Summer 8-11-2021

Effects Of A Tax Reform In The Dominican Republic (dr) During A Pandemic

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FULBRIGHT Effects of a Tax Reform in the Dominican Republic (DR) During a Pandemic

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Abstract

- The COVID-19 pandemic and the change of government produced negative effects in the DR. However the possibility of a tax reform during these times triggers future economic and social instability.

Introduction

- In 2020 the DR received two impacts, 1- the COVID-19 pandemic and 2- a change of Government. These caused a lot of changes in the country, including negative effects in the economy. Nonetheless the actual situation, the new government has expressed their will to make changes in tax law in order to minimize the economic crisis, including the addition of new taxes and increase of the old ones.

- A tax reform in the DR during the transition of a new government and a pandemic **could have relevant consequences in the economic and social aspects of the country as: a) general discomfort in the Dominican society; b) abrupt changes in the economy during a pandemic; and c) more rejection of tax compliance.**

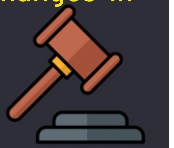

Figure 1. Iconfinder, 2021.

Effects

- **General discomfort:** As a result of the economic situation a tax reform could cause discomfort in the society, developing a serious political crisis. An example of this is Colombia, 2 months ago the government proposed a tax reform bill and thousands of people went on a strike against this bill causing instability in the country for some weeks. The groups who organized the strike expressed that "it would disproportionately impact the poorest people who were already struggling with the economic impact of Covid-19." (BBC, 2021)

- **Abrupt changes in the economy:** The idea of having a tax reform is supposed to be in order to balance the economic crisis, however this could be tricky since this affects the poorest people. The OECD has established that "Politicians come under intense pressure to do "something" during economic crises, and hasty responses may involve measures that are simple and popular but fundamentally flawed." (OECD, p.20)

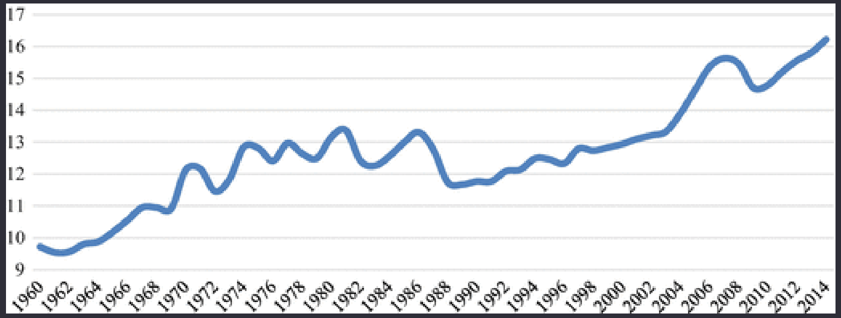

Figure 2. Atria J., Groll C., Valdés M.F. (2018) Introduction: Taxation in Times of Uncertainty in Latin America.

- **More rejection of tax compliance:** The DR has been fighting with tax compliance since day 1. There is no tradition of tax law compliance between individuals and informal business in the country. In that sense, applying more taxes and people struggling to maintain the stability of their business and houses during COVID-19 might cause more rejection of tax compliance.

Figure 3. Iconfinder, 2021.

Conclusions

- The need of a tax reform in the DR is a reality, however the appropriate time might not be during a pandemic that has been affecting the world for more than a year.
- The Dominican government has to make an evaluation/analysis by experts where they could focus on the right moment to do a tax reform and other economic and financial measures to deal with the pandemic.

References

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