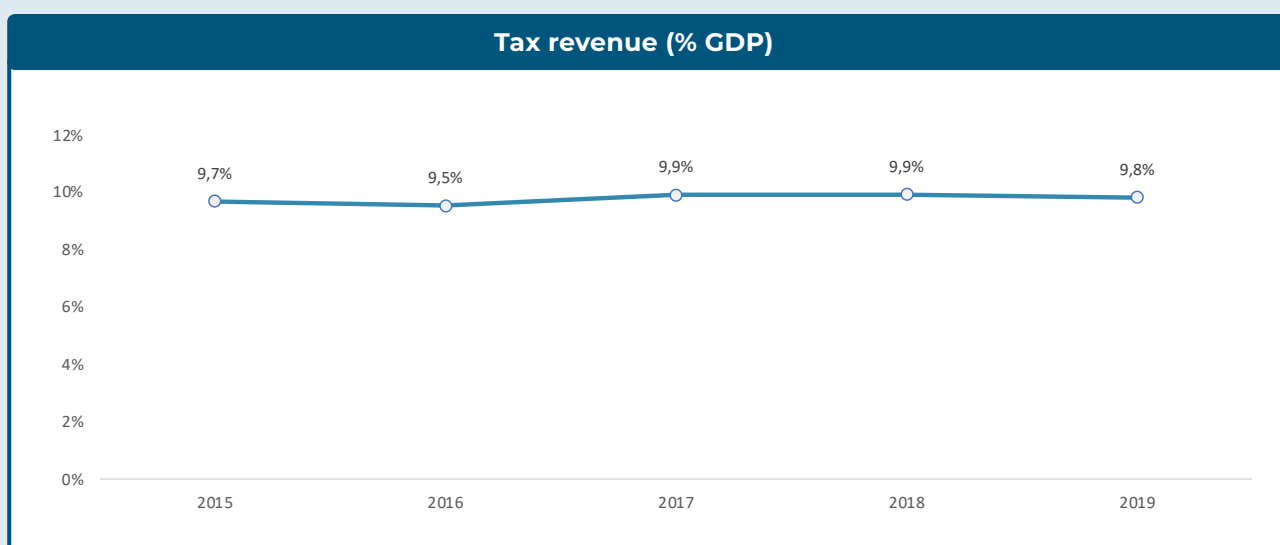


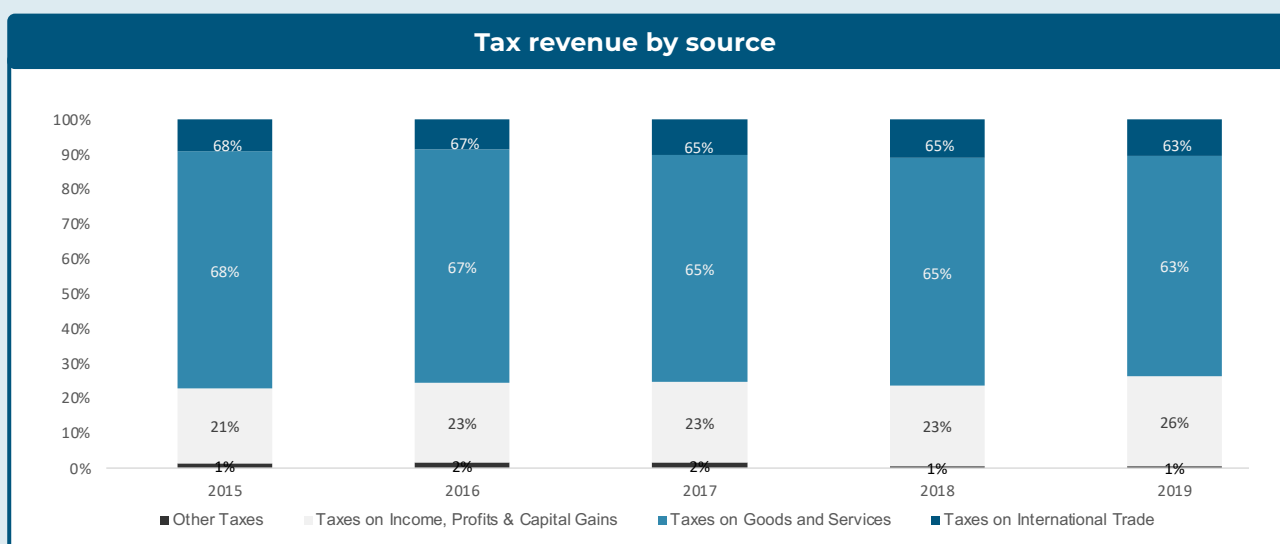


Stepping up domestic revenue mobilisation

Paraguay



Source: Government Revenue Dataset (GRD) (ICTD-UNU-Wider).



Source: GRD (ICTD-UNU-Wider). The 2019 ATI Monitoring Report covers revenue from four core tax sources of ATI members (i.e. taxes on incomes, profits, and capital gains; taxes on goods and services; taxes on international trade and transactions; other taxes). Revenue from social security contributions, which are sometimes reported as part of the tax-to-GDP ratio, is not included.

Public Expenditure and Financial Accountability (PEFA) Assessment: 2018

P19:
Revenue administration

B

P20:
Accounting for revenue

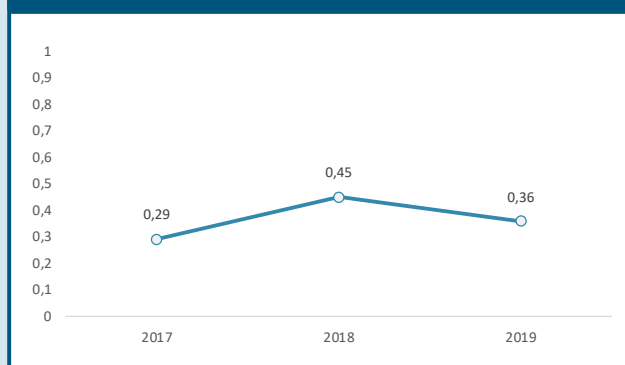
C+

Source: PEFA assessment scores.

Note: PEFA is a framework and process for assessing the public financial management systems of countries. Assessed countries receive a grade between A+ (highest) to D (lowest) for each of the assessment criteria, whereby grades for each one of the assessment criteria are based on distinct definitions. See **PEFA (2018)** for more information.

Commitment to Reducing Inequality Index (CRI)

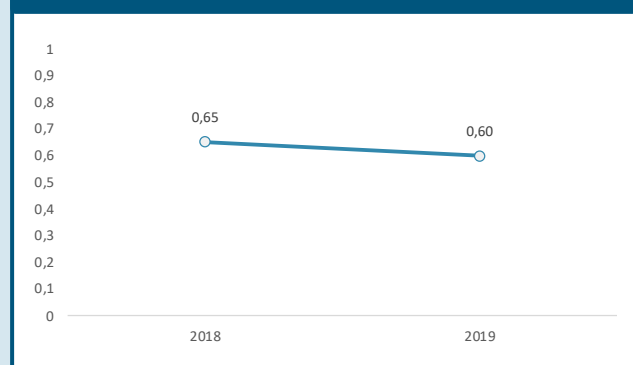
Progressivity of Tax Structure Score



Scale of zero (least progressive) to 1.0 (most progressive).

Source: Oxfam international, the Commitment to Reducing Inequality Index

Impact of Tax on Inequality



Calculated by multiplying the total revenue collected from each form of taxation as a share of GDP by a standard global coefficient for each tax that predicts its impact on the income Gini index. The results for all taxes are then summed. On a scale from 0 to 1, the country with the largest decrease in the value of the Gini coefficient as a result of this tax revenue scores a maximum of 1.0

Source: Oxfam international, the Commitment to Reducing Inequality Index

Recent reform steps

Through the introduction and implementation of legislation on the ‘Modernisation and Simplification of the National Tax System’ enforced in 2019, the Paraguayan government was able to expand their tax base and increase their tax revenue. This legislative reform came as a result of tripartite collaborations between government, private sector and union representatives within the Technical Economic Tax Commission.

By the end of 2019, the Paraguayan government observed an increase in revenue collections by about 8.9%. The Undersecretary of State for Taxation (SET) initially estimated that there would be a -8.1% drop in tax revenue, however by the end of 2020, there had been an increase of 0.4% (via cash-based collections). In addition, the Single Taxpayer Registry registered over 490,000 new taxpayers and about USD 129 million was collected through the Tax on Dividends and Profit from registered companies.

Outlook: DRM priorities

In 2019, the Paraguayan government developed the ‘Strategic Framework of the SET 2019–2022’ which outlined the government’s Domestic Revenue Mobilisation (DRM) strategy over the next 5 years. The Strategic Framework seeks ‘to be a strategic institution that generates trust, promoting tax awareness and a positive tax culture within Paraguayan society’. The SET’s main objectives included:

Facilitating voluntary compliance by taxpayers by simplifying tax compliance processes;

- Improving institutional credibility and legitimacy through proactive communication with taxpayers; and
- Strengthening human capital (in terms of development, skills and wellbeing) within SET to incentivise and promote greater commitment and better performance in DRM implementation.

Ensuring policy coherence for development

In 2018, Paraguay ratified the international Convention on Mutual Administrative Assistance on Tax Matters, which will facilitate the exchange of tax information with over 140 countries. By the end of 2019, the Paraguayan government had approved to make significant changes in the legislative environment to promote the implementation of international standards on fiscal transparency, these changes included the introduction of a registry of final beneficiaries and a law to lift bank secrecy over tax-related matters.

The Undersecretary of State for Taxation (SET) serves as both a member of the Interinstitutional Committee of the Anti-Money Laundering/Combating the Finan-

cing of Terrorism (AML/CFT) System and the body responsible for the management and implementation of all legal provisions related to taxation. They play a vital role in actioning Paraguay’s Strategic Plan (PEEP) to fight AML/CFT and have also made concerted efforts to align national policies and frameworks with international and regional standards and guidelines. The SET has made concerted efforts to comply with recommendations from the International Financial Action Task Force (FATF) when developing their strategic framework and guiding inter-departmental collaboration within government to combat illicit financial activity.

On a regional level, as a member of the Latin American Financial Action Task Force (GAFILAT), the Republic of Paraguay has participated in evaluations of their financial systems within the framework of the 4th Round of Mutual Evaluations. On a bilateral level, Paraguay only has a double taxation treaty with the Eastern Republic of Uruguay.

Paraguay applies minimal tax exemptions on goods and services provided through official development assistance (ODA). They actively promote consensus of overall reductions in incentives and encourage transparent reporting on any tax exemptions or demands for exemptions made in the National Expenditure Budget.