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**DGI** DIRECCIÓN  
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# Community of Practice on Tax Expenditures 04-16/2026

Tax Expenditures – VAT Refunds to Households and Individuals  
in Socioeconomic Vulnerability.

Department of Economic and Tax Studies.  
Planning, Research, and Coordination Division.

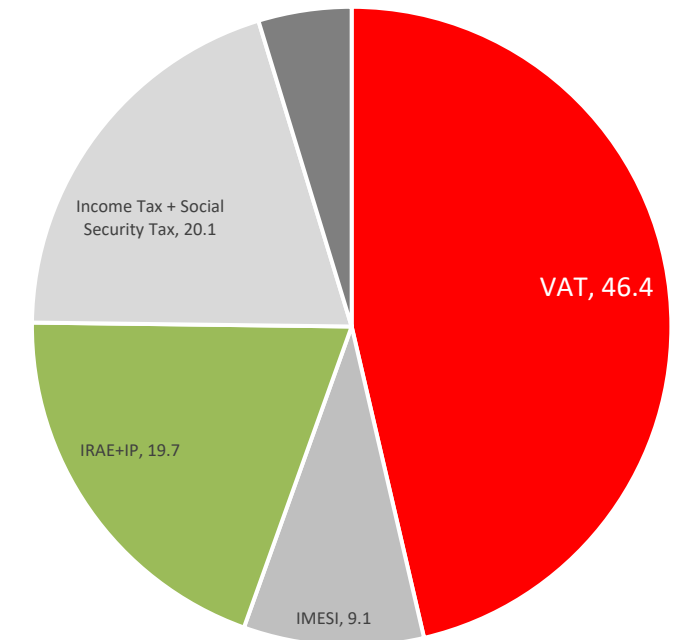
## Outline

- 1. The Importance of VAT for tax revenue.**
- 2. An inherent problem with the standard VAT model: regressivity**
- 3. The adjustments to the model contained in the *IIVA* and our VAT system seeking to mitigate regressivity: Objective solutions.**
- 4. The cost-benefit analysis of these solutions.**
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# 1 - The Importance of VAT for Tax Revenue.

VAT is the main revenue-raising instrument of the Uruguayan tax system.

VAT is the primary revenue-raising instrument, or the second most important, in most countries around the world where such a tax exists.



VAT systems are similar across different countries; they are based on a **standard model**.

*Ejemplo: circulación de un bien (ss) al que aplica un IVA de 22%*

A **general** tax levied on transactions at **all stages** of the production and sale of goods and services at a **single proportional rate**, with a right to deduction, and **which exempts exports**.

An **indirect** tax that acts as a **cost** in final **consumption**.

	IMPORTADOR / FABRICANTE	DISTRIBUIDOR	MINORISTA	CONSUMIDOR FINAL *1
VENTA	10.000,00	20.000,00	30.000,00	
IVA VENTAS	2.200,00	4.400,00	6.600,00	
<b>COMPRA</b>	-	<b>10.000,00</b>	<b>20.000,00</b>	<b>36.600,00</b>
<b>IVA COMPRAS</b>	-	<b>2.200,00</b>	<b>4.400,00</b>	
Recaudación por sector	2.200,00	2.200,00	2.200,00	
Recaudación total			6.600,00	

\*1 mas en general última etapa, agente que no deduce el impuesto

## 2 - An inherent problem with the standard VAT model: regressivity

The standard VAT model has certain disadvantages: It distorts income distribution *in an undesirable way*.

The standard VAT model is *regressive*. Lower-income individuals allocate a larger proportion of their income to consumption and are hence taxed more heavily than high-income individuals.

*The tax incidence*—whether the tax is on income, wealth, or consumption—refers to the effect the tax has on individuals' incomes and on the distribution of income across the entire population.

Table: Distribution of Income and Consumption by Income Level

`(1)	`(2)	`(3)	`(4)	`(5)	`(6)	`(7) = (6)/(2)	`(8) = (2) - (6)	`(9)
Quintil	Ingreso Disponible*	Distribución del Ingreso por quintil	Consumo	Consumo s/ingreso	IVA modelo. Todo el consumo a 22%	Incidencia IVA/Ingresos	Ingreso Disponible luego del IVA	Distribución del Ingreso por quintil -compara con (3)-
1	35.320,50	10,3%	37.908,50	107%	6.835,96	19%	28.484,54	9,8%
2	51.652,50	15,1%	48.301,00	94%	8.710,02	17%	42.942,48	14,8%
3	62.234,50	18,2%	53.986,50	87%	9.735,27	16%	52.499,23	18,1%
4	77.838,00	22,7%	65.433,00	84%	11.799,39	15%	66.038,61	22,7%
5	115.640,50	33,7%	83.398,50	72%	15.039,07	13%	100.601,43	34,6%
Total	68.537,20	100,0%	57.805,50	84%	10.423,94	15%	58.113,26	100,0%

Elaboración propia sobre la base de:

Fuente: Instituto Nacional de Estadística (INE) - Encuesta Nacional de Gastos e Ingresos de los Hogares (ENGIH 2016-2017).

Cuadro 22 Ingreso medio con valor locativo por quintiles. Total del país. & Cuadro 25. Ingreso disponible y ahorro por región según quintiles del ingreso per cápita con valor locativo. 2016-2017

INE: Ingreso disponible: ingreso corriente con valor locativo menos impuestos directos, tasas obligatorias, multas y sanciones, transferencias a ISFLSH, transferencias en efectivo obligatorias y/o regulares a otros hogares. \*Elaboración propia para la presentación. los valores y porcentajes expuestos en (4) y (5) corresponden al promedio de ingresos Montevideo & Interior.



### 3 - The adjustments to the VAT model contained in the IIVA, and our country's VAT system, seeking to mitigate regressivity. Objective solutions.

As a measure to *mitigate regressivity*, the VAT law introduces certain objective exceptions.

Typical measures found in the VAT regulations of different countries often include exceptional regims for sales of specific goods and services in the consumer basket.

- Exemption for sales of goods and services in the consumer basket, or
- Export treatment for sales of goods and services in the consumer basket, or
- Reduced rate applied to sales of goods and services in the consumer basket. As in our country.

Applying an exception to goods and services in the consumer basket *benefits* lower-income households *more* (relatively)

Lower-income households allocate a **larger proportion of their income to the consumption of essential goods and services than higher-income households**

Table: Weight of Consumption Categories by Income

Quintil	Alimentos y Bebidas	Salud	Total Alimentos y Bebidas&Salud	Resto de bs y ss consumidos
1	27,0%	15,8%	42,9%	64,4%
2	20,8%	13,2%	34,0%	59,5%
3	17,0%	11,1%	28,1%	58,7%
4	14,8%	9,1%	24,0%	60,1%
5	10,1%	7,2%	17,3%	54,8%

Elaboración propia sobre la base de: Fuente: Instituto Nacional de Estadística (INE) - Encuesta Nacional de Gastos e Ingresos de los Hogares (ENGIH 2016-2017). Cuadro 31: Estructura del gasto de consumo de los hogares...por deciles de ingreso...Total del país...& Cuadro 22 Ingreso medio con valor locativo por quintiles. Total del país. & Cuadro 25. Ingreso disponible y ahorro por región según quintiles del ingreso per cápita con valor locativo. 2016-2017

## 4 - The cost-benefit analysis of these solutions.

The measure is effective, as it achieves its intended effect: reducing the regressivity of the standard tax model. Some studies show this (It does not eliminate regressivity; it reduces it). However, it is debatable whether this is the most efficient way to do so.

These measures have at least one cost: the loss of revenue resulting from granting exceptional treatment with respect to the standard VAT model. This is measured in the Tax Expenditures Report.

Table: VAT Tax Expenditure. Consumer and Health Basket.

Nombre de la medida	Descripción de la excepción	Tipo	Fuente Normativa	Vigencia desde	% SRec IVA
Bienes de la <u>canasta de consumo</u> & Enajenaciones de leche pasteurizada, vitaminizada, descremada, en polvo y con sabor	Excepciones a la tasa básica. Bienes de consumo gravados a la tasa mínima. Alimentos (pan, pescado, carne y menudencias, aceites comestibles, arroz, harina de cereales y subproductos de su molienda, pastas y fideos, sal para uso doméstico, azúcar, yerba, café, té, jabón común, grasas comestibles) & Se encuentran exoneradas las enajenaciones de ciertos tipos de leche.	Alícuota reducida & Exoneración	TO 1996 - Título 10 - Artículo 19 Numeral 1 - Literal F & TO 1996 - Título - 10 Art. 18. Literal A	1972	2,72%
<u>Servicios de salud</u> - Diferencia de tasas & <u>Medicamentos</u> y especialidades farmacéuticas	A partir del 1 de julio de 2007 los servicios de salud pasaron a estar gravados por IVA a la tasa mínima ; hasta esa fecha se encontraban exentos. & Los medicamentos y especialidades farmacéuticas se encuentran gravados a la tasa mínima del IVA	Alícuota reducida	Literal b) artículo 18 Título 10 & Literal D Art. 18 Título 10 del TO 1996	2007 & 1972	2,41%

Fuente: Estimación del gasto tributario en Uruguay 2025

## 5 - VAT refunds for recipients of Asignaciones Familiares and the current Equity Plan. Subjective solution.

Recipients of Asignaciones Familiares – Equity Plan ([AFAM-PE](#)) may, for the amount of such allowance, obtain a [full refund of the VAT](#) from their purchases of goods and services.

Starting in [2022](#), beneficiaries may add [an additional amount](#) to the allowance they receive (up to \$2,000), which is also eligible for a full VAT refund.

- A new mechanism to claim this benefit is introduced (*tu-app*).

This is a [subjective exemption](#). Unlike the measures discussed before—which we defined as objective because they are based on the consumed goods or services—a subjective exemption [is based on the characteristics of the consumer](#), not on the consumed goods and services.

The measure eliminates the tax burden for a specific group of previously identified individuals/families, and up to a known maximum amount.



## 6 - The cost-benefit analysis of this solution.

**The VAT refund results in lower (and controlled) tax expenditure compared to the revenue forgone from the objective measures.**

Table: VAT Tax Expenditure. Consumer and Health Basket. & Total VAT Reduction for AFAM-PE Beneficiaries

Nombre de la medida	Descripción de la excepción	Tipo	Fuente Normativa	Vigencia desde	% SRec IVA
Bienes de la canasta de consumo & Enajenaciones de leche pasteurizada, vitaminizada, descremada, en polvo y con sabor	Excepciones a la tasa básica. Bienes de consumo gravados a la tasa mínima. Alimentos (pan, pescado, carne y menudencias, aceites comestibles, arroz, harina de cereales y subproductos de su molienda, pastas y fideos, sal para usos doméstico, azúcar, yerba, café, té, jabón común, grasas comestibles) & Se encuentran exoneradas las enajenaciones de ciertos tipos de leche.	Alícuota reducida & Exoneración	TO 1996 - Título 10 - Artículo 19 Numeral 1 - Literal F & TO 1996 - Título - 10 Art. 18. Literal A	1972	2,72%
Servicios de salud - Diferencia de tasas & Medicamentos y especialidades farmacéuticas	A partir del 1 de julio de 2007 los servicios de salud pasaron a estar gravados por IVA a la tasa mínima ; hasta esa fecha se encontraban exentos. & Los medicamentos y especialidades farmacéuticas se encuentran gravados a la tasa mínima del IVA	Alícuota reducida	Literal b) artículo 18 Título 10 & Literal D Art. 18 Título 10 del TO 1996	2007 & 1972	2,41%
Reducción de 22 puntos de IVA tarjetas Uruguay Social	Reducción de 22 puntos en la tasa del IVA aplicable a operaciones pagadas con tarjetas Uruguay Social	Devolución	TO 1996 - Título 10 - Artículo 88 Numeral 1 - Ley 18910 Ley 19210; Ley 19478; Ley 20051	2012 & 2022	0,36%



## 6 - The cost-benefit analysis of this solution.

Although the current benefit has limited scope, as long as the associated costs are kept under control, it could be extended to other individuals and families.

Conceptually, this is an **effective** solution for reducing the regressivity of the VAT model, and **more efficient** than the current one, as it can achieve the same objective with fewer resources (it results in lower revenue forgone).

Available technology and information make it possible to move in this direction, focusing the benefit on people rather than on goods.

**Increasing** the individual amount of the benefit (and expanding its coverage) **would enhance** the adjustment's capacity to reduce the regressivity of the VAT. It could neutralize it. It could make VAT a progressive tax.

Bearing in mind the **importance of VAT for tax revenue**

## 7 - Summary

VAT is the **main** source of **revenue** in Uruguay's tax system.

VAT is **regressive** by design, and this relates to VAT's **incidence**

Our country's tax system **contains** a number of **objective exemptions** intended to **reduce** the tax's **regressive** nature. Indirectly, they do so.

The analyzed exemptions result in **tax expenditure**. The tax expenditure resulting from these exemptions amounts to more than 5.1% VAT revenue

More recently, **subjective exemptions** have been introduced. AFAM-PE refunds. Currently, the tax expenditure from these measures amounts to 0.4% of VAT revenue.

The design of these measures implies that they **achieve the same objective** at a lower fiscal cost.

Increasing the individual amount of the benefit (and extending its coverage) enhances the adjustment's potential to reduce the regressivity of the VAT. It could neutralize it. It could make VAT a progressive tax.

Bearing in mind the **importance of VAT in tax revenue**

## 8 – Limitations of the analysis discussed today

This presentation focused solely on VAT.

If we wish to analyze the impact of taxes on individuals' income, we must consider the entire tax system. Some taxes are progressive, others are regressive, and others are neutral.

This presentation focused solely on the exemptions designed to reduce the regressivity of VAT or, more specifically, the tax incidence on certain individuals.

The Tax Expenditure Report of Uruguay identifies more than 70 exceptions to the standard VAT model. They pursue different objectives (e.g., promoting certain economic activities) and, unintentionally, alter the incidence of the tax.

The combined value of these VAT tax expenditures amounts to more than 30% of VAT revenue.

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