

Sectorial approach to social protection

# Southern Cone of Latin America

# What is the innovation?

## Monotributo (simplified regime for taxes and social security contributions)

- Based on the idea of a simplified tax regime which, in addition to facilitating the payment of one or more taxes, ensures a minimum level of social protection (pensions for old age and health) to a large number of small taxpayers.
- In Latin America there are three relevant cases: Argentina, Brazil and Uruguay.
- A Tax Incorporation Regime (RIF) was recently approved in Mexico, which also includes Social Security, but has different characteristics
- In January 2017 a Monotributo was introduced in Colombia as part of a broader tax reform.

# What is the innovation?

## Fundamentals of monotributo

### *Taxes (coincident with other simplified rules):*

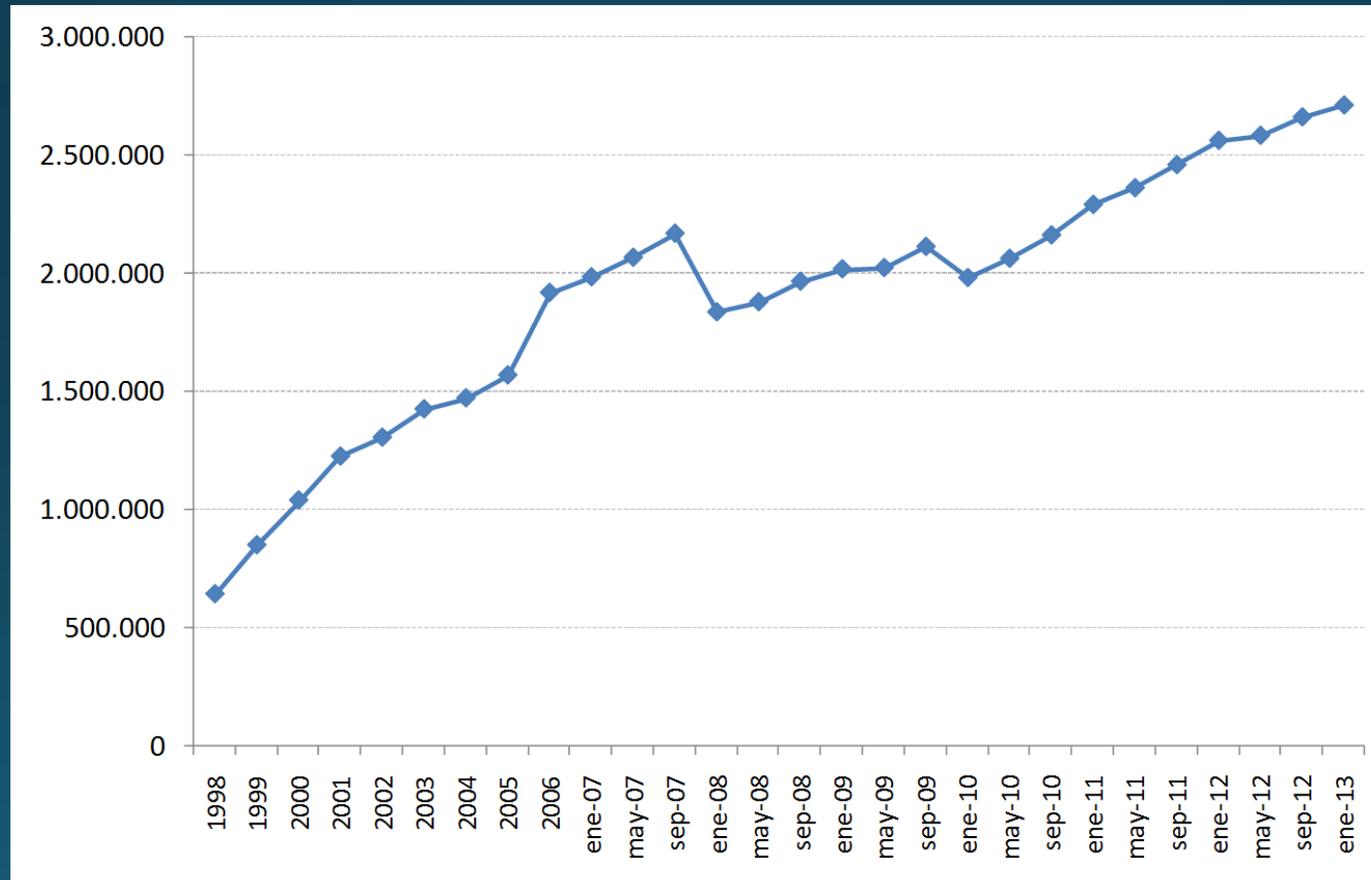
- ✓ Guarantee tax compliance of small taxpayers, ensuring their incorporation after formal registration.
- ✓ Reduce the regressive effect of compliance costs according to the size of the taxpayer.
- ✓ Avoid overburdening the Tax Administrations with a large number of small taxpayers whose revenue collection is very limited..

### *Social security (distinctive feature):*

- ✓ Avoid fragmentation derived from the contributory schemes of the formal labor market.
- ✓ Promote universal coverage of the population in health and pensions dimensions of social protection.
- ✓ Provide incentives to the taxpayer through a minimum payment (which usually implies a subsidy) that ensures access to health and social security coverage.

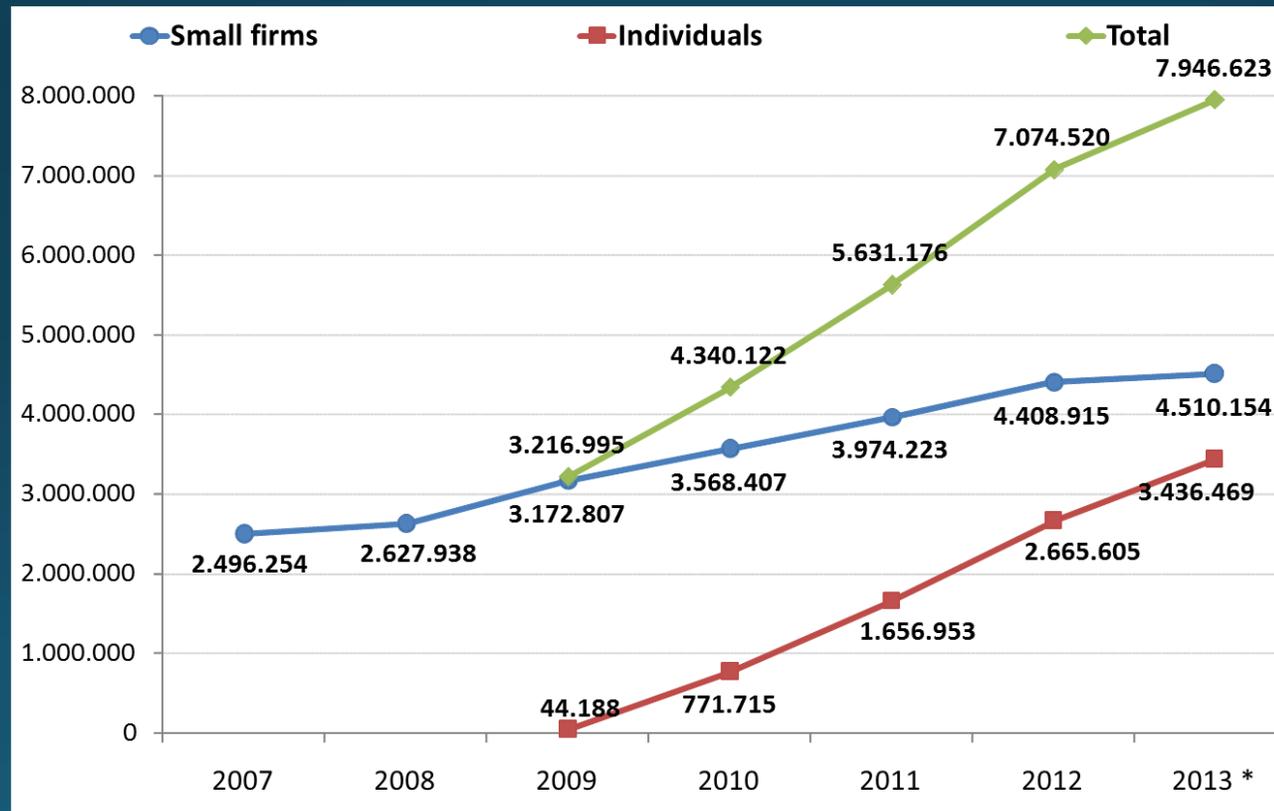
# What has worked to extend social protection coverage as part of this innovation?

Argentina: evolution of the number of taxpayers registered in the Monotributo - 1998/2013



# What has worked to extend social protection coverage as part of this innovation?

Brazil: evolution of the number of taxpaying workers registered in the National SIMPLES (including SIMEI) – 2007-2013



# What has not worked and how could it be improved?

- These instruments should be considered as a "transitional bridge" to the tax general regime and social protection, since the indefinite permanence in them affects the fiscal revenues and generates inequities and economic distortions.
- The challenge is to design a system that, at the same time, stimulates the economic and labor formalization and avoid generating a permanent segmentation of the taxpayers in general.
- This is particularly important for pension systems