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Does Corruption Affect Tax Policies? Lessons From High-Performing Economies for Latin America

¿La Corrupción Afecta las Políticas Tributarias? Lecciones de Economías de Alto Rendimiento para América Latina

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Abstract

Tax policies play a fundamental role in promoting economic growth; however, their effectiveness can be significantly undermined by corruption. In this context, this study aims to analyze the relationship between tax policies, specifically personal income tax and corporate income tax and corruption in countries with tax systems that foster economic growth, with the objective of identifying lessons applicable to Latin American nations. To achieve this objective, a mixed-methods approach was employed, combining a literature review based on Google Scholar, SciELO, Scopus, and Web of Science with a quantitative analysis of indicators from 30 developed and developing countries. To select the countries, a purposive sampling strategy was employed to include countries representing different levels of economic development and institutional quality. This approach enabled the comparison of tax policies and corruption across diverse economic contexts and facilitated the identification of lessons relevant to Latin American countries. The findings reveal that corruption substantially reduces the effectiveness of tax policies and that, beyond tax rates, the performance of a tax system depends largely on the quality of governance, institutional transparency, and public trust. Consequently, countries with lower levels of corruption achieve more efficient public resource management and stronger tax morale, enabling tax revenues to be translated into high-quality public goods and services and ultimately supporting more sustainable economic growth.

Keywords: tax policy, economic growth, corruption, corporate income tax, personal income tax

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Resumen

Las políticas tributarias desempeñan un papel fundamental en la promoción del crecimiento económico; sin embargo, su eficacia puede verse significativamente afectada por la corrupción. En este contexto, este estudio examina la relación entre las políticas tributarias, específicamente el impuesto sobre la renta de las personas físicas y el impuesto sobre la renta de las sociedades, y la corrupción en países con sistemas fiscales que favorecen el crecimiento económico, con el objetivo de identificar lecciones aplicables a las naciones latinoamericanas. Para ello, se empleó un enfoque de métodos mixtos que combinó una revisión de la literatura científica indexada en Google Scholar, SciELO, Scopus y Web of Science con un análisis cuantitativo de indicadores correspondientes a una muestra intencional de 30 países desarrollados y en desarrollo. Los países fueron seleccionados con base en la disponibilidad de datos comparables y con el propósito de garantizar la diversidad en los niveles de desarrollo económico y calidad institucional, permitiendo realizar comparaciones significativas entre países. Los resultados revelan que la corrupción reduce sustancialmente la eficacia de las políticas tributarias y que, más allá de las tasas impositivas, el desempeño de un sistema tributario depende en gran medida de la calidad de la gobernanza, la transparencia institucional y la confianza ciudadana. En consecuencia, los países con menores niveles de corrupción logran una gestión más eficiente de los recursos públicos y una mayor moral tributaria, lo que permite que los ingresos fiscales se traduzcan en bienes y servicios públicos de alta calidad y, en última instancia, favorezcan un crecimiento económico más sostenible.

Palabras clave: política tributaria, crecimiento económico, corrupción, impuesto sobre la renta de las empresas, impuesto sobre la renta de las personas

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Introduction

In terms of macroeconomics, Latin America is currently in an uncertain situation and complex global setting that highlights the need for implementing transformative public policies that enable them to overcome these obstacles. To achieve this, proper fiscal policies are necessary It is becoming increasingly important to highlight the opportunities that fiscal policy offers as a tool to viability and accelerate transformations that are necessary for the region's countries to advance in sustainable development (CEPAL. 2024).

The severe development crisis that Latin America is facing is not insurmountable, but governments, businesses, and households must work together to implement the necessary changes to establish a path of productive, inclusive, and sustainable development. Attention to fiscal policy must be paid; public investment is a crucial tool for advancing this mission (Andarov, 2024). In this context, Wagner's Law provides an important theoretical foundation for understanding the relationship between taxation and economic growth. However, the benefits of increased public expenditure depend not only on the amount of revenue collected but also on the quality of governance and the absence of corruption, which determine whether public resources are allocated efficiently and effectively.

It is crucial to research how corruption affects tax laws to create efficient fiscal systems that promote fair growth. This research is essential for policy reform since tax revenues in corrupt regimes frequently fail to pay public benefits, instead it fosters elite capture and evasion. Taxes are necessary, and all citizens and businesses should comply with their tax obligations so that a country can use these resources for different activities. Countries must consider how to manage taxes in a way that contributes to economic growth. The problem lies in the lack of understanding among economic policymakers about the relationship between corruption and taxes and how this relationship affects economic growth (Ridwan, 2023).

Corruption undermines tax policies' primary goal of mobilizing resources for development by distorting them at every stage. Without a clear understanding, governments run the danger of using ineffective strategies, such as lowering rates that unintentionally encourage avoidance rather than investment.

In this context, a lot can be learned from countries that have managed to have solid tax structures. A variable that has to be considered when implementing a tax system is corruption which has a significant detrimental effect on the economy, influencing effectiveness, justice,

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economic development, and investment. The findings suggest that the effectiveness of tax policies depends not only on their technical design but also on the strength of the institutional framework. In particular, the rule of law, government accountability, transparency, and effective enforcement are essential to ensuring tax compliance, reducing corruption, and translating tax revenues into high-quality public goods and services.

Materials and methods

This study employed a mixed-methods approach that integrated qualitative and quantitative research techniques. The qualitative component consisted of a comprehensive review of the literature on tax policy, tax theory, and corruption using publications indexed in Google Scholar, SciELO, Scopus, and Web of Science. This review provided the theoretical foundation for examining the relationship between taxation, governance, and economic growth. The search strategy included combinations of keywords such as tax policy, taxation, corruption, governance, tax morale, institutional quality, and economic growth.

The inclusion criteria considered peer-reviewed scientific articles published in English and Spanish, studies that analyzed the relationship between taxation and corruption or institutional factors, and publications containing relevant theoretical or empirical contributions to the research objectives. Studies were excluded if they were duplicated, lacked methodological rigor, were unrelated to tax policy and corruption, or did not provide sufficient information for analysis

For the quantitative component, secondary data were collected from a purposive sample of 30 developed and developing countries. The countries were selected based on the availability of comparable data and to ensure variation in economic development levels and institutional quality. The analysis examined the relationship between tax structures, particularly personal income tax and corporate income tax, and corruption indicators across countries.

The quantitative data analysis was conducted using SPSS applying descriptive statistics and comparative analysis techniques to identify patterns among tax systems, corruption levels, and governance indicators. The integration of qualitative and quantitative findings enabled a comprehensive understanding of how institutional factors influence the effectiveness of tax policies and provided insights applicable to Latin American countries.

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Literature Review

Tax Policy and Economic Development

Fiscal policy, particularly through public investment, can play a crucial role in reducing infrastructure and development gaps; however, its effectiveness depends on strong institutions, rigorous project evaluation, transparent allocation of resources, and adequate maintenance mechanisms to prevent inefficiency, resource waste, or unsustainable debt accumulation (Andarov, 2024). Moreover, linking tax revenues to visible and tangible public benefits, such as improved schools, healthcare services, and infrastructure, is essential for strengthening public support and enhancing tax morale. Rather than imposing tax increases without demonstrating effective outcomes, governments should promote efficient public spending strategies that generate social value and reduce poverty through targeted investments (Bird et al., 2020). When citizens perceive that their tax contributions translate into better public services, roads, schools, and hospitals, they are more likely to comply with tax obligations while simultaneously demanding greater transparency, accountability, and better governance from public institutions (Brautigam, 2019).

Deleidi et al. (2020), reveals that in European countries, when governments spend extra money on things like roads or schools the economy grows by more than the amount spent, a multiplier, bigger than 1.

Foster et al. (2023) links infrastructure to fiscal policy by showing how government spending on roads, power, and internet pays off big for growth in poor countries. Their meta-analysis crunches past studies to prove that smart public investments boost jobs, GDP, health, and trade.

Taxes are crucial because they give the government the funds it needs to carry on with infrastructure and vital public services like healthcare, education, transportation, and security. They also impact public health and environmental protection practices, lessen social inequality, and stabilize the economy. Furthermore, taxes establish a social contract that gives citizens and the government credibility and trust. With the funds from taxes, governments not only fund public services, but they work towards social equity, economic stability and growth, behavioral influence, and social contract and trust (Quak, 2019).

Taxes are a source of funds for the government, but their function goes beyond generating revenues. Through taxes, governments can attain more social equity which means they can redistribute wealth and achieve equality benefiting groups with lower incomes. Taxes can also

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aid governments maintain stability when in recession, governments can do more public spending affecting the aggregate demand in a positive way until recession passes; they are also important because they can lessen the consumption or production of goods and services that may be harmful for society; if they are used properly with transparency and fairness there is more compliance and less evasion (Fjeldstad, 2020).

Tax policy design

A nation's economy is greatly shaped by corporate income tax, which affects investment levels, business decisions, and overall growth. There are trade-offs between revenue and efficiency because lower rates tend to encourage activity while higher rates can discourage it.

By increasing competitiveness and drawing in foreign direct investment, lowering corporation tax rates often boosts GDP growth. Although net growth benefits differ depending on the policy design, studies show that tax cuts boost economic activity more than comparable increases in personal taxes. Higher rates are associated with decreased output and productivity (Lizarazo, 2017)

According to Fuest (2021), taxation of capital has substantial negative effects on the accumulation of capital and ultimately on output. A main theoretical concern that has guided hypothesis testing in the empirical literature is that corporate taxes can distort factor prices and lead to efficiency losses in the allocation of resources. This may reduce overall capital accumulation and growth of total factor productivity.

In another often-cited paper, (Quak, 2019) found that an increase in corporate income taxes has a stronger negative impact on economic growth than a similar increase in personal income taxes. However, in corrupted nations, lower corporation taxes frequently don't produce the desired results and can even make issues worse because of poor governance. At first, they might draw some investment, but in the face of corruption, they usually allow for greater evasion, rent seeking, and revenue loss.

Taking inspiration from cleaner economies, policymakers in developing countries often push for lower corporate income taxes to boost economic growth. However, this approach fails in corrupt environments, like many Latin American nations. Weak institutions undermine fiscal stability and equitable development by increasing evasion.

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In corrupt developing nations, lowering corporate taxes promises prosperity but actually creates distortion as elites profit from lax governance. Anti-corruption measures must come first in order to ensure that tax policy supports rather than detracts from the economy (Baum, 2017).

Tax Personal Income, Corruption and its effect on the economy

Personal income tax is levied on the income of individuals such as wages, salaries, self-employment income, and investments. The tax is usually calculated as a percentage of the individual's taxable income, which is gross income minus allowable deductions and exemptions. Personal income tax is a key government revenue source levied on individual income from multiple streams, with a structure designed to be equitable based on income levels.

Personal income taxes are important because of their financial contribution to the public budgets; personal income taxes are the second most important source of tax revenues in many countries and impact on government policies and goals such as economic growth, redistribution, the country's competitiveness, and the labor markets at the same time.

Numerous studies suggest that cuts on personal income tax may promote employment, saving, and investment. However, this may not always be the case; results depend on the well the revenues are used by policy makers (Baum, 2017). Some countries that have high personal income taxes have better outcomes when it comes to economic outputs and this may not seem logical, but there is another variable that might affect how well people respond to high tax paying in a country, which is corruption.

The idea of a low tax rate system often fails in places with weak governments because people can easily hide their money or income without good enforcement like audits, digital tracking, or tough penalties so the taxes don't get collected anyway (Bird, 2020)

How is corruption measured?

The Corruption Perceptions Index (CPI) is an internationally recognized indicator that measures and ranks countries according to the perceived levels of corruption within their public sectors. Published annually by Transparency International, the CPI reflects perceptions among experts and business executives regarding the extent to which public institutions and government officials are affected by corrupt practices. The index is widely used in comparative research to assess institutional quality, governance performance, and the effectiveness of public sector management (Forstater, 2018).

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A country's score is the perceived level of public sector corruption on a scale of 0-100, where 0 means highly corrupt and 100 means very clean. A country's rank is its position relative to the other countries in the index. Ranks can change merely if the number of countries included in the index changes.

The data sources used to compile the CPI specifically cover the following manifestations of public sector.

Table 1- Variables considered in the Corruption Perception Index

Bribery
Diversion of public funds
Officials using their public office for private gain without facing consequences
Ability of governments to contain corruption in the public sector
Excessive red tape in the public sector which may increase opportunities for corruption
Nepotistic appointments in the civil service
Laws ensuring that public officials must disclose their finances and potential conflicts of interest
Legal protection for people who report cases of bribery and corruption
State capture by narrow vested interests
Access to information on public affairs/government activities

Source: Adapted from Corruption Perception Index (CPI)

Public sector corruption undermines tax systems by encouraging tax evasion, reducing overall tax revenue, increasing the size of the informal economy, and distorting tax structures. Corrupt officials can accept bribes to overlook violations, and complex tax systems create opportunities for officials to abuse their power, leading to a downward spiral where declining trust and compliance further erode the tax base and the state's ability to provide services (Torgler, 2020).

Corrupt officials may accept bribes from individuals and businesses, allowing them to underpay taxes or hide income for tax purposes. This leads to a weak enforcement and corrupt tax administration providing incentives for businesses and individuals to operate outside the formal tax system, increasing the size of the informal economy. There can also be diversion of significant amounts of national revenue that should be collected through taxes for personal gain. The acceptance of bribes, the perception of unfairness, and a general sense of distrust in tax administration undermine the public's commitment to complying with tax laws (Torgler, 2020).

Corruption can influence tax policy by enabling powerful interest groups to promote or preserve tax exemptions, preferential treatments, and regulatory loopholes that distort the tax system and undermine efforts to broaden the tax base. A narrow tax base reduces government revenue capacity, limiting the resources available for essential public services and productive investments, such as infrastructure, education, and healthcare. This situation can reinforce cycles of weak governance, reduced institutional capacity, and persistent underdevelopment. Furthermore, corruption may obstruct tax reforms aimed at improving efficiency, fairness, and transparency by allowing vested interests to resist changes that threaten existing privileges (Quentin, 2016).

Results

Comparative analysis of developed and developing countries

Table 2-GDP per Capita, Tax Indicators, and Corruption Perception Rankings in High-Income Countries

Country	GDP per capita 2024	Corporate Income Tax	Personal Income Tax	Corruption Index Rank
Luxembourg	138.634,4	23,87	42	81
Ireland	106.455,9	12,5	40	77
Switzerland	104.523,3	14,6	40	81
Norway	86.611,17	22	47,4	81
Singapore	90.674,04	17	24	84
Iceland	87.204,97	21	46,28	77
United States	85.812.18	21	37	65
Qatar	71.583,13	10	0	59

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Denmark	72.041,54	22	55,09	90
Netherlands	68.393,15	25,8	49,5	78

Source: Own Elaboration

Table 1 shows the ten richest countries in the world according to GDP per capita. These countries with high Gross Domestic Products (GDPs) share distinctive economic characteristics such as stable, democratic governments with free press and stable institutions that promote transparency and trust. Economically, they usually have post-industrial economies focused more on services rather than just manufacturing or agriculture, with diversified economies that reduce dependency on any single sector.

Table 3- GDP per capita, taxes and corruption rank in Latin America- 2023

Country	GDP per capita	Corporate Income Tax	Personal Income Tax	Corruption Index Rank
Argentina	13.415,31	35	35	37
Bolivia	3.938,52	25	13	28
Brasil	10.214,03	34	27,5	34
Chile	16.439,48	27	40	63
Colombia	7.942,59	35	39	39
Costa Rica	17.908,55	30	25	58
Ecuador	6.775,26	25	37	32
El Salvador	5.526,95	30	30	30
Guatemala	6.306,59	25	7	25
Honduras	3.467,85	25	25	22
Jamaica	7.298,78	25	30	44
Mexico	14.006,66	30	35	26
Nicaragua	2.845,72	30	30	14
Paraguay	6837,52	10		24
Panama	19.445,06	25	25	33
Peru	8.485,02	29,5	30	31

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Puerto Rico	3.7928,3	37,5	33	
Dominican Republic	11.541,58	27	25	36
Suriname	6.888,59	36	38	40
Uruguay	23.089,28	25	36	76
Venezuela	45.10,62	34	34	10

Source: Own elaboration

Table 2 shows the GDP per capita in countries in Latin America. Most Latin American economies have low GDP per capita and they share characteristic such as concentrated export portfolios focusing on a few natural resource products, with limited industrial diversification. This concentration leads to stagnation in total factor productivity and economic fragility. Despite natural resource wealth, wealth and income inequality remain persistent. Many countries are seen as stuck with challenges in sustainable income growth and social equity. Latin American economies are marked by richness in natural resources and export orientation but face challenges in economic diversification, productivity growth, inequality, and vulnerability to global commodity market shifts.

Tables 3 and 4 show a simple comparison between wealthy and Latin America countries. The GDP per capita in wealthy countries is $91.193,36, an in Latin America the mean is $ 9.844. Wealthy countries have a corporate income tax mean of 18,77% compared to Latin America countries that show 28.13%. The mean of personal Income tax in wealthy countries is 38,12% and in Latin America 28.18%. The mean of the corruption index rank in wealthy countries is 77,30, values close to 100 indicate low corruption, and in Latin America the corruption rank mean is 35,10.

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Table 4- GDP per Capita, Tax Burden, and Corruption Perception Index in High-Income Countries

		GDP PER CAPITA	CORPORATE INCOME TAX	PERSONAL INCOME TAX	CORRRUPTION INDEX RANK
N	Valid	10	10	10	10
	Missing	0	0	0	0
Mean		91.193,3600	18,977	38,1270	77,30
Minimu		68.393,15	10,0	,00	59
Maximum		138.634,40	25,8	55,09	90

Source: Own elaboration

Table 5- Analysis of GDP per capita, Taxes, and Corruption Rank in Latin America

		GDP PER CAPITA	CORPORATE TAX	PERSONAL TAX	CORRUPTION INDEX RANK
N	Válid	20	20	20	20
	Missing	0	0	0	0
Mean		9.844,1980	28,13	28,58	35,10
Mínimum		2.845,72	10	7	10
Maximum		23.089,28	36	40	76

Source: Own elaboration

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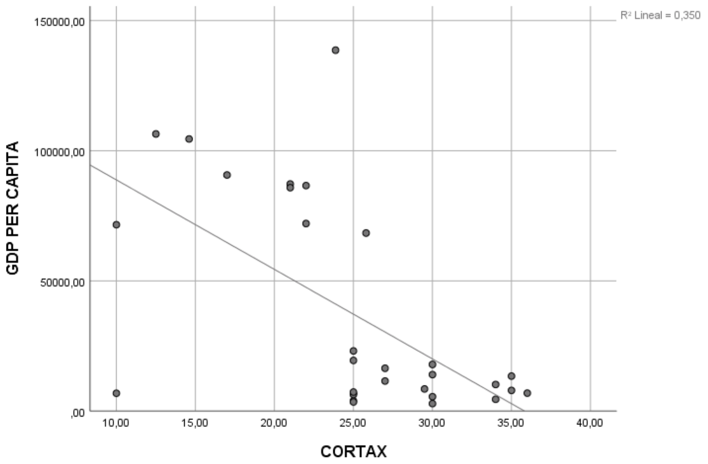
Graph 1- GDP per capita and Corporate Income Tax



Source: Own elaboration

Graph 1 reveals a downward trend where countries with lower corporate income tax (CIT) rates tend to exhibit higher GDP per capita, suggesting that lower taxation on corporate profits may correlate with stronger economic output and wealth. Economic theory suggests that a reduction in Corporate Income Tax (CIT) generates positive effects on investment only when countries provide legal certainty, institutional stability, and effective protection of property rights.

Comentado [P1]: La teoría sugiere que el CIT bajo funciona solo si hay seguridad jurídica. En países corruptos, el CIT bajo puede no ser suficiente para atraer inversión real. Falta mencionar esta distinción.

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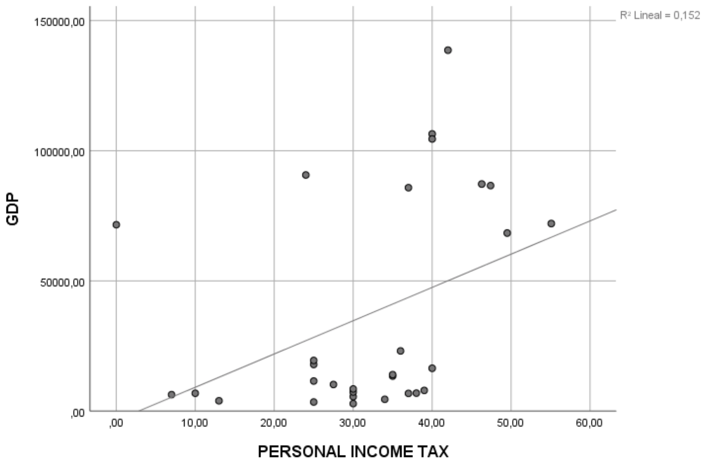
Graph 2: Personal Income Tax and GDP per capita



Source: Own Elaboration

Graph 2 illustrates an upward trend indicating that countries with higher personal income tax (PIT) rates tend to have higher GDP per capita if they have low corruption. This observation reveals important insights about the role of personal income taxation in economic development, particularly in Latin America where tax systems and economic structures present unique challenges and opportunities.

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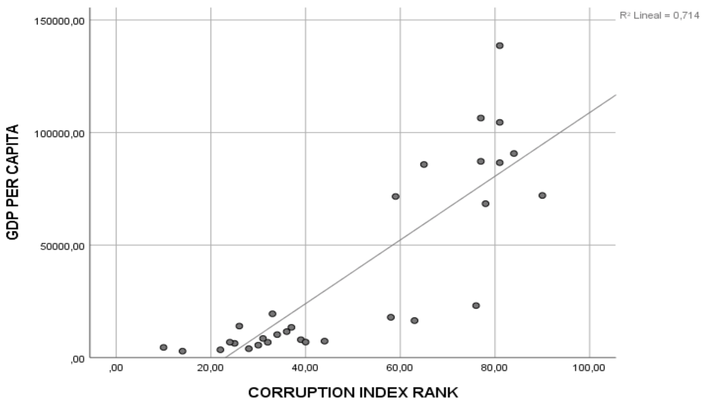
Graph 3: Corruption Index and GDP per capita



Source: Own Elaboration

Discussion

Some countries maintained relatively high personal income tax rates, yet their citizens accepted these tax burdens because governments provided high-quality infrastructure and public services. This pattern indicated that governments used tax revenues efficiently and maintained low levels of corruption. The benefits that citizens received in return compensated for the higher personal income tax burden. High tax rates therefore produced positive outcomes when governments allocated public revenues effectively to infrastructure, education, healthcare, and other essential public services. Countries with low levels of corruption used tax revenues to promote economic and social development, which benefited society as a whole.

By contrast, many Latin American countries maintained relatively low personal income tax rates, but these policies did not necessarily promote economic growth. Instead, widespread corruption weakened tax compliance and encouraged tax evasion because citizens perceived that governments failed to use public revenues for the common good. Taxpayers often questioned the value of paying taxes when public officials diverted resources or managed them inefficiently.

Countries such as Bolivia, Mexico, and Brazil continued to maintain comparatively low personal income tax rates, with top marginal rates generally ranging from approximately 20%

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to 35%, whereas several high-income countries imposed rates between 40% and 50%. Policymakers frequently justified these lower rates as measures to stimulate investment, consumption, and labor market participation. However, empirical evidence indicated that low tax rates alone did not guarantee stronger economic performance. Several Latin American economies experienced large informal sectors and modest rates of economic growth despite relatively low personal income tax rates.

According to Transparency International, many Latin American countries recorded Corruption Perceptions Index scores below 40 out of 100, which reflected weak public-sector integrity, reduced public trust, and lower tax compliance. Corruption weakened the implicit social contract between taxpayers and the government because citizens observed public officials granting preferential treatment, misappropriating public funds, or allocating resources inefficiently. Rather than financing roads, schools, hospitals, and other public services, tax revenues often supported corrupt practices, excessive privileges, or poorly executed public projects. Under these conditions, lower tax rates failed to achieve their intended economic objectives because corruption undermined both taxpayer confidence and the effective use of public resources.

Higher-income countries with robust welfare systems often relied on personal income taxes to finance healthcare, education, infrastructure, social security, and public safety. Consequently, citizens regarded these higher tax rates as the price they paid to live in societies that prioritized collective welfare and quality of life. When governments translated tax revenues into visible benefits, such as universal healthcare and high-quality education, citizens generally perceived their tax payments as worthwhile investments in both their own well-being and that of society.

Satisfaction with high tax rates depended largely on the effectiveness and transparency of government institutions. Governments that managed tax revenues efficiently and equitably generally fostered positive attitudes among taxpayers. When citizens believed that authorities used public funds responsibly to address social needs and reduce inequality, they accepted higher tax burdens more readily. By contrast, countries characterized by corruption or ineffective public expenditure often experienced public dissatisfaction, even when tax rates remained comparatively low.

Citizens also expressed greater acceptance of higher taxes when they recognized that public revenues reduced socioeconomic disparities, supported vulnerable populations, and strengthened social cohesion.

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Although high personal income tax rates initially appeared burdensome, many citizens viewed them favorably because governments provided tangible public benefits and implemented tax policies that they considered fair. This pattern demonstrated that efficient governance, social equity, and visible public services shaped positive taxpayer attitudes. Ultimately, public satisfaction depended not only on the tax rate itself but also on the manner in which governments allocated public revenues and communicated their use.

A similar pattern emerged with corporate income taxation. Even when governments reduced corporate tax rates, many developing countries characterized by high levels of corruption failed to encourage tax morale or stimulate domestic investment. Many firms avoided tax obligations, while foreign direct investment frequently flowed toward countries with stronger institutions and greater transparency.

Economic theory suggested that lower corporate income tax rates reduced the cost of capital, attracted foreign direct investment, and encouraged business expansion. However, reciprocity remained a fundamental determinant of tax morale because firms contributed more willingly when they perceived clear benefits, such as legal certainty, reliable infrastructure, and effective public institutions. Corruption undermined this relationship because many businesses viewed tax avoidance as a rational response to the misuse of public resources by government officials. Investors also placed considerable value on institutional quality and transparency when they selected investment destinations. As a result, corruption reduced both domestic and foreign investment and limited economic growth. Furthermore, corruption discouraged innovation because it created uncertainty, reduced incentives for research and development, and discouraged entrepreneurs from pursuing new business opportunities.

These findings suggested that countries that sought to promote economic growth through tax policy first needed to reduce corruption and strengthen institutional quality. Lower levels of corruption increased investor confidence, encouraged productive investment, improved tax compliance, and strengthened citizens' willingness to pay taxes.

Conclusión

In summary, the effectiveness of tax policy, whether it involves low corporate income tax rates or high personal income tax rates, depends more on the institutional trust that governments generate than on the tax rates themselves. Low levels of corruption ensure that governments

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transform tax revenues into tangible public goods, such as high-quality healthcare, education, and infrastructure, which citizens clearly value. As a result, governments strengthen tax morale because taxpayers perceive their tax contributions as investments in collective well-being rather than as financial burdens. This dynamic explains why many countries with relatively high tax rates achieve favorable economic and social outcomes.

In contrast, several Latin American countries illustrate the limitations of fiscal policies implemented in environments characterized by high levels of corruption. In these contexts, low tax rates do not necessarily promote economic growth; instead, they often facilitate tax evasion because citizens and businesses observe that public resources benefit political and economic elites rather than finance innovation, infrastructure, or other productive investments. Consequently, corruption encourages the expansion of the informal economy, discourages foreign direct investment, and weakens long-term economic development.

To achieve sustained economic growth, Latin American countries need to implement reforms in a clear and coherent sequence. First, they need to reduce corruption through greater transparency, digital governance, independent auditing, and stronger accountability mechanisms. Once governments strengthen institutional quality, they can adjust tax policies and allocate public revenues to productive investments that reduce social disparities, attract investment, promote entrepreneurship, and improve public services. This process strengthens the social contract between citizens and the state by increasing public trust and improving tax compliance.

Ultimately, effective and transparent governance transforms tax policy into a mechanism that promotes economic growth and social development rather than tax evasion. Therefore, institutional trust, rather than tax levels alone, determines a country's long-term development trajectory.

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