Monotax: Promoting formalization and protection of independent workers

Uruguay

An alliance between social security and the tax collection authority promotes formalization and extends social security to independent workers

The creation of an administrative alliance between the tax authority and the social security institution, in order to establish a simplified and unified collection scheme for small contributors, allows for extended coverage to those companies that usually pay taxes, but are outside of the social security contributory system, or vice versa.

Monotax is a simplified tax collection/payment scheme for Uruguayan small contributors. People covered by the Monotax regime are entitled to the same social security benefits as salaried workers. The Monotax has proven to be an effective tool for the formalization of micro- and small enterprises, as well as for the extension of social security coverage to independent workers, especially women.

Main lessons learned

- The simplification of registration, collection of contributions and service provision is increasing social security coverage.
- More flexible financing mechanisms can contribute to the formalization of the informal economy.
- Monotax has demonstrated the potential for a strategic alliance between social security institutions and tax authorities.
- One of the salient features of the Monotax is its impact in terms of gender. Women working in micro- and small firms, whether as employees or as employers, have the opportunity to be formalized and included in social security.
- The Monotax offers a solution to tackle the issue of low contributory capacity of informal economy workers.
- The Monotax is a successful model that is being implemented in other developing countries.

Social Protection Floors (SPFs) guarantee access to health care for all and income security for children, persons of working-age, and older persons.

185 countries have adopted the Social Protection Floors Recommendation, 2012 (No. 202), an approach to achieve universal social protection.

This brief presents a successful country experience and gives a practical example of how SPFs can be implemented.
1. How was the Monotax set up?

The high level of coverage achieved by the Uruguayan social security system is largely the result of the nation’s ability to introduce continuous innovations. The Monotax regime is an example of one of the innovations that has contributed to employment formalization and social security extension.

Innovating for social security expansion. In early 2000, most Uruguayan independent workers were excluded from social security coverage, mainly due to an inadequate legal framework and administrative procedures.

The Monotax was enacted in 2001, but six years after its introduction, its goals had not been achieved. In 2006, only 17.6 per cent of independent workers were covered by the social security system; therefore, the Monotax scheme undertook a profound reform. The changes, implemented in 2007, eliminated several restrictions on the conditions to join the scheme, including place of the activity, type of activity (such as “de facto” enterprises or not formally constituted businesses) and maximum billing, among other things.

2. What does the Monotax look like?

➢ Tackling the informal economy. The Monotax was introduced in Uruguay in 2001 as an instrument to formalize the informal economy and to reduce the social protection exclusion of independent workers. It is a combined tax and social security contributions collection method for independent workers with limited turnover and with small commercial activities. It is focused on boosting social security coverage in the informal economy.

➢ How does it work? Small businesses that fall into the category of Monotax contributors can choose between paying a “Monotax” (unified contribution) on revenue generated by their activities (called “Monotributo” in Uruguay), or paying the ordinary social security contributions and normal taxes (with the exception of import taxes). Monotax contributions are collected by the Uruguayan Social Security Institute (BPS) and the share corresponding to tax payments is transferred by the BPS to the fiscal authority. The remaining fraction is used by the BPS to finance social security benefits for those members affiliated through the scheme and their families.

Monotax members include one-person businesses, de facto non-family companies formed by a maximum of two partners with no employees, enterprises formed exclusively by family members (provided the number of partners is not over three) and companies with no salaried workers, under the condition of having a small income.

Some characteristics of the Monotax regimes according to international practice

- They are simplified taxation schemes aimed at combating informality.
- Taxes and social security contributions are lower than general taxes in order to generate fiscal stimulus.
- Taxable income is presumptive (presumed income in the absence of the information); a fixed fee is applied to each presumptive income category.
- Taxes and social contributions are grouped in one contribution, the “Monotax”.
- Adhesion and exit are voluntary; people are allowed to opt for the general scheme.
- Eligible taxpayers are those who are below a threshold or ceiling of income or gross sales.
- They include progressivity and differential income categories.

Uruguayan Social Security Institute: Registration of Monotax enterprises and insured members


It is worth mentioning that in 2011 the “Social Monotax” (Monotributo Social MIDES) was created as a special Monotax regime for one-person enterprises and joint entrepreneurship. Social Monotax can be accessed by individuals in households earning below the poverty line or in situations of socio-economic vulnerability.
3. Services and benefits. The micro-entrepreneurs who join the scheme are automatically entitled to the benefits of the contributory social security system (except for unemployment protection). There is some flexibility to encourage affiliation: while the contribution to pension coverage is mandatory, affiliation in the health insurance regime is voluntary and the entrepreneur can choose to make voluntary contributions to protect their children and spouse.

3. Gradualism. Contribution payments under the Monotax for pension insurance are gradually applied to new companies. They have three years to gradually meet the entire contribution rate.

4. What’s next?

The creation of the Monotax and its amendments has achieved the objective of extending social security. However, some challenges still remain. The coverage rate of independent workers in Uruguay is one of the highest in Latin America, but its levels are still far from 100 per cent.

The main challenge is to reach some sections of micro-enterprises that have not been reached by the existing Monotax schemes. In particular, the "Social Monotax MIDES" is an interesting option for reaching the poorest and most vulnerable groups in the informal economy.

Other similar experiences: Argentina, Brazil and Ecuador

In Argentina, the Monotax has allowed for the subsidization of social security contributions for individual independent workers and micro-enterprises by incorporating low-income people into pension and health benefits schemes. In Brazil, SIMPLES (a simplified taxation scheme designed for micro- and small business) has significantly contributed to reducing the labour costs of micro-enterprises, promoting formalization of employment and growth. RISE (Régimen Impositivo Simplicado de Ecuador) includes a discount of 5 per cent in social security contributions for each affiliated worker, applicable to taxpayers who are up-to-date with payments.

Gender impact. Although this scheme is opened to both men and women, Monotax enterprises include a greater proportion of women—either as salaried workers or as employers. Women make up nearly 60 per cent of Monotax affiliates.

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3. Formalizing the informal economy and impacting people’s lives

Thanks to the innovative reforms associated with Monotax, in less than three years from the effective date of the new law (June 2007), the number of firms and workers covered by the scheme has tripled.

The Monotax scheme has proven to be an effective instrument for the formalization and inclusion of independent workers into the social security system. Studies have shown that its implementation has reached low-income groups of the population. More than 30 per cent of potential Monotax payers are covered by the Uruguayan social security system and over 20,000 active enterprises are covered by the scheme. Although there is still a long way to go in terms of the extension of coverage, the implementation of the Monotax scheme has contributed to the goal of universalization.
REFERENCES


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