

THE
I84I
FOUNDATION

TAX
HELL
INDEX
2023



OVERVIEW

The 1841 Foundation

is a non-profit organization whose main objectives are to promote **tax competition**, also known as tax sovereignty, and to strengthen the **privacy and property rights** of individuals.

In order to raise awareness on these issues, which are not always easy for the general public to understand, we hold events where we encourage discussion, seek to have a presence in the media and share information on regulatory changes. We also strive to influence these changes through submissions to different agencies, such as the U.S. State Department and the OECD.

Our Tax Hell Index has been created to benchmark jurisdictions that combine high tax regimes with government mismanagement. At the same time, we seek to shift the focus from criticism of tax havens, which benefit tax payers, to tax hells, which have the opposite effect.

The index is an in-depth look at the qualitative and quantitative data that is released annually by both the IMF and the World Bank, which allows us to draw relevant conclusions and share them with you.

About the data analyzed

By extracting critical information from this data, The 1841 Foundation was able to create a comprehensive index and critically examine 82 countries within a strict analytical framework.

Not only does the data examined include fiscal information, but also information about governments and their ability to function efficiently and effectively for their citizens.

“A country that has a high tax rate does not automatically qualify as ‘hell.’ Rather, ‘hell’ is a much more comprehensive and complex concept. Although the greatest weight is carried by fiscal pressure, we believe that a ‘tax hell’ is not only a country with high taxes, but rather one with a weak rule of law and where the rights to privacy and property are not properly applied or protected.”

Martín Litwak
Founder



Second
edition

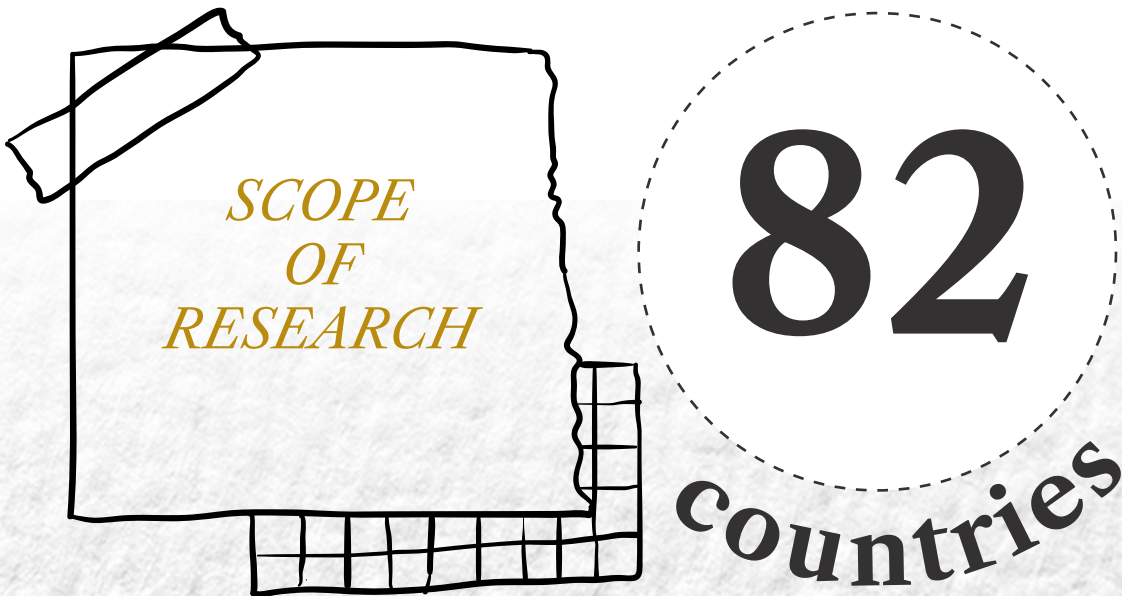
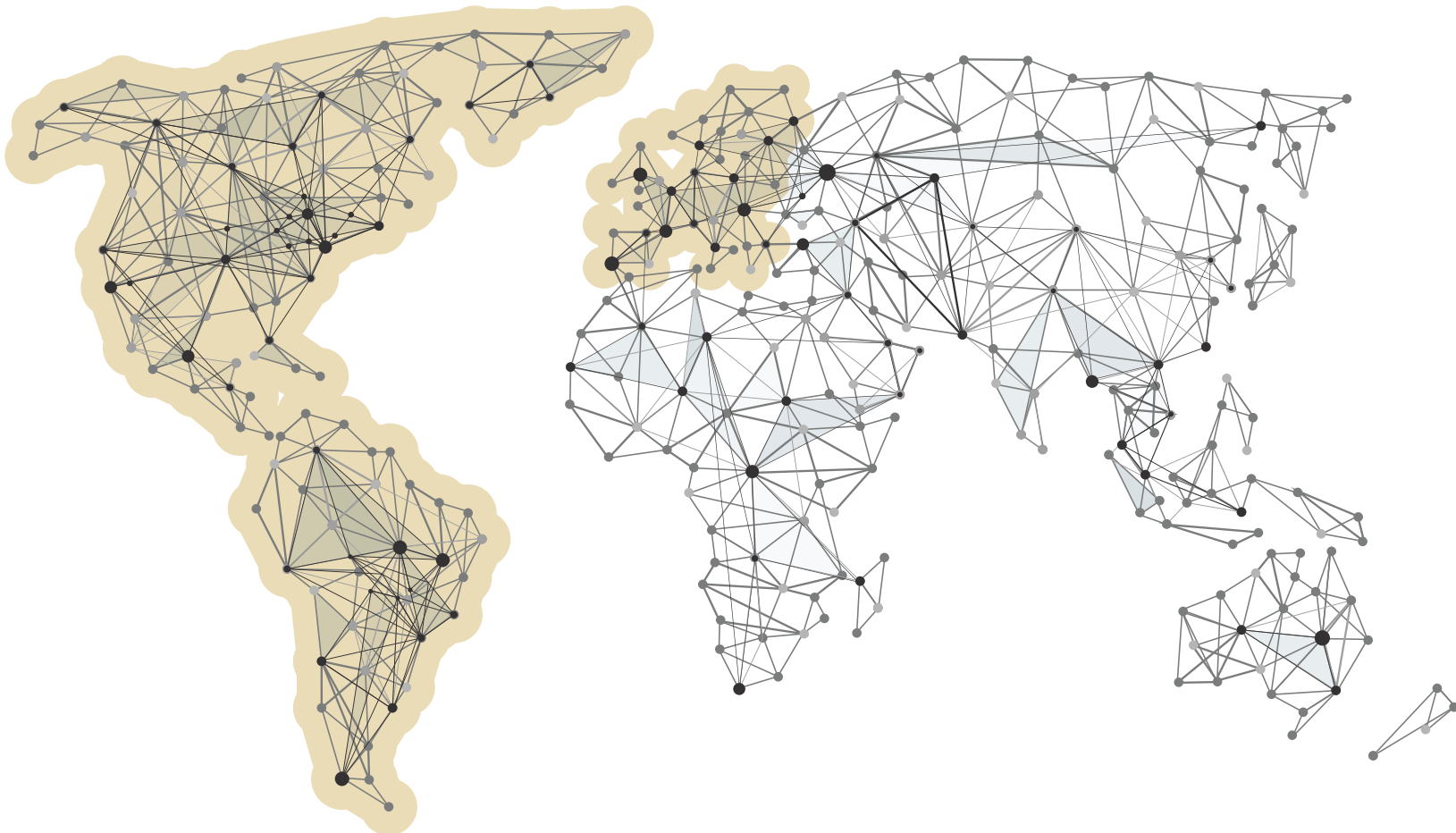
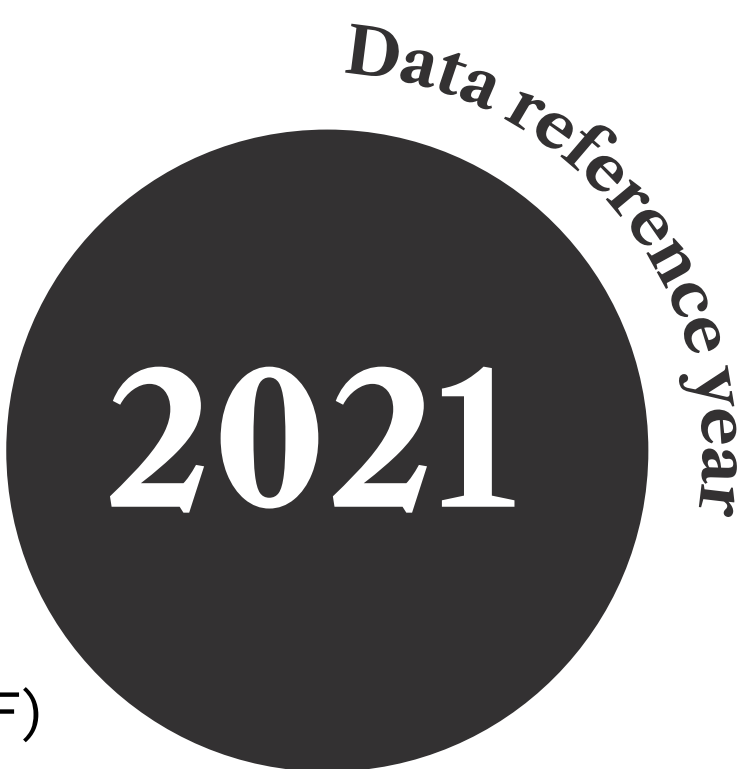
TAX HELLS

SCOPE OF RESEARCH

In this edition, we focused on Europe and the Americas, covering a total of 82 countries.

DATA SOURCE

Information obtained from public sources, specifically from the International Monetary Fund (IMF) and the World Bank.



METHODOLOGY

Each country was evaluated in two main areas:

Quantitative area, which represents 60% of the total score.

Qualitative area or quality of government, which represents 40% of the total score.

In the **quantitative area**¹, the following items were taken into account:

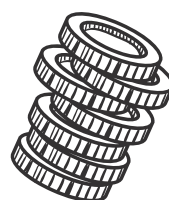
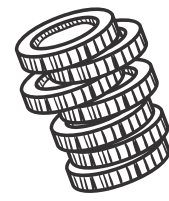
- a) **Fiscal pressure**, measured as total taxes as a percentage of the country's GDP.
- b) **Debt pressure**, measured as total public debt over GDP.
- c) **Inflationary tax pressure**, measured as an inflation index.
- d) **Potential fiscal pressure**, measured as the difference between government spending and revenue over GDP.

In the **qualitative area**², the indicators considered were the following:

- a) Voice and accountability
- b) Rule of law
- c) Regulatory quality
- d) Political stability
- e) Government effectiveness
- f) Control of corruption

1. The information was extracted from the IMF

2. The indicators were downloaded from the World Bank database.



AUTHOR'S NOTES

What is a tax hell?

Although the fiscal pressure is an important factor, we believe that a ‘tax hell’ is not only a country with high taxes, but rather one with a weak rule of law and where the rights to privacy and property are not enforced or protected as required.

The protection of private property, the ease—or lack thereof—with which a country can change its taxes, its predictability and the quality of its government must also be considered.

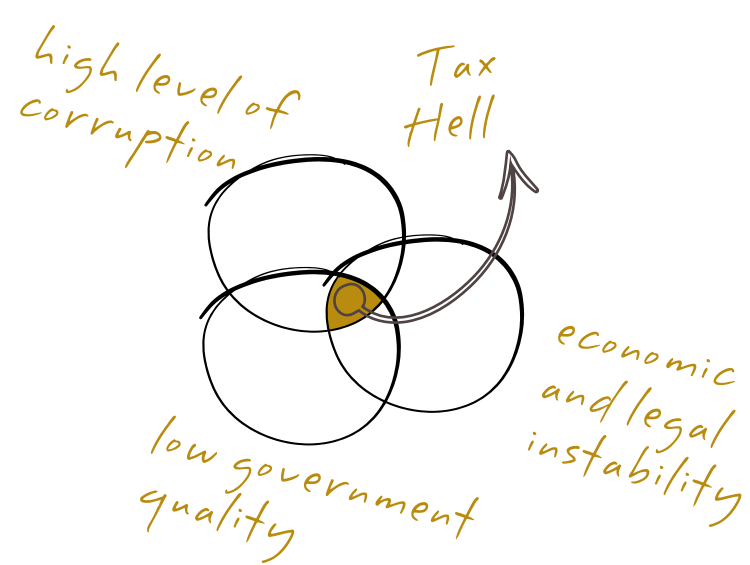
To be considered: private property changes in taxation, predictability, government quality.

+government quality
+ economic and legal stability
+ high taxes

Therefore, when considering the results, countries with high government quality and economic and legal stability may have high taxes (i.e., Denmark), but are very far from being considered tax hells.

= IT IS NOT a tax hell

The results we have obtained in this second edition of the Tax Hell Index confirm our view that it is not taxes that determine the status of tax hell, but the combination of all factors.



In fact, there are countries with both low and high taxes in the top-13 tax hells; all of them, however, have low quality of government, high levels of corruption and use of discretionary power, poor economic management, weak institutions, and low or complete lack of legal certainty.

COUNTRIES IN THE TOP-12 TAX HELLS

LOW OR HIGH TAXES
LOW QUALITY OF GOVERNMENT
HIGH LEVELS OF CORRUPTION
POOR ECONOMIC MANAGEMENT
WEAK INSTITUTIONS

GENERAL OUTLOOK

From the Tax Hell Index 2022 to the 2023 edition (remember these are fed with data from the previous year, i.e., 2020 and 2021, respectively), we observed a general deterioration of the overall situation.

The world has moved one step closer to becoming one big tax hell. Although the current situation is not yet serious, the overall trend is truly concerning.

In 2020, the average score obtained was 6.21 for all the countries analyzed, while in 2021 it rose to 6.48. This means that the world, on average, has clearly gotten worse as regards the issues we are concerned with.

In order to be considered a tax hell, a country's score must be 8.6 or higher. However, to enter the risk zone—that is, not being considered a “normal” country—the score must be 7 or higher.

This result is consistent with what has occurred in the world during 2020 and 2021. Due to the Covid-19 pandemic, most countries have implemented measures that increase their risk of becoming a tax hell, including the following:



Tax increases.



Increased government spending and deficit.



Restrictions or limitations on individual freedoms, such as quarantines and confinement, limitations on mobility, mandatory vaccination, restricted critical comments of government measures, among others.



Weakened established institutions, replaced by non-elected or even ad-hoc institutions, such as Congress or the judiciary being replaced by unaccountable bureaucrats.

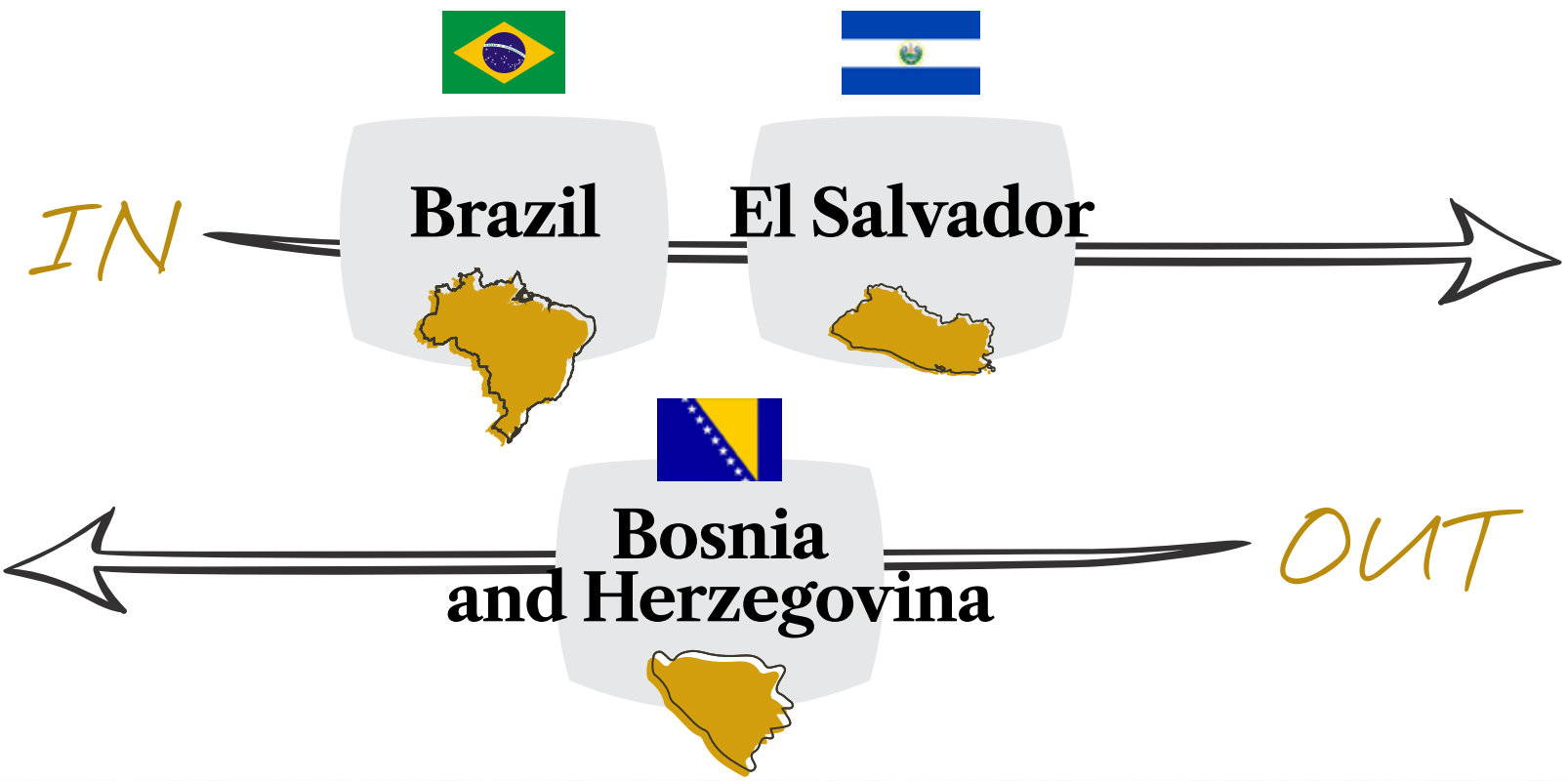
The aggregate average of all countries shows that the world is, for now, within the range considered “normal.” These States are not showing a special predisposition to respect property rights, much less the privacy rights of individuals, nor do they seek to keep taxes low or encourage tax competition. On the contrary, we are only 0.5 points away from crossing the line indicating that **the world as a whole is at risk of becoming a big tax hell.**

In this year’s report, there is a total of 13 countries classified as tax hells; two new countries have been added to the list and one has made it off the list, for the benefit of its inhabitants.

The country that was taken out of our list is Bosnia and Herzegovina, which was narrowly left out with a score of 8.0 (compared to 9.2 the previous year), and is therefore still in the risk zone.

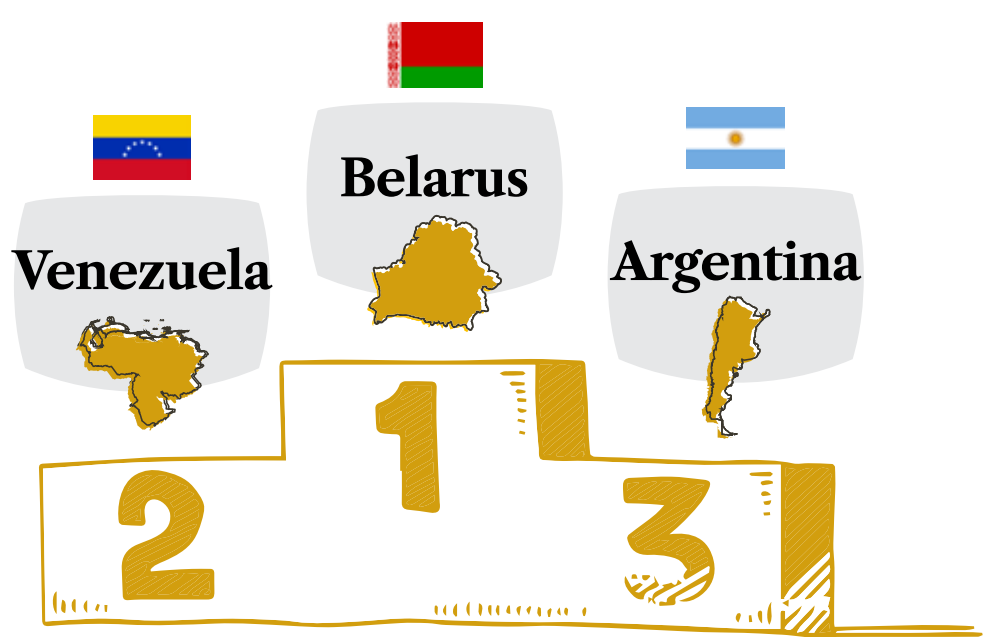
However, there are two new additions to the list: Brazil and El Salvador. Both countries were in the risk zone in 2021, and finally entered the ranking. These changes unfortunately accentuate the tendency of Latin American countries to get bad scores in our index.

We will analyze each country in detail below, but it is worth noting that Brazil has entered the list mainly due to a deterioration in its quantitative indicators, while El Salvador has entered it due to a considerable deterioration in its qualitative indicators, which marks a degradation of its institutions and a decline in other areas. It remains to be seen whether or not President Bukele’s tax cut promises will have any effect on El Salvador's position in this ranking in the future.



There are several significant changes in the ranking:

1) The podium remains the same with Belarus, Venezuela and Argentina, but Argentina’s score has risen to 10.4 (compared to its score of 10.0 in the previous year).



2) Despite being a tax hell, the Russian Federation saw a considerable improvement of its indicators. In the 2020 index, it tied for the third place with Argentina and Ukraine, scoring 10 points. However, it has now dropped to the ninth place, with a score of 9.2. This is due to a decrease in its qualitative indicators, though its institutional quality remains the same.



3) Undoubtedly, the most striking case is the deterioration of Brazil, which went from not being listed to ranking in the fifth place. The scores of other countries did not experience significant changes.

RANKING OF TAX HELLS IN 2023



Belarus



#1. 



Once again, Belarus, a country known for its potato crops and tractors, and for being one of the poorest countries in Europe based on total wealth, ranks first, which means worst.

It should be underscored that it is the only country in Europe ruled by a traditional-style dictator, Alexander Lukashenko, an ally of Putin and a leader who allowed Russian tanks and soldiers to pass into Kiev during the invasion of Ukraine.

When analyzing the data, we observed a significant deterioration in its indicators of quality of government rather than an increased fiscal pressure. It is evident that Belarus prioritizes the privileges and interests of its ruler and his allies over the individual rights of its citizens.

		
Potato harvest	Poverty in Belarus	Lukashenko and Putin



Venezuela



#2. 

Venezuela



In second place, for the second consecutive time, is Venezuela. This country used to be one of the most prosperous, wealthy and tolerant in Latin America, but has been ruled by two left-wing populist dictators since Hugo Chavez was elected president in 1999.

Unfortunately, the humanitarian and political crisis affecting the country seems to have no end in sight. This has pushed nearly 90% of the population below the poverty line, and more than 5 million Venezuelans have been forced to emigrate.

Although Venezuela has experienced some recovery since its fall, there is still a long way to go. Moreover, it does not appear that dictator Maduro has any intention of leaving power in the short term, beyond the call that was made for primary elections to choose the “opposition” party that would compete against the dictator in future general elections.



Humanitarian crisis



Venezuelan refugees



President Maduro



Caracas, Venezuela



Argentina

#3. 

Argentina



The index podium has remained unchanged from one year to the next— Argentina occupies the third position once again. This is mainly due to its high indebtedness, high inflation (around 100% in 2022, the highest figure in three decades) and its weakened institutions (the government has increased or created 24 taxes since

it took office).

Rampant inflation has put many people in a very complicated situation. Multiple parallel exchange markets have blossomed, Central Bank reserves are almost non-existent and the consolidated fiscal deficit, including that of the Central Bank, is estimated at 8%—or even more—of GDP. In addition, sovereign and Central Bank debt is increasing at an unsustainable rate.

Argentina has had an outstanding record of defaults since World War II, as it is the country to have remained in this situation the longest and it has defaulted on multiple occasions.

In addition, it has confiscated the savings of its population more than five times as a measure to overcome financial crises. It is important to note that the protection of the rule of law and the privacy of citizens’ information is virtually non-existent in this country.

		
High inflation	Parallel exchange rate	Financial crisis



Ukraine

#4.



Ukraine



Ukraine moved from fifth to fourth place in the ranking this year, paradoxically due to the improvement of the Russian Federation, which took over its place. Although our forecast of an improvement in Ukraine has not yet materialized, we believe this country has the potential to overcome its invasion by Russia and Belarus.

In addition, Ukraine has initiated a process of rapprochement with the West and started to implement reforms that will most likely be reflected in an improvement in its ranking in our index in the short term.

Rapprochement	Economic hardship	Russian invasion



Kiev, Ukraine



Brazil

#5. 



Brazil fell into the category of tax hell in 2021. Its entry was so abrupt that it landed directly on the fifth place in the table. This situation is not so much due to an increase in its fiscal pressure (which has, in fact, been reduced) or inflation (Bolsonaro’s administration implemented serious measures to rein in inflation in 2021), but mainly to an increase in public spending and a deterioration of the quality of government institutions. It remains to be seen what will happen in the coming years with Lula in power, especially in terms of tax pressure.

Brazil is the largest economy in South America, and thus influences the entire region. It is a major exporter of commodities and has a broad and diversified industrial base. In this case, the index reflects not only the volatility of South American countries, but also their characteristic lack of institutional soundness, which creates doubt surrounding the security of private property, investment and individual rights.

		
Lack of institutional soundness	Public spending	Diversified industrial base



Mexico

#6. 



Mexico

It is among the 15 largest economies in the world and the second largest in Latin America. Mexico has sound macroeconomic institutions and is open to trade, which would indicate that it should not be a tax hell. However, the quality of its institutions is poor and, in the last year, has worsened further due to a populist government that seeks to increase taxes and make changes in society that are facing resistance. These changes would entail greater state intervention in citizens’ rights.

Between the release of the previous index and the current one, Mexico has also moved up in the ranking, mainly due to a deterioration in the quality of its government, rather than a deterioration in its macroeconomic indicators.

		
Low institutional quality	State intervention	Trade openness

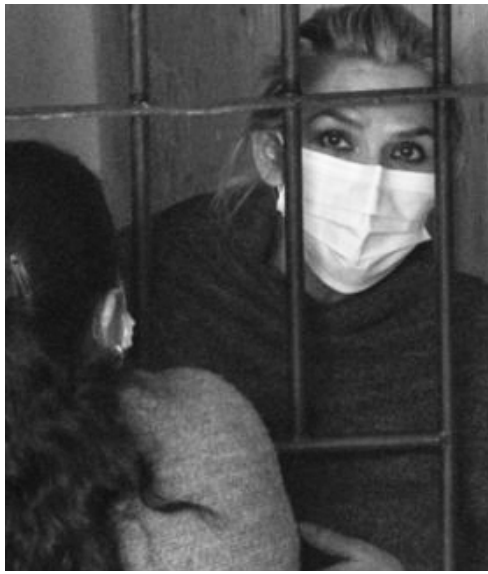


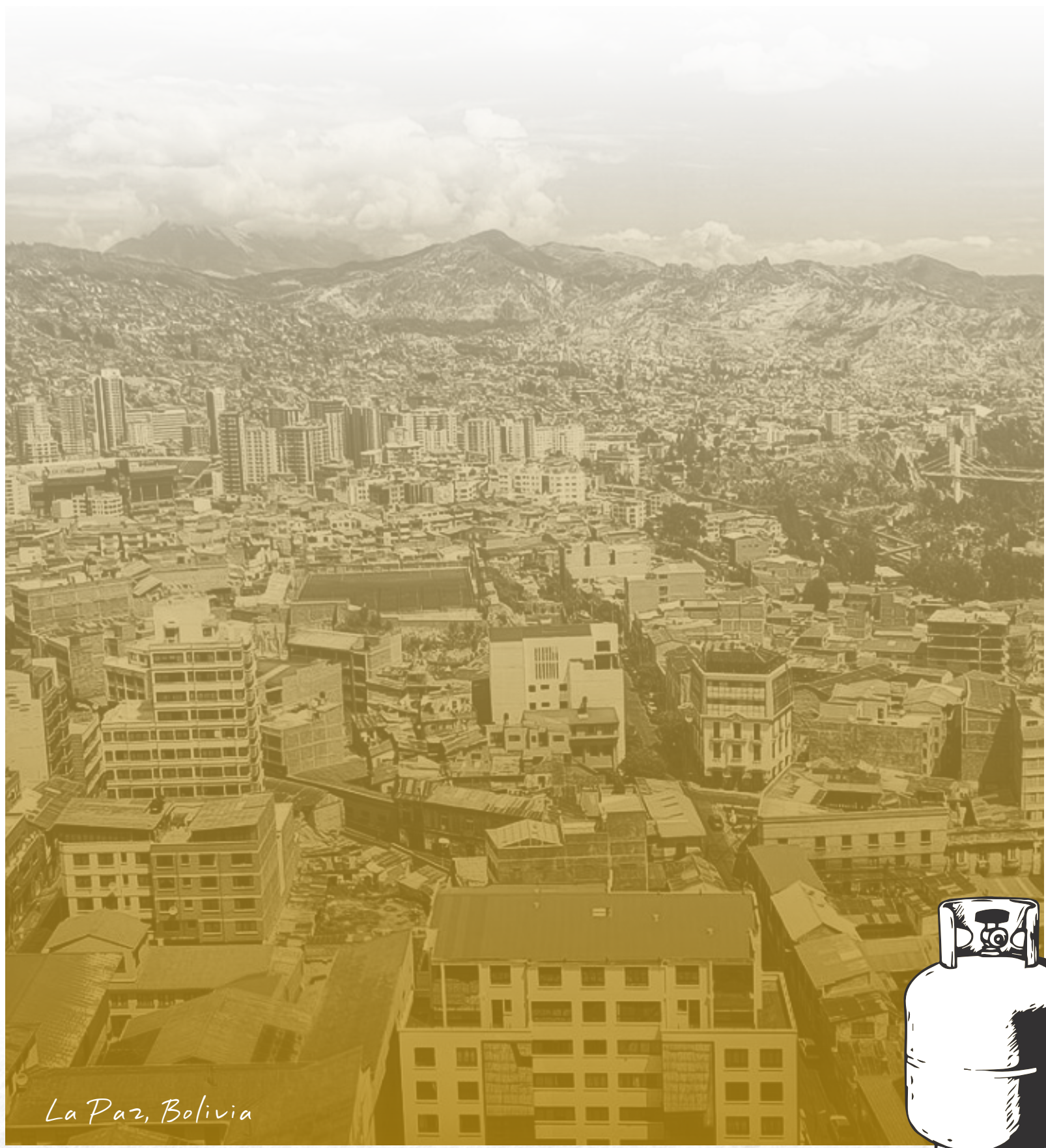
Bolivia

#7. 



One of the poorest countries in the region, Bolivia has stayed in the same position. It is surprising that it has not risen in the ranking, considering the institutional irregularities that occurred between the resignation of Evo Morales in 2019, the handover of power by Jeanine Áñez in December 2020 and her subsequent imprisonment, and the creation of the tax on wealth.

		
<i>Institutional crisis</i>	<i>Imprisoned opposition</i>	<i>Tax on wealth</i>



Nicaragua



Nicaragua’s position in the ranking has dropped, right below Bolivia. However, this is not because Ortega’s administration has improved the conditions of its inhabitants or of the country; in fact, Nicaragua has reached a higher score. Simply put, Bolivia and Brazil have experienced an even greater decline.

There are two aspects that remain unchanged from the previous year in the case of Nicaragua. First, the country remains one of the least developed in Latin America, and access to basic services is still a daily challenge.

Second, Nicaragua continues to be ruled by a dictatorship, one of three in the region, along with Cuba’s and Venezuela’s. In fact, its quantitative indicators are low, with an average score of 4.67 (which is atypical for a country considered a tax hell). However, it is the quality of its government that results in a poor rating—in this area, its score amounts to 17 points, which is only surpassed by Venezuela and Haiti in our ranking.

		
Access to basic services	Dictatorship	Low government quality



Russian Federation

#9. 

Russian Federation



This year it was surprising to see the Russian Federation drop from fourth to ninth place in our index. This change is not given that its government has implemented reforms to ease fiscal pressure or to improve institutional quality; on the contrary, we have observed in recent years that Vladimir Putin has increased the government’s advance over individual rights and the economy.

The relative improvement of the Russian Federation is due more to the deterioration of other countries, particularly Brazil, Nicaragua, Bolivia and Mexico, than to its own strengths. While there is a slight improvement in the Russian Federation’s position in the ranking, it should be highlighted that this index is based on data from 2021 and does not record the country’s invasion of Ukraine, which will surely have a strong negative impact on the place it holds in the future.

		
Fiscal pressure	Low institutional quality	Advance over rights



Moscow, Russian Federation



Suriname

#10. 



Suriname has experienced a slight, though insignificant, downturn in its indicators, especially with regard to the quality of its government. Despite this, it has risen from the twelfth to the tenth place in the index. Still, it continues to face major economic challenges, social inequality and a decline in its gross domestic product (GDP).

		
<i>Economic crisis</i>	<i>Social inequality</i>	<i>Poverty</i>



Paramaribo, Suriname

Honduras

#11. 



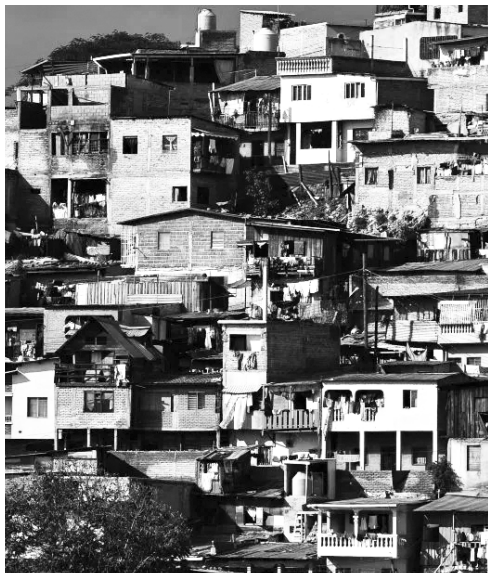
Honduras remains one of the poorest countries in the western hemisphere. Prior to the two shocks it underwent in 2020, approximately 25.2% of the Honduran population lived in extreme poverty, and almost half of the population (4.4 million people) were poor according to official poverty indicators.

Since 2014, poverty levels have seen a minimal decrease, while extreme poverty has been on the rise in rural areas since 2014 and in urban areas since 2017.

Moreover, inequality in rural areas has grown considerably from a Gini index¹ of 0.431 in 2014 to 0.486 in 2019. Overall, in 2019 Honduras had the fourth highest level of income inequality in the Latin America and Caribbean region, with a Gini index of 0.482.

If the tax reform that the Honduran government intends to implement is finally applied, the country may move up several positions in our ranking. If you are interested in this topic, we have prepared a paper on this specific reform, which you will find in our [website](#).



		
High poverty levels	Rural population	Tax reform



Tegucigalpa, Honduras



1. The Gini index measures income inequality in a given population, assigning values between 0 and 1.

El Salvador

#12. 



El Salvador has joined the list of countries considered tax havens. In the previous edition of this index, it was already very close to being included in this category, but this year it has completed the transition and officially entered the list, ranking on the second to last position with a low score. This worsening is due to a slight decline in its quantitative indicators and a deterioration of its qualitative indicators. It will be interesting to see if El Salvador’s situation can improve in the near future to be removed from this category, or if it will remain on the list for a long time.

		
Bukele's government	Low institutional quality	Poor justice system



San Salvador, El Salvador



Haití

#13. 



Haiti has experienced an improvement in its performance, ranking thirteenth in our index. Nevertheless, this progress is not due to an improvement in its indicators, but rather to the fact that other countries’ situations have worsened in comparison. In fact, as a tax hell, Haiti’s case can be divided into two

aspects for analysis:

-  On the one hand, its cuantitative score is very good (2.67), better than European countries such as Denmark or Ireland, which are considered the antithesis of a tax hell.
-  It is its qualitative indicators, though, that lead us to classify it as a tax hell, since it has obtained the highest - i.e., worst - score of all in this area (18 out of 18 points).

Haiti is clearly a failed state, a territory where the government is unable to provide the most basic services, those needed by the population to properly thrive.

		
Lack of services	Natural disasters	Extreme poverty



Tax Hell Index 2023

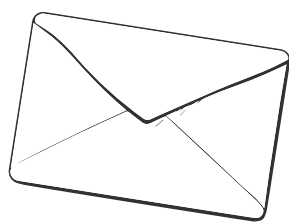


Country	Quantitative	Qualtitative	Score	Conclusion
Belarus	6,67	17,00	10,80	Tax Hell
Venezuela	6,00	18,00	10,80	Tax Hell
Argentina	9,33	12,00	10,40	Tax Hell
Ukraine	8,00	14,00	10,40	Tax Hell
Brazil	8,67	12,00	10,00	Tax Hell
Mexico	6,00	15,00	9,60	Tax Hell
Bolivia	5,33	16,00	9,60	Tax Hell
Nicaragua	4,67	17,00	9,60	Tax Hell
Russian Federation	5,33	15,00	9,20	Tax Hell
Suriname	8,00	11,00	9,20	Tax Hell
Honduras	5,33	15,00	9,20	Tax Hell
El Salvador	6,00	13,00	8,80	Tax Hell
Haiti	2,67	18,00	8,80	Tax Hell
Moldova	7,33	10,00	8,40	Risky
Ecuador	6,00	12,00	8,40	Risky
Paraguay	5,33	13,00	8,40	Risky
Serbia	8,00	8,00	8,00	Risky
India	6,00	11,00	8,00	Risky
Bosnia and Herzegovina	4,67	13,00	8,00	Risky
Sao Tome and Principe	4,67	13,00	8,00	Risky
Greece	8,67	6,00	7,60	Risky
Italy	8,67	6,00	7,60	Risky
Guyana	5,33	11,00	7,60	Risky
Romania	8,00	7,00	7,60	Risky
Armenia	6,67	9,00	7,60	Risky
Colombia	6,00	10,00	7,60	Risky
Trinidad and Tobago	6,00	10,00	7,60	Risky
Belize	4,67	12,00	7,60	Risky
North Macedonia	7,33	7,00	7,20	Risky
Hungary	8,67	5,00	7,20	Risky
Guatemala	2,00	15,00	7,20	Risky
Dominica	8,67	5,00	7,20	Risky
Barbados	8,67	4,00	6,80	Normal
Croatia	7,33	6,00	6,80	Normal
Kosovo	3,33	12,00	6,80	Normal
Montenegro	6,67	7,00	6,80	Normal
Jamaica	6,67	7,00	6,80	Normal
Bulgaria	6,00	8,00	6,80	Normal
Peru	4,67	10,00	6,80	Normal
Spain	8,67	3,00	6,40	Normal
Slovak Republic	8,00	4,00	6,40	Normal
St. Vincent and the Grenadines	8,00	4,00	6,40	Normal
Dominican Republic	6,00	7,00	6,40	Normal
St. Lucia	6,00	7,00	6,40	Normal
United States	9,33	2,00	6,40	Normal
Cyprus	7,33	4,00	6,00	Normal
Antigua and Barbuda	6,00	6,00	6,00	Normal
Panama	4,67	8,00	6,00	Normal
Belgium	8,67	1,00	5,60	Normal
France	8,67	1,00	5,60	Normal
The Bahamas	6,67	4,00	5,60	Normal
Poland	6,67	4,00	5,60	Normal
Costa Rica	6,00	5,00	5,60	Normal
Canada	8,67	0,00	5,20	Normal
United Kingdom	8,00	1,00	5,20	Normal
Germany	8,00	1,00	5,20	Normal
Slovenia	8,00	1,00	5,20	Normal
Latvia	8,00	1,00	5,20	Normal
Portugal	7,33	2,00	5,20	Normal
Malta	6,67	3,00	5,20	Normal
Georgia	6,00	4,00	5,20	Normal
St. Kitts and Nevis	5,33	5,00	5,20	Normal
Grenada	5,33	5,00	5,20	Normal
Czech Republic	7,33	1,00	4,80	Normal
Austria	8,00	0,00	4,80	Normal
Iceland	8,00	0,00	4,80	Normal
Chile	6,00	3,00	4,80	Normal
Finland	7,33	0,00	4,40	Normal
New Zealand	7,33	0,00	4,40	Normal
Estonia	6,67	1,00	4,40	Normal
Lithuania	6,67	1,00	4,40	Normal
Uruguay	6,00	2,00	4,40	Normal
Aruba	6,67	0,00	4,00	Normal
Puerto Rico	3,33	5,00	4,00	Normal
Netherlands	6,67	0,00	4,00	Normal
San Marino	5,33	0,00	3,20	Normal
Norway	5,33	0,00	3,20	Normal
Sweden	5,33	0,00	3,20	Normal
Denmark	5,33	0,00	3,20	Normal
Luxembourg	4,67	0,00	2,80	Normal
Switzerland	4,67	0,00	2,80	Normal
Ireland	4,00	0,00	2,40	Normal

Contact us

Need more information?

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