DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

REGIONAL

TAX SYSTEMS AND ARTIFICIAL INTELLIGENCE IN LATIN AMERICA AND THE CARIBBEAN

(RG-T4968)

PROJECT DOCUMENT

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REGIONAL **TAX SYSTEMS AND ARTIFICIAL INTELLIGENCE IN LATIN AMERICA AND THE CARIBBEAN** **RG-T4968**		
PROJECT SUMMARY		
Operation Type:	Technical Cooperation	
Sector:	REFORM / MODERNIZATION OF THE STATE	
Subsector:	FISCAL POLICY FOR SUSTAINABILITY AND GROWTH	
TC Taxonomy:	Research and Dissemination	
Project Number under the Operational Support Taxonomy:	N/A	
Technical Responsible Unit:	IFD/FMM-Fiscal Management Division	
Unit with Disbursement Responsibility (UDR):	IFD/FMM-Fiscal Management Division	
Executing Agency:	Inter-American Development Bank	
PROJECT OBJECTIVE		
The general objective of this TC is to analyze how artificial intelligence will affect tax systems in Latin America and the Caribbean, including their revenue capacity, efficiency, relative burdens, and redistributive impact, and to identify policy responses for the region. The specific objectives are: (i) to diagnose how current tax structures interact with AI adoption and can create a wedge that accelerates automation; (ii) to identify tax-policy responses that maintain revenue, equity, and efficiency and are robust across different AI-impact scenarios; (iii) to identify tax-policy and incentive measures that steer AI adoption toward complementarity with labor rather than displacement; and (iv) to assess the opportunities and risks of AI adoption in tax administration. The result expected from this TC is an evidence base and a set of actionable policy options that fiscal authorities in the region can draw on to adapt tax policy and tax administration to AI-driven change. The qualitative outcome sought by project end is that tax authorities and fiscal policymakers in Latin America and the Caribbean take the TC's findings into account in their planning and reform discussions.		
FINANCIAL INFORMATION		
Financing Type	**Fund**	**Amount in US$**
TCN - Nonreimbursable	P3A - OC SDP Pillar 3 - Institutional Capacity, Rule of Law, and Citizen Security	230,000
	Total IDB Financing	**230,000**
	Counterpart Financing	**0**
	Total Project Budget	**230,000**
Donors:	N/A	
Disbursement Period:	36 months	
Execution Period:	36 months	
ADDITIONAL FINANCIAL INFORMATION		
N/A		

I. JUSTIFICATION AND OBJECTIVE

1.1 **Diagnostic.** Latin American and Caribbean (LAC) tax systems rest on three bases: formal employment, corporate profits, and formal consumption. These are precisely the three that artificial intelligence (AI) most directly threatens. The region is largely a technology taker, with limited leverage over AI's direction and with policy levers confined mainly to the tax-and-transfer system (Korinek & Stiglitz, 2025).

1.2 The fiscal transmission is direct, and reaches the region through two channels: domestic adoption by firms and governments, and international spillovers as advanced economies reshore previously outsourced services and as displacement pressures in advanced economies could potentially affect remittance flows. AI can shift income from labor toward capital, narrow labor-based tax bases, and push workers toward informality, affecting personal income, corporate income, and value-added taxes (Bastani & Waldenström, 2024; Brollo et al., 2024). The magnitude is deeply uncertain: headline productivity estimates are calibrated to advanced economies and to early-generation systems (Acemoglu, 2024, puts the boost at roughly 0.66%), while frontier capabilities are advancing rapidly and the same formula yields very different answers depending on the snapshot used (Aghion & Bunel, 2024).

1.3 The region also enters this transition with significant readiness gaps that bear directly on its tax administrations. Regional AI investment is below 2 percent of United States levels (ECLAC, 2024); only 30 percent of government procedures can be completed online, against 75 percent in the European Union (UN E-Government Survey, 2024); institutional autonomy strongly predicts successful digital transformation in tax agencies (IDB Digital Maturity Index); and the scarcity of digital talent is among the primary barriers to technology adoption in tax administration (Okunogbe & Tourek, 2024). Yet no LAC-calibrated analysis exists of how AI will affect tax bases, which policy responses are robust, or how tax administration should adapt.

1.4 **Request.** This TC is a Bank's initiative as a response to the significant readiness gaps affecting the region's tax administrations. As a Research and Dissemination (R&D) this Technical Cooperation (TC) is designed to close that gap and to provide actionable policy recommendations. The Inter-American Development Bank (IDB), through its Fiscal Management Division (IFD/FMM), has an interest in generating the regional evidence base on how AI will affect tax systems in LAC — a question on which no LAC-calibrated analysis yet exists and which is increasingly central to the Bank's fiscal-management policy dialogue across the region.

1.5 **Objective.** The general objective of this TC is to analyze how artificial intelligence will affect tax systems in Latin America and the Caribbean, including their revenue capacity, efficiency, relative burdens, and redistributive impact, and to identify policy responses for the region. The specific objectives are: (i) to diagnose how current tax structures interact with AI adoption and can create a wedge that accelerates automation; (ii) to identify tax-policy responses that maintain revenue, equity, and efficiency and are robust across different AI-impact scenarios; (iii) to identify tax-policy and incentive measures that steer AI adoption toward complementarity with labor rather than displacement; and (iv) to assess the opportunities and risks of AI adoption in tax administration. The result expected from this TC is an evidence base and a set of actionable policy options that fiscal authorities in the region can draw on to adapt tax policy and tax administration to AI-driven change. The qualitative outcome sought by project end is that tax authorities and fiscal policymakers in Latin America and the Caribbean take the TC's findings into account in their planning and reform discussions.

1.6 **Complementarity.** This TC complements the Bank's fiscal-management knowledge agenda in the region by generating the evidence base that operational and policy-dialogue work on tax policy and tax administration will increasingly require as AI reshapes the economic environment. By analyzing how AI affects tax bases and how AI tools can strengthen tax administration under appropriate governance safeguards, the TC contributes to the sector's strategic vision of resilient, efficient, and modern fiscal institutions, consistent with the Bank's broader emphasis on institutions and governance as central to the responsible adoption of AI.

1.7 **Strategic Alignment.** This TC is consistent with the IDB Group's Institutional Strategy: Transforming for Scale and Impact (GN-3159-12) and aligns with its core objective of bolstering sustainable growth by strengthening and making tax systems more resilient to sustain public revenue as AI reshapes the economy. It aligns with the operational focus area of institutional capacity, rule of law, and citizen security through two lines of action. The first, strengthening fiscal policy and management, is advanced by building the evidence base to adapt tax policy and fiscal management to AI-driven change. The second, boosting the digital transformation of the public sector, is advanced by assessing how AI can strengthen tax administration while identifying the governance safeguards, legal frameworks, and institutional capacities needed for responsible deployment. The The TC also aligns with the Pillar 3: Institutional Capacity, Rule of Law, and Citizen Security (P3A) of the Ordinary Capital Strategic Development Program (OC-SDP) (GN-2819-25), by building the analytical capacity fiscal authorities need to respond to technological change, and with the Sectoral Framework for Fiscal Policy and Management (GN-2831-13), which emphasizes strengthening medium-term fiscal sustainability, to which the TC contributes by protecting the resilience of tax bases and revenue systems against AI-driven erosion.

1.8 The TC is aligned with the country strategies of its beneficiary countries. With Colombia (IDB Group Country Strategy with Colombia 2024-2027, GN-3238-3), it supports the strategic area of strengthening fiscal execution and public management, contributing to objectives on boosting tax revenue collection and strengthening digital government. With Costa Rica (Costa Rica and IDB Group Strategic Agreement. Country Strategy 2024-2027, GN-3250), it contributes to institutional strengthening and digital transformation, extending the Bank's support for tax-collection modernization and addressing the reshoring risks relevant to the country's services-export sector. With El Salvador (Strategic Agreement between El Salvador and the IDB Group. Country Strategy 2025-2029, GN-3299-3), it supports the first pillar on fiscal sustainability and public-sector modernization, including tax-administration modernization. With Peru (IDB Group Country Strategy with Peru 2022-2026, GN-3110-1), it supports the priority area of institutional strengthening and the cross-cutting emphasis on institutional capacity, rule of law, and digitalization.

1.9 The four beneficiary countries bracket the region's range. All four carry the weaknesses AI would sharpen — informality near 56% in Colombia and 77% in Peru, evasion-narrowed bases, and administrations still consolidating reform — but they enter the transition from very different starting points, from Costa Rica's more digitalized administration and region-high AI exposure (38% of employment) to El Salvador and Peru at 31% (Gmyrek, Winkler & Garganta, 2024). They were prioritized because each makes tax-system strengthening a current country-strategy priority, all four confirmed their interest, and together they are representative enough for the findings to inform the wider membership — which the diagnostic frames as one question: how AI will affect each country's capacity to tax its three bases, and which responses hold across their different starting points.

II. COMPONENTS

2.1 **Component 1. Generate knowledge on the interaction between AI and tax systems in LAC (US$190,000).** The objective of this component is to analyze how AI-driven economic change affects tax systems in the region (through both domestic adoption and international spillovers) and to identify policy responses, providing LAC countries with evidence-based guidance for adapting tax policy, institutional arrangements, and tax administration to technological change. Particularly, the component will finance consultancies to: (i) diagnosing how current tax structures interact with AI adoption, including whether they create a wedge that accelerates automation, and whether AI-driven shifts from labor to capital income, or from formal to informal employment, erode existing tax bases; (ii) identifying tax-policy responses that maintain revenue, equity, and efficiency and are robust across AI-impact scenarios; (iii) identifying tax-policy and incentive measures that steer AI adoption toward complementarity with labor rather than displacement, supporting a less disruptive transition; and (iv) assessing the opportunities and risks of AI adoption in tax administration, including effects on compliance, tax morale, and legal frameworks. The analysis is expected to draw on a combination of quantitative methods — including calibrated structural models, microsimulations, and econometric analysis — selected to fit each question, while remaining open to alternative and complementary approaches.

2.2 **Component 2. Disseminate findings and promote knowledge exchange (US$40,000).** The objective of this component is to disseminate the products and results of the TC. Resources from this component will used to hire consultancies to: (i) produce policy briefs synthesizing findings for policymakers and practitioners; and (ii) organize knowledge-exchange workshops with tax authorities and fiscal-policy stakeholders from the region.

2.3 **Expected Results**. The expected result of this TC is to generate an evidence base and a set of policy recommendations that fiscal authorities in Latin America and the Caribbean can use to adapt tax policy and tax administration to AI-driven change.

2.4 **Beneficiaries.** The direct beneficiaries are the tax authorities and fiscal-policy institutions of the beneficiary countries, which will gain analytical tools and evidence for adapting tax policy and administration to technological change. The final beneficiaries are the region's taxpayers and citizens, who benefit from more resilient revenue systems and from the public services those revenues finance.

III. BUDGET

3.1 **Budget.** The total cost of the TC is US$230,000 which will be financed entirely by the Bank through the Pillar 3: Institutional Capacity, Rule of Law, and Citizen Security (P3A) of the Ordinary Capital Strategic Development Program (OC-SDP). No local counterpart contribution is expected. No additional costs are expected to be generated in the transaction budget of the Country Office for supervision.

Components	IDB/P3A	Total
Component 1. Generate knowledge on the interaction between AI and tax systems in LAC	190,000	**190,000**
Component 2. Disseminate findings and promote knowledge exchange	40,000	**40,000**
Total	**230,000**	**230,000**

IV. EXECUTION STRUCTURE

4.1 **Executing Agency**. This Technical Cooperation is an initiative promoted by the Bank. The TC will be executed by the IDB, through the Fiscal Management Division (IFD/FMM). The IDB brings unique comparative advantages through its extensive experience in fiscal policy research, deep regional knowledge, and established relationships with finance ministries across LAC. The Bank's Fiscal Management Division possesses specialized technical expertise in tax administration, compliance interventions, and impact evaluation methodologies essential for generating high-quality, policy-relevant research. The Bank's regional scope also enables cross-country learning and analytical frameworks adaptable across diverse contexts. These attributes will ensure that the execution of TC products is carried out in a timely and proper manner.

4.2 Should any country-specific activities be carried out in the beneficiary countries during execution — or before requesting information from them — the team leader will obtain the corresponding non-objection letter from the relevant official liaison entity prior to the start of such activities.

4.3 **Procurement.** All procurement to be executed under this Technical Cooperation have been included in the Procurement Plan (Annex IV) and will be hired in compliance with the applicable Bank policies and regulations as follows: (a) Hiring of individual consultants, as established in the regulation on Complementary

Workforce (AM-650) and (b) Contracting of services provided by consulting firms in accordance with the Corporate procurement Policy (GN-2303-33) and its Guidelines.

4.4 **Execution and Disbursement Period.** The execution period of the TC is 36 months, and the disbursement period is also 36 months.

4.5 **Monitoring, Reporting, and Supervision.** The project team leader from IFD/FMM will be responsible for the supervision of the Technical Cooperation (TC), including monitoring and evaluation of objectives, indicators, and targets, as well as financial execution in accordance with the TC's procurement plan (Anexo IV). IFD/FMM will also serve as the Unit with Disbursement Responsibility. The project will be monitored and evaluated based on the annual targets from the results matrix, following the document of the Technical Cooperation Monitoring and Reporting System (OP-1385-4).

V. POTENTIAL RISKS

5.1 The main risks to the TC are: (i) limited uptake or institutional ownership of the analytical products by fiscal authorities, which would reduce the TC's policy impact, mitigated by engaging tax authorities and fiscal-policy stakeholders throughout, from the framing of scenarios to the design of products and the dissemination strategy; (ii) the rapid evolution of AI capabilities outpacing the analysis, which would affect the quality and shelf-life of the products, mitigated by a scenario-based approach designed to remain robust across a range of outcomes rather than tied to a single forecast; and (iii) limited availability of LAC-specific data for calibration, which would affect the precision of the estimates, mitigated by drawing on the best available regional evidence and transparent sensitivity analysis. A cross-cutting consideration for the tax-administration work is that the benefits of AI in administration are not automatic: poorly designed deployment carries risks to reproducibility, tax morale, and legal frameworks built for human decision-makers, which the analysis will address directly. No special execution arrangements such as new legislation, decrees, or multi-agency arrangements are anticipated.

5.2 **Intellectual Property.** The knowledge products, other than Software and Databases and Datasets, generated within the framework of this TC will be the property of the Bank and may be made available to the public under a Creative Commons license, in accordance with the Procedures for the Publication of Knowledge Products (AM-331). However, at the beneficiary's request, the intellectual property of said products may also be licensed to the beneficiary through specific contractual commitments that will be prepared with the advice of the Bank's Legal area.

VI. EXCEPTIONS TO BANK POLICIES

6.1 The TC does not foresee any exceptions to Bank policy.

VII. Environmental and Social Aspects

7.1 This Technical Cooperation is not intended to finance pre-feasibility or feasibility studies of specific investment projects or environmental and social studies associated with them; therefore, this TC does not have applicable requirements of the Bank's Environmental and Social Policy Framework (ESPF).

REQUIRED ANNEXES:

- Annex I: Results Matrix
- Annex II: Terms of Reference
- Annex III: Procurement Plan