The Revolution Will Be Taxed: Cuban & Latin American Ways of Taxing Private Enterprises

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Abstract

Half a century after Fidel Castro's Revolution, Cuba started opening its economy. This ongoing and gradual process began in the 1990s, with the 'Special Period' promoting the creation of the first private enterprises. In this context, Cuba had to implement an economic policy not traditional to socialism: taxes. This paper argues that Cuba's efforts to tax the newly created micro, small, and medium enterprises are positive. Drawing comparisons with other Latin American countries, data show that the Cuban way of taxing private enterprises is not significantly different from the Latin American one. Crucial political and economic peculiarities of Cuba need to be addressed for their impact on Havana's taxation system, such as the United States embargo. The aim is to infer normalized research about Cuba, giving preference to tax issues like enforcement, consumption taxes, and revenue collection. In sum, Cuba's taxation problems are parallel to the rest of Latin America.

Keywords*:* Cuba; Latin America; Taxation; Private Enterprises; Sanctions

La Revolución será gravada: métodos cubanos y latinoamericanos de imposición fiscal a las empresas privadas

Resumen

Medio siglo después de la Revolución de Fidel Castro, Cuba comenzó a abrir su economía. Este proceso continuo y gradual comenzó en la década de 1990, con el «Período Especial», que promovió la creación de las primeras empresas privadas. En este contexto, Cuba tuvo que implementar una política económica no tradicional para el socialismo: los impuestos. Este documento sostiene que los esfuerzos de Cuba para gravar a las micro, pequeñas y medianas empresas de reciente creación son positivos. Al comparar con otros países latinoamericanos, los datos muestran que la forma cubana de gravar a las empresas privadas no es significativamente diferente de la latinoamericana. Es necesario abordar las peculiaridades políticas y económicas cruciales de Cuba por su impacto en el sistema tributario de La Habana, como el embargo de Estados Unidos. El objetivo es inferir una investigación normalizada sobre Cuba, dando preferencia a cuestiones fiscales como la aplicación de la ley, los impuestos al consumo y la recaudación de ingresos. En resumen, los problemas fiscales de Cuba son paralelos a los del resto de América Latina.

Palabras clave: Cuba, América Latina, tributación, empresas privadas, sanciones.

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Introduction

The Cuban Revolution of 1959 meant the end of various things, among which taxes. However, since the Cold War, scholars have focused strictly on political questions about Cuba. To introduce the Cuban legal system at the core of taxation, just after Fidel Castro's victory, Cuba introduced the short-lived bill number 447 inserting some direct and indirect taxes, but it was quickly removed to follow the Soviet economic model (Muñiz Arias, 2010, p. 108). Nevertheless, with the collapse of the Soviet Union, Cuba was forced to implement a costly liberalization of its economy throughout the 1990s, known as 'Special Period'. The 'Special Period' of the 1990s, with the creation of micro, small, and medium private enterprises, is a still ongoing process for taxation, generating complexities in tax regulations and the diffusion of self-entrepreneurship (López Sánchez, 2019, p. 118). Simultaneously, the role of the Cuban tax system in the 1990s was a consequence of the reform of the model to allow greater foreign investment, the possibility of private economic activity under self-employment, and the need to achieve macroeconomic balances to control inflation through the extraction of resources from taxation, which was nonexistent at the time. Given these introductory considerations, this paper will first address the Soviet and Marxist inspirations driving the exclusion of taxes from the Cuban system. Afterward, I will move to provisions and taxes around the newly created private enterprises in Cuba, then draw comparisons on taxation to private enterprises in the rest of Latin America. Sources and data are mainly provided by studies inside Cuba, countering the popularly assumed lack of information regarding the island's economy. Comparative data for other Latin American countries are elaborated from reports published by international organizations, with the exception of Venezuela's data, retrieved through Venezuelan sources. Finally, I am going to conclude with a few recommendations for policy and research.

1. No Taxation Without Privatization: The Soviet Union, Cuba, & Marx

Research on Cuba does not usually involve taxation. Scholars and students of Cuba have mainly focused on politics, bilateral relations with the United States, or other topics not directly linked to the Cuban economy and its administration. Instead, the aim of this paper is to describe Cuba's taxation and its transformations. Since the 1959 Revolution and throughout the rest of the Cold War, Cuba's socialist economy did not really make income taxation a vector of its state-led apparatus. Sugar exports and assistance provided by the Soviet Union and other international actors were the main channels for Cuba's economic supplies. If we want here to assume some degrees of organizational similarity between the state-planned Cuban and Soviet economies, then it is appropriate to introduce Holzman's argument:

> Taxes are not final ends in themselves, but rather one means of implementing economic and social policy; it follows that in evaluating the Soviet tax system we can reach meaningful conclusions only if we accept some policy objectives (however perverse they may seem) as given." (Holzman, 1955, p. 275).

In Cuba, a much smaller economy compared to the USSR, taxes were not really useful to Havana during the Cold War, nor would they have been justifiable politically. This latter point is relevant to outline that given the participative nature of Cuba's political system, popular consensus was and still is a major concern for politicians. Specifically, it is crucial to assert that already in the 1960s, revolutionary Cuba eliminated any kind of taxation system, reflected in the 1976 Constitution that does not instruct about tributary issues (Rueda López, 2012). It is worth clarifying, from an economic theory perspective, why socialist Cuba perceived taxes as unnecessary. Marx's thinking on taxation, the pillar of Fidel Castro and *Che* Guevara's planning for the Cuban economy, appears to be indeed complex. Debates on taxation between Marx and Engels were quite diverse, moving from progressive taxation to indirect taxation, until finding an explicit approval for tax evasion at the individual and business levels (Ireland, 2019). Theoretically, this work counters the assumption that the Cuban opening to private initiatives has led to negative outcomes. In this sense, the main consideration is that, despite structural difficulties, the Cuban taxation system shows signals of functional achievements that, in other Latin American economies, are not present. For instance, Morris (2007) found that Cuba's embracement of market initiatives caused a counterintuitive GDP in the 1990–2000 period. Historically, it is essential to comprehend that, with the fall of the USSR and the continuation of US sanctions, the Cuban economy was forced to adopt two difficult but necessary economic policies, intertwined between them. Firstly, during the 1990s 'Special Period' Cuba experienced initial openings to the private sector, leading to unprecedented changes in approaching economic issues. Secondly, and consequentially to Cuba's mild permissions to the free market, taxation started to enter Havana's policy-making processes. In 1997, Fidel Castro for the first time spoke to the public about taxation, implying that direct taxation of private income is not a solution *tout court*, but it is morally fair to demand higher contributions by who earns more (Castro, 1997). From the same speech, we understand that, as in any country of Latin America and perhaps the entire world, also in Cuba higher taxes or even the creation of them did not receive a warm welcome by the people. From the legislative point of view, Cuba's National Assembly, already between 1994 and 1995, approved a bill called *Ley del Sistema Tributario* with different taxation rules involving airfares, commercial advertisement, heritage, and income for self-employed citizens (Barrios Rivera & Martínez Clapé, 2019).

One of the challenges for taxation in Cuba, given the advent of private initiative, has been to maintain coherency with the socioeconomic scope of policies traditionally advocated during the Cuban Revolution, emphasizing equality (Barzaga, 2011). The path undertaken by Cuba has given revenue collection a more prominent role in the economy, also having to be modified depending on the volatile economic scenario faced by Cuba in recent years. Economists have argued that indirect taxation, a consequence of market opening, provided Cuba with a survival tool, since imports usually overcome exports in the current account for $ 36,730,000 of expenses and $ 35,010,000 of revenues coming from indirect taxation, as of 2007 (Santamaría García, 2014, p. 705). That is the reason why taxation in Cuba is unique. It is not only about improving the fiscal balance, but it rather affects Cuba's economic subsistence. Since the 1990s, the Cuban state began to enforce a stricter fiscal regime on *cuentapropistas*, like owners of small private restaurants and tourist accommodations, the latter known as *casas particulares* in Cuba, to avoid socioeconomic stratification in the island (Valdés, 1997, pp. 107–108). Cuban taxation policies needed a more codified and updated mechanism to both assure a basket of revenues for the Cuban state and simultaneously not undermine new private initiatives from citizens and foreigners within the allowed framework. The *Organización Nacional de la Administración Tributaria de Cuba*, ONAT, the Cuban taxation agency founded during the 'Special Period', started in 2016 to collaborate with its correspondent bodies from Argentina and Chile, reaching the conclusion that 35 % is an appropriate profit tax for any enterprise, whether Cuban or foreign-owned (*Universidad de Buenos Aires*, 2018). To further stress the normalizing approach to Cuba presented in this paper, also for the Antillean island tax enforcement is challenged by registration issues.

In other words, Sánchez-Talanquer (2020) points out that cadastral registration affects Latin America's land-related taxation, while in Cuba, the registration problem is similar but linked with a quite young taxation mentality. For the Cuban case of micro, small, and medium enterprises, taxation represents a cultural issue in a context where, despite positive educational indicators, profit registration still represents a barrier in state enforcement for collecting taxes (Sarduy González & Gancedo Gaspar, 2016). With the 2021 reforms on private ownership that posed taxation at the center of economic policies for the Cuban state, it is relevant to address the following elements. There is a dilemma in which taxpaying became vital for the Cuban economy, but at the same time, its recency affected the capacity for revenue collection. Lastly, Cuban politicians knew that high taxes should not represent a prohibition for those foreign businesses, mostly Russian and Spanish, that disregard the US embargo and decide to invest in Cuba, mainly in the sectors of construction and tourism. To understand with detail if Cuban taxation on private enterprises works compared to other Latin American examples, always remembering the different policy objectives and conditions of Cuba, we need a wider picture of comparative taxation practices across Latin America during recent years.

2. The Cuban Way for Taxing Private Enterprises: MIPYMES

Cuba has a different taxation capacity and leverage for its micro, small, and medium private enterprises compared to the larger ones present in economies such as Argentina and Mexico. Nevertheless, it is still possible to compare Latin America's legal provisions for general taxation to businesses. It is worth acknowledging that tax quotas outlined in laws, bills, or constitutions, could not be truly reflective of the day-to-day practice of real taxation, where collateral problems like corruption have a role. The starting point for studying taxation to Cuban private enterprises is the creation of micro, small, and medium-sized enterprises, known in Cuba as MIPYMES. Law 46/2021 specifies that Cuban MIPYMES will be divided into micro between 1 and 10 employees, small between 11 and 35 employees, and medium between 36 and 100 employees (Figueroa González *et al.*, 2021, p. 25). The MIPYMES process is experiencing impressive growth and diversification, since the initial private enterprises approved were 35, moving from agricultural machinery to fishing and even informatics services (Cuban Ministry of Economy, 2021). Just two years later, Cuban private MIPYMES were 8,964 exceeding the number of state-owned enterprises operating in Cuba (*Cubadebate*, 2023). It is relevant to add that profit taxation in Cuba for commercial and consequentially private activity has also been applied as individual taxation to foreigners who stay in Cuba for more than one hundred eighty days, earning any kind of income (Compeán, 2016). Whereas most Latin American countries benefit from experienced fiscal mechanisms in profit and income taxation, both at corporate and individual levels, Cuba had the necessity for a massive information campaign by the government. Contrarily perhaps to what other Latin American states need to do, Cuba continuously updates, reviews, and publicly informs about taxation to assure foreign and domestic investors about opportunities in trading with Havana. For example, it is worth recognizing the significant role of municipalities and regional authorities in the collection of revenues. Since Law 164/2024 was passed, further regulating the taxation system at a subnational level, local governments managed to impose a 94.9 % of fiscal discipline on income taxes (*Asamblea Nacional para el Poder Popular*, 2024). In 2024, the Cuban Ministry of Finance released the priorly approved Resolution 306/2023, in which the Impuesto *sobre Utilidades* for MIPYMES stays at 35 % and taxes must be filled every three months, through a sworn declaration (Cuban Ministry of Finance, 2024). Despite being beyond the purpose of this study, it can be interesting to briefly address how taxes are filled by MIPYMES for their employees. MIPYMES' employees are taxed on wages, but with a progressive differentiation depending on earnings. Table 1 shows in detail how workers in MIPYMES are taxed, as the ONAT publicly informs:

Table 1. Taxation rates according to earnings for workers employed by Cuban MIPYMES.

₱ = Cuban Peso CUP

Monthly earnings	Taxation rates
Until ₱ 3,260,00	Exempted
From ₱ 3,260,00 to ₱ 9,510,00	3 %
More than ₱ 9,510,00	5 %

Source: Author's elaboration from data provided by ONAT (2021).

Before discussing Latin American comparisons concerning businesses' taxation, it is relevant to outline some points. The same documentation provided by ONAT specifies that taxation on individual income regarding MIPYMES entitles the employer to deduct or directly pay the rates indicated in Table 1 for employees. Without delving into tangential debates on Cuban wages, inflation, or cost of living, it is useful to assert that in 2022 the average salary for workers circulated around ₱ 4,085 (Pérez Villanueva, 2023). Another observation to be made is about foreign enterprises in Cuba, to avoid assuming that a reduced presence or effectiveness of foreign enterprises is correlated to high taxes. Firstly, foreign direct investment, FDI, is arguably the most undermined economic activity within sanctioned economies, and Cuba makes no exception about it. Secondly, as hopefully this paper clearly proves, Cuba's progressive opening to the global and internal market has been a gradual and very legalistic process.

Therefore, FDI represents a totally new provision to regulate for the Cuban state, which just in 2014 passed a law guaranteeing the operations of foreign investors in Cuba, with positive results found in trademarks and patents from then registered in Cuba by mixed-capital enterprises (Castro Caballero, 2021). Nonetheless, it must be acknowledged that the Cuban state has spent most of its efforts in adapting taxation models to MIPYMES with in mind their mainly domestic nature, perhaps without satisfactorily addressing taxation policies that would favor FDI. In Cuba, there is no Value-Added Tax, VAT, an issue that does not favor FDI and does not seem to be an incentive for investing, but rather an absence of codification. Cuban analysts are proposing reductions in taxation for FDI and bureaucratic smoothness to foster the opening of foreign enterprises, a process also undermined by the negative impact of COVID-19 on the Cuban economy (Castro Cossío & Sáenz Coopat, 2021). After having provided a general picture of the mechanisms involved in Cuba, allow me to draw some comparisons within Latin American

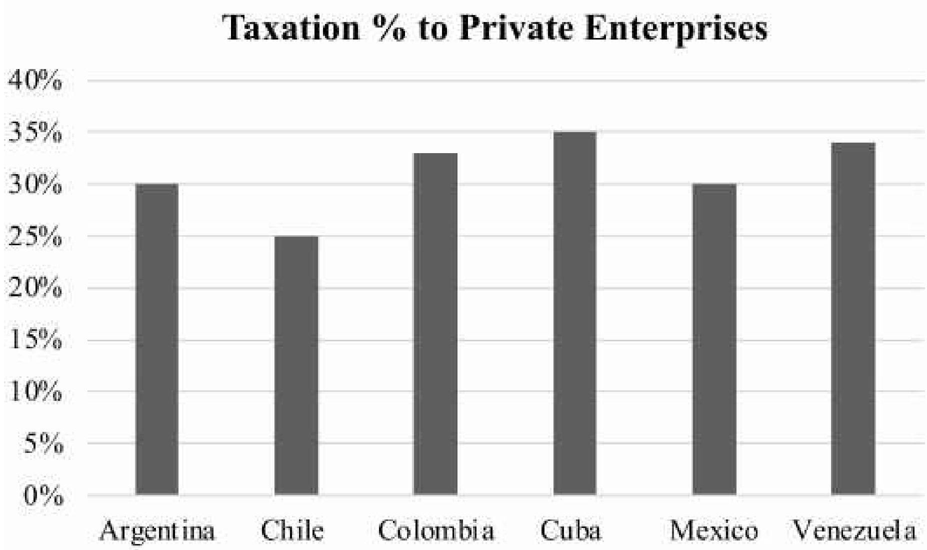
countries about taxation on profit for private businesses. Specifically, I am going to look at Argentina, Chile, Colombia, Cuba, Mexico, and Venezuela, the latter for economic similarities with Cuba, namely sanctions.

3. Latin American Trend? Cuba's Taxation to Businesses in Comparison

Perceptions and conclusions about taxation across Latin America are, to say the least, diverse. Here, the focus on Latin American taxation also involves institutions, mainly the national state. This work agrees with the researched inequality of tax collection in Latin America, in terms of the difference in capacity between the state and local bodies. On both measures, institutions are seen as crucial for tax collection, where "Latin American countries typically (though there are exceptions) have low levels of taxation and collect relatively modest tax revenues at the provincial or local level." (Sokoloff & Zolt, 2007, p. 86). If Latin American taxation at the local level has been analyzed as insufficient and generally low because of dysfunctionality, perhaps the same is not correct for national-level taxation to private enterprises. This specific section argues that Cuba is not the only and neither the latest Latin American country with a robust taxation rate for private enterprises. Therefore, in light of the economic problems suffered by sanctioned Latin American economies such as Cuba and Venezuela, but also for larger and economically wealthier states like Argentina, Chile, and Mexico, high taxation for private enterprises seems to be a trend. Fiscal policies involving taxation, specifically in Latin America, are intertwined with political and ideological connotations. For this reason, in describing Cuba's high taxation rates for private enterprises, which could not have been different, we should avoid the mistaken assumption connecting the Cuban traditionally planned economy with negatively high taxes to the newly formed private sector. Not only there is no evidence to claim that Cuba's tax rates to businesses are significantly higher than the rest of Latin America, but no studies confirm that tax rates forbid some massive expansion of the Cuban private sector, which just looking at the size of MIPYMES created in few years is somehow growing. Furthermore, a recent work asserts that looking at countries involved in the neoliberal process such as Brazil and Chile, state involvement through taxation in Latin America has been enlarging from the 1900s until now, regardless of any ideological structure of governments and economies (Ondetti, 2023, p. 163).

The examples of Cuba and Venezuela are fundamentally essential to defy one of the many myths about sanctions, namely that they do not condition the fiscal policies of sanctioned countries. Although there is no specific research making the cases of the two Caribbean countries, economists interested in this topic have stressed that sanctions on Iran might "increase the state's dependency on taxation and contributions from individuals and the private sector." (Farzanegan, 2023, p. 34). I am not inferring a generalized analogy between different economies in size and structure like Cuba, Venezuela, and Iran, but the permanence of sanctions on all of them has nevertheless forced those countries to heavily rely on taxation to the private sector. Figure 1 shows taxation rates to the private sector across Latin America:

Figure 1. Legally established taxation rates for private enterprises in Latin America.



Source: Author's elaboration from data provided by the *Centro Estratégico Latinoamericano de Geopolítica* CELAG (2020) for Argentina, Chile, Colombia, and Mexico. The taxation rate for Cuba was retrieved from the already cited Resolution 306/2023 of the Cuban Ministry of Finance. Venezuela's rate of 34 % is indicated for non-resident entrepreneurs, according to Article 50 of the Ley *de Impuesto Sobre la Renta* (Venezuelan National Assembly, 2021), and is established as the highest benchmark appliable in the progressive taxation system for legal entities according to *Organización Jurisprudencia del Trabajo* (*n.d.*).

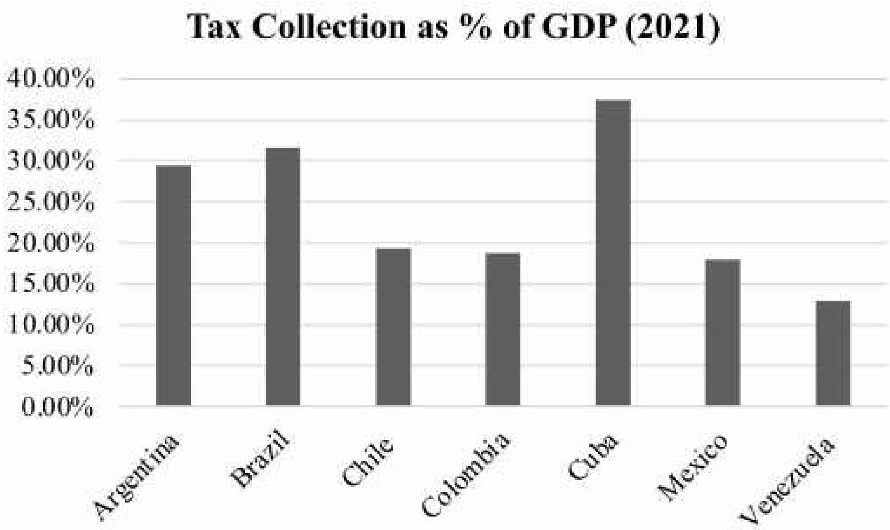
As specified by CELAG, data in Figure 1 about private profit taxation in Latin America, related to 2018, are reliable as long as the legal fiscal provisions are respected. However, it is widely known and also reported by CELAG that in praxis, effective taxation can be extremely variated, generating negative collection outcomes for the state. However, the prominent finding is that although Cuba's 35 % is the highest across the selected Latin American countries, the difference is not as striking as we might assume. By calculating the average rate for Argentina, Chile, Colombia, Cuba, Mexico, and Venezuela, data show a 31 % average legal taxation rate for private enterprises across those countries. Therefore, Cuba would just have 4 % in higher taxation to private enterprises, compared to larger and non-sanctioned economies. It comes as no surprise that Chile provides the lowest rate, 25 %, but what is indeed relevant to stress is Venezuela's 34 %, the closest to Cuba, given the above reasons explaining how worldwide sanctioned economies heavily rely on revenues from the private sector. On the one hand, these data can infer that times are mature for studying Cuba's economic systems through the normal features of any other Latin American country. However, it is also true that Cuba remains a special case for internal reasons (politics and an early phase opening to private ownership) and external issues (US embargo).

Finally, in light of Cuba's dependence on international tourism, experts have noticed that increasing taxation on private businesses involved in the tourist sector might provide relief for the fiscal deficit that Havana presented in 2024. Hence, one of the most recent proposals is to eliminate tax exemptions for non-State enterprises (*Centro de Estudios de la Economía Cubana*, 2024). By the same token, Cuba suffers from distortions in taxation that will now be addressed, noting that those features are simultaneously the peculiarity and the weakness of the Cuban economy in comparison with the rest of Latin America.

4. The Value-Added Tax Dilemma in Cuban Taxation & Non-VAT Peers

Arguably, the most significant dilemma facing the newly created Cuban taxation system is the consumption tax, which, with the possible enlargement of the consumers' basket because of the growing private sector, would guarantee the state an important slice of revenues. Value-Added Tax, VAT, is perhaps the paramount of any fiscal policy related to taxing consumption. VAT in bills and receipts is also a speedy formula to counter tax evasion. Economists focused on Least Developed Countries, LDCs, have calculated that VAT is present in 160 nations, considering this tax as a form of self-enforcement (Hoseini & Briand, 2020). In Cuba there is no VAT, but if we consider that the member states of the United Nations are 193, being independent states with control over their economies, Cuba is one of 33 countries without VAT. The website Global VAT Compliance (2024) lists countries and non-independent territories that do not have VAT, some of them having a general sales tax, among which Caribbean partners of Cuba such as Antigua & Barbuda, and non-independent fiscal havens like Curaçao, Gibraltar, and Hong Kong. VAT in itself is not a messianic solution, nor the main issue in the Cuban economy. Nevertheless, having VAT in Cuba would help in the enforcement of taxation, a major problem in all LDCs. Notwithstanding that for LDCs enforcement represents a blockade to taxation legitimacy and authority for national states, this should not imply that states of the Global South could not foster their collection capacity (Londoño-Vélez & Ávila-Mahecha, 2021). Looking at countries across the Global South with a similar history of socialist and state-planned economies, which also hold strong links with Cuba, there is a possible trend of VAT absence. In Africa, Angola, intertwined with Cuba since its independence, does not have VAT (Cnossen, 2019). Libya also appears not to have VAT (PKF International, 2023, p. 504), sharing with Cuba a legacy of international sanctions and the close socialist affinities between Muammar Gaddafi and Fidel Castro. The need for VAT in Cuba is evident in the thoughts of economists like Thiemann (2020), arguing that the current general added value tax on consumption makes Cubans pay approximately 160 % of products' value for imported goods. The polarized political variable in studies on the Cuban economy makes it difficult to assess what really is the outcome, quantitively and qualitatively, of the present non-VAT consumption tax. However, there is evidence of consensus across the Cuban ideological spectrum for necessary enforced and healthier taxation practices. Authors have suggested that the same ONAT public servants should be meticulously evaluated for their duties in collecting taxes (Cabrera Alfonso, 2017). At the local level, ONAT in Santiago Province seems not to properly enforce taxation to *cuentapropistas*, generating a negatively impactful municipal tax debt (Vázquez Díaz & León Robaina, 2023, pp. 21–22). Having accounted for the actual debates regarding Cuban taxation in terms of consumption and enforcement, we should turn the focus on how taxation contributes to Cuba's Gross Domestic Product, GDP, compared again to Argentina, Chile, Colombia, Mexico, and Venezuela. Figure 2 shows the contribution of tax revenues in terms of GDP for the selected countries:

Figure 2. The contribution of taxes, expressed in percentages, on the GDP of Latin American economies.



Source: Author's elaboration of data published by the Organisation for Economic Co-operation and Development, OECD (2024), with the exception of Venezuela's data that have been retrieved from the study by Moreno (2023).

Cuba leads the ranking with tax collection accounting for 37.5 % of its GDP. However, Brazil does not provide a very different percentage, with 31.6 %. It could be interesting to include that Mexico has the lowest rate within the data for taxation in GDP, showing a 17.9 %. By calculating the average rate for selected Latin American countries, the share is 23.9 %, while the OECD (2024) provides a 21.9 % average for Latin America & the Caribbean. Therefore, Cuba appears to heavily rely on tax collection, but not oppositely to what other bigger economies of the region do. It is necessary to provide some insights concerning Venezuela's data. The very low 12.9 % to GDP reported by Moreno (2023) is considered for the period between 1999 and 2021, therefore since the Bolivarian government of Hugo Chávez, analyzing primarily oil revenues. In the same study, Moreno asserts that Venezuela's total ordinary tax revenue–*ingreso fiscal ordinario total*–for the same period is 65 %. The OECD did not include Venezuela in its Latin American comprehensive report on taxation and GDP. This is why the Venezuelan share should be picked carefully, without having governmental data that may infer different percentages given continuing oil sanctions and the recent economic and multicausal crisis. Delving again the focus to Cuba, the high tax collection rate per GDP still has some distortions. Figures 3 and Figure 4 show the taxation structures for Cuba and Latin America & Caribbean, LAC:

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Figure 3. Distribution of taxes by type in Cuba.

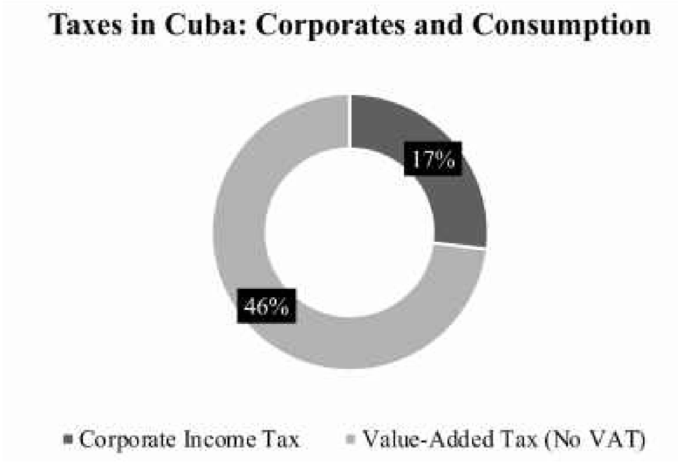
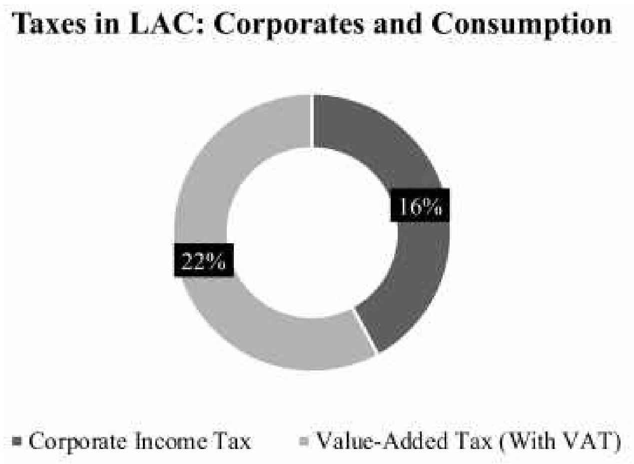


Figure 4. Distribution of taxes by type in LAC.



Source: Both figures are elaborated by the author from data provided by the OECD (2024).

Figures 3 and 4 do not include other types of taxation, such as property, individual income, and goods and services, which would sum up the whole pie of taxation for Cuba and LAC. The data provided assess that Cuba's taxation on corporate income is more than two times what is experienced in other LAC countries. It could be suggested that Cuba's robust taxation on private enterprises is strategically aimed at avoiding an excessive seizing of the economy by private companies, an issue traditionally seen with foreign businesses operating in LAC. Counting only corporate income tax and consumption, Cuba's results are significant. Despite not having a fixed VAT, an alternative value-added tax accounts for 46 % of the taxing structure, with taxation on corporate income, therefore MIPYMES, providing 17 %. It is worth outlining that there is basically no difference between taxation on private enterprises in Cuba compared to the entire LAC, indicating a 16 %; 1 % less than Cuba. The main distortion in the Cuban fiscal system relates to value-added taxation. VAT, present in almost all of LAC, offers 22 % of total taxation, hence without undermining or reducing incentives to purchasing for consumers, either nationals or foreigners. In the case of Cuba, not having a VAT aligned with the world and regional economy, fixed and codified, could represent a limit in how much MIPYMES and consumers can view products accessible to sell and buy. There is indeed a dysfunctionality if we consider that non-VAT value-added tax accounts for 46 % of Cuban taxes, remembering that the Cuban market economy is smaller, younger, and limited due to sanctions, compared to the rest of LAC. The introduction of VAT could help Cuba in enforcing taxes, at least on consumption, aligning rates with other touristic countries of the region, thus favoring foreigners' consumption, and consequently building a more efficient collection system of value-added taxes. Furthermore, scholars like Hidalgo and Bergara (2011) detected that the Cuban government is still finding difficulties in enforcing taxation due to the different exchange currency rate available between the official and parallel market, which not only can reduce revenue collection but also foster underreporting of taxes. In sum, VAT may strengthen Cuba's fiscal capacity. On a more philosophical standpoint, Socialist traditions around economic thinking, as in Angola and Libya, could be among the reasons why Cuba has not yet implemented VAT. To foster the potential of fast-growing MIPYMES and enhance exchanges with other Latin American enterprises, discussing the establishment of a common VAT can improve the outcome of MIPYMES. Nevertheless, the mere fact that despite the US embargo and the ongoing economic crisis Cuba has been able to create thousands of private MIPYMES, reaching debates of most LAC countries around taxation, demonstrates a positive track. Taxes are not solutions in themselves but means to obtain economic, political, and social objectives that, for Cuba, would be easier to reach without the US embargo.

Conclusion

Cuba's opening to the market economy and the private sector through MIPYMES is on a positive path. As in any Latin American country, taxation is present in Havana's economic debates. This paper studied Cuba's taxation through indicators of positive and negative practices, reminding Cuba's special conditions because of its state-planned economy and the US embargo. Cuba's 35 % profit tax on private enterprises, while the highest among selected LAC economies, aligns closely with a regional average of 31 %, challenging assumptions that Cuba's tax system is unusually burdensome. The data demonstrate that high taxation on private enterprises is a broader Latin American trend, not an anomaly tied solely to Cuba's socialist legacy. Moreover, comparisons with Venezuela underscore how sanctions can intensify reliance on private sector taxation, a dynamic evident in other sanctioned states like Iran. Despite the ongoing US embargo and Cuba's unique political context, the rapid growth of MIPYMES and the State's efforts to normalize tax policy suggest that Cuba's fiscal model is converging with regional patterns. Still, institutional challenges and proposed reforms –such as ending tax exemptions in the tourism sector– reflect ongoing adjustments needed to enhance fiscal sustainability and tax equity.

Nonetheless, the lack of a formal VAT system introduces distortions and enforcement challenges, highlighting a key area for potential reform. A better-structured consumption tax could improve State revenue, reduce informality, and support a more consistent tax policy aligned with global practices. Therefore, it would be appropriate to conclude with some recommendations for research and economic reforms on taxation in Cuba:

- The current taxation on MIPYMES is high, but not truly different from the rest of LAC. Considering Cuba's economic difficulties and the persistent US embargo, MIPYMES are a needed resource for tax collection. A progressive taxation based on profit could favor the smaller and newer enterprises, like the current taxation scheme for the employees of MIPYMES.
- Value-added taxes represent a distortion in the Cuban system. Consumption taxes appear to be perceived negatively inside Cuba, arguably due to the absence of a specific VAT that could improve not only internal consumption but also regional and international outcomes for MIPYMES, together with enforcement. VAT is not the main problem or solution, but it could provide some improvements that further research on Cuba's VAT implementation might identify and suggest.

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