

# Firms' Networks Under Tax Preferential Regimes: Evidence from Honduras

(Preliminary Data Review)

August 2022

## Abstract

This note offers summary statistics from several tax records that might be useful in order to analyze firm linkages in Honduras. Special attention is pay to those firms enjoying a preferential tax treatment, the so called “exonerated firms”. Statistics are obtained from firms/individuals income tax records (DJ-ISR for its acronyms in spanish, *Declaración Jurada de Impuesto Sobre Renta*), and from third-party reports on firm-to-firm transactions (DMC for its acronyms in spanish, *Declaración Mensual de Compras*).

## 1 Description

This section describes the main adjustments that were implemented before generating the summary statistics.

- In order to make a precise identification of exonerated firms, those with a non-electronic tax form (DJ-ISR) were drop from the sample. We focus on the period between 2018 and 2021 because in 2017 the records from exonerated firms in the Ministry of Finance are not very reliable.
- We merge corporate and individual income tax forms to have an unified register of exempted firms.
- Exonerated firms/individuals correspond to those taxpayers who have enabled the exemption credit cell in the DJ-ISR (tax credits  $> 0$ ). The tax administration only makes this cell available (in electronic tax forms) for firms registered with an exemption resolution from the Ministry of Finance.
- The church, the government, professional colleges, and non profit organizations are removed from the sample.
- DMC is build up on two different sources, local and foreign (imports) purchases. Thus, the document is splitted in three different sections: records from the DJISR, records from the DMC on local transactions, and records from the DMC on imports.

## 2 Summary Statistics on DJ-ISR

This section presents the number of firms that belong to each special regime according to the type of exoneration (export or non-export oriented). Table 1 presents the combination of companies and individuals identified as exonerated in the DJ-ISR<sup>1</sup>.

Table 1: Number of Taxpayers in Preferential Regimes According to DJ-ISR

Preferential Regime	2018	2019	2020	2021
A. EXPORT ORIENTED				
ZOLI	362	368	362	367
RIT	86	97	94	90
ZADE	1	1	1	1
B. NON-EXPORT ORIENTED				
Turismo*	133	138	127	133
Otros regímenes	18	15	13	12
Otros exonerados	198	75	54	52
Cooperativas	92	201	207	156
MIPYMES	0	1,507	2,417	3,765
Sector social de la economía	0	63	68	82
APP	2	6	7	6
Energía Renovable	36	49	52	54
Call Centers	0	3	2	4
OPDF	0	1	2	2
Total	928	2,524	3,406	4,724

SOURCE: own elaboration. \*The preferential regime labeled as “Turismo” is the sum of firms advocated under tax incentives for the tourism sector such as Zonas Libres Turísticas (ZOLT), Zona Libre Turística de Islas de la Bahía (ZOLITUR), Ley de Incentivos al Turismo (LIT) e Incentivos al Turismo.

<sup>1</sup>MIPYMES is a regime that was introduced and registered in the tax administration until 2019.

Honduran tax legislation indicates that only medium and large taxpayers must submit the DMC form to the tax authority before the 20th day of the month. When decomposing the number of exonerated firms in table 2 according to their size, it can be noticed that 95% of exonerated firms are labeled as small, and the remaining 5% corresponds to medium and large firms.

Table 2: Number of Exonerated Firms by Size

Preferential Regime	Large	Medium	Small
A. EXPORT ORIENTED			
ZOLI	54	46	339
RIT	34	20	66
ZADE	1	0	0
B. NON-EXPORT ORIENTED			
Turismo*	18	20	148
Otros regímenes	7	1	14
Otros exonerados	6	26	193
Cooperativas	5	22	214
MIPYMES	0	0	4,121
Sector social de la economía	0	0	84
APP	0	0	5
Energía Renovable	6	1	41
Call Centers	0	0	3
OPDF	0	0	0
Total	131	136	5,228

SOURCE: own elaboration. \*The preferential regime labeled as “Turismo” is the sum of firms advocated under tax incentives for the tourism sector such as Zonas Libres Turísticas (ZOLT), Zona Libre Turística de Islas de la Bahía (ZOLITUR), Ley de Incentivos al Turismo (LIT) e Incentivos al Turismo.

### 3 Summary Statistics on DMC (Local Purchases)

Table 3 describes the number of unique exonerated firms filling at least one DMC form per year. It can be noticed that there's only a small fraction of exonerated firms filling a DMC form. Between 2018-2021 44% (on average) of exonerated firms under an export oriented regime submitted a DMC form to the tax authority. For the same span of time, only 8% of exonerated firms under non-export oriented regimes filled a DMC form.

Table 3: Number of Taxpayers Filling DMC on Local Purchases at Least Once

Preferential Regime	2018	2019	2020	2021
A. EXPORT ORIENTED				
ZOLI	143	143	137	131
RIT	61	70	64	55
ZADE	1	1	1	1
B. NON-EXPORT ORIENTED				
Turismo*	35	34	27	26
Otros regímenes	9	9	8	7
Otros exonerados	36	15	11	11
Cooperativas	16	29	29	25
MIPYMES	0	1	1	5
Sector social de la economía	0	1	1	1
APP	0	0	1	1
Energía Renovable	10	10	10	11
Call Centers	0	1	1	1
Total	311	314	291	275

SOURCE: own elaboration. \*The preferential regime labeled as “Turismo” is the sum of firms advocated under tax incentives for the tourism sector such as Zonas Libres Turísticas (ZOLT), Zona Libre Turística de Islas de la Bahía (ZOLITUR), Ley de Incentivos al Turismo (LIT) e Incentivos al Turismo.

Table 4 describes the distribution of local transactions according to each tax preferential regime<sup>2</sup>. Between 2018 and 2021 74% (on average) of the observations for local transactions in our sample correspond to non exonerated firms, the remaining 26% belongs to any other firm under a tax preferential regime. This fact might be related with the firms' size. As shown by table 2, only 7% of exonerated firms are labeled by the tax administration as medium or large, so they don't have to submit the DMC form.

Table 4: Number of Local Transactions in Sample by Regime

Tax Regime	2018	2019	2020	2021
A. IN VALUES				
Non Exonerated	461,953	368,412	388,074	314,084
Export Oriented	110,677	104,705	106,571	72,693
Non-Export Oriented	54,780	39,518	38,917	27,842
B. SHARE OF TOTAL TRANSACTIONS				
Non Exonerated (%)	74	72	73	76
Export Oriented (%)	18	20	20	18
Non-Export Oriented (%)	9	8	7	7

SOURCE: own elaboration.

<sup>2</sup>The results were generated from a dataset with  $N = 2,088,226$ .

As a next step, table 5 reports the raw averages<sup>3</sup> for selected variables in the DMC by type of regime. The third and fourth column report values for firms under tax preferential regime according to their category. There are some facts that should be highlighted. Export oriented (exonerated) firms have (on average) the highest number of suppliers, regardless the frequency (monthly or yearly), even though they account for a very small share of firms as table 3 described. Also firms under export oriented regimes tend to face exempt transactions valued at higher amounts. But when it comes to transactions taxed (at 15% or 18%) with the Value Added Tax (VAT), non exonerated firms make purchases for higher values.

Table 5: Pooled Means on Local Purchases by Type of Regime

Variable	Non Exonerated	Export Oriented	Non-Export Oriented
A. MONTHLY BASIS			
# Monthly Transactions	258.57	330.73	165.55
Value of Exempt Purchases (L 1million)	40.52	86.98	10.79
Value of 15% Taxed Purchases (L 1million)	27.10	15.49	4.81
Value of 18% Taxed Purchases (L 1million)	0.31	0.00	0.03
B. YEARLY BASIS			
# Yearly Transactions	1,562.07	1,749.86	984.40
Value of Exempt Purchases (L 1million)	247.97	518.12	61.80
Value of 15% Taxed Purchases (L 1million)	170.53	90.33	30.04
Value of 18% Taxed Purchases (L 1million)	1.90	0.02	0.18

SOURCE: own elaboration. The monthly (yearly) transactions corresponds to the monthly (yearly) mean of the count of transactions of every firm collapsed by type of regime. Monthly (yearly) purchases values correspond to the monthly (yearly) mean of the sum for each transaction's value of every firm collapsed by type of regime.

<sup>3</sup>All the values reported trough table 5 are labeled as “raw” since they weren’t winsorized neither trimmed for any outlier.

## 4 Summary Statistics on DMC (Imports)

In order to have a wider insight on the available data, the intersection between tax exonerated firms and data from imports (reported in the DMC form) is reported. Until the table 5, only local transactions were documented. Moreover, is compulsory for taxpayers submitting the DMC form to include their foreign purchases as well. The main caveat is that there's only a few number of suppliers that can be identified with a valid tax id (RTN<sup>4</sup>) because most of the suppliers are foreign firms lacking of registration at the local tax authority. The information on imports detailed in the DMC form only includes the customs form number that belongs to the DUCA (for its acronyms in spanish *Declaración Única Centroamericana*). We merge both records: DMC on imports and DUCA. Table 6 describes some statistics arising from the merged dataset. It can be noticed that an even smaller fraction (6% of all exonerated firms during 2018-2021, on average) of exonerated firms filling DMC also reported foreign transactions.

Table 6: Number of Taxpayers Filling DMC on Imports at Least Once

Preferential Regime	2018	2019	2020	2021
A. EXPORT ORIENTED				
ZOLI	42	75	68	71
RIT	29	37	33	30
ZADE	1	1	1	1
B. NON-EXPORT ORIENTED				
Turismo*	18	13	7	8
Otros regímenes	4	5	3	3
Otros Exonerados	4	2	2	0
Cooperativas	1	1	1	1
Energía Renovable	3	3	4	5
Total	102	137	119	119

SOURCE: own elaboration. \*The preferential regime labeled as “Turismo” is the sum of firms advocated under tax incentives for the tourism sector such as Zonas Libres Turísticas (ZOLT), Zona Libre Turística de Islas de la Bahía (ZOLITUR), Ley de Incentivos al Turismo (LIT) e Incentivos al Turismo.

<sup>4</sup>Registro Tributario Nacional.

Table 7 describes the distribution of foreign transactions (imports) according to each tax preferential regime<sup>5</sup>. Between 2018 and 2021 69% (on average) of the observations for imports in our sample correspond to non exonerated firms, the remaining 31% belongs to any other firm under a tax preferential regime.

Table 7: Number of Foreign Transactions in Sample by Regime

Tax Regime	2018	2019	2020	2021
A. IN VALUES				
Non Exonerated	110,764	103,959	94,608	120,825
Export Oriented	34,692	52,698	44,706	60,270
Non-Export Oriented	1,943	867	772	537
B. SHARE OF TOTAL TRANSACTIONS				
Non Exonerated (%)	75	66	68	67
Export Oriented (%)	24	33	32	33
Non-Export Oriented (%)	1	1	1	0

SOURCE: own elaboration.

<sup>5</sup>The results were generated from a dataset with  $N = 626,641$ .



Finally, imports from DMC and customs records are merged by using the DUA number as the key variable for intertwine both datasets. Tabla 8 shows the pooled mean values from imports transactions according to every tax preferential regime. On average, exonerated firms under an export-oriented regime tend to import way much more than their peers without exonerations end even more than those firms advocated to non-export oriented regimes. Moreover, the values of transactions conducted by firms in export oriented exonerations are bigger for any of the comparisons as well.

Table 8: Pooled Means on Imports by Type of Regime

Variable	Non Exonerated	Export Oriented	Non-Export Oriented
A. MONTHLY BASIS			
# Monthly Transactions	122.22	173.21	13.46
Value of Imports (L 1million)	92.46	172.98	13.29
B. YEARLY BASIS			
# Yearly Transactions	1,312.01	1,865.98	133.30
Value of Imports (L 1million)	1,016.68	1,891.93	127.90

SOURCE: own elaboration. The monthly (yearly) transactions corresponds to the monthly (yearly) mean of the count of transactions of every firm collapsed by type of regime. Monthly (yearly) imports values correspond to the monthly (yearly) mean of the sum for each transaction's value of every firm collapsed by type of regime.