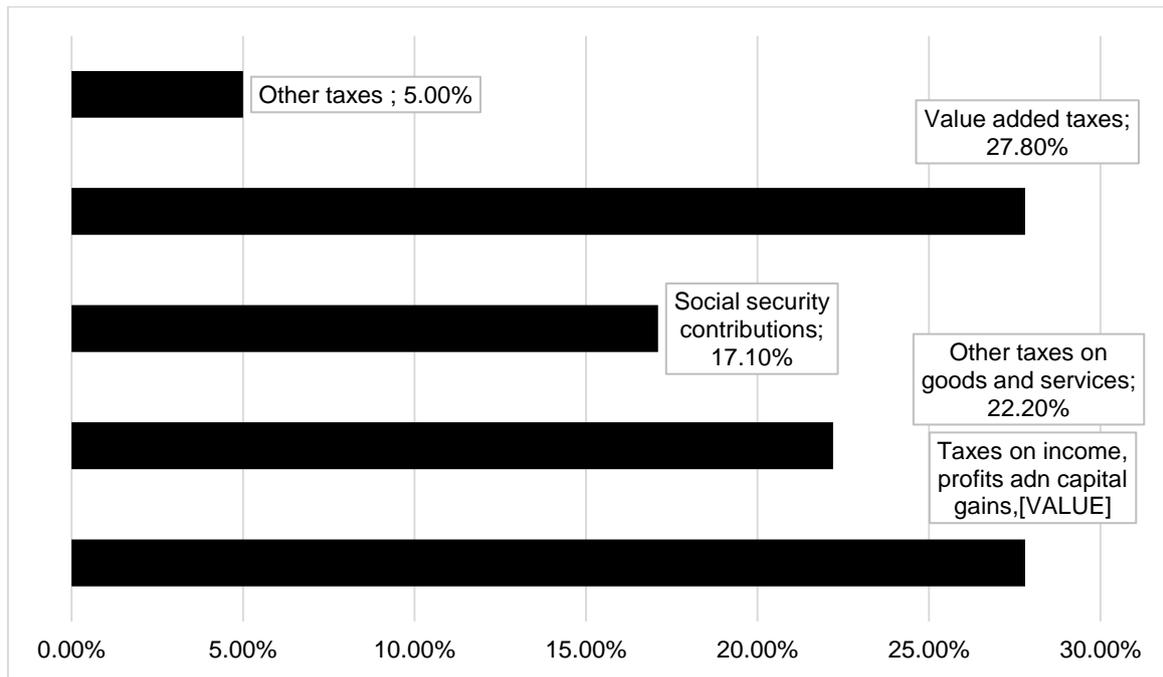
**Table 2:** VAT Tax Collection Evolution in LAC Tax Administrations

Countries	March	April	May
Argentina	-15.32%	-25.62%	-27.74%
Colombia	-10.09%	-38.62%	
Costa Rica	16.48%	-36.13%	
Ecuador	-6.77%	-38.61%	-46.94%
El Salvador	4.39%	-20.75%	
Guatemala	-28.19%	7.55%	-23.52%
Mexico	24.44%	8.28%	
Panama	-21.29%	-62.08%	
Peru	-11.13%	-35.60%	-39.50%
Dominican Republic	-24.42%		
Uruguay	-0.31%	-9.27%	-16.23%
Average	-6.56%	-25.09%	-30.79%

Source: Reporte de Recaudación Covid-19 (RRC) [16]

As consumption and economic activity decreased, massive drops have been reflected on fiscal revenue collection in the form of VAT, as the previous table shows, in comparison to April from the year 2019, VAT collection has dropped in -25.09% and -30.79% in May.

The importance of these two specific taxes for the region governments, is depicted in the following figure:



**Figure 4:** Tax Structure in the LAC Region 2018

Source: Revenue Statistics in Latin America and the Caribbean [17]

As Figure 4 depicts, VAT and taxes on income, profits, and capital gains account for 27.80% each of the total tax revenue. These statistics bring a serious dilemma to regional leaders. As the region is fighting many inequalities, which from a fiscal standpoint, are exacerbated by the fact that governments rely heavily from indirect taxes to fund themselves with the resources needed to provide basic services, education, public expenditure, among other critical needs. On the other hand, implementing new tax exemptions and special regimes will also impact in unexpected ways, as governments seek to improve investment while counting with a small fiscal space. A focalized approach on balancing these issues must be taken by providing the fiscal aid first to the critically endangered sectors of the economy. Governments must design their policies accordingly to their economic reality, especially considering their productive sectors, which have been severely compromised. A regression in the industrial structures to primary economies must be avoided through such policies. This regression would imply a loss of technological know-how, concentration of assets loss and loss of employment, and a disruption in the supply chain which is heavily participated by large companies. An important aspect moving forward will be the collaboration that governments have with large taxpayers and policies designed to aid them, as they represent 90% of the total exports in the LAC region and accounting for 39% [18] of formal employment. One of the strategies that can be adopted is flexibilization and efficacy in the capital markets because liquidity is a mayor issue during the pandemic. Also, a fiscal policy review should be directed towards a more progressive tax system complemented with an effective public expenditure strategy.

## **5. Digitalization of LAC Tax Administrations**

### **5.1. Before the Covid-19 Pandemic**

“Going digital” seems a good motto for evolving tax administrations. Many global summits [19] have gathered many countries and companies to discuss the latest advancements in information and communications technology (ICT) and show how it is embedded on the critical functions of tax administrations. Issues regarding taxpayers’ registration, e-filing of tax returns, online payments, web services and electronic invoicing have been tackled with technology. Before the Covid-19 pandemic, LAC countries have been dynamic in the digital transformation of their tax administrations [20]. For example, CIAT member countries<sup>b</sup> have a larger percentage of taxpayers’ registry through applications (64.9%) than on paper procedures (40.5%). The e-filing of tax returns is the most effective channel used for returns in CIAT member countries (67.5% for CIT, 49.8% for PIT and 69% for VAT) while paper tax returns are the second most important option (25.3% CIT, 29.7% PIT and 24.3% VAT). Also, the online payment of tax return has been well received by CIAT member countries as, in an aggregated average, more than 60% of the due payments are made through digital services. However, before the COVID-19 pandemic, digital tax policies, availability and utilization of digital services vary between LAC countries. While some countries like Brazil and Chile enjoy a mandatory obligation on e-filing of any tax return, other such as Barbados and Belize did not have an available e-filing service. In Honduras, only 17% of taxpayers pay their taxes through online channels while in Guatemala, a neighboring country, 98% of their taxpayers do their payments online. Even if digital services are established by tax administration, the use of ICT tools require time to develop and refine but also to learn and to engage in the daily life of a citizen as only 66% of the LAC population were using the internet in 2018 according to World Bank Data [21].

### **5.2. Rushing Digital Transformation during the Crisis**

Many administrative processes carried out by tax administrations have changed drastically because of the measures taken by governments to diminish the COVID-19 pandemic. The digitalization of tax services must be one of the main objectives for tax administrations to move forward in a digital world. In LAC countries, physical interaction between the tax administration and the taxpayer is required in many routine procedures such as tax audits. However, at least 60% of LAC countries have improved their enhancement of digital services during the pandemic, to help their critical functions of tax collection and assistance. But are we looking at the implementation of quick fixes or a real digital transformation of tax administrations in LAC? A recent report published by CIAT [22], shows the necessity of tax administrations to enhance and invest in Information and Communication Technology. Data shows that there is an inverse relation between the income level and the workload by tax administrations, as low-income countries will have a higher workload than high-income countries. Also, lower-income countries will destine more budgetary resource in relation to GDP, at a 0.26% percentage in contrast to high-income countries with a 0.18%. The previously stated translates in a non-cost-effective operation as high-income countries spend one monetary unit to collect a hundred while low-income countries expense is three times higher. Implementation of new digital services is crucial to build a solid

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<sup>b</sup> CIAT members mostly consist of LAC jurisdictions (30 out of 42 member countries); however, there are also member states or associate members pertaining to Europe, Africa and Asia.

relationship between the tax administration and the taxpayers in this era. To achieve this, CIAT [23] emphasizes on how Citizen Relationship Management (CRM) can enhance services provided to taxpayers. A study on how these relationships are managed from an operational standpoint comprising all the digital services offered to taxpayers will provide metrics on how to improve constantly and check for solutions to new needs. Also, from an analytical standpoint, implementation of big data programs will aid tax administrations to achieve their efficiency objectives. New services must be provided by tax administrations and modernization in general of their operations. Improvements to its registry system through a cooperation regarding taxpayers' data amongst institutions, implementations of new methodologies in several services so taxpayers can have information on hand at all times, implementation of electronic data (e.g. electronic invoices, online submissions electronic accounting data, pre filled VAT forms, and else), will not only ease taxpayers' voluntary compliance but also provide a more expedite source of information available to tax administrations and provide a greater level of control. But these projects might only be delivered on the long run for LAC countries as they need time and resources that are now limited and centralized on key, critical functions.

## **6. Tax Morale and Tax Compliance in LAC**

### ***6.1. Behavioral Insights in Taxation***

Behavioral insights for tax compliance have been gaining importance in the past years. As pointed out by the World Bank [24] and the OECD [25], practical policies and interventions that consider human behavior offer tax administrations an opportunity to improve their understanding of taxpayers' actions and create effective strategies to assure tax compliance. Other stakeholders benefit from behavioral analysis as new, user-friendly services are developed by tax administration in favor of easy compliance. Furthermore, behavioral insights are considered essential on tax debt management [26] and tax compliance burden [27] maturity models. Several case studies [28] prove that a change in neglecting conduct can be obtained through low cost opportunities. For example, behaviorally informed messaging via email induce tax payments and increases the number of compliant taxpayers. Some of these successful studies were carried out in LAC countries, such as Guatemala and Costa Rica. This means behavioral analysis is not unknown to the region. During and after the COVID-19 pandemic, it will be interesting to observe the development of behavioral insights. Integrating behavioral insights into strategic objectives of tax administrations might not be a priority nowadays. However, this could be a mistake. The new question on tax morale is not "What drives people and businesses to pay tax?", but instead, it is "What drives peoples and businesses to pay tax during a crisis?".

### ***6.2. Tax Morale in LAC***

Tax morale research seek to understand the factors that influence taxpayers' perceptions of the tax system and willingness to pay taxes. Some of these factors include geographic location, age, citizenship, gender, trust in government, among others. A recent OECD report on tax morale [29] shows how its drivers and dynamics vary from one region to another and gives new insights on how they impact individuals and businesses. In the OECD report, the LAC economies showed one of the highest levels of tax morale in comparison to other regions for individuals. Tax morale levels were measured by comparing attitudes towards tax avoidance, showing that more

than 70% of the population would never justify cheating on taxes. However, tax morale appears to decrease in recent years due to economic and social changes in LAC [30], including lack of effective response of public institution and corruption. They conclude that those who have greater trusting government also have higher tax morale. If true, these negative factors will worsen tax morale during the COVID-19 pandemic as the mishandling of the health and economic crisis by many LAC governments is under fire. According to Transparency International [31], 13 of their national chapters in LAC raised alarm over corruption risks in regional emergency responses to the COVID-19 pandemic. From a citizen's point of view, corruption could be a determinant factor on deciding not to pay their taxes as it is useless sacrifice and not as a national duty. On the other hand, for businesses, tax morale levels have been measured by using tax certainty as a proxy. Tax uncertainty has significant impact on the changing of business structures, increasing cost administration and reduction of investment. It is a difficult matter to address as it has many sources ranging from unclear legislation to lengthy dispute resolutions. In this regard, the OECD report on Tax Morale demonstrates how businesses in LAC believe they are frequently affected on their corporate decisions, with values as high as 30% well above other regions. Adding the negative factors that has reduced the trust in governments and their legitimacy during the COVID-19 to the mix, tax morale levels are surely falling across the region.

### ***6.3. Impact of COVID-19 Tax Measures on Tax Morale***

As discussed before, there are many factors that affect tax compliance under a tax morale perspective. Under the context of the COVID-19 pandemic, the poor trust in government combined with ineffective tax measures will probably undermine the taxpayers' will of paying their taxes. As pointed out by the OECD [32], taxpayers under critical economic stress are more likely to evade their tax obligations as they are forced to move their activities from the formal to the informal sector, caused partly by the lack of appropriate government responses. Recent fiscal policy measures introduced around the world have the main objective of maintaining business cash-flow. These measures might partially alleviate financial pressure in a short time, but they may also have a negative effect on tax compliance culture in the future as taxpayers could take advantage of them to seek for tax evasion opportunities. Tax measures largely enacted in LAC, like the deferral of tax payments or extension of deadlines, could give a wrong message to the taxpayers if there is not a constant, cooperative interaction with tax administrations. For example, a taxpayer moving to the informal sector may acknowledge an extension of deadlines measure as an opportunity to stop filing their tax returns. If the tax administration is not actively detecting tax compliance breaches and letting taxpayers know these breaches are under the radar, there will be a tax non-compliance culture on the way. Considering tax morale issues is relevant when creating fiscal and administrative policies as a response to the COVID-19 pandemic. Tax administrations in LAC need to assess the financial impact of the pandemic on their taxpayers and construct new procedures that enable taxpayers to comply with their obligations, without losing their control presence. Nonetheless, this is the opportunity of enhancing new types of tax controls and ways of compliance.

### ***6.4. Need for Cooperative Compliance***

The current state of events of global economics is being seriously compromised by the Covid-19 outbreak, resulting in an unclear panorama for businesses. Uncertainty is one of the biggest hurdles in the road towards

economic development. Nevertheless, this presents a unique opportunity for tax administrations seeking to implement initiatives on co-operative compliance programs with taxpayers, resulting in an improved communication amongst both parties to overcome the current crisis. As aforementioned, there is a possibility of tax compliance declining during times of crisis. However, this might be the time to ripe for a new push forward to achieve a mature attitude towards tax compliance as Owens [33,34] have mentioned after the financial crisis. A good omen is on the horizon as more LAC Tax Administrations have been implementing new enhanced digital services as an immediate reaction to the Covid-19 pandemic, but additional steps must be taken on this matter. Also, learning from other regional experiences with co-operative compliance, as in Chile, will encourage other LAC countries to enhance their corporate governance and tax risk management. Also, the COVID-19 pandemic is a golden opportunity to improve tax certainty, which is an important factor for investment decisions. This could be obtained by implementing other friendly, MNE-oriented services such as pre-emptive discussions. Carried out by the Finnish Tax Administration [35], these are discussions on relevant tax matters between the tax administration and an MNE in which the latter presents a plan of change in its operations and requests guidance for tax matters. Later, meetings between both parties are engaged to clarify any questions and matters related to taxation and the process ends with a written Memorandum. This service can also be provided when the required guidance involves international taxation issues through a cross-border dialogue involving foreign tax administrations. As many LAC jurisdictions are signatories of the Convention on Mutual Administrative Assistance in Tax Matters (MAC), cross-border dialogues could be an excellent tool on solving disputes in an amicable way with MNEs in the region.

## **7. Conclusions**

The global uncertainty brought by the COVID-19 pandemic will have a lasting effect on future research on tax policy. For example, a limitation on this research has been that recurrent changes on unilateral tax measures implemented by LAC jurisdictions require constant updates on the evolution of tax policy. While new measures respond to national realities for each jurisdiction, the lack of regional discussion and consensus on tax matters will have an impact on commerce and competition. Economic integration platforms, such as the Secretariat for Central American Economic Integration (SIECA) and the Caribbean Community (CARICOM), could start this call for a regional dialogue on tax matters in the recovery phase of the COVID-19 pandemic. Time will tell if implemented tax measures in LAC countries in reaction of the Covid-19 pandemic will help on achieving their country-specific goals on maintaining business and people liquidity afloat with a limited fiscal space, in most cases. As the crisis extends, budgetary constraints and grow because of increasing debt and new public health necessities and decreasing tax revenue collection from impaired economic flows. Nonetheless, tax measures are not standalone solutions as they must be complementary to other financial, monetary and administrative policies. With a reduced fiscal space, sinking tax revenue and external debt distress, creative solutions are much needed for these challenging times. The current state of affairs has exposed the flaws and needs on tax systems and tax administrations of LAC countries. This situation poses a unique opportunity to focalize efforts to modernize and seek efficiency through digital services and infrastructure. Also, tax morale requires special attention as its already falling trend in the region will worsen due to the COVID-19 pandemic and jurisdiction should evaluate its collateral effect on tax compliance. New strategies must counteract a possible noncompliance culture and a hurt tax morale enhanced by the crisis. Public perception does matter and it calls tax

administrations to adopt a more positive image towards an assistance-oriented tax culture. Now that short-term responses have been enacted by LAC countries, this crisis should serve as moment to meditate, learn from past mistakes, and move forward by developing more efficient and transparent tax administrations under revised tax systems with co-operative approaches.

## **8. Recommendations**

- This research calls for jurisdictions and economic integration platforms in the LAC region to start an open dialogue on tax policy matters that will have a regional impact on investment, competition and commerce in the recovery phase of the COVID-19 pandemic.
- Further research on tax morale must be carried out to analyze and monitor behavioral insights and trends that will enhance tax compliance at a regional and local level.
- Tax administrations in LAC countries should keep improving their taxpayers' assistance mechanisms and change their tax compliance strategies towards cooperative compliance programs.

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