

Super-rich pay lower taxes in Latin America

By Andres Oppenheimer
aoppenheimer@MiamiHerald.com

French movie star Gerard Depardieu made the wrong choice by seeking Belgian and Russian citizenship to avoid paying higher taxes in France. He should have moved to Mexico.

Recent studies by the United Nations and the Organization of Economic Cooperation and Development show that the super-rich in Mexico and several other Latin American countries pay much less in taxes than their European counterparts or those in the United States. In general, Latin America is one of the world's regions where the ultra-wealthy pay the least taxes, the studies say.

Depardieu has said that he is renouncing his French citizenship over French President Francois Holland's plan to raise taxes on incomes above 1 million euros — about \$1.3 million — to 75 percent. While France's top court ruled against the 75 percent tax rate on Dec. 29, the French government has said it will come up with a similar bill shortly.

Last week, Russian President Vladimir Putin officially granted him Russian citizenship, after the internationally-known French actor had set up residence in Belgium to obtain Belgian citizenship.

But Depardieu would pay much less in most Latin American countries. According to Andres Solimano, a Chilean economist and co-author of a recent study by the United Nations Economic Commission for Latin America and the Caribbean, the average personal income tax rate for the super-rich in Latin America stands at about 37.5 percent.

Comparatively, in the United States, following the Dec. 31 congressional passage of the fiscal cliff tax hikes, the super-rich will pay 39.9 percent. In northern European countries, they pay about 60 percent.

“Clearly, the super-rich in Latin America pay much less taxes relative to their income than the super-rich in Europe or the United States,” Solimano told me. “That’s especially the case in Mexico, and in Central American countries.”

The 2012 ECLAC study by Solimano and Juan Pablo Jimenez, which is entitled Economic elites, inequality and taxes, notes that the world's richest person — Mexican telecommunications magnate Carlos Slim — and many other Latin American billionaires benefit from distorted tax systems.

Tax evasion is rampant in the region, and most taxes are collected from “indirect” taxes on alcohol, tobacco and other goods that are consumed by the general population, the study says.

A separate OECD study says that personal income taxes amount to 1.5 percent of Latin America's overall gross domestic product, as opposed to an average of 9 percent in industrialized countries such as the United States, Germany and Japan.

In Latin America, most taxes are collected from corporations that pass on the cost of tax hikes to consumers and from indirect taxes on consumer goods, rather than from individuals as in the world's richest nations, the study says.

Asked whether Latin American countries should raise taxes on the super-rich, Solimano told me that “simply raising taxes on the super-rich won't solve the problem of inequality in Latin America.”

The reason is that in today's globalized world the super-rich will simply pack and leave for another country, as Facebook co-founder Eduardo Saverin did last year when he renounced his U.S. citizenship and moved to Singapore. A smarter way to reduce inequality in Latin America would be to pass anti-monopoly laws, or enforce them, avoiding an excessive concentration of wealth and encouraging more competition, he said.

In addition, most countries in the region would need to better regulate compensation of CEOs, he said.

My opinion: There is no one-size-fits-all solution to Latin America's tax distortions, in part because tax agencies in some countries, such as Argentina and Venezuela, have become political mafias that spend much of their energies persecuting government critics, or business people who they don't see as sufficiently loyal.

I'm not sure giving these tax agencies more power would do any good.

Some of the region's low-tax countries would be better off raising taxes on the super-rich, while others would benefit from doing the opposite, and — much like Putin did in Russia — rolling out a welcome mat for tax-strangled foreign millionaires. What's best for Mexico may not be best for Panama.

But most countries in the region badly need to fix their dysfunctional tax systems. Perhaps the big headlines about Depardieu's country-hunting will help put the issue on the agenda. Merci, Gerard!

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