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PARAGUAY

SUCCESS STORY

Business Pays Up Public Debt

A big business pays back taxes and residents reap benefits



Photo: Chemonics International/Luis Rodriguez

A resident of Limpio on a road financed by taxes the municipality recovered with USAID assistance.

The municipality of Limpio proved that it is possible to stand up to powerful business interests and, as a result, improve much-needed residential services, such as paving roads.

Telling Our Story
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In 2002, the municipality of Limpio was going through a financial crisis and the mayor sought help from USAID. In order to improve city revenues, the mayor wanted to expedite the collection of taxes from businesses in the area.

Experts reviewed the tax collections database with municipal workers and discovered several cases of tax evasion. One case in particular stood out. “The Rancher,” a large meat vendor, had paid just \$90 a year in taxes for several years, when it was supposed to pay \$1,500 for two large properties situated in Limpio’s most expensive neighborhood. The case was complex, because this was a powerful local business and, although it had been paying some taxes regularly, the payments were inadequate.

Under existing tax laws, the municipality was authorized to recover up to five years in unpaid taxes plus late fees and penalties — officials had the authority to hand “The Rancher” quite a hefty bill. However, given the size and power of this particular company, municipal employees wondered whether the risk of alienating the business owner by charging the highest possible penalty outweighed the benefits.

Project consultants and municipal employees reported the matter to the mayor, Optaciano Gómez. Determined to resolve the financial crisis and change attitudes about taxes, he responded, “Gentlemen, the taxpayer has to pay what he owes, no matter how powerful he may be.”

This was no simple task: the company controlled an economic empire, and the situation called for creativity and determination. As negotiations began, tensions rose and there was little certainty that they would be resolved amicably. Despite the challenging start, an agreement was reached thanks to both USAID assistance and training and local officials’ persistence and dedication.

Authorities gave the company one year to reconcile its debt and pay the municipality back taxes and penalties totaling \$5,000. With that money, the mayor was able to pave streets that residents had long wanted paved and construct a police precinct.