



Personalized VAT

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Tax burden as a percentage of GDP

Region	OECD	LAC	Africa	Asia & Asia Pacific (APAC)
Tax Burden	34.0	21.4	16.0	19.4
Income Tax	<u>12.3</u>	<u>6.3</u>	<u>6.3</u>	<u>7.8</u>
<i>Corporate Income Tax</i>	3.9	3.9	3.2	3.7
<i>Personal Income Tax</i>	8.4	2.4	3.1	4.1
Social Security Contributions	8.7	3.5	1.4	1.8
Value Added Tax (VAT)	7.0	6.0	4.5	4.9
Other taxes	6.0	5.6	3.8	4.9

Source: IDB - CIAT Database and Tax Statistics from the OECD, IDB, ECLAC, and CIAT (2024).

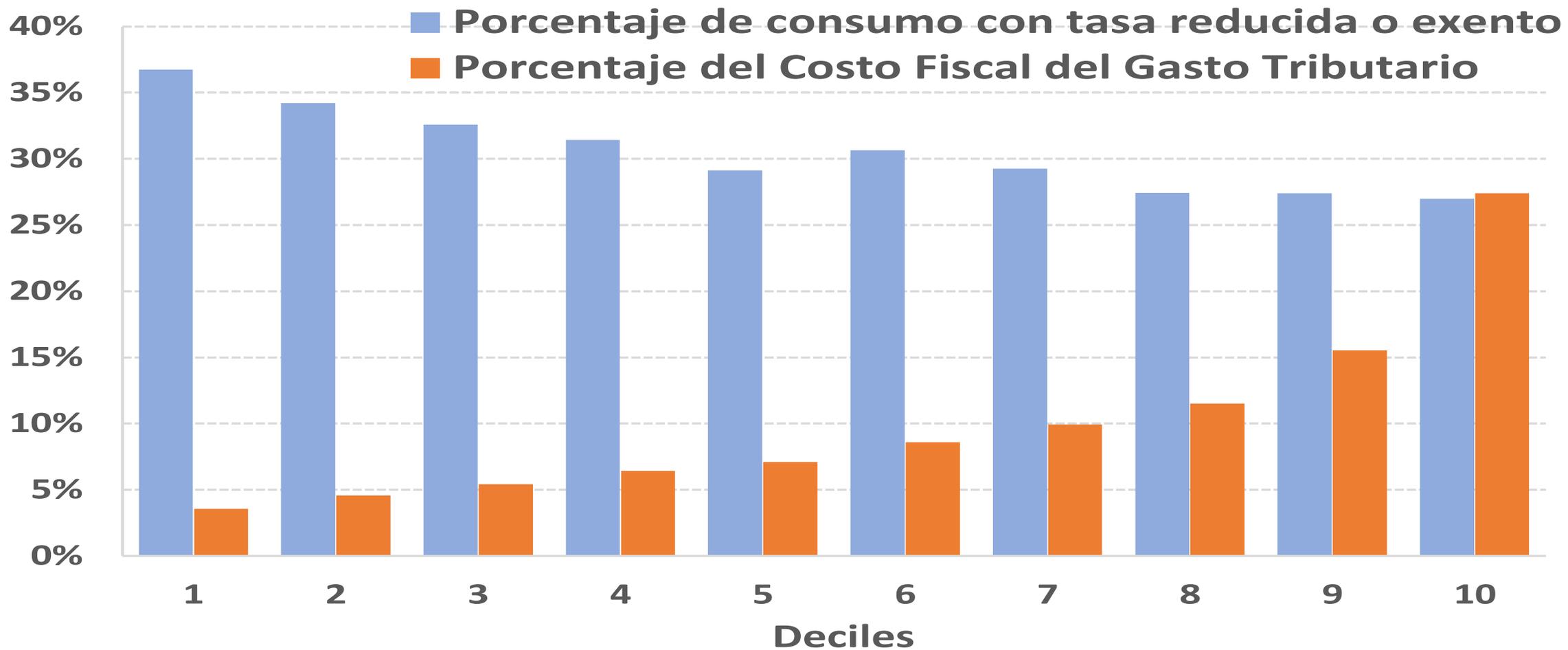
The "Universal" Solution to the Impossible Trinity

- The "**universal solution**" to VAT **regressivity** consists of interventions on the tax base and/or tax rates, without discriminating based on taxpayer income.
- **Implementation:**
 - Identify goods and services with a significant **impact on consumption in lower-income sectors** and/or those **whose consumption is to be encouraged** for reasons of social interest (e.g., food, medicine, health services, education, public transportation, and publications).
 - Remove these goods and services from the tax **base** (exemptions) and/or
 - Apply lower **rates** than the general rate, or even a zero rate, to the identified goods and services.
 - These interventions are doubly "**universal**" in nature *because*: **1.** they benefit all consumers, regardless of their income level, and **2.** they apply in the vast majority of countries.

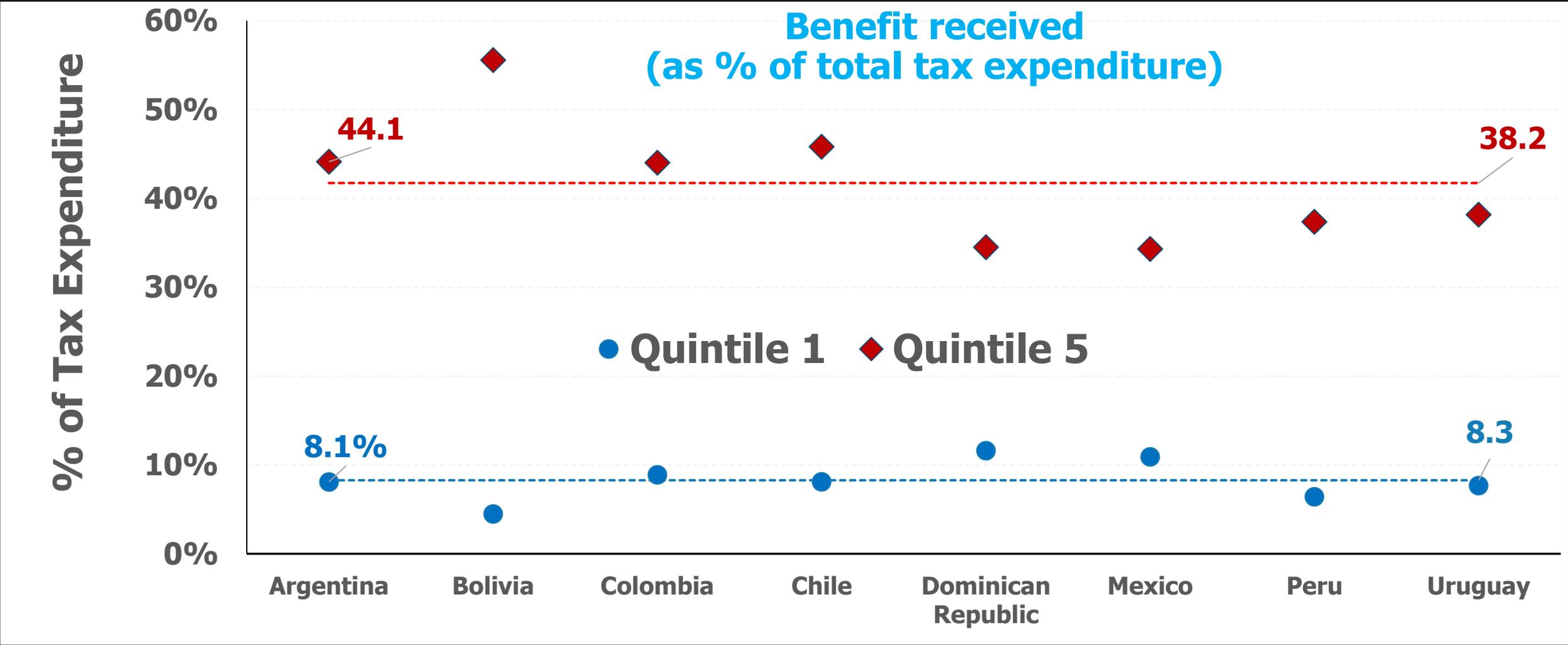
- **Drawbacks of the "universal solution":**
 1. Tax relief measures implemented through multiple rates and exemptions from the tax base **benefit, in absolute terms**, those **who consume the most**, i.e., individuals in the upper deciles of the income distribution.
 - The "*inclusion error*" of tax relief means that the relief provided through the **universal solution is concentrated mainly in the upper deciles**.
 - In the cases analyzed in this study, they represent between *37.4% and 54.4%* of the associated tax expenditure for *deciles 8 to 10* because the concentration of income generates a concentration of consumption.
 2. **It reduces tax revenues** that could have been used to finance social public spending targeted at the poorest deciles.
 3. **It introduces complexity into tax compliance and administration**, facilitating non-compliance with taxpayer obligations.

=> The universal solution is an anachronistic response to the problem posed by the regressivity of VAT.

Distribution of consumption and fiscal cost of tax expenditures by income decile, Argentina 2018



Higher incomes benefit most (in absolute terms) from reduced rates or VAT exemptions



Source: Pessino, Rasteletti, Artana, and Lustig (2023)

Solving the Impossible Trinity: VAT P (II)

• Benefits of VAT P:

- The proposed design provides **tax relief** to lower-income groups while simultaneously **increasing tax revenue**.
 - Compensation for beneficiaries alleviates the concern raised by Jenkins et al. (2006) and Bachas et al. (2020) that lower-income households consume in businesses characterized by greater informality.
- The application of targeting instruments to identify the group of beneficiaries makes it possible to **overcome the challenge of the high degree of informality** that characterizes most developing economies.
 - Informality has made individuals at the lower end of the income distribution "**invisible**" preventing their access to social transfers and public services.

- The generalization of VAT **facilitates tax administration** and at the same time promotes formalization through the use of electronic payments.
- The determination of **the reimbursement amount follows an objective criterion** (the incidence of the tax on the consumption of the decile), so it is not invasive with regard to individuals' consumption decisions and, at the same time, its **political acceptance** by society.
 - The term "P" (Personalized) comes from the fact that the proposal seeks to offset the impact of the tax on the consumption of a *representative person belonging to the decile or group that is intended to benefit*.
 - This proposal provides for the careful monitoring of individuals' consumption, which represents an invasion of privacy for the poorest segments of society that are intended to benefit. ***It is a tax refund, not a transfer*** (it is UBI or a social plan, it is **Slutsky compensation**). *A new study for Mexico includes a percentage of VAT in the personal account of retired buyers.*
- The **necessary technologies, and new potential ones**, to implement VAT P (identification of beneficiaries, digital payments, electronic invoicing, etc.) are widely available in middle-income countries, and this proposal reaffirms this.

Solving the Impossible Trinity: P VAT

- VAT P allows us to resolve the challenges posed by "the *impossible trinity*," addressing the regressivity of VAT without perforating the tax base as the "universal solution" does.
- It consists of three elements:
 - 1. Generalize the tax base.** Exemptions that make sense from a technical standpoint and/or those that are necessary in some cases to maintain consistency in the tax treatment of similar concepts (health and education) would be maintained.
 - 2. Move toward a single VAT rate.** This responds to the need to simplify by reducing tax compliance and control costs and achieving the greatest possible neutrality. The level of the rate should be defined based on each country's tax design.

3. Implementation of tax relief:

a. **Determine the amount** of tax relief.

- *Estimate the incidence of VAT on consumption for different income deciles or target groups.*
- *Determine the amount of tax relief to be granted.*
- *Choose the cutoff decile, based on which the eligibility of beneficiaries is defined (multivariable?).*

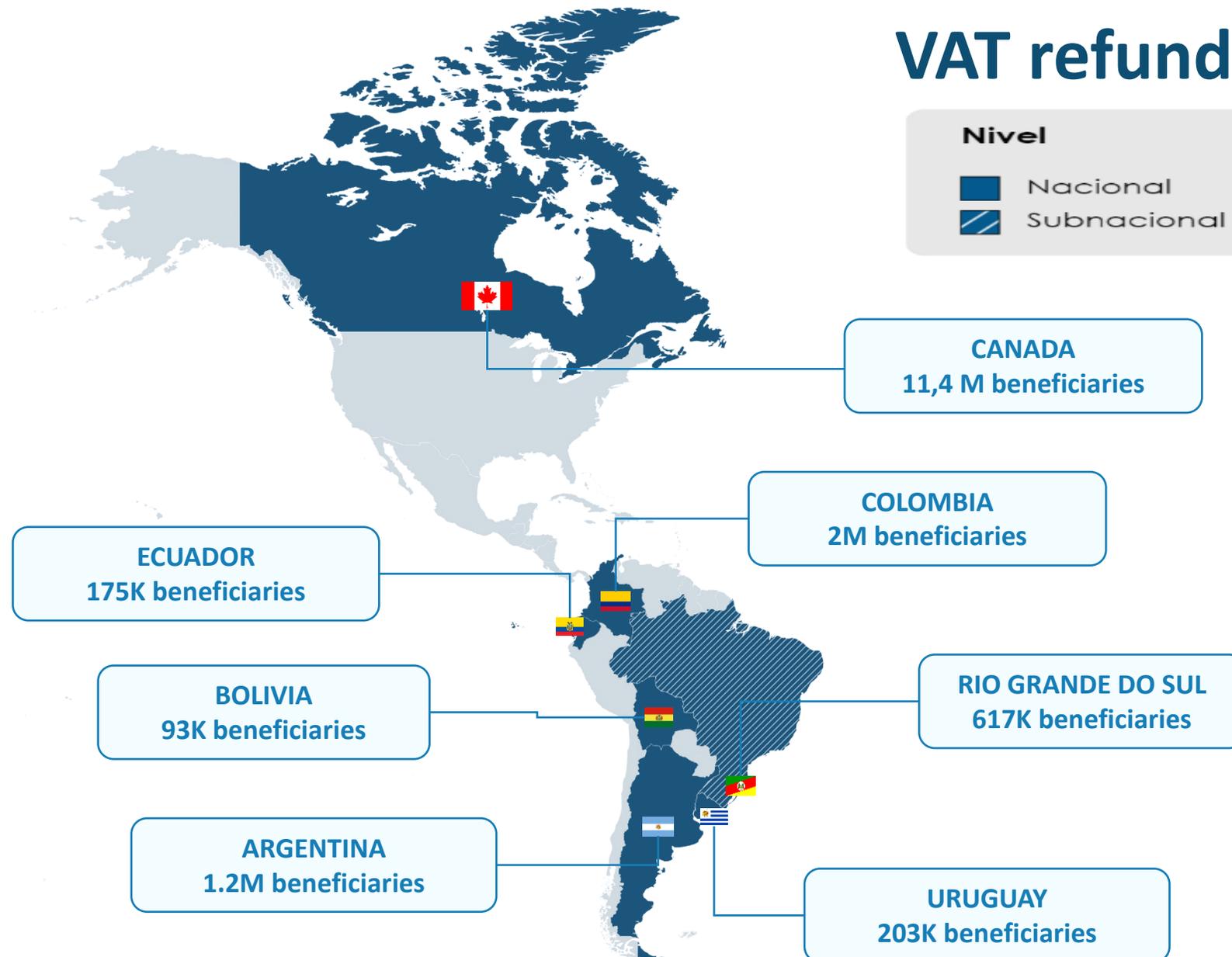
b. **Identify the beneficiaries** of the tax relief.

- The experience gained in conditional cash transfer programs in Latin America allows for the incorporation of the concept of targeting in indirect taxation.

c. **Delivery of benefits** to taxpayers.

- Use of electronic means (e.g., invoice – seller, card – beneficiary, **cell phone**, etc.).

Social Transfers considering VAT refunds in LAC



Main features of compensation programs towards the P VAT trend in ALC

2021	Argentina*	Bolivia	Colombia	Ecuador	Uruguay
Type of program	Refund	Refund	Compensation	Refund	Refund
Beneficiary	Pension holders and defined social groups	Individuals with income monthly less to US\$ 1,300	Low income households registered in Family in action and Older Colombians	Handicapped person (30% or more ratio)	Households in extreme poverty and Program of Children of Poor Families (two lowest income decile)
Number of Beneficiaries	1.5 million pension and special groups	Not available	1 million households	About 35,000 persons	Aprox. 200,000 households (24% of population)
Elegible purchases	Paid with debit card associated to pension payment	Purchases made through Electronic (fiscal) Invoice	Not applicable, it does not depend on consumption	Purchases made through Electronic (fiscal) Invoice	Cards for the Uruguay Social Program
Amount of the Benefit	15% of purchases with a maximum of US\$ 50	Up to 5% of purchases	About US\$ 22 per person	All VAT paid with US\$ 100 limit per month	VAT paid with a limit of a US\$ 40 per child monthly
Government institution manager	AFIP (Customs and Tax Adm.)	SIN (National Tax Administration)	National Planning Directorate	SRI (National Tax Administration)	Ministry of Social Development and DGI (tax administration)
Required processes	None. Monthly deposit in beneficiary account	Register in the tax administration (SIN)	Amount directly deposit on both transfer plans (Family in action and Older Colombians)	E-invoices (the program started with all legal invoices) and now is moving to automatically reduction of price in the purchase.	Paid with the card, the seller do not charge the tax (Electronic Invoicing is massive, except for micro entrepreneurs).

* Last September the government extended this refund to almost the lowest quintile until next December.

Thank you

The three innovative pillars of VAT in the reform of indirect taxes in Brazil (2025)

<https://publications.iadb.org/es/los-tres-ejes-innovadores-del-iva-en-la-reforma-de-los-impuestos-indirectos-en-brasil>

The impossible trinity of consumption taxes: personalized VAT (2011)

<https://repositorio.cepal.org/handle/11362/1456>

Revisiting P VAT: a tool for fiscal consolidation with equity (2022)

<https://blogs.iadb.org/gestion-fiscal/en/revisiting-personalized-vat-a-tool-for-fiscal-consolidation-with-equity>

Distributional Effects of Taxation in Latin America (2023)

<https://publications.iadb.org/en/distributional-effects-taxation-latin-america>