Development Centre Studies

Reconnecting Bogotá

Towards a Stronger Fiscal Pact

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TOWARDS A STRONGER FISCAL PACT

OECD DEVELOPMENT CENTRE

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Foreword

This report analyses the importance of strengthening a people-centered fiscal system to support smarter, more resilient and inclusive urban development in Bogotá. It focuses on two interdependent pillars: the promotion of a tax paying culture through transparency and citizen engagement; and second, the design of a progressive and efficient tax system. Drawing on surveys of citizens and enterprises, as well as an assessment of three key local taxes, the Industry and Commerce Tax, the property tax, and environmental taxes – the report identifies opportunities to enhance fairness, efficiency, and alignment with sustainability objectives and puts forward evidence-based policy recommendations.

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Abbreviations and acronyms

ABL	Tasa Retributiva de Servicios de Alumbrado, Barrido y Limpieza (Remuneration Rate for Lighting, Sweeping and Cleaning services)
cc	cubic centimetres
CIT	Corporate income tax
COP	Colombian peso
DKK	Danish Krone
ERTR	Environmentally related tax revenue
EU	European Union
EUR	Euro
EV	Electric vehicle
GDP	Gross domestic product
GEIH	Gran Encuesta Integrada de Hogares (Great Integrated Household Survey)
GHG	Greenhouse gas
kWh	Kilowatt-hour
LPG	Liquefied petroleum gas
IBI	Impuesto sobre bienes inmuebles *(*Barcelona's *property tax)*
ICA	Impuesto de industria y comercio (Industry and Commerce Tax)
IPTU	Property Tax Sustainable Certification Program (*Imposto Predial Territorial Urbano*)
IPU	*Impuesto predial unificado (Property tax)*
LAC	Latin America and the Caribbean
LED	Light emitting diode
LVC	Land value capture
LVU	Land value uplift
OOA	Organismo Argentino de Acreditación (Argentinian Organisation for Accreditation)
PHEVs	Plug-in hybrid vehicles
PM2.5	Particulate matter less than 2.5 microns in diameter
PV	Photovoltaic
SDH	Secretaría de Hacienda de Bogotá (Secretary of Finance of Bogotá)
SPAC	Pago Alternativo por Cuotas
SOAT	Seguro obligatorio de accidentes de tránsito (Mandatory vehicle insurance)
SUVs	Sport utility vehicles
TOD	Transit-oriented development
UVT	Unidad de valor tributario (Tax value unit)
US	United States
USD	United States dollar
VAT	Value-added tax
WLTP	Worldwide harmonised light vehicle test procedure

Executive summary

For Bogotá to improve public finance and meet growing demands for quality services, reduce inequalities, and advance sustainable development, a new people-centred fiscal pact becomes essential. This effort rests on two interdependent pillars: active citizen engagement through the promotion of a tax paying culture, and the improvement of the tax system's design through three key taxes, the Industry and Commerce Tax (ICA), recurrent taxes on immovable property (hereafter referred to as the property tax), and environmental taxes.

The first pillar focuses on building a tax-paying culture, and survey results show encouraging signs of progress in this regard. Citizens and businesses generally view taxation as a contribution rather than a cost. Based on a selected group of citizens and firms, 62% of citizens and 61% of firms consider tax payments an investment in Bogotá's progress, and more than 80% of businesses acknowledge that taxes are essential to finance public services. Yet confidence is undermined by perceptions of weak returns. Only one quarter of respondents believe they receive fair value for their taxes, and close to 40% of citizens feel revenues are not used for the public good.

Concerns over equity and corruption strongly influence attitudes. Over 40% of citizens believe district taxes do not reflect ability to pay, while 86% identify corruption as a key factor shaping their views. Despite this dissatisfaction, willingness to comply remains strong: 86% of citizens and 95% of businesses reject tax evasion.

The development of a tax paying culture requires building trust through more transparent and efficient use of revenues, simpler procedures, greater opportunities for taxpayer voice, and expanded fiscal education. Support for targeted measures, such as taxing environmentally harmful goods (65% in favour), shows that linking taxation to fairness and visible outcomes can reinforce citizen engagement and foster a culture of voluntary compliance.

The second pillar focuses on building a simpler, more progressive, equitable and sustainable tax system. Three key local taxes are central to this effort, the ICA, the property tax and environmental taxes. International experiences can offer valuable insights to enhance their design and effectiveness.

The ICA is Bogotá's main tax, accounting for nearly half of tax revenues since 2021. Its 14 differentiated rates across sectors create complexity, raise compliance costs, and reduce transparency. Simplifying the ICA and making it more progressive could boost revenue, support formalisation, and improve fairness. Current misalignments may currently burden low-margin industries while favouring profitable ones, and a gross-income-based structure creates distortions. Modelling suggests that aligning rates with income or profits could raise revenues by 6-16%, with progressive schemes further increasing collections and equity.

Bogotá currently offers a complex landscape of tax incentives, with special treatments and exemptions scattered across multiple laws and decrees. Special treatments and incentives add complexity, as rules are scattered across laws and decrees. While well-targeted incentives can encourage investment, poorly designed ones can generate substantial fiscal and economic costs, including foregone revenue, limited effectiveness, windfall gains, economic distortions, and increased risks of tax avoidance. Greater coherence with national priorities and stronger evaluation are essential. Reforms such as pre-filled tax returns for small taxpayers, improved monitoring, and enforcement – especially given the 20% ICA evasion in 2024 – could enhance efficiency, equity, and sustainability.

The property tax, Bogotá's second-largest revenue source after the ICA, accounted for 34.8% of tax income in 2024. It places a relatively higher burden on low-income and informal households: in 2022, it represented 1.7% of income for the lowest quintile and 1% for fully formal households. Between 2019 and 2023, the average evasion rate was 16.4% with higher evasion observed in strata 1 and 2, while the largest revenue losses were concentrated in middle and high-income strata (3, 4, and 6). Targeted enforcement and efforts to reduce evasion could improve fairness and compliance.

International experiences – from Barcelona, Boston, and Montevideo – highlight the benefits of regularly updating property values, increasing payment frequency, offering discounts to vulnerable groups, and using digital tools and enforcement to boost compliance. Reforming Bogotá's property tax requires balancing revenue and equity: more rates could improve progressivity but increase complexity, while a simpler structure reduces administrative burdens but may be less equitable. Effective reform must weigh these trade-offs to build an efficient and fair system.

Finally, to advance a greener tax structure, Bogotá's environmental taxes could better reflect environmental externalities, notably CO_2 emissions. Transport is the main source of emissions in the city, accounting for around 40% of greenhouse gases, with 65% of trips still relying on fuel-based vehicles. As of April 2024, electric and hybrid vehicles remain marginal, making up just 0.03% and 1.33% of the fleet, respectively. Most vehicles are old and fossil fuel-dependent, and SUVs dominate the gasoline fleet (77%), highlighting the urgent need for policies that accelerate the shift to cleaner mobility.

Motor vehicle tax revenues in Bogotá are significant but could be greener. In 2024, they accounted for 9.8% of total tax revenues and 0.34% of GDP. Motor vehicle taxes are annual and based on vehicle value. Unlike many EU countries, which link these taxes to CO_2 emissions and environmental performance, Bogotá's system does not. Colombia has yet to implement a CO_2 emissions testing framework like the Worldwide Harmonised Light Vehicles Test Procedure (WLTP) used in the EU; therefore, alternative parameters such as vehicle weight could be used to account for high-emission vehicles. Heavier vehicles, particularly SUVs, emit more CO_2, and weight-based approaches – recently applied in France – can be effective. Reassessing Bogotá's tax incentives for hybrid vehicles by linking discounts to actual environmental performance could further support emissions reduction.

Bogotá's *Pico y Placa Solidario* offers a transitional model towards a fully CO_2-based vehicle tax system but has limitations. This voluntary congestion fee incorporates environmental criteria, charging higher fees for more polluting and higher-value vehicles, and channels revenues into public transport. However, its voluntary nature and exclusion of high-displacement motorcycles – which contribute disproportionately to local pollution – limit its impact. Expanding coverage and refining the design could enhance environmental effectiveness. However, protecting low-income groups affected by this through targeted compensation measures is essential.

A public lighting tax that considers socio-economic factors and energy use could support Bogotá's green transition. Lighting is a major energy user, accounting for up to 40% of municipal electricity consumption in some cities and about 6% of global CO_2 emissions. Bogotá still needs to replace around 100 000 streetlights with LEDs, which could cut emissions by up to 7% and reduce energy use by 50%. In several Colombian cities, local public lighting taxes already play an important fiscal role, including Barranquilla, Bucaramanga, Cali, Cartagena, Medellín and Pereira. These taxes generate significant revenue to fund energy-efficient upgrades that can reduce both costs and emissions.

1 Overview

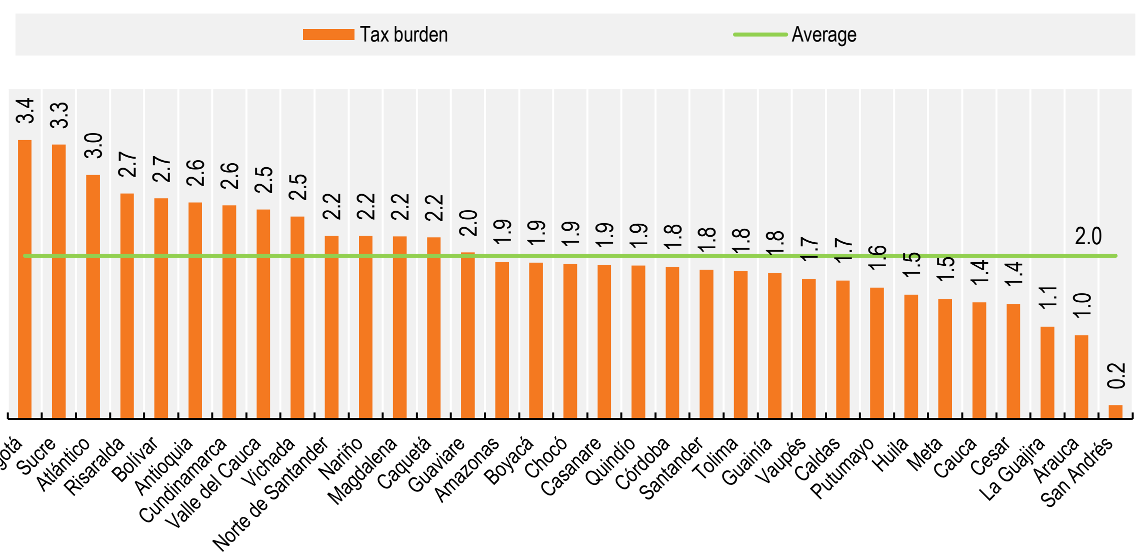
Bogotá needs a stronger, people-centred fiscal pact to support smarter, more resilient and inclusive urban development. Achieving this will require not only fostering a culture of tax compliance grounded in trust, transparency and citizen participation, but also advancing towards a simpler and more progressive tax system, with a focus on three key local taxes, the Industry and Commerce Tax (ICA), the property tax and environmental taxes.

Although tax collection in Bogotá remains relatively strong, there is room for improvement in both equity and efficiency

Subnational governments in Colombia are key to national tax collection. In 2023, local governments accounted for 11.5% and departmental[1] governments for 4.3% of total tax revenues, positioning Colombia just behind federal systems such as Brazil (states 23.0%, local 6.4%) and Argentina (provinces 18.2%). Subnational revenues rely heavily on the Industry and Commerce Tax (ICA) and other taxes on goods and services (49%), followed by the property tax[2] (21%). Recurrent taxes on immovable property collected locally represented 0.70% of GDP in 2023, a level comparable to the OECD average (0.90%) and significantly above the LAC average (0.34%). In contrast, environmental tax revenues remain modest at 0.6% of GDP, below both the LAC average (0.9%) and the OECD (1.8%), with most stemming from energy and transport.

Bogotá illustrates the strength of Colombia's subnational tax system. In 2024, taxes were the city's main source of revenue, accounting for more than 60% of total income. Tax revenues represented 3.4% of Bogotá's GDP (equivalent to 0.9% of Colombia's national GDP) and have been gradually increasing in recent years, making it the municipality with the highest tax revenue as a share of departmental GDP in the country (Figure 1.1).

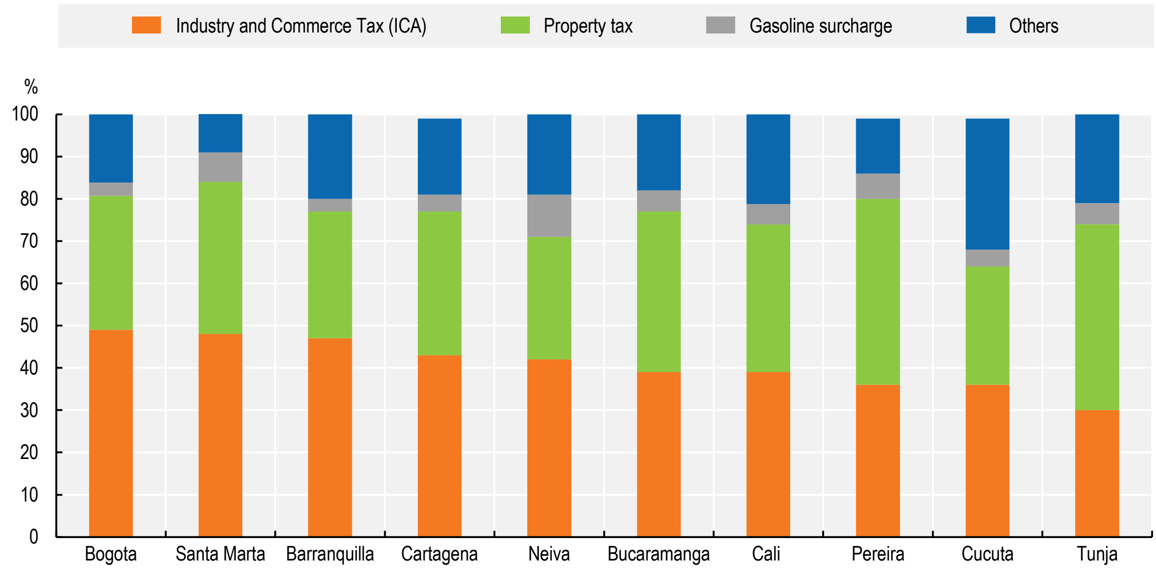
Figure 1.1. Municipal tax burden by departments in Colombia, 2024



Note: This analysis presents estimates of the tax burden municipal taxes, grouped by department, for the period 2010–2024. The tax burden was calculated by dividing the collected revenue by the departmental GDP published by DANE.
Source: (Secretaría de Hacienda, 2024[1]).

The main sources of tax revenue in Bogotá are the Industry and Commerce Tax (ICA) and the property tax, reflecting a structure similar to that of other municipalities. In 2024, Bogotá ranked first nationwide in ICA revenue, which accounted for 49% of total tax income, followed by Santa Marta and Barranquilla (48% and 47%, respectively) (Figure 1.2). Property tax represented 32% of Bogotá's total tax revenue, placing the city seventh nationwide. Other taxes, including the motor vehicle and consumption taxes in Bogotá, as well as cigarette, tobacco, liquor, and beer taxes in other municipalities made up 16%. Over time, ICA revenues have remained relatively stable, holding steady from 2011 to 2024, whereas property tax and motor vehicle tax revenues have exhibited greater volatility over the same period.

Figure 1.2. Distribution of tax revenues in Colombia's main cities, 2024



Source: (DNP, 2024[2]).

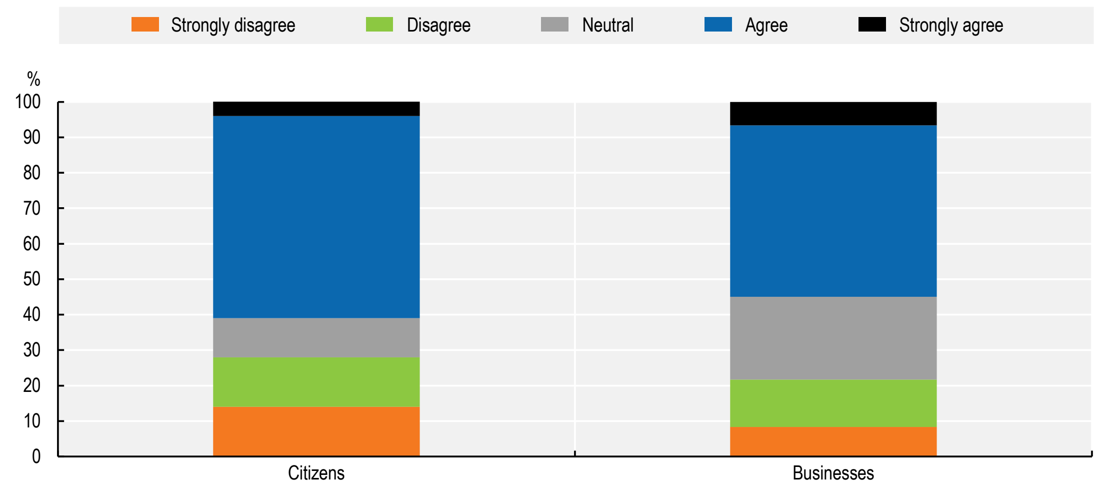
Despite Bogotá's strong tax collection, significant challenges remain, including low public trust in the value of taxes; the complexity and limited progressivity of the ICA; the relatively higher burden of property taxes on lower-income and informal households; and the need to strengthen environmental taxes to more directly reflect CO_2 emissions.

Strengthening trust through transparency, efficiency, and participation can play a decisive role in increasing willingness to engage with Bogotá's fiscal system

Strengthening Bogotá's tax system goes beyond technical reforms and calls for rebuilding trust, as weak confidence in institutions continues to undermine tax compliance. When taxpayers perceive that taxes are fair, transparent, and well managed, they are more likely to comply voluntarily; when they view the system as inefficient or inequitable, compliance erodes. To better understand these dynamics, a perception survey was conducted among 133 selected respondents, 51 individuals and 82 micro, small, and medium-sized enterprises, capturing attitudes towards taxation, fairness, and the quality of public service delivery. Although not statistically representative, the survey provides valuable qualitative insights into Bogotá's tax culture and lays the groundwork for more robust, evidence-based policy design.

Both citizens and businesses in Bogotá recognise taxation as a legitimate and essential contribution to sustainable development. Almost half of citizens consider taxes essential or important for sustainable development, and more than eight in ten businesses agree or strongly agree that taxes are necessary to finance public services. These results indicate that the city benefits from a broad normative consensus on the social purpose of taxation. Moreover, 62% of citizens and 55% of firms view paying taxes as a contribution to Bogotá rather than a personal cost (Figure 1.3). This widespread acknowledgement of taxation as an instrument for progress provides a critical basis for building a stronger fiscal pact founded on shared responsibility and civic participation.

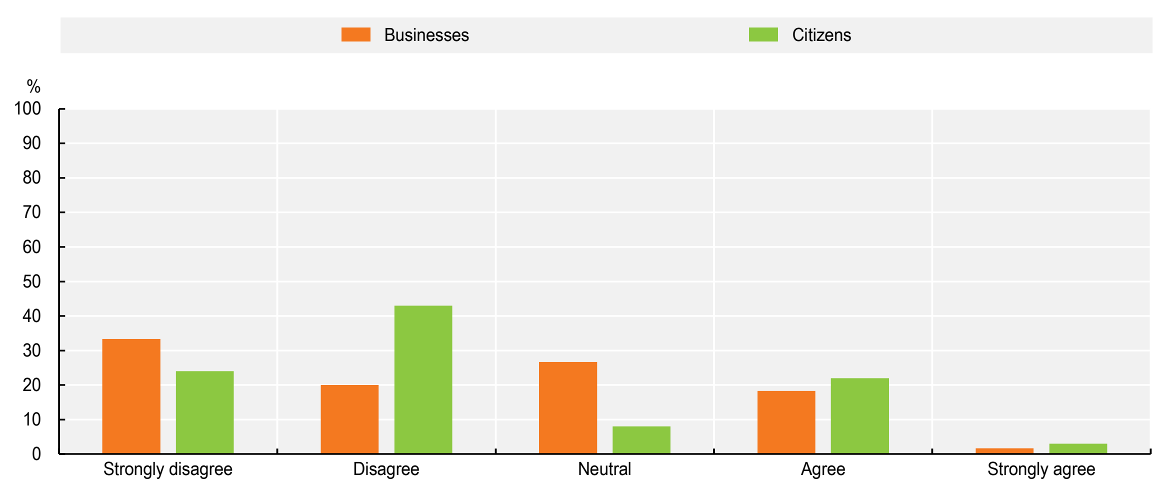
Figure 1.3. Paying taxes is a contribution to Bogotá rather than a cost to me



Note: Both businesses and citizens were asked the following question: "Please indicate the extent to which you agree or disagree with the following statements about district taxation. I consider the payment of taxes to be a contribution to Bogotá rather than a cost to me".
Source: Survey on citizens' and enterprises' perceptions of Bogotá's tax system.

There is a marked disconnect between the support for taxation and citizens' and firms' perceptions of how revenues are managed. More than six out of ten citizens (67%) and half of the businesses (53%) disagree or strongly disagree that the services and infrastructure they receive represent a fair return for their taxes, while only less than one quarter in each group feel they obtain fair value (Figure 1.4). Perceptions of inequity are also widespread: more than 40% of citizens believe that district taxes do not adequately reflect ability to pay, and many consider that high-income individuals and multinational companies contribute less than they should. These results reveal persistent dissatisfaction with the efficiency and equity of public spending, even among taxpayers who recognise the importance of taxation.

Figure 1.4. I feel that the education, transport, infrastructure, security, healthcare and recreation I receive are a fair return for the taxes I pay



Note: Both businesses and individuals were asked to what extent they agreed or disagreed with the statement: "I feel that the education, transport, infrastructure, security, healthcare and recreation I receive in Bogotá are a fair return for the taxes I pay" (original Spanish: "Siento que la educación, transporte, infraestructura, seguridad, salud y recreación que recibo en Bogotá son un retorno justo por los impuestos que pago"). Results show the share of respondents selecting each option
Source: Survey on citizens' and enterprises' perceptions of Bogotá's tax system.

Despite widespread concerns about fairness and efficiency, most citizens and businesses in Bogotá continue to reject tax evasion and view compliance as a moral duty. The vast majority state that it is never justified to cheat on taxes, although tolerance increases in contexts of perceived corruption or excessive tax burdens. Corruption emerges as the most decisive factor shaping attitudes toward taxation, with 86% of respondents citing it as a major influence on their behaviour. Weak perceptions of integrity and fairness not only erode trust in the fiscal system but can also encourage avoidance and informality, undermining the revenue base and distorting competition. These perceptions extend beyond compliance: more than half of firms identify the tax environment as a very important factor in investment and location decisions, alongside the cost of regulation (40%) and the quality of public infrastructure and services (35%).

For the district tax administration, strengthening trust may depend on going beyond enforcement and positioning itself as a service-oriented institution. Almost half of surveyed citizens view the Secretariat of Finance as both an enforcement body and a service provider, reflecting expectations of balanced engagement. Yet significant gaps remain as nearly six in ten citizens feel that their requests as taxpayers are not heard, pointing to limited responsiveness and opportunities for dialogue.

Simplifying payment procedures, ensuring access to clear information, and improving communication can help narrow this divide and encourage voluntary compliance. Survey results show that while most taxpayers find it easy to pay property and vehicle taxes and to access related information, fewer find the rules and communications straightforward. For businesses, the industry and commerce, property, and vehicle taxes are perceived as relatively manageable, while the urban delineation tax remains complex.

Tax education represents a critical but underdeveloped pillar of Bogotá's fiscal culture. Only a small fraction of respondents recall having received any meaningful tax education during their schooling, and most express that they would have found it valuable. Knowledge of specific district taxes remains uneven, while familiarity with income, property, vehicle, and value-added taxes is relatively high, awareness of the Industry and Commerce Tax and the public lighting tax is limited. Expanding tax education in schools and through public communication campaigns would help citizens better understand how taxation supports local development and strengthen their sense of civic ownership over fiscal policy.

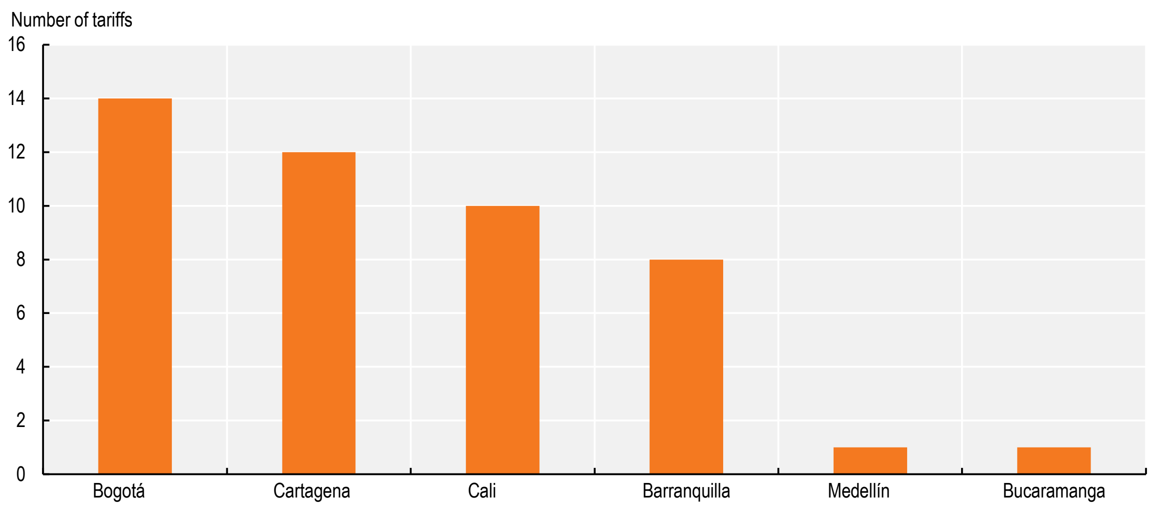
Increasing willingness to engage with Bogotá's fiscal system ultimately requires a multi-dimensional strategy centred on transparency, education, and citizen participation. The survey indicates that nearly half of citizens are unwilling to pay more general taxes to support the Sustainable Development Goals, but two-thirds support taxing environmentally harmful goods and services. This suggests that taxpayers are more receptive to measures perceived as fair and purpose-driven than to broad increases in tax levels. Building trust through visible improvements in spending efficiency, integrity, and service quality can therefore play a decisive role in enhancing willingness to comply. By linking taxation more clearly to fairness, sustainability, and shared prosperity, Bogotá can strengthen its fiscal contract and foster a culture of voluntary contribution that supports both revenue mobilisation and inclusive development.

Rethinking Bogotá's Industry and Commerce Tax (ICA) is essential to enhance revenue generation, equity, and business formalisation

Modernising Bogotá's ICA tax offers a unique opportunity to enhance revenue mobilisation, improve equity, and simplify administration. The ICA is Bogotá's main source of own-revenue, accounting for nearly half of total tax intake since 2021. With its broad base and strong revenue potential, the ICA offers significant scope to strengthen the city's fiscal capacity, enhance progressivity, and support inclusive growth. By simplifying its rate structure, aligning tax burdens with firms' capacity to pay, and modernising administration, the ICA could become a more efficient and equitable instrument for local development.

A simpler and more progressive ICA would deliver multiple gains for both taxpayers and the administration. Consolidating the current fourteen differentiated rates, among the highest number of rate categories in the country (Figure 1.5), into a smaller set of clearer brackets would ease compliance for firms and enhance transparency for authorities. Simplification would also lower administrative costs, reduce errors, and help curb evasion – estimated to have risen from 17.8% in 2018 to 20.2% in 2024 due to gaps in monitoring and enforcement. By aligning obligations more closely with firms' capacity to pay and easing formalisation, a streamlined ICA could broaden the tax base while promoting business growth and productive inclusion. Simplified and harmonised rate structures would further facilitate co-ordination with national tax rules, improving overall policy coherence.

Figure 1.5. Number of differentiated ICA rates in selected Colombian cities



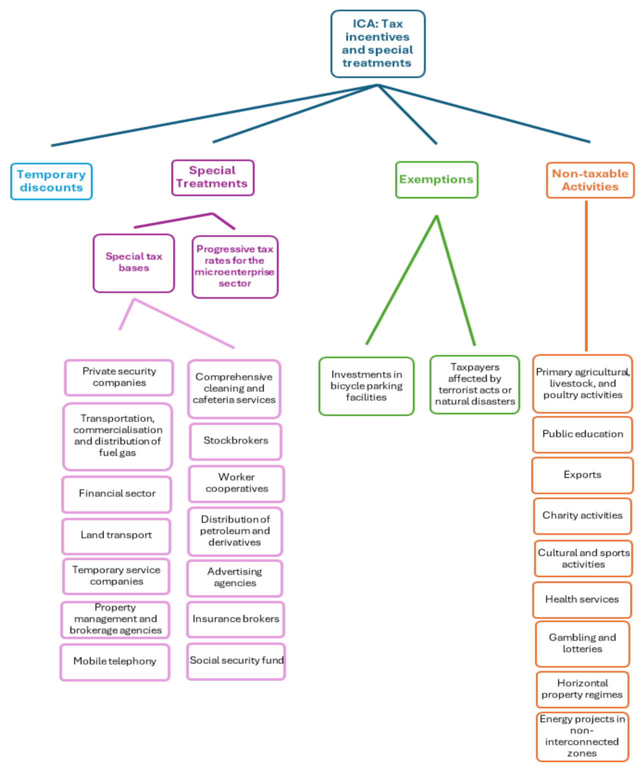
Source: (Secretaría de Hacienda de Bogotá, 2024[3]).

Introducing greater progressivity within the ICA would strengthen both fairness and efficiency. At present, some low-income sectors may face higher effective rates than more profitable ones, revealing clear misalignments between income levels and tax burdens. Reordering rates to reflect ability to pay would enhance vertical equity and reduce economic distortions. Simulations suggest that linking rates to income or profit levels could increase total revenue by 6-16% compared to the 2023 scheme, while ensuring that larger, more profitable firms contribute proportionally more. Under such a progressive framework, the lowest-income deciles would be exempt, supporting micro-enterprises and facilitating their transition to formality. This approach would thus combine stronger equity with sustained revenue mobilisation and a more inclusive business environment.

Addressing structural distortions also requires recognising that the ICA's taxable base, gross income, does not account for production costs. This structure disproportionately affects firms with thin margins, discouraging investment and innovation. While shifting the legal base to profit would require national legislative reform, Bogotá can move incrementally by using profitability indicators to inform rate differentiation. Aligning rates more closely with profit margins would strengthen both efficiency and fairness, even within existing legal constraints.

Tax incentives and special treatments further complicate the ICA framework (Figure 1.6). More than a dozen provisions, ranging from discounts and exemptions to special tax bases, operate simultaneously at district and national levels. Although many pursue legitimate objectives, their dispersion across multiple regulations reduces transparency and complicates monitoring. The absence of a consolidated legal framework hampers evaluation and increases the risk of inconsistent or inefficient incentives. Some sectors benefit from low rates despite high profitability, while others face higher rates despite limited capacity to pay. Establishing a unified register of incentives, assessing their fiscal cost, and aligning them with Bogotá's development priorities and national strategies are critical steps towards a more coherent and accountable incentive system.

Figure 1.6. ICA tax incentives and special treatments



Source: Authors' own elaboration based on district and national laws.

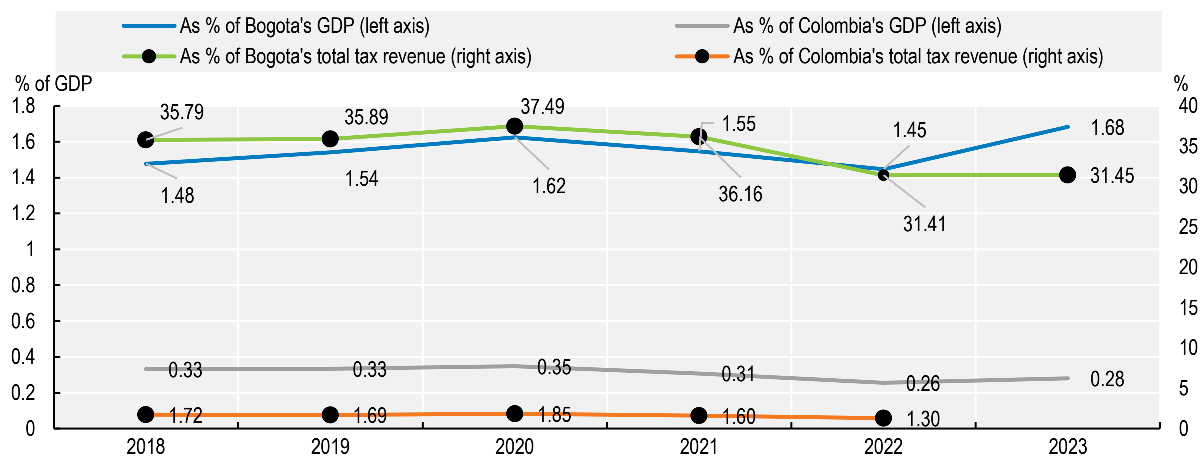
The city could also strengthen administrative efficiency by introducing *suggested tax returns* for taxpayers under the preferential regime. Pre-filled declarations, based on third-party and administrative data, would simplify compliance for small businesses while improving predictability of revenue collection. This approach offers practical advantages over automatic invoicing, which entails higher fiscal and legal risks. Nonetheless, its success depends on the availability and accuracy of data and on clear communication with taxpayers. Ensuring robust information systems and gradual implementation will be key to avoiding errors and safeguarding trust.

Reforming the ICA offers Bogotá an opportunity to modernise its fiscal system and strengthen its social contract with businesses. A more transparent, simplified, and progressive tax structure would enhance compliance, improve competitiveness, and promote equity. Rationalising incentives, improving data quality, and adopting modern administrative tools can together transform the ICA from a complex levy into a driver of sustainable and inclusive local development.

Assessing the progressivity of Bogotá’s property tax is essential to guarantee a fairer and more efficient tax system

Bogotá’s property tax (IPU) is a key source of local revenue, representing almost a third of the city’s tax income (31.4% in 2023) (Figure 1.7). Its design is key in both fairness and efficiency in the tax system. The IPU applies to residential, commercial, industrial, vacant lots, undeveloped urbanisable land, and rural properties, with rates determined by cadastral values and property use, and exemptions targeting low-income households and vulnerable properties.

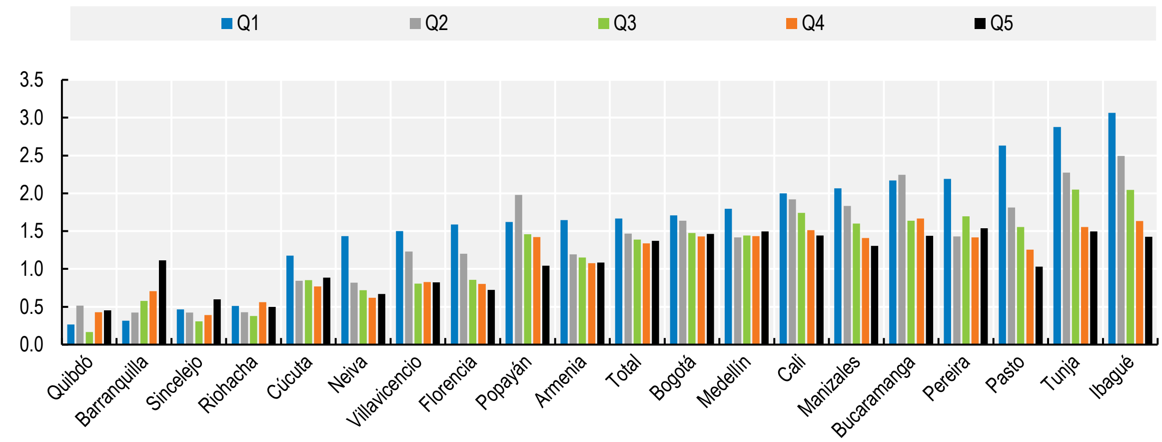
Figure 1.7. Property tax revenues in Bogotá, 2018-23



Note: GDP data for Bogotá and Colombia are in constant prices.
Source: Own calculations based on (Secretaría de Hacienda de Bogotá, 2024[4]; DANE, 2025[5]; OECD et al., 2025[6]).

Despite a progressive structure, there is space for improvement as the IPU places a relatively higher burden on low-income and informal households. In 2022, property tax payments represented nearly 1.7% of reported income for low-income households (income quintile 1) and 1.6% for middle-low-income households (quintile 2) who declared having paid the levy in Bogotá, compared to 1.4% to 1.5% for other higher income households – indicating that there is still room to improve the progressivity (Figure 1.8). Moreover, property tax represented 1.4% of informal households’ income, where all members are informally employed, 0.8% of mixed households’ income, and 1% of formal households’ income. Ongoing challenges include property tax evasion, particularly in residential, commercial, and vacant properties, and the need to ensure that the distribution of the tax burden remains equitable across income levels and socioeconomic strata.

Figure 1.8. Property tax as percentage of households' income, 2022



Note: The data are based on respondents who reported having paid the property tax within the previous year. Households' income is defined as: Labour income + Rents+ Government transfers + Private transfers. The following variables from the GEIH survey have been used for each income component. Labour income refers to earnings from employment (INGLABO). Rent income includes returns from renting properties or assets (P7500S1A1), interest and investment income (P750S5A1), and severance-related payments (P7510S6A1). Government transfers cover pensions and public assistance programs (P7500S2A1, P750S2A1, P1661S1A1–S3A1). Private transfers include alimony, remittances, aid from private entities, and other irregular sources such as gambling winnings or asset sales (P7500S3A1, P7510S1A1–S2A1, P750S1A1, P750S3A1, P7510S7A1). The income variables which are reported on a monthly basis (INGLABO P7500S1A1 P7500S2A1 P7500S3A1) have been annualised.
Source: Authors' calculations based on (DANE, 2024[7]).

Households living in strata[3] 3 and 4 contribute relatively more to property tax revenue than those in higher strata. Households in stratum 4 account for nearly one third of total property tax collection (30.2%), almost 10 percentage points more than households in strata 5 (20.5%) and 6 (19.8%), respectively, a similar pattern to the average observed in other Colombian cities.

International experiences and policy lessons highlight ways to improve Bogotá's property tax system while enhancing progressivity and compliance. Cities like Montevideo, Barcelona, and Boston use regularly updated property valuations, digitalised collection systems, targeted discounts, and transparent enforcement mechanisms to improve fairness and reduce evasion (Intendencia de Montevideo, 2025[8]; Municipal Tax Office of Barcelona, 2025[9]; City of Boston, 2025[10]). For Bogotá, reforms could include introducing differentiated tax rates for high-value properties, a review of the minimum taxable threshold, simplifying administrative procedures, further updating cadastral values in line with market conditions, and lowering housing transaction taxes to support mobility and efficient allocation. These measures aim to make property taxation a more stable and predictable revenue source for Bogotá while serving as a critical instrument in fostering a fairer and more efficient housing market.

Property tax incentives can be a strategic fiscal instrument for advancing sustainable goals in Bogotá, if well designed. Cities in LAC and worldwide are using property tax incentives to stimulate the adoption of renewable energy sources, promote cleaner technologies in construction and industry, facilitate the transition to a circular economy and enhance urban green infrastructure, among others. Tax incentives should be designed with a clear rationale, measurable sustainability objectives, and alignment with national priorities. Clear eligibility criteria and appropriate targeting can help balance efficiency, fairness, and fiscal costs. Regular monitoring and evaluation should be ensured, alongside effective interagency co-ordination to minimise complexity and prevent misuse.

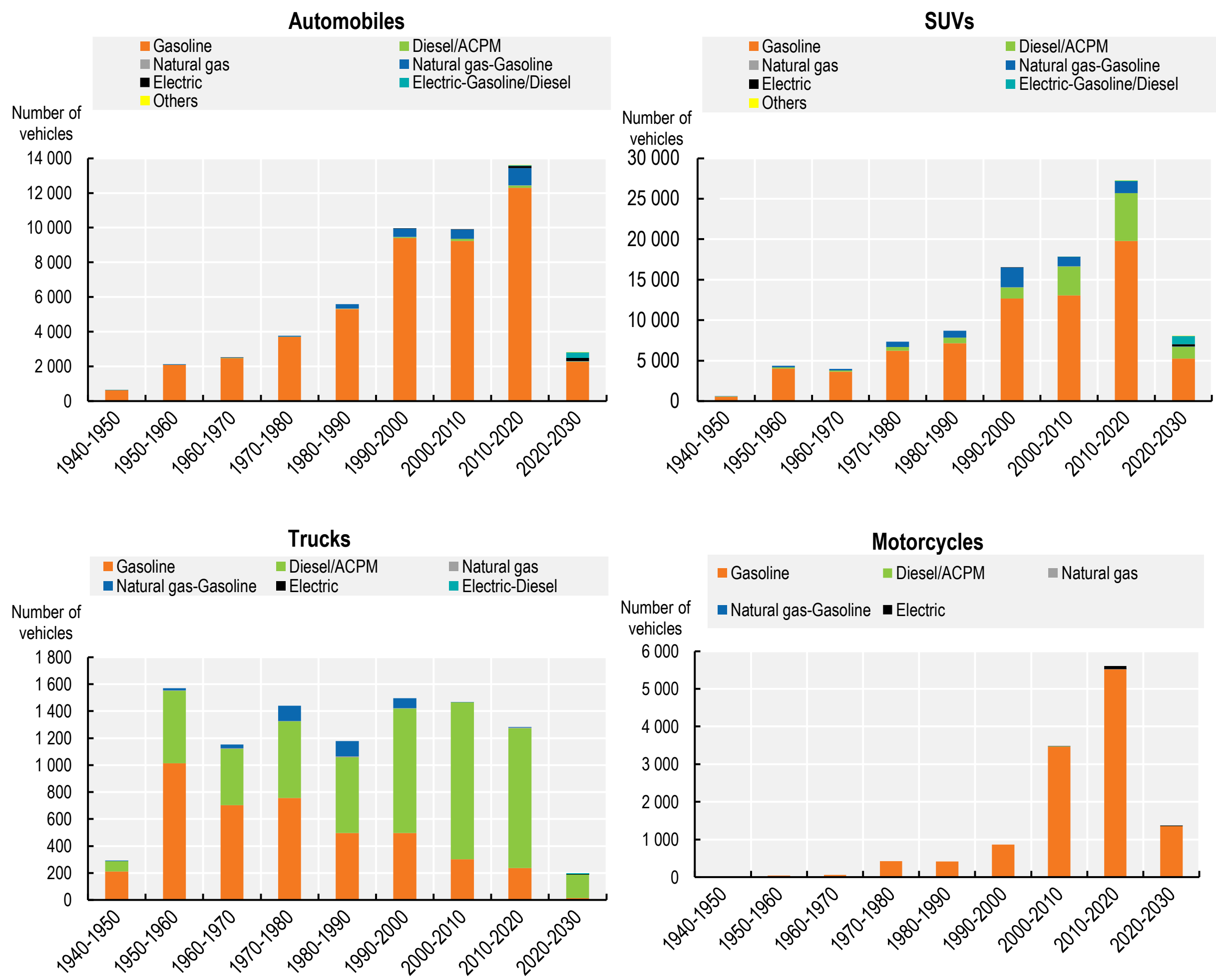
Bogotá's environmental taxes can better reflect environmental externalities, particularly CO_2 emissions

Bogotá has implemented several environmental taxes to address air pollution, traffic congestion, and greenhouse gas emissions. However, there remains scope to better account for CO_2 emissions. This report examines how Bogotá's motor vehicle tax could be further aligned with CO_2 emission levels and explores the potential implementation of a public lighting tax linked to energy efficiency and emission reduction.

The motor vehicle tax generated 9.8% of the city's total tax revenue in 2024, representing 0.34% of GDP. Incentives for electric and hybrid vehicles (60% and 40% discounts until 2030) and fee-based exemptions such as *Pico y Placa Solidario* help promote sustainable mobility. The public lighting tax, implemented in several Colombian cities, aims to improve energy efficiency and support sustainable urban infrastructure.

Bogotá's vehicle fleet is predominantly old and heavily reliant on fossil fuels. Electric and hybrid vehicles represent only about 5% of the total, while 93% use petrol and 2% rely on other fuels such as diesel, natural gas, hydrogen, or ethanol (Figure 1.9). A large share of these vehicles dates back to the early 2000s or before. Sport utility vehicles (SUVs) and trucks make up a major part of the fleet: around 77% of petrol vehicles are SUVs, yet just 0.3% are electric. Trucks remain almost entirely powered by petrol or diesel, with only 0.03% being electric. Motorcycles are also largely petrol-driven, particularly those with medium to high engine capacity. Models between 501 and 1 000 cc account for about 63% of the total, while high-displacement motorcycles (1 001-1 500 cc) represent around 23%. Lower-displacement models (0-500 cc) make up roughly 18%, and those above 1 500 cc only a small fraction, with fewer than 1% exceeding 2 000 cc.

Figure 1.9. Bogotá's vehicle fleet by vehicle type, model year and fuel type, 2024



Note: For the "others" category in automobiles, this includes hydrogen and ethanol. In SUVs, the "others" category includes hydrogen and Liquefied Petroleum Gas (LPG). SUVs include off-road vehicles.
Source: Authors' own elaboration based on (Secretaría de Hacienda de Bogotá, 2024[11]).

Given the composition of Bogotá's vehicle fleet, there is a need for a more environmentally oriented vehicle taxation system. The city's current vehicle tax is determined by ownership value rather than environmental performance. Annual rates vary according to the vehicle's value, type, and model year – from 0.7% for public vehicles to 3.7% for private ones. Although this structure provides a steady source of revenue, it does not account for CO_2 emissions or fuel efficiency, limiting its ability to promote cleaner transport choices. Incorporating environmental criteria such as CO_2 emissions or vehicle mass into the tax could better align it with the city's climate goals. Using weight as a proxy for emissions – given that heavier vehicles like SUVs consume more fuel – could be a practical step in the absence of a national CO_2 testing system.

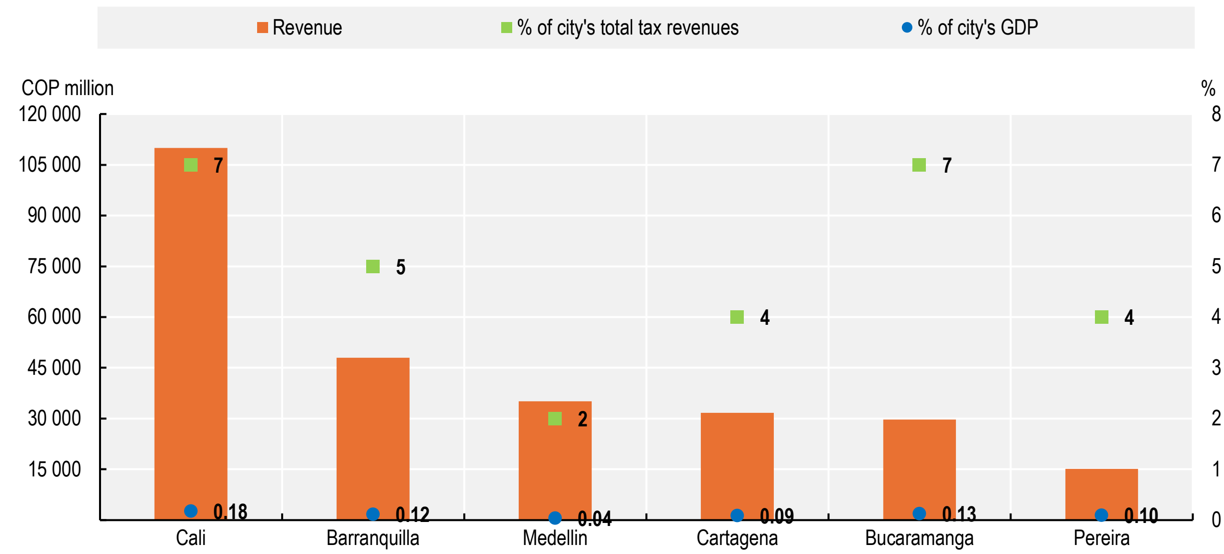
European experiences demonstrate how CO_2-based taxation can effectively reduce emissions and influence vehicle choices. In most EU countries, taxes on vehicle registration and circulation are directly linked to CO_2 emissions. France's bonus–malus system rewards the purchase of low-emission vehicles and penalises high-emission ones, while Portugal uses a tiered framework that adjusts both registration and circulation taxes according to CO_2 levels and fuel type. Other countries, such as Belgium and the Netherlands, have adopted flexible systems that combine emissions, weight, and fuel criteria (Meireles, Robaina and Magueta, 2021[12]). These approaches show that aligning fiscal incentives with emissions can shift consumer behaviour and generate stable revenue streams for green investments – lessons that could inform Bogotá's transition to an environmentally differentiated tax structure.

A CO_2-based vehicle tax in Bogotá would need to be designed carefully to ensure fairness and policy coherence. Applying the surcharge to high-value or heavy vehicles could limit regressivity, while revenues could fund public transport improvements or targeted subsidies for low-income households. Co-ordination with national policies, such as vehicle import and registration taxes, would ensure consistency and avoid overlapping levies. Complementary measures like the *Pico y Placa Solidario* – a voluntary congestion charge that already incorporates environmental criteria – could serve as a transitional mechanism to strengthen behavioural change. Together, these measures would allow Bogotá to develop a more sustainable, equitable, and adaptive vehicle tax system aligned with its broader climate objectives.

Greening Bogotá's tax system could also involve transforming the city's public lighting sector by prioritising energy efficiency and sustainability in urban infrastructure. Public lighting accounts for a significant share of municipal electricity use – up to 40% in some cities – and contributes notably to CO_2 emissions. In Bogotá, transitioning from conventional systems to LED technology could generate energy savings of up to 50% while reducing emissions by approximately 7%. Bogotá still has approximately 100 000 streetlights to replace, offering significant potential for energy and cost savings. International experiences, such as in São José dos Campos (Brazil) and San José (Costa Rica), show that LED systems can cut energy use by over 70%, lower maintenance costs, and improve public safety (Kivimäki, 2013[13]; Serrano, 2023[14]). Integrating smart lighting technologies alongside LED systems can further optimise energy use and enhance urban services, such as traffic management and environmental monitoring, helping Bogotá move closer to its climate neutrality goals.

Implementing a public lighting tax to support this transition could make the system both environmentally effective and fiscally sustainable. As a Pigouvian instrument, the tax can incentivise lower electricity consumption and fund green infrastructure investments. Several Colombian cities, including Cali, Cartagena, Medellín, and Pasto, already use this levy to finance the shift toward LED lighting, achieving measurable emission reductions (Figure 1.10). Bogotá could follow a similar approach, refining the tax base to reflect energy use, maintenance, and modernisation costs. Experiences from cities such as San José, Accra, and Jakarta illustrate how consumption-based public lighting levies can be structured with different rates for residential, commercial, and industrial users (Berita Jakarta, 2020[15]; CNFL, 2025[16]; OECD, 2024[17]). In parallel, involving citizens in the tax design process could enhance transparency and acceptance, ensuring that the policy not only supports environmental goals but also responds to public needs and perceptions of fairness.

Figure 1.10. Public lighting tax in Colombian cities: by revenue, share of city's GDP, and share of city's total tax revenue, January-June 2023



Source: Authors' own elaboration based on (Ministerio de Hacienda, 2024[18]).

Drawing on more than ten international experiences, Bogotá could leverage a mix of tax and financing instruments to advance its green transition across three key areas: renewable energy and sustainable construction; protection and expansion of green spaces; and waste management and circular economy. Cities such as Araraquara, Curitiba and Salvador (Brazil) and Mexico City have used property tax reductions to promote solar energy, sustainable building, green area conservation, and waste reduction. Other incentives – such as reductions in public service fees or related taxes – have encouraged energy efficiency (Buenos Aires), recycling and waste reduction (San Francisco), food waste prevention (Milan), and industrial waste minimisation (Kitakyushu). Complementary financing mechanisms, including Public Works for Taxes, transferable development rights, and land value capture, can further mobilise private investment, conserve ecological assets, and channel urban value gains into public infrastructure. Together, these instruments align fiscal incentives with environmental goals, fostering a more sustainable and resilient urban development model for Bogotá.

Notes

[1] In Colombia, "local governments" refer to municipal authorities responsible for cities and towns, while "departmental governments" correspond to the administrative divisions above municipalities, similar to states or provinces, overseeing broader regional responsibilities.

[2] Unless otherwise indicated, references to property tax in this publication correspond to recurrent taxes on immovable property, and the two terms are used interchangeable.

[3] The strata (*estratos)* are a technical instrument used to allocate subsidies and contributions for public utilities in Bogotá (water, sewage, waste collection, electricity, and gas). There are six strata. Strata 1 and 2

receive subsidies for water, sewage, waste collection, electricity, and gas. Stratum 3 receives all these subsidies except for gas. Strata 5 and 6, on the other hand, contribute financially to these subsidies – a mechanism known as *cross-subsidies*. Stratum 4 neither contributes nor receives subsidies. Commercial and industrial properties also contribute to the cross-subsidy system (Secretaría Distrital de Planeación de Bogotá, 2024[19]).

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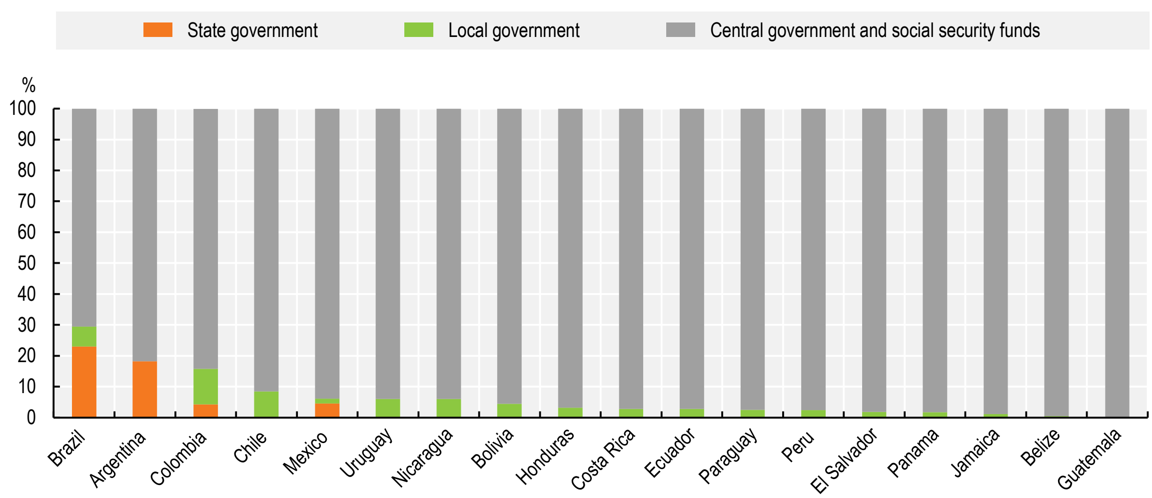
2 Understanding Bogotá's tax system

Subnational governments play a central role in tax mobilisation in Colombia. Local revenues rely primarily on taxes on goods and services and on property taxation, with recurrent taxes on immovable property reaching levels comparable to the OECD average. Bogotá is the country's largest local tax collector, with taxes accounting for over 60% of its total revenues, mainly from the Industry and Commerce Tax (ICA) and property taxes. The city's tax collections have grown steadily, reaching 3.4% of its GDP in 2024. While ICA revenues have shown moderate fluctuations, property and motor vehicle taxes have followed a consistent upward trend. Bogotá collects a relatively high level of tax revenue compared to other municipalities, underscoring its strong fiscal capacity and the pivotal role of its tax system in supporting local development.

Subnational governments in Colombia are central to national tax revenue collection

Subnational governments in Colombia account for a significant share of total tax revenues compared to other countries in the region. In 2023, Colombia ranked among the highest in the LAC region, with local governments accounting for 11.5% and departmental governments[1] for 4.3% of total tax revenues (Figure 2.1). This places Colombia just behind federal countries such as Brazil, where state governments represent 23.0% and local governments 6.4% of total tax revenues, and Argentina, where provincial governments account for 18.2%. In the rest of the LAC region, the share of subnational tax revenue in total public revenue remained below 9.0% (OECD et al., 2025[1]).

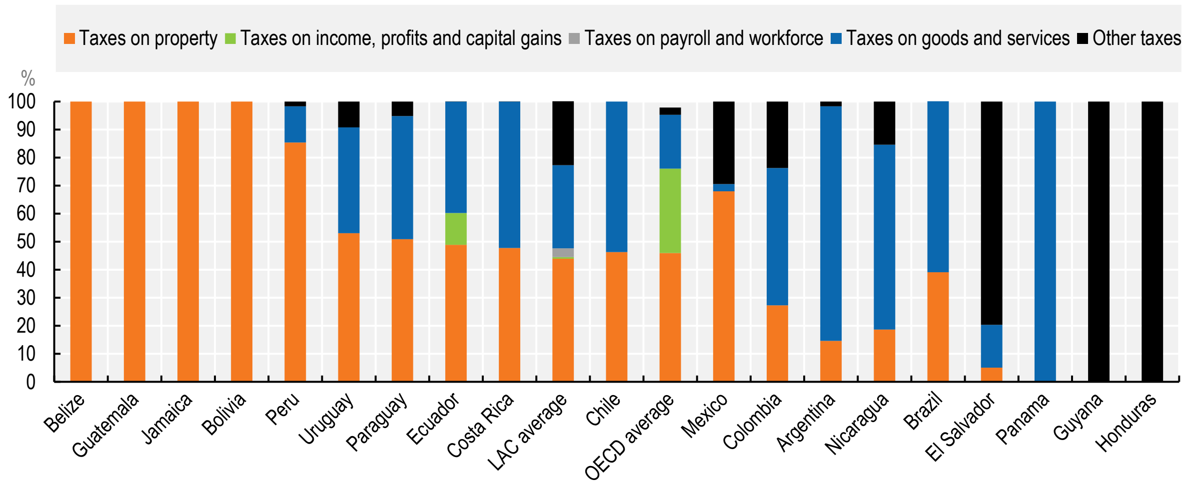
Figure 2.1. State and local government revenues as a share of total tax revenues in LAC, 2023



Note: The data exclude local government revenues for Antigua and Barbuda, Argentina (though provincial revenues are included), The Bahamas, Barbados, Cuba, the Dominican Republic, Saint Lucia, Trinidad and Tobago, and Venezuela, as such data are not available. Local government revenue data have been available since 1991 for Nicaragua, 1994 for Bolivia, 1995 for Guatemala, 1998 for Jamaica, 1999 for Panama, 2000 for Peru, 2002 for El Salvador and Guyana, 2006 for Paraguay, and since 1990 for all other countries. In the case of Colombia, state government revenues correspond to those collected by departments, which are separate from those of local municipalities.
Source: (OECD et al., 2025[1]).

Taxes on goods and services and property taxes[2] are the main sources of subnational tax revenue in Colombia and across the LAC region, in contrast to OECD countries, where subnational governments have access to a much broader range of tax bases. In 2023, taxes on goods and services accounted for 49% of total subnational tax revenues in Colombia, primarily consisting of specific taxes and the Industry and Commerce Tax (ICA), followed by property tax revenues, which represented 21% (Figure 2.2). In Latin America and the Caribbean, tax bases vary – from economies relying primarily on taxes on goods and services to those depending mainly on property taxes. In OECD countries, subnational governments typically have access to a wider variety of tax instruments. A substantial portion of subnational revenue in these countries comes from taxes on income and profits, which on average represent more than one-third of total subnational tax collections (OECD et al., 2024[2]).

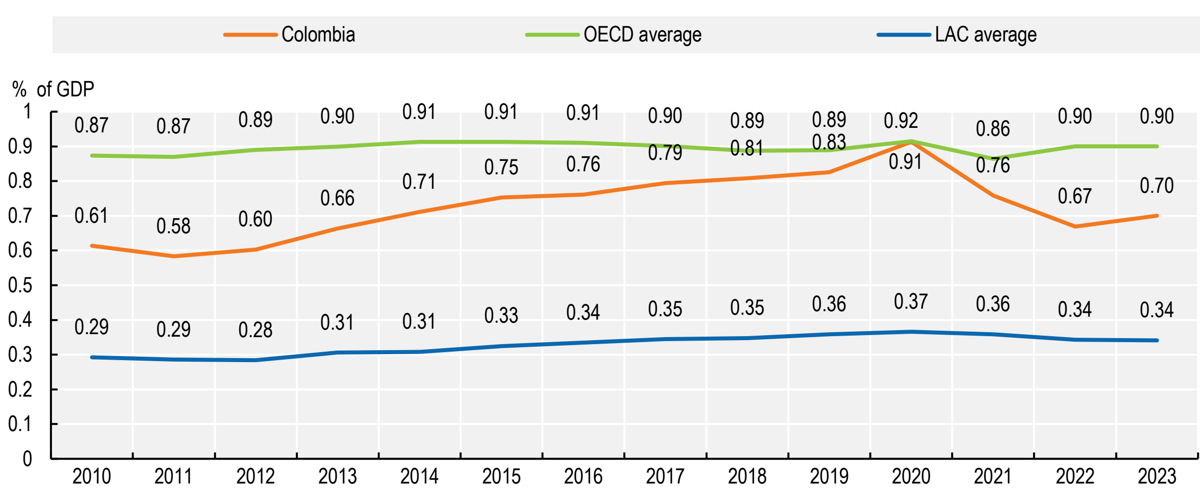
Figure 2.2. Tax mix of sub-national tax revenue in LAC countries, 2023



Note: Figures exclude local government revenues for Argentina but include provincial revenues. Data for Ecuador, Nicaragua, Panama and Uruguay are estimated for 2022. OECD average corresponds to 2022 and includes local government revenues.
Source: (OECD et al., 2025[1]).

Recurrent taxes on immovable property collected at the local level in Colombia are among the highest in LAC, having reached the same level as OECD economies in 2020. Recurrent taxes on immovable property are a form of property taxation, alongside recurrent taxes on net wealth and inheritance. In 2023, recurrent taxes on immovable property collected at the local level in Colombia represented 0.70% of GDP, compared with 0.90% in the OECD and above the LAC average of 0.34% (Figure 2.3). In 2020, Colombia reached 0.91% of GDP, nearly matching the OECD average of 0.92%. Since 2014, Colombia's subnational governments had led the LAC region in recurrent taxes on immovable property until 2021, when they were surpassed by the local governments of Uruguay and Chile.

Figure 2.3. Recurrent taxes on immovable property collected at the local level in Colombia, LAC and OECD countries, as percentage of GDP, 2010-23

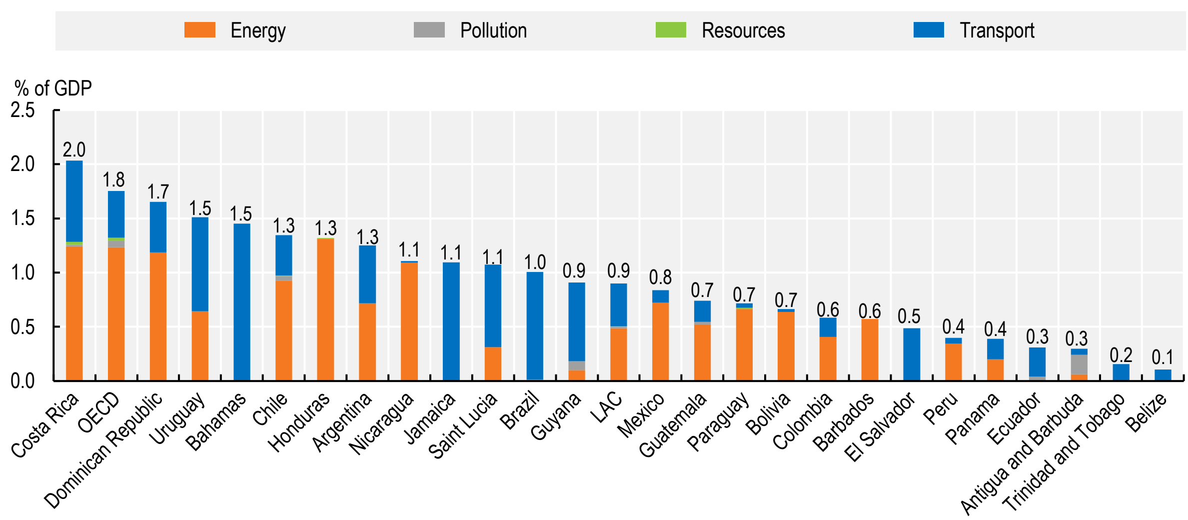


Note: The OECD average corresponds to the 2022 average due to data availability as of this date.
Source: (OECD et al., 2025[1]).

Other tax revenue sources for Colombia include environmental taxes, with a significant focus on energy-related taxes, mostly on fuel (OECD et al., 2024[3]). Colombia's average environmentally related tax revenues (ERTR) stood at 0.6%, with energy-based taxes representing the majority at 0.41% and transport taxes at 0.18%. This figure is below the LAC average of 0.9% of GDP and considerably lower than the OECD average of 1.8% of GDP (Figure 2.4). ERTRs vary greatly, from Costa Rica with 2% of GDP to Belize with 0.1%.

Various environmental taxes have been implemented across Colombia in different levels of government, targeting energy, transport, pollution, and natural resources. In the energy sector, departmental governments administer the petrol and diesel surcharges, while the national government manages electric sector transfers, the tax on diesel and petrol, and the carbon tax. For transport, the tax on motor vehicle ownership is a national tax ceded to the departments and to Bogotá, while the motor vehicle purchase tax is a purely national-level tax. Pollution-related taxes are administered at different levels: discharge fees are managed by both local and national authorities, while the tax on plastic bags is national, and the tax on discharges to water is local or city-level. Lastly, resource-based taxes include mixed local and national administration for the tax on forestry products, local oversight for the forestry fee, and national administration for mining royalties.

Figure 2.4. Environmentally related tax revenues in LAC by main tax base, 2023



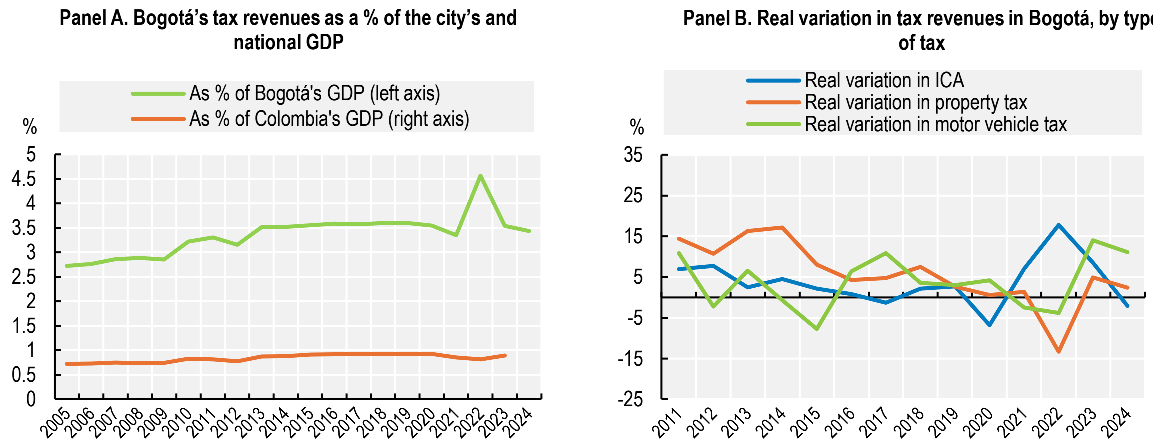
Note: The LAC average represents the unweighted average of 24 LAC countries and excludes Argentina, Cuba and Venezuela due to data issues. The figure does not include Jamaica's revenues from the special consumption tax on petroleum products (estimated to be more than 2.0% of GDP in 2018) as the data are not available. The OECD average represents the unweighted average of 37 OECD member countries.
Source: (OECD et al., 2025[1]).

Bogotá's tax revenue has been steadily increasing

Taxes are the main source of revenue in Bogotá. Taxes account for over 60% of Bogotá's total revenues, making them the city's primary source of income. The remaining revenue comes from current and capital transfers, as well as other non-tax income. The two largest contributors to the city's tax base are recurrent taxes on immovable property and the Industry and Commerce Tax (ICA), which together generate the bulk of local tax revenue.

Tax revenues in Bogotá have been increasing. Since 2005, tax revenues as a share of the city's and the national GDP have shown a stable upward trend, reaching 3.4% of Bogotá's GDP in 2024 and 0.9% of Colombia's GDP in 2023 (Figure 2.5, Panel A). Over the period from 2011 to 2024, ICA revenues showed moderate fluctuations, with a noticeable rise in the early 2020s followed by a decline (Figure 2.5, Panel B). Property tax revenues increased until 2019; although growth slowed thereafter, the overall trend remained upward. Meanwhile, motor vehicle tax revenues exhibited greater volatility, experiencing declines in 2012, 2015, 2021, and 2022, but these decreases were generally smaller than the increases in other years, resulting in a net upward trend over the period.

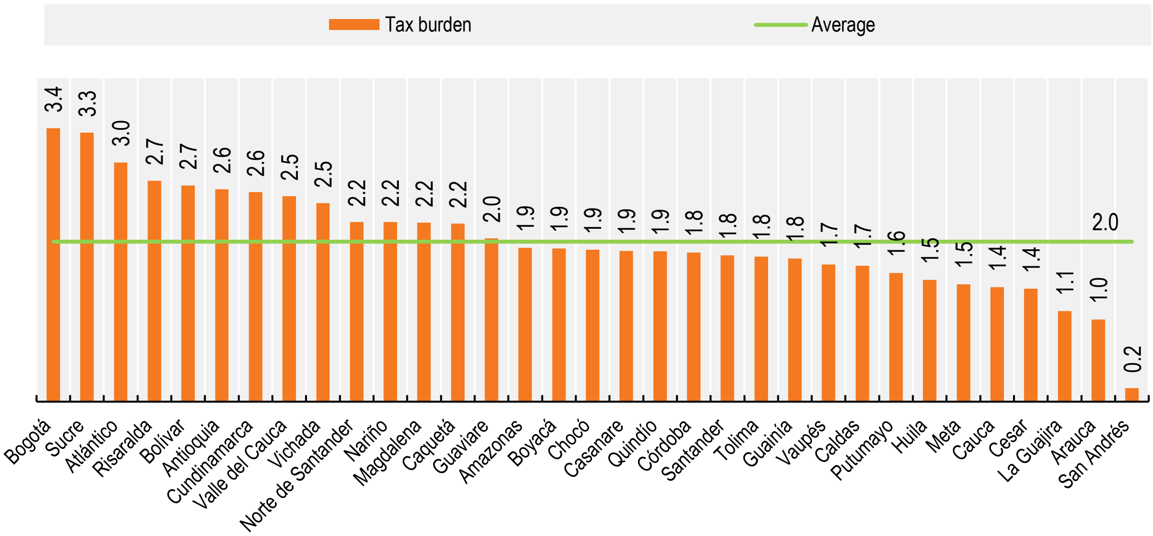
Figure 2.5. Tax revenues in Bogotá as % of the city's and national GDP and real variation by tax type, 2005-24



Note: Panel A: Both tax revenue and GDP are presented in current prices. For Colombia's GDP, figures were taken from *the OECD Economic Outlook 2024*, which includes data only up to 2023.
Source: Panel A: Authors' own calculations based on (DANE, 2025[4]; OECD, 2024[5]). Panel B: (Secretaría de Hacienda de Bogotá, 2024[6]).

Bogotá collects a relatively high level of tax revenue compared to other municipalities. Bogotá's role as the country's economic hub, combined with its unique fiscal structure, enables it to collect the largest amount of own-source tax revenue among all municipalities, even when aggregated by department. At the municipal level, Bogotá has the highest tax burden at 3.4% of departmental GDP, well above Sucre (3.3%) and Atlántico (3.0%) (Figure 2.6) (Secretaría de Hacienda de Bogotá, 2024[7]). Other departments with relatively high municipal tax pressure include Risaralda and Bolívar, while La Guajira, Arauca, and San Andrés recorded the lowest levels, pointing to more limited tax capacity.

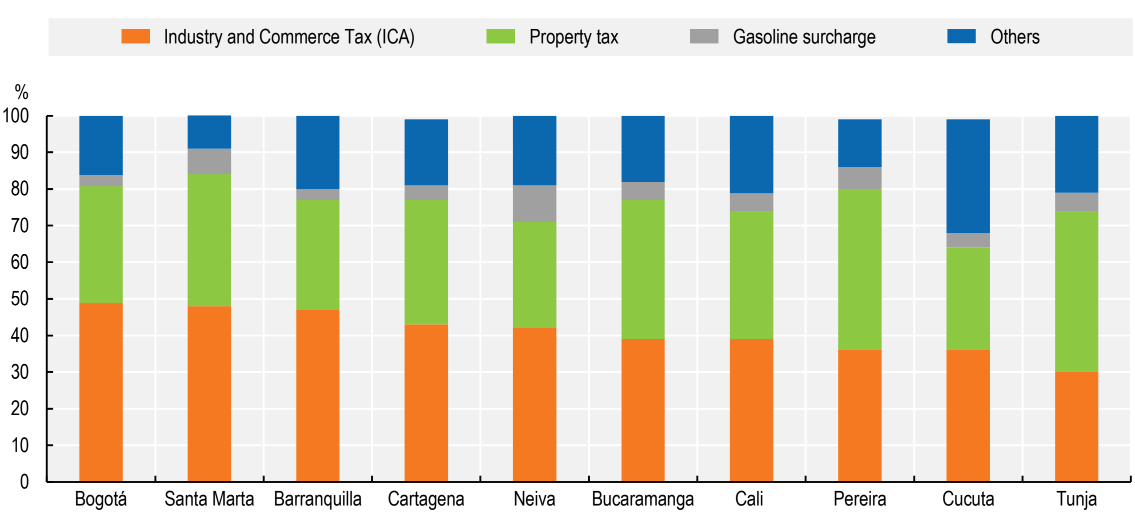
Figure 2.6. Municipal tax burden by departments in Colombia, 2024



Note: This analysis presents estimates of the municipal tax burden, grouped by department, for the period 2010–2024. The tax burden was calculated by dividing collected revenue by the departmental GDP published by DANE.
Source: (Secretaría de Hacienda de Bogotá, 2024[7]).

The main sources of tax revenues in Bogotá are ICA and property tax similar to the tax structure of other municipalities. In 2024, Bogotá ranked first in terms of ICA revenue, which accounted for 49% of the city's total tax revenue, followed by Santa Marta and Barranquilla, where ICA made up 48% and 47%, respectively (Figure 2.7). Property tax in Bogotá ranked seventh, representing 32% of total tax revenue – behind the top three cities: Tunja and Pereira (both at 44%) and Bucaramanga (38%). The gasoline surcharge accounted for 3% in Bogotá, lower than in Neiva (10%) and Santa Marta (7%). Other taxes, including the motor vehicle and consumption taxes in Bogotá, as well as cigarette, tobacco, liquor, and beer taxes in other municipalities, accounted for 16% of the city's revenues, lower than in Cúcuta (31%) and in Tunja and Cali (21%). In cities like Barranquilla, Bucaramanga, Cali, Cartagena, Pereira, and Santa Marta, these other taxes also included revenues from the public lighting tax.

Figure 2.7. Distribution of tax revenues in Colombia's main cities, 2024



Source: (DNP, 2024[8]).

Over the years, the ICA and property tax have continued to be the main contributors of tax revenues in Bogotá. The ICA accounted for 44% of total tax revenues in 2016, rising to 47% in 2022 and reaching 49% by 2024 (Secretaría de Hacienda de Bogotá, 2025[9]). Property taxes represented 35% of total revenues in 2016 and have remained relatively stable, with a decline to 31% in 2022 followed by a slight recovery to 32% in 2024. Within the category of other taxes, the motor vehicle tax accounted for 8% of total revenues in 2016 and increased modestly to 10% by 2024.

Notes

[1] In Colombia, "local governments" refer to municipal authorities responsible for cities and towns, while "departmental governments" correspond to the administrative divisions above municipalities, similar to states or provinces, overseeing broader regional responsibilities.

[2] Unless otherwise indicated, references to property tax in this publication correspond to recurrent taxes on immovable property, and the two terms are used interchangeable.

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3 Strengthening tax morale in Bogotá

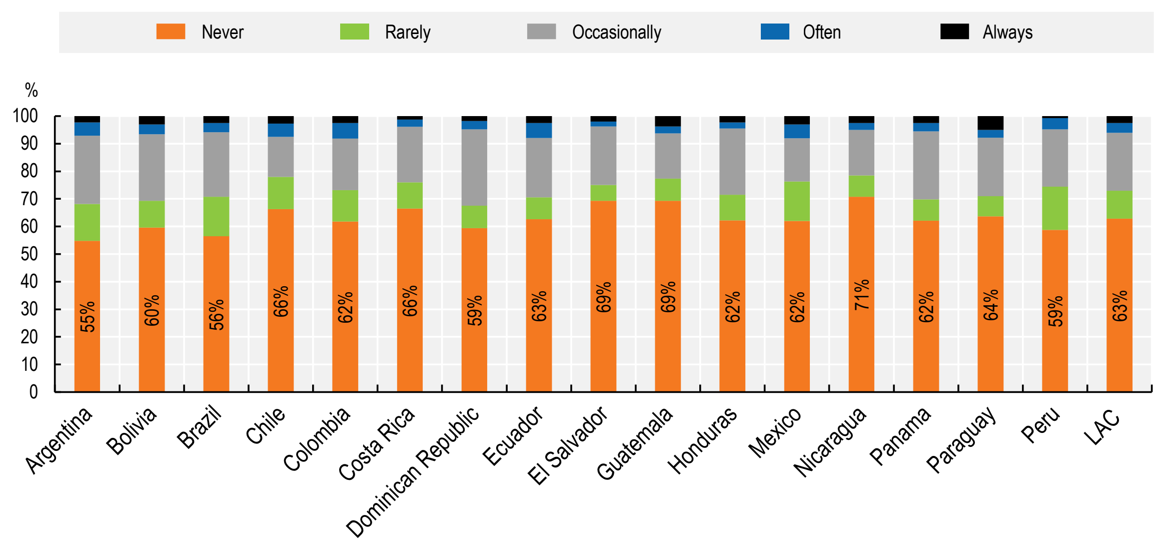
Low trust in government weakens tax compliance and the state's capacity to mobilise revenue. Based on a survey conducted among a selected group of citizens and businesses on their perceptions of taxation, findings indicate that Bogotá's residents and firms largely recognise taxes as essential for development, yet remain concerned about fairness, transparency, and corruption. While most reject tax evasion, limited confidence in how revenues are managed reduces willingness to pay. Survey results indicate that residents and businesses view taxes as a contribution to the city's progress rather than a burden, yet dissatisfaction with public services and perceptions of inequity undermine tax morale. Strengthening trust through transparent resource management, better service delivery, and more effective communication with taxpayers is essential. Expanding tax education, simplifying procedures, and enhancing civic engagement can further foster voluntary compliance and reinforce the social contract that supports sustainable urban development.

Low public trust in government institutions directly affects how taxes are collected, undermining both compliance and the state's ability to raise sufficient revenue (Torgler, 2005[1]; OECD, 2019[2]). Trust is a core element of the fiscal contract: when citizens believe that taxes are levied and well spent, they are more likely to contribute (OECD et al., 2024[3]). Conversely, low trust leads to reduced tax morale – people's intrinsic motivation to pay taxes – which weakens overall compliance and limits the resources available to fund essential services and drive production transformation. Understanding tax morale is therefore key to improving tax collection.

Even though a large portion of citizens in Colombia condemn tax evasion, the country ranks among the highest in the LAC region for the share of people who often or always justify it (Figure 3.1). In 2024, 62% of respondents in Colombia said they would never cheat on their taxes. However, 8.1% stated they would often or always justify tax evasion – matching only Mexico and exceeding the LAC regional average of 6.7% (OECD et al., 2024[3]; IFAC/ACCA, 2024[4]).

Figure 3.1. Perception of tax evasion in selected LAC countries, 2024

Respondents to the question "Do you justify cheating on taxes if you have the chance?"



Source: Authors' elaboration based on (IFAC/ACCA, 2024[4]).

While a large share of citizens in Colombia view taxation and the fiscal pact positively, few believe that tax revenues are properly invested, indicating room to strengthen tax morale. Survey data suggest broad theoretical support for the fiscal contract in Colombia, with 43% of respondents viewing their tax payments as a way to support their community. However, 29% express disagreement – mirroring similar trends across the region. When asked whether public services represent a fair return for what they pay in taxes, only 22.3% of Colombians agreed, while a significant 58.5% disagreed (IFAC/ACCA, 2024[4]). This gap between the idea of contributing to the community and the perception of receiving inadequate public services reveals a fracture in the fiscal contract. Bridging this divide and strengthening tax morale requires that governments prioritise improving and communicating the quality and efficiency of public spending.

Bogotá has undertaken efforts to strengthen tax morale and foster a culture of fiscal responsibility among citizens. The city has sought to rebuild the fiscal relationship between citizens and the local state by demonstrating transparent financial management and encouraging public participation. Past measures have included rationalising spending, capitalising the city's energy company, Grupo de Energía de Bogotá, to protect social investment, and involving the City Council in fiscal decision making to ensure openness in tax reforms. A landmark reform in 1993 introduced a self-assessed property valuation system, replacing the official cadastral valuation. This not only incentivised compliance through exemptions but also broadened the tax base and increased average collections per property. These reforms reflected a broader strategy to build a reciprocal relationship between taxpayers and the local state, demonstrating that when citizens perceive tax systems as fair and transparent, tax morale – and thus revenue mobilisation – can improve significantly.

A perception-based survey among individuals and companies in Bogotá can offer valuable insights into current levels of trust. Tax morale can be assessed through such surveys, which often explore whether individuals view tax evasion as justifiable. Socio-demographic factors such as age, gender, education, income, and religious affiliation are known to influence tax morale, with older, more educated, or more religious individuals typically showing a greater willingness to comply. Additionally, perceptions of fairness and equity help determine how legitimate the tax system is perceived to be. Governments must take these perceptions into account, as they shape the context in which any successful reform of tax policy and administration must take place (IFAC/ACCA, 2024[4]).

In Bogotá, strengthening the tax system requires more than sound legal and institutional design, it also depends on citizens' trust, their willingness to comply, and their active engagement. Well-crafted tax laws and regulations are fundamental to improving efficiency and fairness, reducing distortions, and broadening the tax base. Yet even the most technically robust framework will not achieve its objectives if taxpayers do not believe in the system or choose not to comply. A fundamental pillar for reducing informality in any city or developing country is ensuring that people understand both the reasons why they pay taxes and the benefits, collective and individual, that arise from doing so. For Bogotá, building a sustainable and effective tax system therefore hinges on fostering a culture of voluntary contribution, where citizens actively engage, recognise the value of their contributions, and trust that these are managed transparently and fairly.

This survey analysis represents a first effort to better understand citizens' and businesses' perceptions of taxation in Bogotá, including their willingness to comply and contribute. It is based on a survey conducted in the city, which gathered the views of selected individuals and businesses on their perceptions of taxation (See Annex 3.A). A total of 133 respondents participated in the study, including 51 adults and 82 businesses. The business sample focused on micro, small and medium-sized enterprises, while the individual respondents represented a broad range of income backgrounds. Response rates differed across questions, and certain items were left unanswered by some participants. While the sample is not statistically representative, the results provide useful insights into prevailing perceptions of taxation, highlight potential challenges, and contribute to fostering a constructive debate on the topic. These findings also underscore the importance of developing more comprehensive and robust data to better inform policy design and public discussion in the future.

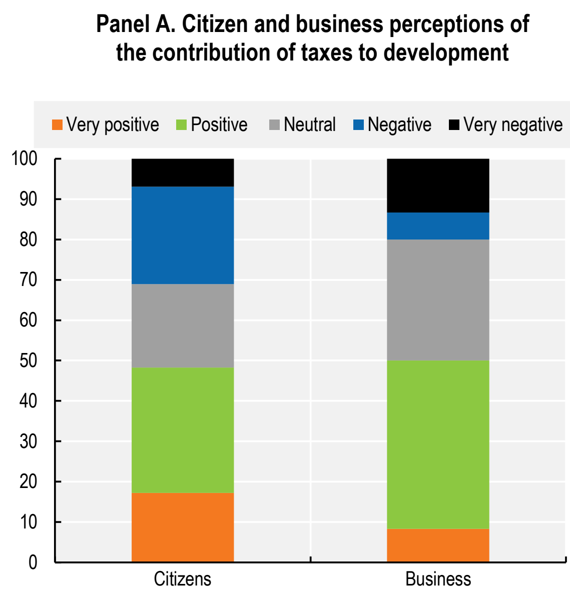
Both citizens and businesses in Bogotá perceive taxes not just as a financial burden, but as a legitimate and essential contribution to sustainable development and public service delivery

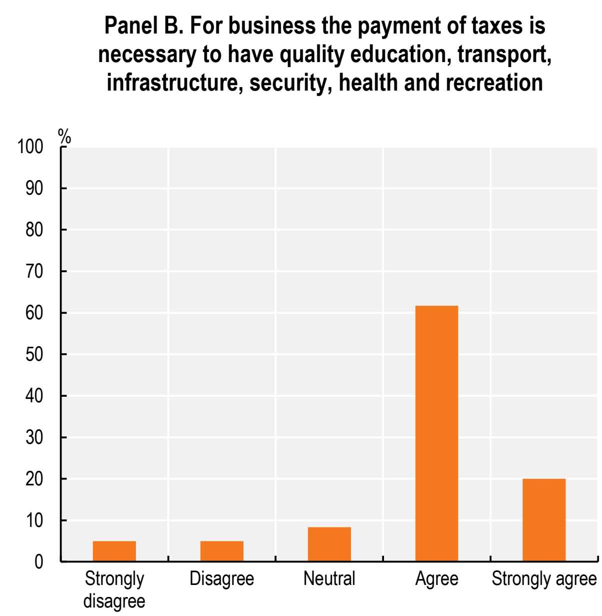
An essential component of analysing tax culture is to understand how citizens and businesses perceive the very act of paying taxes, beyond the immediate local context or the performance of the authorities. This perspective provides insights into the underlying beliefs about the role of taxation in society and the extent to which people view it as a legitimate and necessary institution. Assessing these more fundamental attitudes is important to determine whether citizens recognise taxation not only as a practical obligation but also as a theoretical cornerstone of the social contract.

Are taxes fundamental for sustainable development and for financing public services?

Citizens and businesses alike recognise taxation as a key driver of sustainable development and public service delivery in Bogotá. Among citizens, nearly half perceive taxes as either essential (17%) or important (31%), while a further 21% acknowledge some interaction with development outcomes (Figure 3.2, Panel A). Businesses display an even stronger consensus: more than half of them agree (42%) or strongly agree (8%) that taxes play a central role in fostering sustainable development. These perceptions highlight a broad recognition across society that taxation is not only a fiscal instrument, but also a crucial lever for achieving collective development objectives. In addition, a large majority of businesses acknowledge the necessity of taxation for the provision of quality public goods and services (Figure 3.2, Panel B). More than eight in ten firms either agree (62%) or strongly agree (20%) that the payment of taxes is essential to ensure adequate education, transport, infrastructure, security, health and recreation, with only a small share remaining neutral (8%) or expressing disagreement (10%).

Figure 3.2. Perceptions of citizens and businesses on the contribution of taxes to development



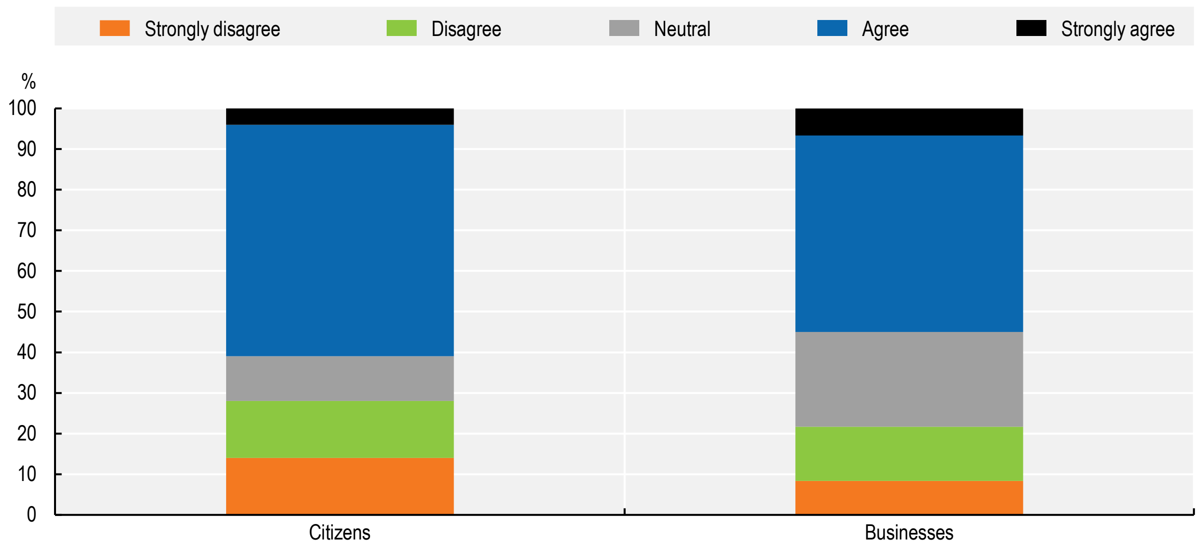


Note: In Panel A individuals responded to the question "To what extent do you consider that the payment of district taxes is related to sustainable development?. For businesses, the statement was "Please indicate the extent to which you agree or disagree with the following statements about taxation. The payment of taxes is related to sustainable development". Response categories have been harmonised across citizens and businesses. For citizens, *very positive perception* combines "essential" and *positive perception* corresponds to "important", while *neutral* is "some interaction", *negative perception* includes "little interaction", and *very negative perception* corresponds to "no link". For businesses, *very positive perception* refers to "strongly agree", *positive perception* to "agree", *neutral* to "neutral", *negative perception* to "disagree", and *very negative perception* to "strongly disagree". For Panel B, businesses had to indicate whether they "strongly disagree", "disagree", are "neutral", "agree" or "strongly agree" with the following statement: "Paying taxes is necessary in order to have quality education, transportation, infrastructure, security, healthcare, and recreation".
Source: Survey on citizens' and enterprises' perceptions of Bogotá's tax system.

Are taxes a contribution or a cost for citizens and businesses?

Perceptions among both citizens and businesses also point to a shared view that taxes are not merely a private cost, but rather a contribution to the development of Bogotá (Figure 3.3). A clear majority of citizens (62%) and businesses (55%) agree or strongly agree that paying taxes should be understood as an investment in the city's progress rather than as an individual burden. For both citizens and businesses, the shares expressing disagreement are in the minority (28% for citizens, 21% for businesses).

Figure 3.3. Paying taxes is a contribution to Bogotá rather than a cost to me



Note: Both businesses and citizens were asked the following question: "Please indicate the extent to which you agree or disagree with the following statements about district taxation: I consider the payment of taxes to be a contribution to Bogotá rather than a cost to me".
Source: Survey on citizens' and enterprises' perceptions of Bogotá's tax system.

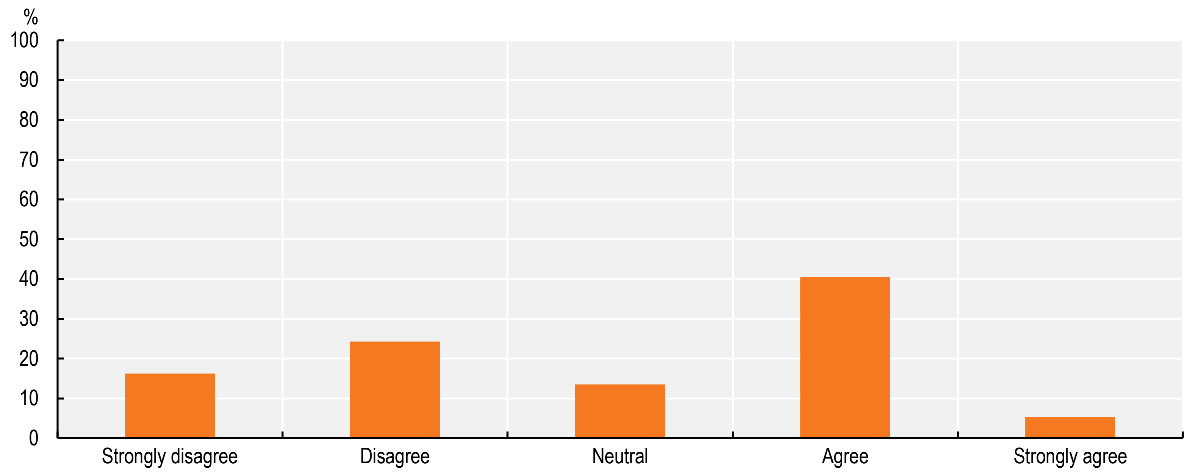
While citizens and businesses in Bogotá recognise the importance of taxes, there is widespread scepticism and dissatisfaction regarding how taxes are implemented, managed, and whether they translate into tangible public benefit

Although many citizens and businesses in Bogotá recognise the importance of taxation and understand the reasons for its collection, they do not necessarily agree with how it is implemented or how the revenues are allocated. While there is broad acknowledgement that taxes are essential to finance public goods and services, perceptions diverge when it comes to the fairness, efficiency and transparency of the system. This gap between theoretical support for taxation and concerns over its application highlights the need to strengthen trust in tax administration and improve communication on the use of public resources.

Are district taxes spent for public welfare?

Citizens in Bogotá express scepticism over whether district taxes are spent for the public good (Figure 3.4). Although almost half of respondents agree (41%) or strongly agree (5%) that tax revenues are used in the interest of society, close to 40% either disagree (24%) or strongly disagree (16%). A further 14% remain neutral. These results indicate that, although many citizens recognise the positive role of taxation, a significant proportion question how revenues are managed and whether they effectively translate into public benefits.

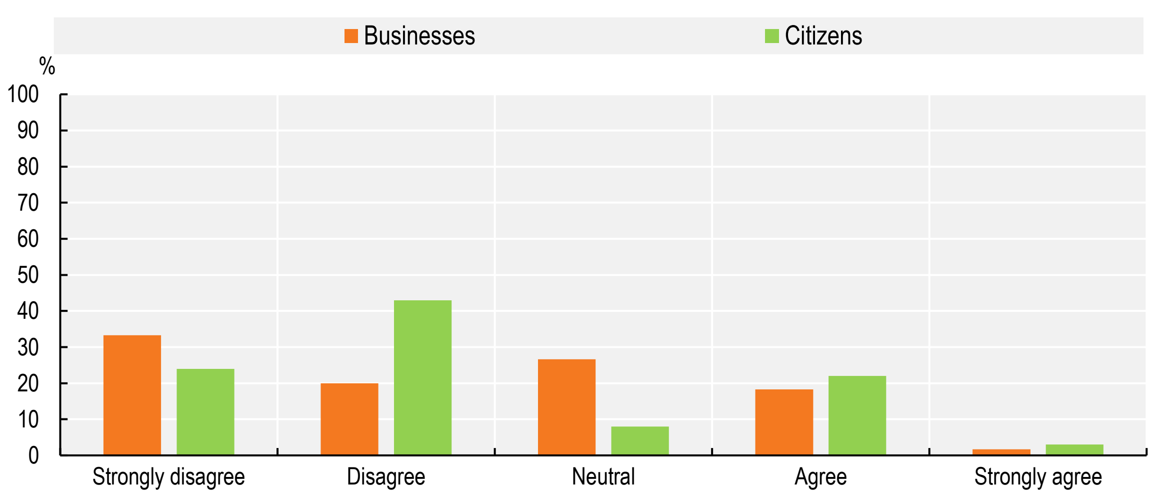
Figure 3.4. Citizen perceptions that district taxes are spent for the public good



Note: Citizens were asked to what extent they agreed or disagreed with the statement: "District taxes are spent for the public good". Results show the share of respondents selecting each option.
Source: Survey on citizens' and enterprises' perceptions of Bogotá's tax system.

Perceptions of whether the public infrastructure received in Bogotá represents a fair return for taxes paid are largely negative among both businesses and citizens (Figure 3.5). More than half of citizens (43% disagree and 24% strongly disagree) and businesses (20% disagree and 33% strongly disagree) express dissatisfaction with the public infrastructure they receive relative to their tax contributions. Only around one quarter of the citizens, and solely one fifth of the businesses, agree or strongly agree that they obtain a fair return. While a significant share of businesses (27%) and citizens (8%) remain neutral.

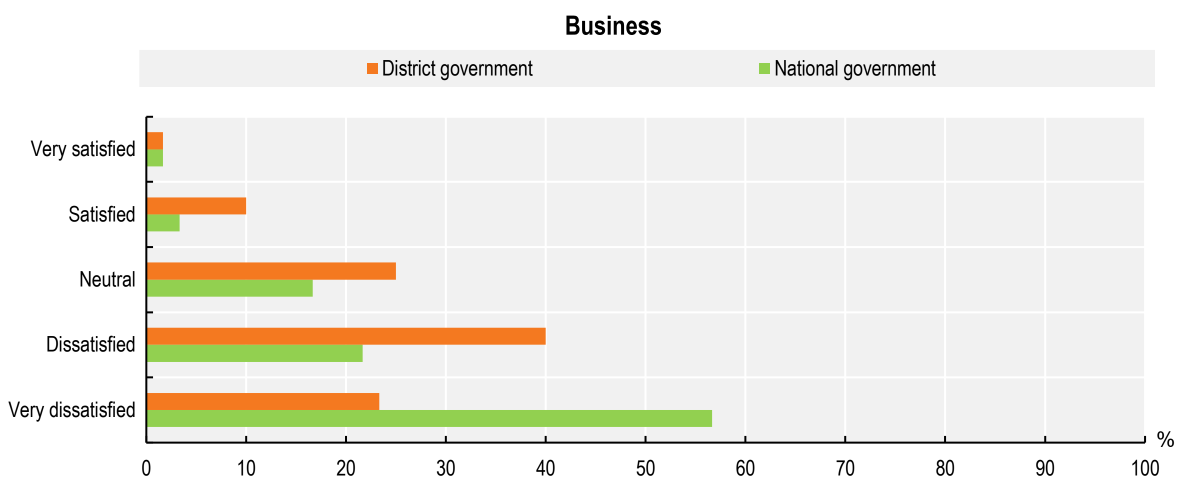
Figure 3.5. I feel that the education, transport, infrastructure, security, healthcare and recreation I receive are a fair return for the taxes I pay



Note: Both businesses and individuals were asked to what extent they agreed or disagreed with the statement: "I feel that the education, transport, infrastructure, security, healthcare and recreation I receive in Bogotá are a fair return for the taxes I pay" (original Spanish: "Siento que la educación, transporte, infraestructura, seguridad, salud y recreación que recibo en Bogotá son un retorno justo por los impuestos que pago"). Results show the share of respondents selecting each option
Source: Survey on citizens' and enterprises' perceptions of Bogotá's tax system.

Citizens in Bogotá express greater satisfaction with the services provided by the district government than with those delivered by the national government (Figure 3.6). While nearly eight in ten respondents are dissatisfied or very dissatisfied with services at the national level (78%), this share falls to around six in ten at the district level (63%). Moreover, satisfaction is somewhat higher with the district government, with 12% of citizens reporting being satisfied or very satisfied, compared to only 5% for the national government. These results suggest that, although dissatisfaction remains prevalent, local service provision is perceived more positively than services delivered by the national authorities.

Figure 3.6. Satisfaction with public services provided by the national and district governments (Bogotá)

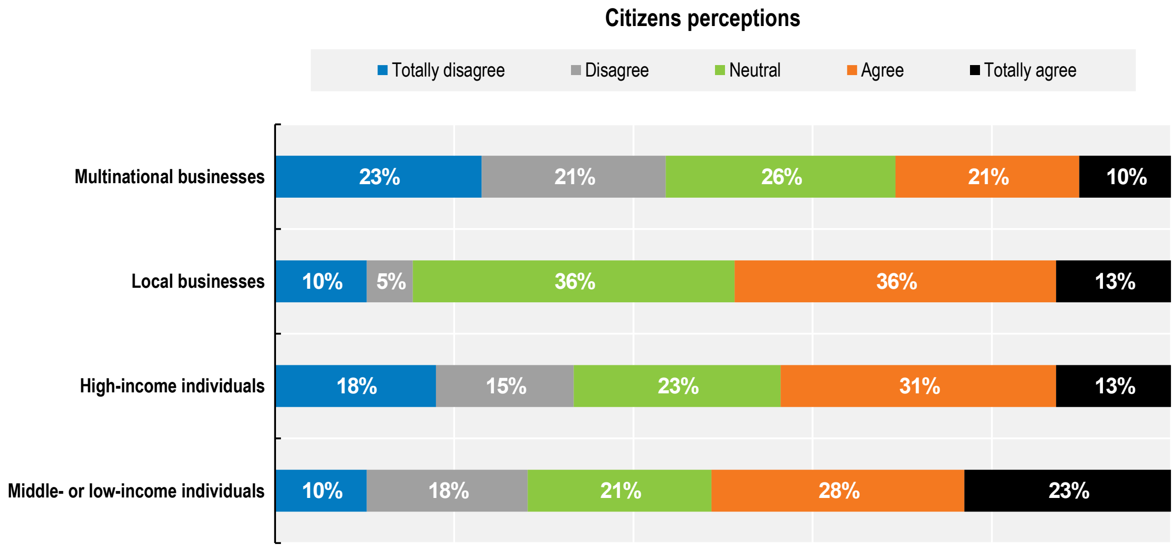


Note: Respondents were asked: "How satisfied or dissatisfied are you with the education, transport, infrastructure, security, healthcare and recreation provided by the national government and by the district government?" Response options: Very dissatisfied; Dissatisfied; Neutral; Satisfied; Very satisfied. Results show the share of respondents selecting each option for each level of government.
Source: Survey on citizens' and enterprises' perceptions of Bogotá's tax system.

Are taxes enough to fund public services?

Citizen perceptions of whether different groups pay enough district taxes are mixed (Figure 3.7). For middle- or low-income individuals, just over half of respondents believe they contribute sufficiently (28% agree and 23% strongly agree), while nearly three in ten think they do not (18% disagree and 10% strongly disagree). Local businesses are seen somewhat more positively: almost half of citizens consider their contributions adequate (36% agree and 13% strongly agree). By contrast, views are more critical for high-income individuals and multinational companies. For high-income individuals, 44% think they contribute enough (31% agree and 13% strongly agree), but one third (18% disagree and 15% strongly disagree) believe they do not. Multinational businesses face the greatest skepticism: almost half of citizens (21% disagree and 23% strongly disagree) feel they do not pay enough, while only 31% (21% agree and 10% strongly agree) believe their contributions are sufficient.

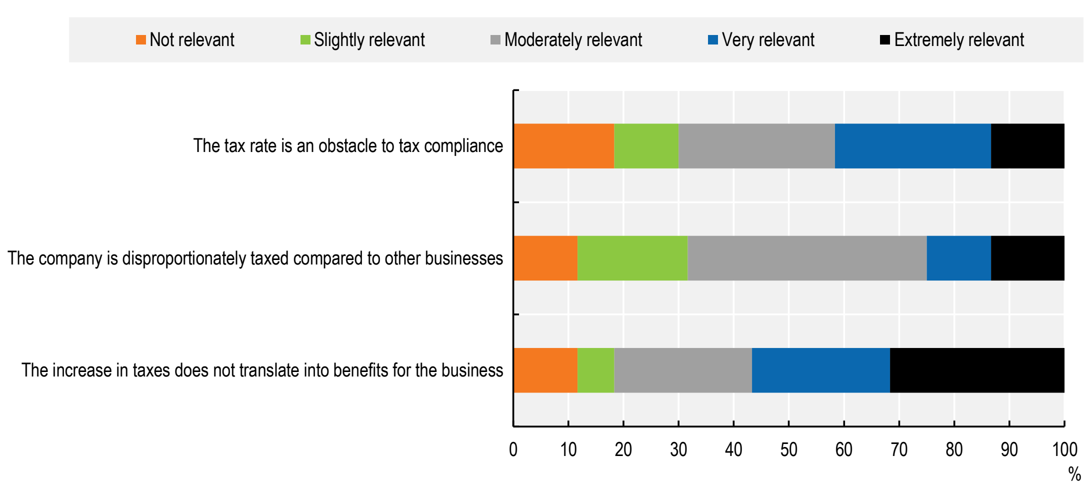
Figure 3.7. Perceptions of whether district taxes paid by individuals and businesses are sufficient to fund public services



Note: Respondents were asked the following question: "Do you consider that the amount of district taxes currently paid by individuals and businesses is sufficient to contribute to the public services provided by the district?"
Source: Survey on citizens' and enterprises' perceptions of Bogotá's tax system.

Concerns about the level of taxation also emerge as a factor discouraging compliance among businesses (Figure 3.8). Almost four in ten respondents identify the tax rate itself as an extremely or very relevant obstacle to paying taxes. In addition, approximately six in ten consider that increases in taxes do not translate into tangible benefits for their business, with 32% seeing this as extremely relevant and 25% as very relevant. By comparison, fewer businesses view being disproportionately taxed relative to others as a central concern, with the largest share (43%) rating it as only moderately relevant. These findings suggest that high tax levels, coupled with a limited perception of benefits, are seen by many firms as key barriers to compliance.

Figure 3.8. Perceptions of businesses on the relevance of tax-related obstacles

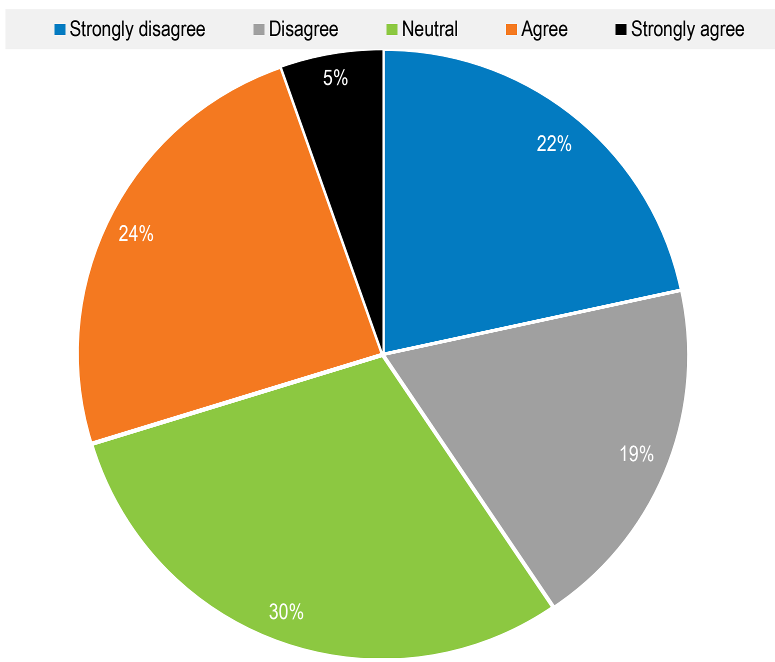


Note: Respondents were asked to what extent they consider the following statements relevant: "The increase in taxes does not translate into benefits for the business"; "The company is disproportionately taxed compared to other businesses"; and "The tax rate is an obstacle to tax compliance".
Source: Survey on citizens' and enterprises' perceptions of Bogotá's tax system.

Is the tax system perceived as fair?

Citizen perceptions of the equity of district taxes in Bogotá point to widespread doubts about their fairness (Figure 3.9). More than four in ten respondents either disagree (19%) or strongly disagree (22%) that taxes are equitable and take into account the capacity to pay. A further 30% remain neutral, suggesting considerable uncertainty among citizens. Only a minority agree (24%) or strongly agree (5%) with the statement. These results indicate that many citizens do not believe the tax system adequately reflects differences in taxpayers' ability to pay.

Figure 3.9. Perceptions of citizens on the equity of district taxes



Note: Respondents were asked the following question: "Do you believe that the taxes collected in Bogotá are equitable, as they take into account the ability to pay?"
Source: Survey on citizens' and enterprises' perceptions of Bogotá's tax system.

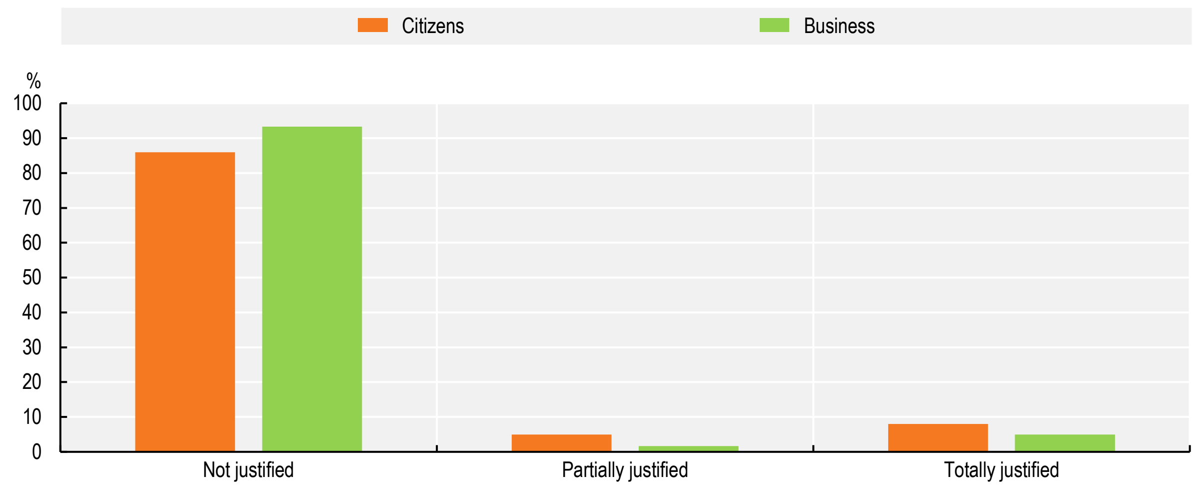
Most citizens and businesses in Bogotá reject tax evasion, but dissatisfaction with fairness, transparency, corruption, and public spending erodes trust in the fiscal system and shapes behaviour and investment

Dissatisfaction with the fiscal system can influence how citizens and businesses behave towards taxation. In response to perceived shortcomings in fairness, transparency, efficiency or corruption, individuals may choose to avoid paying taxes, alter their accounting practices, or adjust their investment decisions. Such behaviours, while varying in intensity and formality, reflect the broader risk that weak trust in the fiscal system can undermine compliance and distort economic choices. Understanding these potential reactions is therefore essential for designing policies that strengthen confidence in taxation and encourage constructive engagement with the system.

Citizens adjust their taxpaying behaviour in response to the state of the fiscal pact

Despite expressing dissatisfaction with several aspects of the fiscal system, most citizens in Bogotá do not consider tax evasion to be acceptable (Figure 3.10). The vast majority (86%) state that it is not justified to cheat on taxes, with only a small minority viewing it as partially (5%) or totally (8%) justified. Among businesses, this rejection is even stronger, with 93% reporting that tax evasion is not justified. These results suggest that, although concerns about fairness, transparency and efficiency persist, the principle of compliance remains widely recognised and supported.

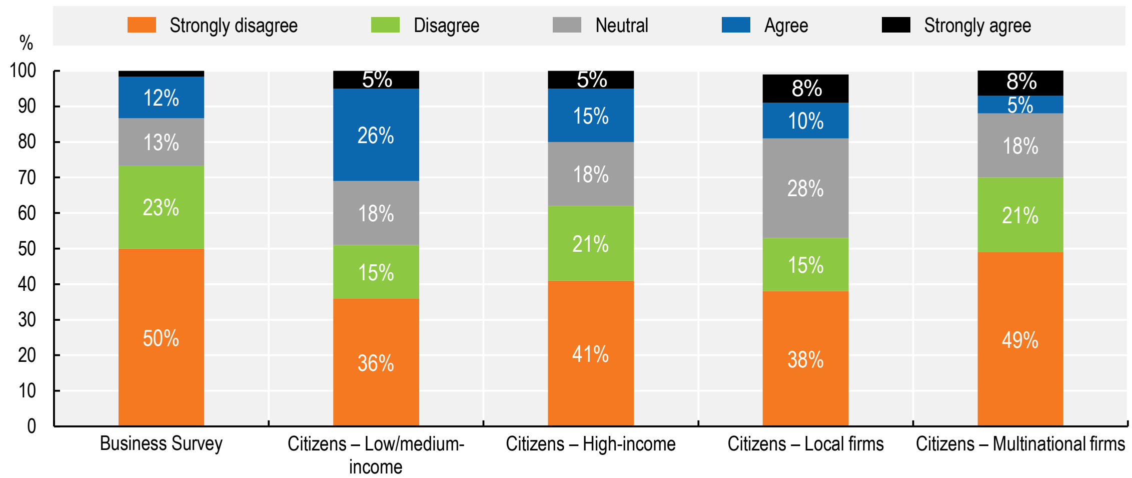
Figure 3.10. Perceptions of the justification of tax evasion



Note: The citizen and business surveys asked a similar question on whether tax evasion is justified, but with different response scales. The citizen survey offered three options (“Never”, “Occasionally”, “Always”), while the business survey used a five-point Likert scale from “Strongly disagree” to “Strongly agree”. To facilitate comparison, both sets of responses were reclassified into three categories: “Not justified”, “Partially justified” and “Totally justified”. For businesses, “Strongly disagree” and “Disagree” were grouped as “Not justified”; “Neutral” as “Partially justified”; and “Agree” and “Strongly agree” as “Totally justified”.
Source: Survey on citizens’ and enterprises’ perceptions of Bogotá’s tax system.

Most businesses and citizens in Bogotá reject the idea that firms should alter their accounts to reduce district taxes (Figure 3.11). Half of surveyed businesses (50%) strongly disagree with such practices, while citizens are most critical of multinational companies, with 49% strongly disagreeing that they have the right to do so. At the same time, the results show that tolerance for these practices is not absent. Among citizens, close to 30% consider that for low or medium incomes it is acceptable, while around two in ten respondents believe it is justified for high-income individuals or local firms. These findings suggest that, although the majority oppose altering accounts to reduce taxes, a notable minority in both groups continue to view it as permissible.

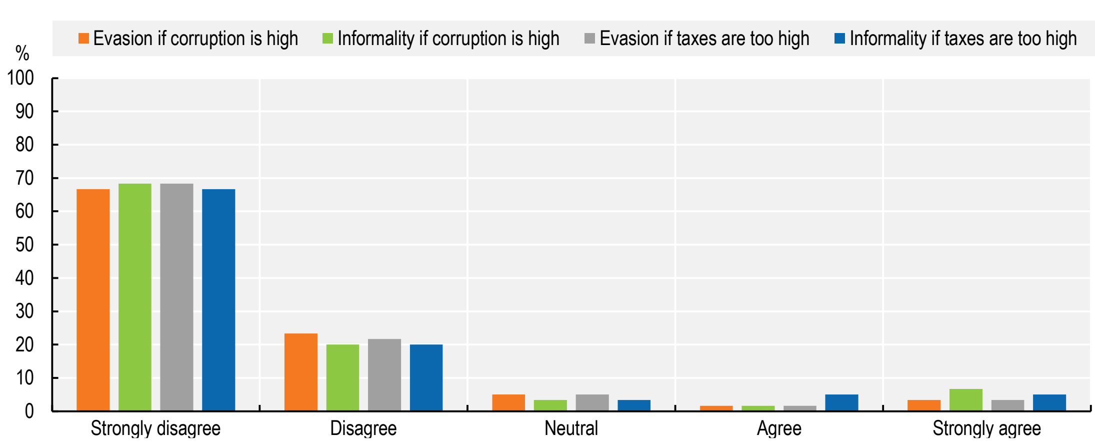
Figure 3.11. Citizens' and businesses' perceptions on whether accounting practices can be altered to reduce taxes



Note: Both surveys explored perceptions of whether accounting practices can be modified to reduce the amount of taxes paid, but applied the question differently. The business survey referred directly to firms' right to alter their accounting, while the citizen survey asked respondents whether they agreed or disagreed that specific actors (low/medium-income individuals, high-income individuals, local firms, multinational firms) could do so. Results are presented side by side using the common five-point scale from "Strongly disagree" to "Strongly agree".
Source: Survey on citizens' and enterprises' perceptions of Bogotá's tax system.

Most businesses firmly reject the idea that tax evasion or informality can be justified, even in contexts of high corruption or heavy tax burdens (Figure 3.12). Around seven in ten businesses strongly disagree with such practices, whether framed as evasion (67%) or informality (68%). An additional one in five disagree, reinforcing the view that these behaviours are not socially acceptable. Nonetheless, a small minority does express tolerance: 7% strongly agree that informality is justified if corruption is high, and 5% consider it justified if taxes are too high. These results confirm that, although opposition is overwhelming, a persistent share of businesses remain willing to legitimise evasion or informality under adverse conditions.

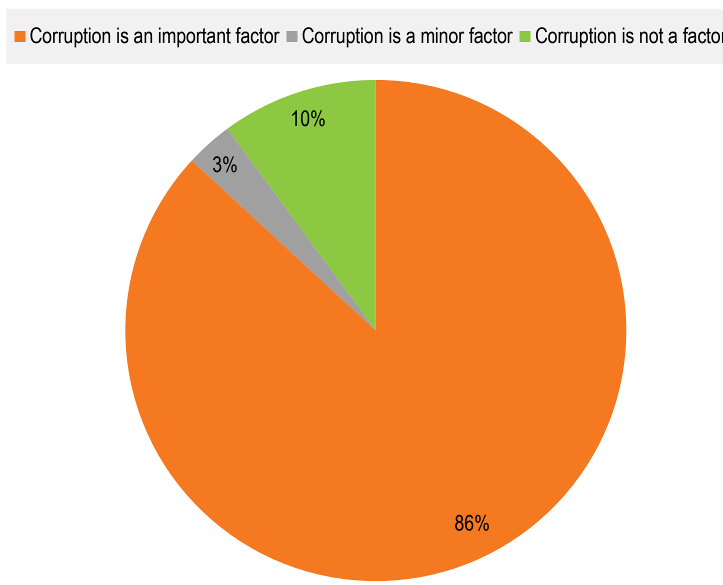
Figure 3.12. Business perceptions of the acceptability of tax evasion and informality



Note: Respondents were asked the extent to which they agree with the following statements: (i) It is acceptable to evade some taxes if corruption in the tax system is high; (ii) It is acceptable not to register a business or to remain informal if corruption in the tax system is high; (iii) It is acceptable to evade taxes if tax rates are unreasonably high; (iv) It is acceptable not to register a business or to remain informal if business tax rates are unreasonably high.
Source: Survey on citizens' and enterprises' perceptions of Bogotá's tax system.

Corruption emerges as a critical determinant of citizens' attitudes towards district taxation (Figure 3.13). An overwhelming majority of respondents (86%) consider corruption to be an important factor shaping their views, while only a small minority regard it as a minor (3%) or non-existent (10%) influence. These findings underline the extent to which perceptions of corruption undermine trust in the tax system and highlight the importance of strengthening integrity and transparency to foster citizen confidence and compliance.

Figure 3.13. Impact of corruption on citizens' attitudes towards district taxes

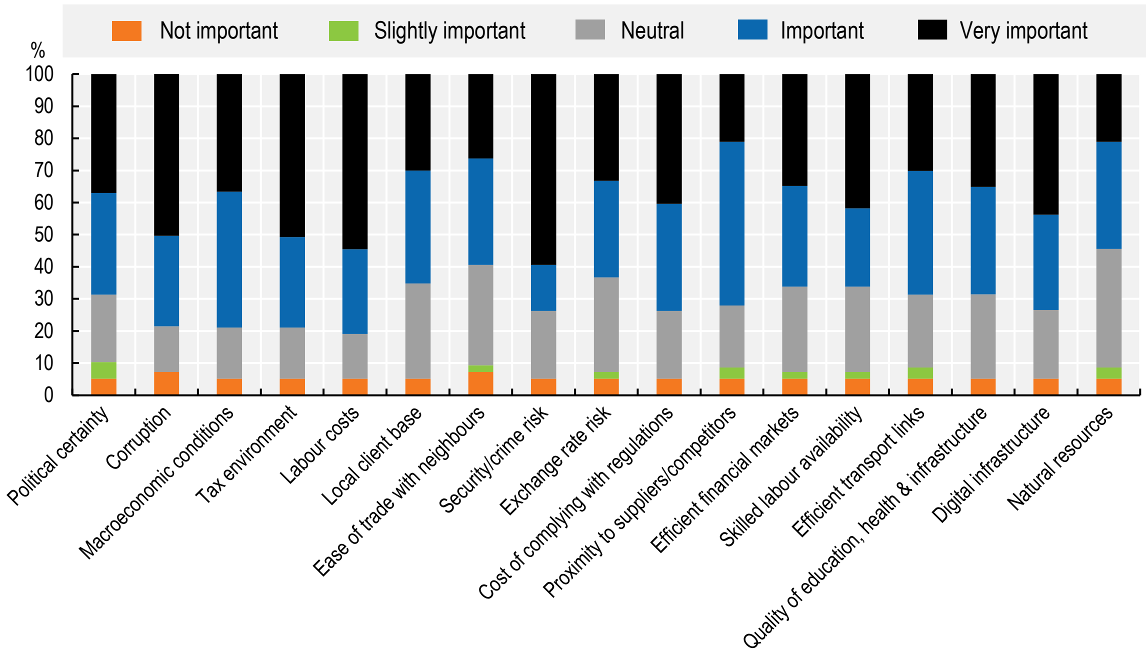


Note: Respondents were asked whether corruption is an important, minor, or non-existent factor influencing their attitude towards district taxes. Results reflect the percentage of business representatives who selected each option.
Source: Survey on citizens' and enterprises' perceptions of Bogotá's tax system.

Investment implications of the current state of the fiscal pact

Among the different factors shaping the business environment, those directly linked to fiscal authorities are seen as particularly important (Figure 3.14). Approximately half of businesses (51%) rate the tax environment as very important, with a further 28% considering it important. The cost of complying with regulations is also a key concern, judged important by 33% and very important by 40% of respondents. Beyond taxation, many firms emphasise the role of public infrastructure in supporting investment decisions. More than half view the quality of education, health and infrastructure as important or very important (68%), and almost half identify digital infrastructure as very important (44%). These results suggest that, alongside broader macroeconomic and security conditions, the effectiveness of the tax system and the quality of public services provided by fiscal authorities are central to shaping business confidence.

Figure 3.14. Factors influencing business investment and location decisions

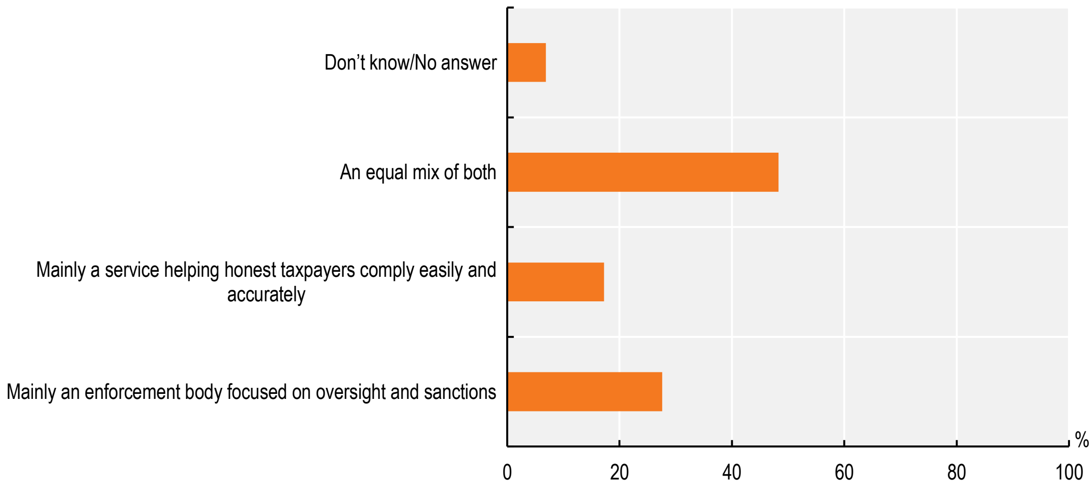


Note: Respondents were asked to assess the importance of different factors for their company's investment and location decisions. Results reflect the percentage of business representatives who rated each factor as not important, slightly important, neutral, important, or very important.
Source: Survey on citizens' and enterprises' perceptions of Bogotá's tax system.

Bogotá's tax authorities can strengthen trust and voluntary compliance by going beyond enforcement and actively supporting taxpayers through education, simplification, transparency, and dialogue

Tax authorities have many instruments to reconnect with citizens and strengthen their willingness to engage in the tax system. Beyond traditional enforcement, measures such as expanding tax education, simplifying procedures, and improving transparency can help build trust. Digital tools also provide important opportunities to reduce compliance costs, improve communication, and enhance service quality. Survey results highlight that citizens see the role of the tax administration in multiple ways (Figure 3.15) nearly half (48%) perceive it as a mix of enforcement and taxpayer support, while smaller shares view it mainly as an enforcement body (28%) or as a service to honest taxpayers (17%). These findings suggest that citizens expect the authority not only to enforce compliance, but also to provide clear guidance and accessible services. By combining these approaches, fiscal authorities can foster a culture of voluntary compliance and reinforce the perception that taxation contributes to collective well-being.

Figure 3.15. Public perception of the District Secretariat of Finance

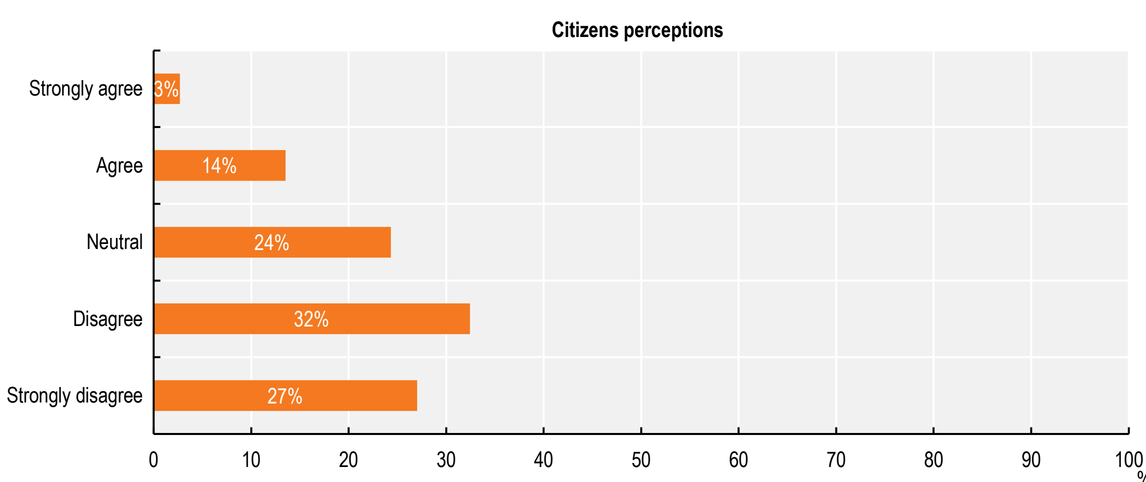


Note: Respondents answered the question, "How do you primarily perceive the role of the District Secretariat of Finance?" (original Spanish: "¿Cómo percibe principalmente el papel de la Secretaría Distrital de Hacienda?").
Source: Survey on citizens' and enterprises' perceptions of Bogotá's tax system.

Level of openness, trustworthiness and simplicity

Citizen perceptions indicate that many taxpayers do not feel their voices are heard by the district government (Figure 3.16). Almost six in ten respondents either disagree (32%) or strongly disagree (27%) that their requests as taxpayers are taken into account. A further 24% remain neutral, while only a small minority agree (14%) or strongly agree (3%). These results suggest a significant gap between citizens and the administration, underlining the need for stronger channels of dialogue, responsiveness, and participation to build trust in the tax system.

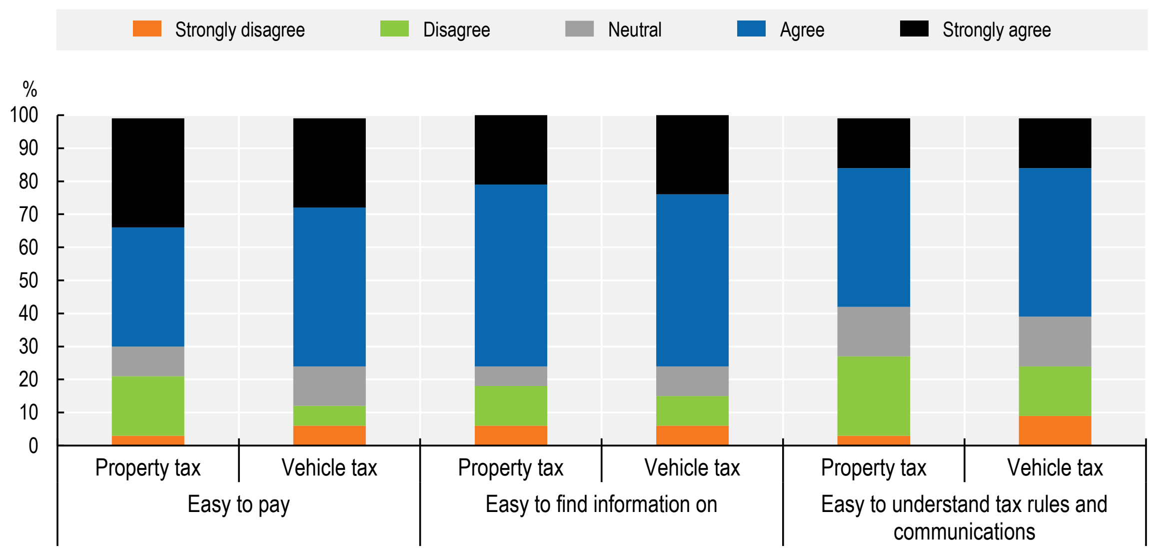
Figure 3.16. Citizens' perception of whether their requests as taxpayers are heard



Note: Respondents were asked whether they agreed with the statement: "I believe that my requests as a taxpayer are heard by the district government."
Source: Survey on citizens' and enterprises' perceptions of Bogotá's tax system.

Governments could further improve taxpayer engagement by simplifying payment procedures, facilitating access to information and ensuring clearer communication of tax rules (Figure 3.17). Survey results show that most citizens find property and vehicle taxes relatively straightforward to pay, with 69% and 75% respectively agreeing or strongly agreeing. Similarly, a majority consider it easy to find information (76% for property tax and 76% for vehicle tax. Perceptions are somewhat less positive when it comes to understanding tax rules and official communications: 57% agree or strongly agree for property tax, and 60% for vehicle tax, while around one quarter express disagreement. These findings suggest that while progress has been made in ease of payment and access to information, further efforts are needed to enhance clarity and comprehension in tax communication.

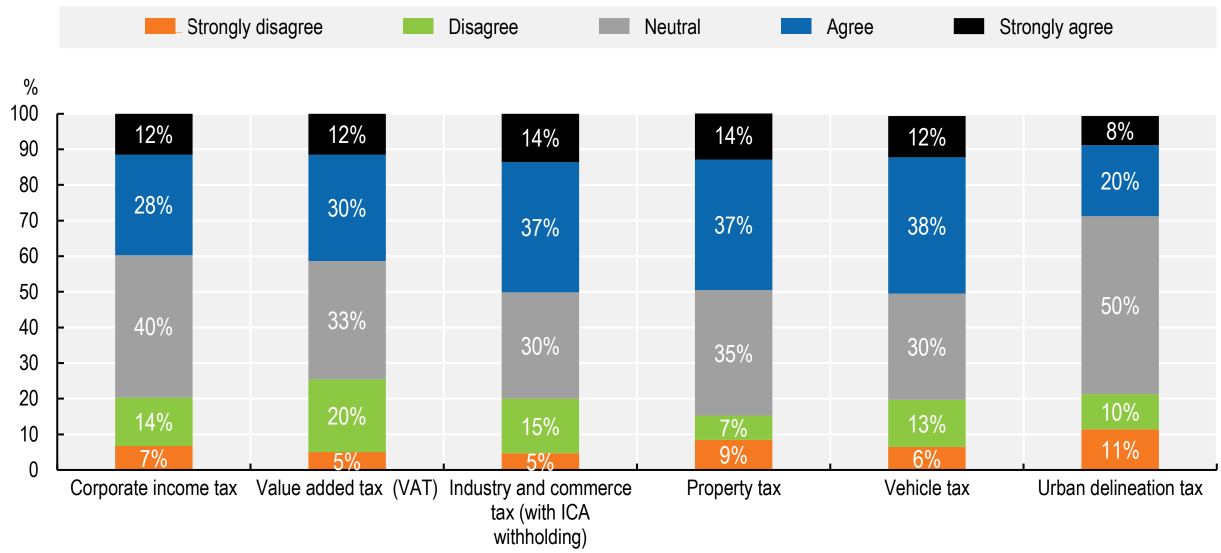
Figure 3.17. Citizens' perception of the ease of paying property and vehicle taxes



Note: Respondents were asked to what extent they agreed with three statements regarding property and vehicle taxes: (i) paying the tax is an easy and efficient process, (ii) it is easy to find information when needed, and (iii) the rules, bills, forms, and communications from the District Secretariat of Finance are easy to understand.
Source: Survey on citizens' and enterprises' perceptions of Bogotá's tax system.

The Bogotá government could improve business compliance by focusing on the simplification of district-level taxes. Survey results show that companies view the payment of the Industry and Commerce Tax, property tax and vehicle tax relatively positively, with half of respondents (51%, 51% and 50% respectively) agreeing or strongly agreeing that procedures are easy and efficient. By contrast, perceptions are more critical for the Urban Delineation Tax, with half of businesses (50%) remaining neutral, slightly more than one quarter (28%) considering the process straightforward, while only fewer than two in ten agree or strongly agree in perceiving it as efficient and ease (Figure 3.18). These findings suggest that, while most district taxes are seen as relatively manageable, targeted efforts are needed to simplify and modernise less familiar levies such as the delineation tax, which currently generates greater uncertainty among firms.

Figure 3.18. Businesses' perception of the ease and efficiency of paying different taxes

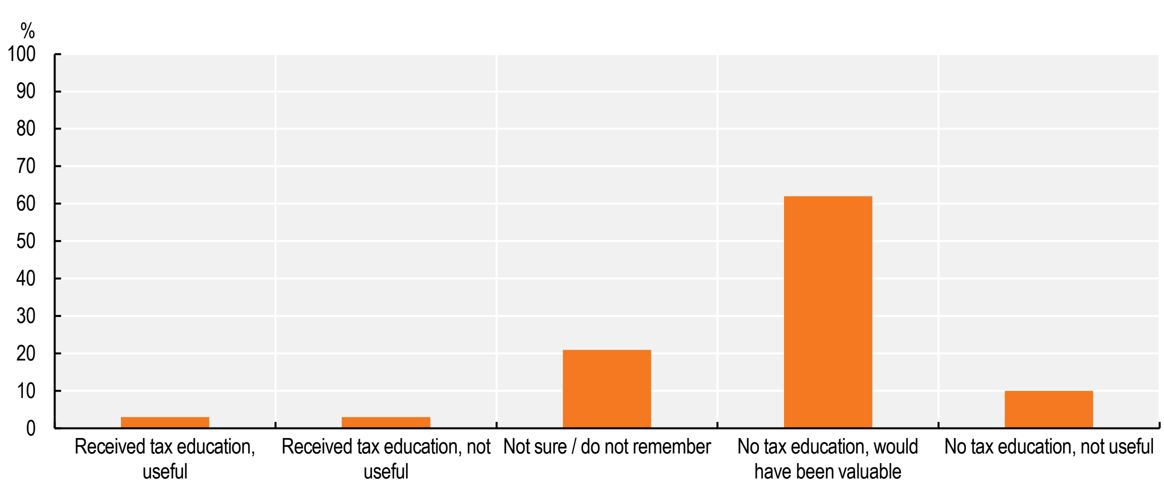


Note: Respondents were asked whether they agreed or disagreed that paying and processing procedures for different taxes are easy and efficient. Results reflect the percentage of business representatives who expressed each level of agreement.
Source: Survey on citizens' and enterprises' perceptions of Bogotá's tax system.

Tax education

Tax education is a powerful tool for Bogotá to strengthen citizens' engagement with the fiscal system. Yet, survey results show that very few respondents received such education during their school years (Figure 3.19). Only 3% recall receiving tax education they found useful, and another 3% report receiving it but not considering it valuable. By contrast, more than six in ten citizens (62%) state that they did not receive any tax education and would have found it valuable, while 21% are unsure or do not remember. A further 10% believe they did not receive tax education and that it would not have been useful.

Figure 3.19. Perceptions of school education on the importance of taxes



Note: Respondents were asked: "Did you receive education on the importance of taxes during your school years?". The options reflect both whether they received such education and how they assessed its usefulness.
Source: Survey on citizens' and enterprises' perceptions of Bogotá's tax system.

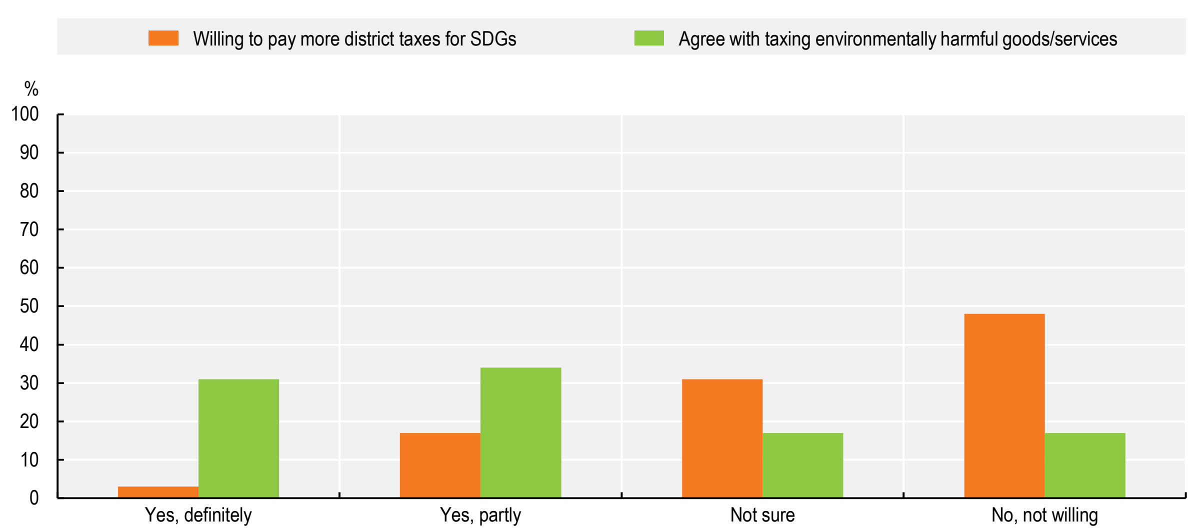
Knowledge of district taxes can also be improved. Most citizens in Bogotá feel very familiar with income tax, property tax, vehicle tax, and VAT, with over 55% being "very familiar" – particularly income tax (61.8%) and both property and vehicle taxes (64.7%). However, familiarity drops significantly for the ICA and the public lighting tax, where only 35.3% and 26.5%, respectively, reported being "very familiar," and a notable share of responses fell into the "not familiar" or "slightly familiar" categories (38.2% for ICA and 47.1% for public lighting). This suggests a need for targeted information and training efforts at the district level specifically on ICA and a future public lighting tax.

Conclusion

There is a growing need in Bogotá to reconnect with citizens in order to strengthen their engagement with the tax system. The district government has several instruments at its disposal to achieve this, going beyond enforcement. Priorities include improving the quality of public spending, simplifying the tax system, expanding tax education, increasing transparency, and reducing corruption. Equally important are measures that create more opportunities for dialogue with taxpayers and provide clear incentives for compliance. Together, these actions can help build trust, foster a culture of shared responsibility, and reinforce the perception that taxation contributes to collective well-being.

Survey results confirm the urgency of this agenda (Figure 3.20). Nearly half of citizens (48%) state that they are not willing to pay more district taxes to support the Sustainable Development Goals, while only 20% express a clear willingness to do so. By contrast, there is stronger support for taxing environmentally harmful goods and services, with 65% in favour and only 17% opposed. These findings suggest that citizens remain cautious about broader tax increases but are more receptive to measures that link taxation directly to fairness, sustainability, and tangible outcomes. Strengthening trust through transparency, efficiency, and participation could therefore play a decisive role in increasing willingness to engage with the fiscal system.

Figure 3.20. Willingness to pay additional district taxes for sustainable development



Note: Respondents were asked two questions: (i) whether they would be willing to pay more district taxes to support the Sustainable Development Goals (SDGs), and (ii) whether they agree with applying district taxes to products or services with negative environmental impacts. Results reflect the percentage of citizens selecting each option.
Source: Survey on citizens' and enterprises' perceptions of Bogotá's tax system.

Tax administrations can play a pivotal role in advancing this agenda through measures within their direct control. Simplifying procedures and reducing administrative burdens can make compliance easier and more transparent for taxpayers. Collaborating with educational institutions – and where relevant, with the national government – to implement tax education programmes can foster early awareness of the importance of taxation and civic responsibility. Likewise, strengthening communication channels, enhancing data transparency, and using digital tools to inform citizens about how taxes are collected and spent can reinforce confidence in the system.

At the same time, broader efforts that go beyond the tax administration are also essential. Improvements in the quality of public services, stronger anti-corruption initiatives, and greater accountability across all levels of government are crucial to sustain citizen trust. Tax administrations have an important role to play in these cross-cutting efforts, working in close co-ordination with other local and national institutions to ensure that fiscal policy becomes a shared endeavour grounded in transparency, fairness, and mutual responsibility.

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Annex 3.A. Survey on citizens' and businesses' perceptions of Bogotá's tax system

Citizen questionnaire

1. In which locality of Bogotá do you reside?
[List of Bogotá localities]
I live outside Bogotá

2. How do you identify yourself?
a. Man
b. Woman
c. Non-binary person (neither man nor woman)
d. Prefer to identify in another way – Which?

3. What is your age?

4. What is the highest level of education you have completed?
Primary
High school
Technical
Technologist
University
Postgraduate (Master's, Doctorate)
None
Don't know / No response

5. What was the household's total annual income in 2024, including both labour and non-labour income?
[Blank space for response]

6. In which economic activity are you engaged?
[List of economic sectors]

7. Do you agree or disagree that the following individuals and companies modify their accounting to reduce the amount of district taxes they pay?
[Table with options: Strongly disagree to Strongly agree for different groups]
People with middle or low incomes
People with high incomes
Local businesses
Multinational companies

8. Do you consider the amount of district taxes paid by the following individuals and companies adequate to maintain the city's finances and ensure the provision of services such as education, transport, infrastructure, security, health, and recreation?
[Table with options: Strongly disagree to Strongly agree for different groups]
People with middle or low incomes
People with high incomes
Local businesses
Multinational companies

9. Do you agree that the following individuals and companies should pay a reasonable amount of district taxes?
[Table with options: Strongly disagree to Strongly agree for different groups]
People with middle or low incomes
People with high incomes
Local businesses
Multinational companies

10. Please indicate the degree to which you agree or disagree with the following statements about district taxes:
District taxes are spent for public welfare.
I feel that the education, transportation, infrastructure, security, healthcare, and recreation I receive in Bogotá are a fair return for the taxes I pay.
I consider paying taxes a contribution to Bogotá rather than a cost to me.
I believe that my requests as a taxpayer are heard by the District government.
I believe taxes collected in Bogotá are fair and consider the ability to pay.

11. Do you think it is justified to evade taxes if you have the opportunity?
Always
Occasionally
Never

12. Do you think paying taxes is mainly a matter of morality and fairness or mainly a matter of laws and regulations?
Mainly morality and fairness
Mainly laws and regulations
An equal mix of both
Does not know/does not answer

13. How reliable do you consider the following sources of information about district taxes?
[Table with options: Very unreliable to Very reliable]
Media reports
Social media
Tax law experts
Industry leaders
Business leaders
Accounting experts
Politicians
District Secretariat of Finance
Non-governmental organisations (NGOs)
Family/Friends

14. Indicate which level of government each tax corresponds to:
[List of taxes with options: National, Departmental, District]
VAT (Value Added Tax)
Income Tax
Industry and Commerce Tax (ICA)
Property Tax
Vehicle Tax
Public Lighting Tax

15. Based on your education, experience, and information, how familiar are you with the following taxes?
[List of taxes with options: Very familiar, Somewhat familiar, Not familiar, Never heard of it]
VAT (Value Added Tax)
Income Tax

Industry and Commerce Tax (ICA)
Property Tax
Vehicle Tax
Public Lighting Tax

16. To what extent do you agree or disagree with the following statements when dealing with Bogotá's property tax?
[Table with options: Strongly disagree to Strongly agree for different statements]
In general, knowing the amount and paying my property tax is an easy and efficient process.
Effective digital or online services are provided.
It is generally easy to find information about the property tax when I need to fulfill my obligation.
In general, it is easy to understand the rules regarding the property tax, as well as the invoices, forms, letters, and other communications from the District Secretariat of Finance.
The District Secretariat of Finance treats taxpayers with respect and dignity.
In general, it is a fair process.
Requests are resolved in a reasonable manner.

17. To what extent do you agree or disagree with the following statements when dealing with vehicle tax?
[Table with options: Strongly disagree to Strongly agree for different statements]
In general, knowing the amount and paying the vehicle tax is an easy and efficient process.
Effective digital or online services are provided.
It is generally easy to find information about the vehicle tax when I need to fulfill my obligation.
In general, it is easy to understand the rules regarding the vehicle tax, as well as the invoices, forms, letters, and other communications from the District Secretariat of Finance.
In general, it is a fair process.
Requests are resolved in a reasonable manner.

18. Did you receive education about the importance of taxes during your school years?
Yes, and I found it useful
Yes, but I didn't find it valuable
Not sure / Don't remember
No, but I think it would have been valuable
No, and I don't think it would have been useful

19. How do you mainly perceive the role of the District Secretariat of Finance?
Mainly as an enforcement agency
Mainly as a service supporting honest taxpayers
A mix of both
Does not know/does not answer

20. To what extent do you consider district tax payments related to sustainable development?
Essential
Important
Some interaction
Little interaction
No connection at all

21. Would you be willing to pay more district taxes to support sustainable development goals?
A significant amount more
A small amount more
No additional taxes

22. Would you be willing to pay district taxes aimed at environmental protection and sustainability, taxing products or services with negative environmental impact?
Definitely yes
Partially yes
Not sure
No

23. To what extent does corruption influence your attitude toward district taxes?
It is a major factor
It is a minor factor
It is not a factor

24. Please explain and/or provide any additional comments about your interactions with the District Treasury Department:
[Blank space for response]

Business questionnaire

1. In which area of the company do you work?
Finance Office
Tax Department
Part of Management
Legal Office
Not applicable
Other area of the company (Other) *Please specify which:* [blank space]

2. Which locality of Bogotá is your business located in?
[List of Bogotá localities]
I live outside Bogotá

3. In which economic activity is the company engaged?
[List of economic sectors]

4. How many direct jobs does the company generate?
[Blank space]

5. What are the company's annual operating revenues in 2024 (calculated in Legal Monthly Minimum Wages - SMMLV)?
[Blank space]

6. How much trust do you have in the following?
(Table with options: Very much, A lot, Somewhat, Little, None)
National Government
District Government

7. Do you think corruption is widespread in the following?
(Table with options: Very much, A lot, Somewhat, Little, None)
National Government
District Government

8. The amount of taxes is:
(Scale: Very low to Very high)
National Government (Income tax, VAT, Financial Transactions Tax)
District Government (Industry and Commerce Tax, Property Tax, Vehicle Tax)

9. Do the practices of competitors in the informal sector represent a limitation for the company?
Yes, a very serious limitation
Yes, an important limitation
Yes, but not a significant limitation
No, it does not represent a limitation

10. Please indicate the degree to which you agree or disagree with the following statements about taxation:
(Scale: Strongly disagree to Strongly agree)
I consider paying taxes a contribution to Bogotá rather than a cost to me.
Paying taxes is related to sustainable development.
Paying taxes is necessary to have quality education, transportation, infrastructure, security, health, and recreation.
Taxes are invested for public welfare.
I feel that the services I receive are a fair return for the taxes I pay.
Companies have the right to modify their accounting to reduce the amount of taxes paid.
It is justified to cheat on taxes if given the opportunity.

11. Are you satisfied or dissatisfied with the education, transportation, infrastructure, security, health, and recreation provided by:
(Scale: Very dissatisfied to Very satisfied)
National Government
District Government

12. Please evaluate the importance of each of the following factors that discourage your company from paying taxes:
(Scale: Extremely relevant to Not relevant)
The company is not included in government tax policy procedures or discussions.
Tax increases do not translate into business benefits.
The company is disproportionately taxed compared to others.
The tax rate is a barrier to compliance.
Tax administration is a barrier.

13. Do you agree or disagree with the following statements:
(Scale: Strongly disagree to Strongly agree)
It is acceptable to evade some taxes if the tax system is highly corrupt.
It is acceptable to remain informal if the tax system is highly corrupt.
It is acceptable to evade taxes if the tax level is unreasonably high.
It is acceptable to remain informal if taxes on businesses are unreasonably high.

14. Do you agree or disagree that it is easy and efficient to pay and process the following taxes:
(Scale: Strongly disagree to Strongly agree)
Corporate Income Tax
Value Added Tax (VAT)
Industry and Commerce Tax (with ICA withholding)
Property Tax
Vehicle Tax
Urban Delineation Tax

15. How easy is it to find information to pay the following taxes?
(Scale: Very difficult to Very easy)
Income and complementary taxes
VAT
Industry and Commerce Tax
Property tax
Vehicle tax
Urban Delineation Tax

16. For these taxes, do you consider the rate to be:
(Scale: Very high to Very low)
Income and Complementary Taxes
VAT
Industry and Commerce Tax
Property Tax
Vehicle Tax
Urban Delineation Tax

17. Based on your experience, please evaluate the importance of each of the following factors for your company's investment and location decisions:
(Scale: Very important to Not important)
Political certainty
Corruption
Current and expected macroeconomic conditions
General tax environment
Labour costs
Large and/or sophisticated local customer base
Ease of trade with neighbouring regions and countries
Security/crime risk
Exchange rate risk
Cost of regulatory compliance
Proximity to other parts of the business, suppliers, and/or competitors
Efficient financial markets
Availability of highly skilled labour
Efficient transport links with neighbouring regions
Quality of district education, health, and infrastructure systems
Availability and quality of digital infrastructure
Presence of local or regional natural resources
Other (please specify)

18. Please evaluate the importance of each of the following tax-related factors for your company's investment and location decisions:
(Scale: Very important to Not important)
Tax burden on profits
Uncertainty about national taxes
Tax burden on wages
Uncertainty about effective wage tax rate
Tax burden on consumption
Tax burden from district taxes
Uncertainty about district tax burden
Tax incentives
Other (please specify)

19. To what extent do you consider it appropriate for the district government to promote tax incentives?
Very inadequate
Inadequate
Neutral
Adequate
Very adequate

20. Please explain and/or provide any additional comments regarding your interactions with the District Secretariat of Finance.

[Blank space for response]

4 Rethinking the Industry and Commerce Tax

The Industry and Commerce Tax (*Impuesto de Industria y Comercio – ICA*) is Bogotá's main source of revenue, representing nearly half of total tax collection in recent years. However, there is still scope to enhance its progressivity, efficiency, and transparency. This chapter analyses the current ICA framework and proposes tax policy options to strengthen revenue mobilisation while simplifying the system, making it more progressive, and supporting business formalisation. It models alternative rate structures based on income and profits, showing that more progressive schemes could enhance equity and raise revenues while easing the burden on smaller firms. The chapter also maps existing incentives and special tax treatments and explores the use of simplified tax returns to facilitate compliance. Finally, it underscores the importance of improving methodologies for measuring and reducing ICA tax evasion to promote a fairer and more efficient local tax system.

The Industry and Commerce Tax (Impuesto de Industria y Comercio – ICA) in Bogotá is a subnational levy that serves as the primary source of tax revenues for the city. On average, it accounted for more than 40% of total tax revenues between 2018 and 2024. Since 2021, its importance has grown, representing nearly half of all tax revenues, hovering around 47% of the city's total tax intake.

The levy is currently regulated under various norms, with District Decree 352 of 2002 being the main one, and it applies to a broad range of economic activities conducted within Bogotá's jurisdiction. The taxable base is determined by the gross income earned, with specific provisions allowing for exclusions and adjustments. The ICA's periodicity follows a bimonthly or annual declaration cycle, depending on the taxpayer's revenue level. The tax rates vary depending on the type of activity, and modifications have been introduced over time to ensure a more progressive structure, particularly for newly formalised businesses. The ICA currently applies differentiated rates across 14 sectors, creating a complex system that can be challenging for both businesses and tax authorities to navigate. This complexity is further heightened by the extensive use of tax incentives and special tax treatments, which, while aiming to promote certain activities, can add to the administrative burden and reduce transparency.

This section makes the case for three main points. First, it models alternative ICA tax rate scenarios to explore options for a more simplified and progressive structure. Second, it maps existing tax incentives and special tax treatments, highlighting the need for a more consolidated tax framework that reduces governance complexity and strengthens coherence with broader national policy objectives. Third, it analyses new methodologies for ICA invoicing so that it is generated automatically, like the property tax, rather than being self-declared.

Simplification and progressivity of the ICA

A simplified ICA could bring multiple benefits. Fewer rules and administrative procedures would allow taxpayers to better understand and fulfil their obligations without unnecessary complications, reducing errors and streamlining the payment process. A clearer tax structure would also discourage tax evasion, as businesses would have fewer incentives to underreport income or exploit loopholes, leading to higher revenue collection and improved fiscal responsibility. A simpler ICA system would also lower administrative costs for both the government and businesses. Reducing the burden of tax calculations and filings means less time and money spent on compliance, allowing companies to focus on growth and productivity. Additionally, simplification can drive economic formalisation, making compliance more accessible and affordable for small businesses. When taxes are easier to understand and pay, more businesses transition from the informal sector, strengthening the tax base and contributing to sustainable development.

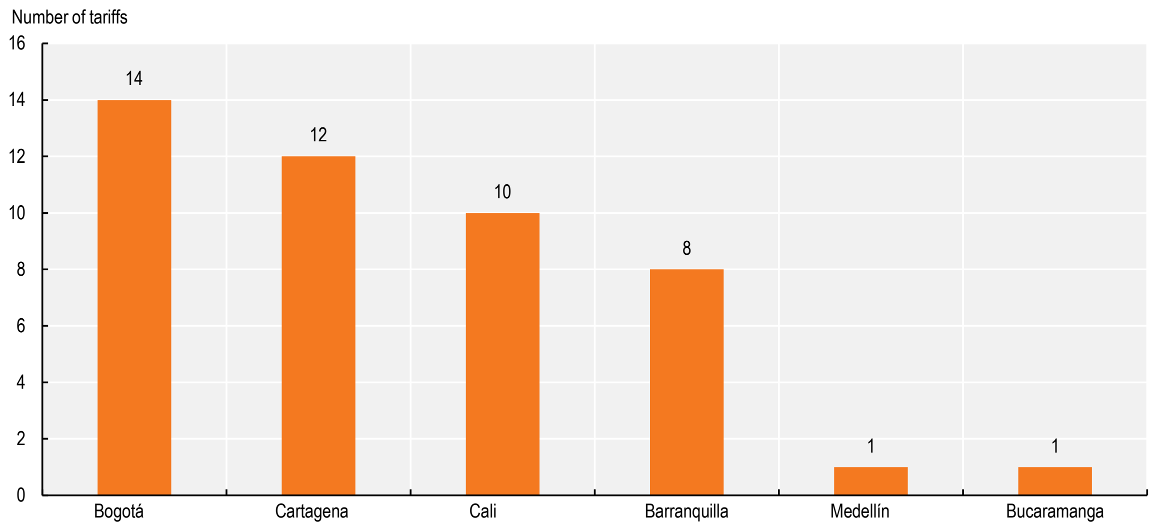
Rethinking the current ICA rate structure could make Bogotá's tax system more progressive and formal, while helping to reduce economic distortions. Given the wide dispersion in income and profit levels across firms, as well as the diversity in business size and operational capacity there is space to increase the progressivity of the ICA. In a context where business formalisation remains a central challenge, a progressive structure would ease the tax burden on micro and small enterprises, encouraging their transition into the formal economy. At the same time, it would ensure a greater contribution from firms with higher economic capacity, potentially increasing revenue without harming productive activity. This combination of goals – revenue generation, formalisation, business growth, and inequality reduction – strengthens the case for a reform aimed at greater progressivity in the ICA.

To simplify and make the ICA more progressive, the analysis suggests two possible options. One approach is to reduce the number of differentiated rates, streamlining the tax structure to make it easier to administer and comply with. Another option is to transition to a progressive tax system, where the differentiated tax rates are defined based on the size of the firm, measured by its income or profit, rather than the sector in which it operates. Any change to the ICA should ensure that it does not overlap with taxes levied at the national level, to ensure a coherent and non-overlapping tax system.

Simplifying the ICA by streamlining the tax structure

Bogotá stands out as one of the cities with the highest number of differentiated ICA tariffs, with a total of 14 rates applied across economic activities (Figure 4.1). While there is no universally optimal number of differentiated rates, the level of differentiation should reflect clear economic policy objectives. In general, a lower number of rates tends to enhance administrative simplicity, reduce compliance costs, and improve overall transparency in the tax system.

Figure 4.1. Number of differentiated ICA rates in selected Colombian cities



Source: (Secretaría de Hacienda de Bogotá, 2024[1]).

Consider the possible misalignment between tax rates and payment capacity

Any reduction or regrouping of current tax rates could take into account the payment capacity of each sector, as well as broader economic and social policy objectives. Table 4.1 illustrates significant misalignments between the ranking of income levels and the ranking of tax rates across sectors. For instance, some service subsectors face relatively high tax rates despite low-income rankings – such as Commercial 203,[1] with a gap of eleven positions. Conversely, others like Services 301 face lower tax rates despite higher income levels. In contrast, financial and certain industrial subsectors show closer alignment between income and taxation. These disparities point to potential inefficiencies and equity concerns in the existing tax structure.

Determining tax rates without directly linking them to income levels is a common practice, as rates often reflect broader social or economic objectives. However, such adjustments can be considered preferential rates or special treatments, and their impact must be carefully assessed to ensure they achieve their intended goals without undermining efficiency or revenue collection. These measures should also be co-ordinated with existing preferential treatments and tax exemptions and aligned with Bogotá's development priorities as well as national development goals (see section below on ICA incentives and special tax treatments).

Table 4.1. Ranking of subsectors by current tax rate and level of income

Sector	Subsector	Ranking by income level	Current ranking by highest tax rate	Difference
Commercial	202	1	13	12
Financial	401	2	1	1
Services	301	3	10	7
Industrial	102	4	8	4
Commercial	204	5	4	1
Industrial	103	6	4	2
Commercial	201	7	10	3
Industrial	101	8	10	2
Services	303	9	2	7
Services	302	10	8	2
Services	304	11	6	5
Services	305	12	7	5
Commercial	203	13	2	11
Non-taxable	999	14	14	0

Source: Authors' own calculations based (Secretaría de Hacienda de Bogotá, 2024[2]).

Ranking the tax sectors by their profits and not by their income could further decrease distortions

A tax where the base is determined by gross income, such as the ICA, rather than profit, can lead to significant economic distortions. As it does not take production costs into account, it places a disproportionate burden on industries with low profit margins or high intermediate input costs. This structure can discourage investment, innovation, and productivity, as businesses may face high tax liabilities even when their net earnings are minimal. Moreover, it creates an uneven playing field, favouring sectors with lower operational expenses over those with substantial input requirements.

While changing the taxable base may not always be feasible, tax policy can still be adjusted to better account for business profitability. Implementing a tiered tax rate system defined by profit margins – rather than gross income or existing rates – could help reduce economic distortions and improve equity. However, in the case of Colombia, such a reform would require a legal modification, as it would involve changing one of the essential elements of the tax obligation: the taxable base. Therefore, while the proposal may remain valid from a policy perspective, it is important to acknowledge it as a long-term proposal due to the legal constraint in the Colombian context.

Using income levels as a proxy for tax capacity can be misleading, as it overlooks the role of profitability in determining a business's real ability to contribute to tax revenue. Table 4.2 illustrates significant misalignments between income and profit levels across sectors. For example, the Industrial sector (Subsector 103) ranks 6th by income but 1st by profit, reflecting strong cost efficiency. Conversely, the Commercial sector (Subsector 204) ranks 5th by income but drops to 9th in profit, suggesting that high revenues do not necessarily translate into high financial capacity. These discrepancies highlight the limitations of income-based assessments and reinforce the need for tax policies that better account for actual profitability to ensure fairness and efficiency.

Table 4.2. Ranking of subsectors by average level of income and profits

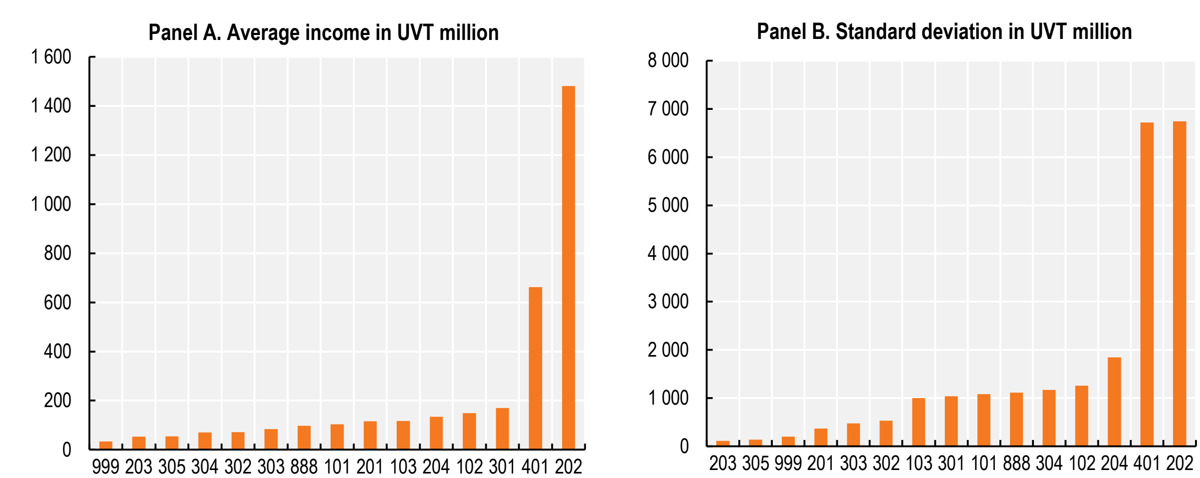
Sector	Subsector	Ranking by income level	Ranking by profit level	Difference income and profit
Commercial	202	1	4	3
Financial	401	2	2	0
Services	301	3	3	0
Industrial	102	4	5	1
Commercial	204	5	9	4
Industrial	103	6	1	5
Commercial	201	7	13	6
Industrial	101	8	11	3
Services	303	9	12	3
Services	302	10	8	2
Services	304	11	7	4
Services	305	12	14	2
Commercial	203	13	12	1
Non-taxable	999	14	6	8

Source: Authors' own calculations based (Secretaría de Hacienda de Bogotá, 2024[2]).

Simplifying the ICA by a progressive tax structure

While a sector-based tax rate adjustment may simplify the system, it overlooks the substantial heterogeneity both across and within sectors. Figure 4.2 illustrates this clearly, with wide differences in average income levels across subsectors and stark contrasts in income dispersion. Some sectors exhibit high internal variability, indicating a mix of firms with vastly different scales of operation and financial capacity. Others show more uniform income distribution, suggesting a more homogenous business structure. These disparities highlight the limitations of applying uniform tax rates within broad sectoral categories and underscore the need for a more nuanced approach that reflects intra-sectoral differences in revenue generation and economic scale.

Figure 4.2. Average gross income levels and standard deviation by sector (in UVT million)



Note: UVT = tax value units.
Source: Authors' own calculations based (Secretaría de Hacienda de Bogotá, 2024[2]).

Looking deeper into the data, significant disparities emerge within sectors, particularly in how income is distributed among firms. The highest deciles capture a disproportionately large share of total earnings, with striking jumps between the top segments. In some sectors, the income of the 10th decile is several times higher than that of the 9th, indicating sharp concentration at the upper end of the distribution. For instance, in sector Industrial 101, the top decile earns roughly 30 times more than the 9th, and in sector Industrial 103, nearly 90 times more. The disparity is even more pronounced in the financial sector 401, where the 10th decile earns over 500 times more than the 9th. These patterns suggest that policies based solely on sectoral classifications risk overlooking substantial internal inequalities and highlight the need for more granular approaches that reflect the varied financial capacities within each sector.

The differences across sectors are not limited to income levels but also extend to the nature of the economic activities they encompass – each with distinct cost structures, payment capacities, and degrees of formality. For example, sector 201 includes both wholesale trade of food products and retail trade from mobile food stalls – subsectors that differ fundamentally in scale, operating models, and financial capacity. Similarly, the sector service 301 includes all type of transport services but also editing of journals and books. A more nuanced approach to taxation would better account for these internal differences, helping to ensure a fairer and more equitable distribution of the tax burden.

Given the significant heterogeneity in income and profitability across firms, a more progressive ICA tax model could enhance both equity and efficiency. Moving away from sector-based rates towards a framework in which tax rates are defined based on gross income or profits would better reflect firms' capacity to contribute. This approach would ensure that larger, more profitable firms bear a greater share of the tax burden, while smaller firms benefit from reduced liabilities.

Estimating tax revenues under different scenarios

To assess the implications of alternative tax structures, this section models income outcomes under four distinct scenarios (Figure 4.3): (i) a scheme that differentiates sectors by income levels, (ii) a scheme that differentiates sectors by profit levels, (iii) a progressive scheme with increasing rates by income quintile and with the current suggested rates, and (iv) a progressive scheme with increasing rates by profit quintile with smoother rates for the higher earners. These scenarios reflect different approaches to tax design, from administrative simplicity to greater alignment with firms' economic capacity. Modelling these alternatives allows for an evaluation of their potential effects on equity, efficiency, and revenue mobilisation across sectors.

Figure 4.3. Proposed tariff scenarios

Panel A. Simplified scheme based on income

Activity	Group	Ranking by income level	Proposed rate
Commercial	203	13	4.0
Services	305	12	
Services	304	11	
Services	302	10	7.0
Services	303	9	
Industrial	101	8	
Commercial	201	7	
Industrial	103	6	11.0
Commercial	204	5	
Industrial	102	4	
Services	301	3	
Financial	401	2	19.0
Commercial	202	1	

Panel B. Simplified scheme based on profits

Sector	Subsector	Ranking by profit Level	Proposed rate
Services	305	15	4.0
Commercial	201	14	
Services	303	13	
Industrial	101	12	7.0
Commercial	203	11	
Commercial	204	10	
Services	302	9	
Services	304	8	11.0
Industrial	102	6	
Commercial	202	4	
Services	301	3	
Financial	401	2	19.0
Industrial	103	1	

Panel C. Progressive scheme 1

Quintil	Quintil limits (UVT million)	Proposed progressive rate
1	0.0	0.0
2	1.9	4.0
3	4.6	7.0
4	11.5	11.0
5	36.1	19.0

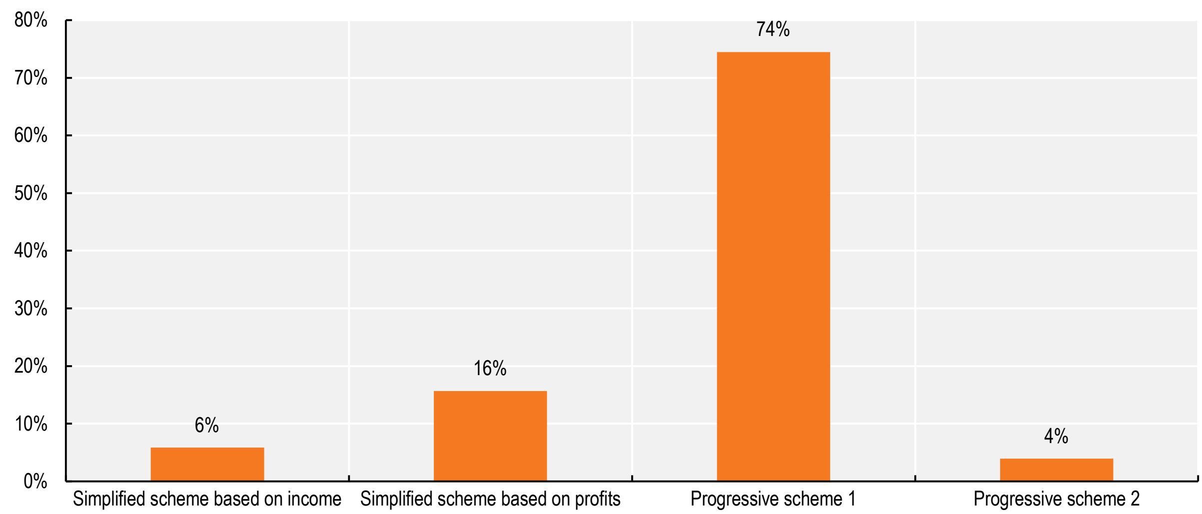
Panel D. Progressive scheme 2

Quintil	Quintil limits (UVT million)	Proposed progressive rate
1	0.0	0.0
2	1.9	4.0
3	4.6	7.0
4	11.5	9.0
5	36.1	11.0

Source: Authors' own calculations based (Secretaría de Hacienda de Bogotá, 2024[2]).

Figure 4.4 compares the estimated revenue outcomes under the four modelled scenarios as a percentage of current income tax collection. The results show substantial variation in potential revenue impact across schemes. The income-based scenario, in which sectors are ordered according to their income levels, yields revenues around 6% higher than current levels. The scenario based on profit levels shows a possible increase of approximately 16%. In contrast, introducing a progressive scheme – based on the proposed rates and quintile distributions – significantly increases revenue, suggesting that a more differentiated rate structure, aligned with firms' economic capacity, could enhance revenue mobilisation. However, by smoothing the tax rates across profit quintiles, especially for the highest (progressive scheme scenario 2), the additional tax burden can be moderated, preserving equity while limiting distortions. These findings highlight the importance of careful rate design in aligning tax policy with both equity and efficiency objectives.

Figure 4.4. Percentage change in comparison to the 2023 tariffs scheme, under different scenarios



Source: Authors' own calculations based (Secretaría de Hacienda de Bogotá, 2024[2]).

A distributional analysis of the alternative schemes reveals significant differences in their impact across sectors (Table 4.3). While the income-based and profit-based schemes increase overall revenue, the effects across sectors are highly uneven. Certain industrial and service subsectors – such as 101, 102, and 301 – experience substantial increases under the differentiated schemes, reflecting their stronger capacity to contribute under an income- or profit-sensitive approach. In contrast, several commercial and service subsectors, including 203, 204, and 303, see notable reductions, particularly under the profit-based scheme, suggesting limited margins or structural vulnerabilities. These results underscore the need for tax designs that consider sectoral heterogeneity and avoid disproportionate impacts on specific segments of the economy. Any changes to the ICA should be implemented gradually to allow sectors sufficient time to adapt and to minimise potential disruptions.

Table 4.3. Percentage change in comparison to the 2023 tariffs scheme, by sectors

Sector	Subsector	Simplified scheme based on income	Simplified scheme based on profits
	Total	6%	16%
Industrial	101	69%	69%
Industrial	102	60%	60%
Industrial	103	-1%	71%
Commercial	201	69%	-3%
Commercial	202	175%	60%
Commercial	203	-71%	-49%
Commercial	204	0%	-37%
Services	301	166%	166%
Services	302	0%	0%
Services	303	-49%	-71%
Services	304	-59%	12%
Services	305	-43%	-43%
Financial	401	36%	36%

Source: Authors' own calculations based (Secretaría de Hacienda de Bogotá, 2024[2]).

Firms face different tax burdens depending on their size and the tax scheme implemented, with larger firms contributing more (Table 4.4). Under the progressive schemes, the lowest income deciles, deciles 1 and 2, are exempt from any tax payment, effectively safeguarding the smallest firms. In contrast, the current approaches based on tariffs, income, or profits impose a modest burden even on these lower deciles. As firm income increases across subsequent deciles, the progressive schemes register a substantially steeper escalation in contributions, with decile 10 reaching around 93.4% in Progressive scheme 1 and 91.4% in Progressive scheme 2. A progressive scheme supports vertical equity by ensuring that larger firms, which have a greater capacity to pay, shoulder a proportionately higher tax burden.

Table 4.4. Contribution by income decile under different tax scenarios

Deciles	Current	Simplified based on income	Simplified based on profits	Progressive scheme 1	Progressive scheme 2
1	0.03	0.02	0.03	-	-
2	0.14	0.09	0.12	-	-
3	0.25	0.17	0.21	0.01	0.02
4	0.39	0.27	0.35	0.05	0.08
5	0.61	0.43	0.54	0.13	0.21
6	0.95	0.67	0.84	0.27	0.45
7	1.52	1.09	1.33	0.59	0.92
8	2.61	1.89	2.24	1.32	1.92
9	5.52	4.21	4.78	4.23	5.00
10	87.98	91.14	89.56	93.4	91.39

Source: Authors' own calculations based (Secretaría de Hacienda de Bogotá, 2024[2]).

Assessing ICA incentives and special treatments

The ICA tax framework includes various tax incentives and special treatments aimed at promoting economic activity and supporting specific sectors (Figure 4.5). There are four tools that are applied in different ways to reduce the amount of ICA paid, or to grant full exemptions. The first involves granting tax discounts, often during times of crisis, as established through legal provisions. The second consists of special treatments granted through legal agreements to provide tax benefits to microenterprises and selected sectors. The third includes exemptions that fully relieve certain taxpayers from paying ICA. Finally, some activities are not subject to taxation under national laws or district agreements aimed at supporting specific sectors.

During times of crisis, legal provisions may offer temporary discounts for ICA taxpayers. For instance, Agreement 7-80 of 2020 introduced temporary tax incentives to support businesses affected by the COVID-19 crisis during 2021. One of its key provisions granted a tax discount of up to 25% to taxpayers whose taxable income declined in 2020 compared to 2019, with the percentage varying based on the severity of the reduction. This measure helped alleviate the tax burden on struggling businesses, supporting their recovery and continued operations in 2021. At the same time, the agreement introduced temporary tax surcharges for businesses that experienced revenue growth during the pandemic. Depending on the extent of their increase, these businesses faced a progressive ICA surcharge of up to 15% in 2021, ensuring a more balanced distribution of tax obligations during the recovery period.

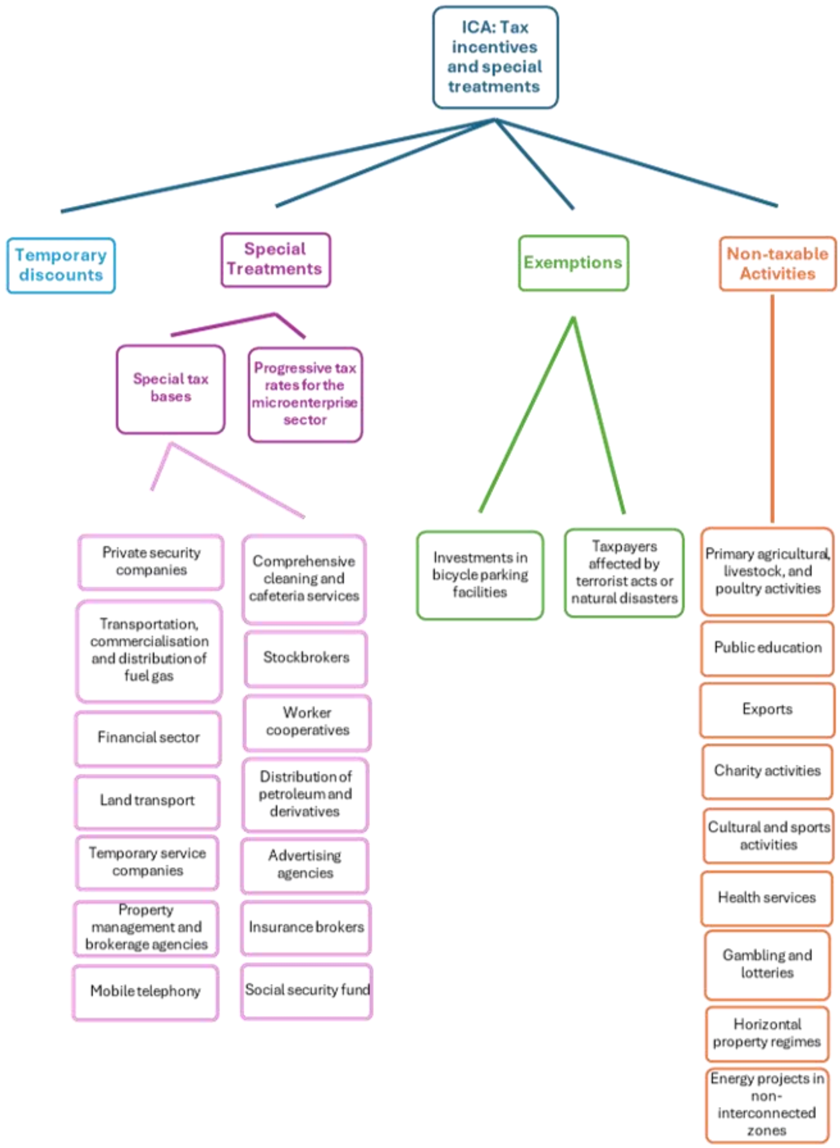
Two types of special treatments are granted to benefit microenterprises and specific economic activities. The first type, established through legal provisions, applies progressive tax rates to microenterprises engaged in certain activities to promote formalisation. This special treatment, outlined in Article 15 of Agreement 780 of 2020, applies to individuals and legal entities that formalise their businesses between 2024 and 2030 and are registered in the Tax Information Registry, provided their income qualifies them as microenterprises. However, it does not apply to certain sectors, including financial services, film exhibition, wireless and satellite communications, transportation activities, road construction, public services, and other civil engineering works. The benefit remains in effect until 2031, after which the applicable tax rates in force at that time will apply.

The second type of preferential treatment involves offering special tax bases to fourteen sectors, often allowing for discounts on the final ICA payment. For example, when determining the ICA tax base for the financial sector, only operational income, such as commissions, interest, investment returns, and income from credit card transactions, is considered, rather than gross income. Similarly, distributors of petroleum derivatives use a special tax base calculated from gross commercialisation margins, defined as the difference between purchase and sale prices after deducting surcharges and other levies. For transportation companies operating with third-party vehicles, only their own earnings are subject to taxation, excluding the income passed on to vehicle owners. Special tax base regulations for different economic sectors are scattered across various laws enacted in Bogotá through district-level decrees. For the finance sector, special tax base regulations are established by laws, implemented in Bogotá through district-level decrees. Regulations governing petroleum derivative distribution and associated work cooperatives are set by national legislation, including the Tax Law. Similarly, rules for integrated cleaning and cafeteria services, as well as mobile telephony, are determined at the national level.

ICA tax exemptions apply to different taxpayers, some with general objectives and others for specific activities. As of April 2025, one exemption is in effect: a 100% exemption for taxpayers affected by terrorist acts or natural disasters. The other 100% exemption, for investments in bicycle parking facilities, was valid until 31 December 2024.

A variety of activities are also classified as non-taxable under national legal provisions. These include public education; primary agricultural, livestock, and poultry production; charitable work; cultural and sports activities; health services; exports; gambling and lotteries; horizontal property regimes; and energy projects in non-interconnected zones.

Figure 4.5. ICA tax incentives and special treatments



Source: Authors' own elaboration based on district and national laws.

There are challenges in ICA regulation related to the absence of a consolidated tax framework

A key challenge in ICA regulation is the absence of a consolidated tax framework. Currently, there is no comprehensive legal statute that lists all existing exemptions, deductions, and special tax bases, or consolidates regulations on exemptions and special treatments, including the most recent rules and amendments. When the governance of investment tax incentives is complex, meaning incentives are scattered across multiple laws and regulations, it can reduce transparency and complicate monitoring and evaluation (Gascon et al., forthcoming[3]; OECD, forthcoming[4]). The more conditions an incentive or special tax treatment requires, the more complex its administration becomes, increasing the risk of tax evasion. It is essential to design conditions that are both enforceable and effective. Municipal tax incentives and special treatments should align with national priorities, particularly in sectors identified as strategic for economic growth. This alignment ensures coherence in fiscal policy and maximises the impact of incentives across different levels of government.

Measuring the objectives and impact of each incentive, including exemptions and special treatments is key. For instance, it is crucial to evaluate the impact of tariff simplification on specific economic activities, particularly when reductions apply to sectors associated with negative externalities. Broader activity categories may include sub-activities with negative impacts, potentially resulting in lower tax rates for them while raising rates for others with positive effects. Well-designed tax incentives can stimulate investment, enhance productivity, and support Sustainable Development Goals (SDGs). However, their benefits must be weighed against potential revenue losses and the risk of inefficient resource allocation (OECD, forthcoming[4]). Poorly designed incentives may have limited effectiveness and primarily benefit activities that would have occurred without them (OECD, forthcoming[4]).

It is also important to regularly assess the objectives and impact of special treatments that increase tax rates. Legal agreements have modernised ICA tax rates to reflect evolving economic realities, often resulting in rate increases. Agreement 780 of 2020 extended ICA taxation to digital delivery platforms, introducing new rates for services related to ordering, purchasing, distributing, and delivering products. Gradual rate increases have also been implemented for sectors such as financial services, pharmaceutical manufacturing, production of medicinal chemical substances and botanical products, professional consulting, construction-related services, and wired and wireless telecommunications. It is important to consider the profitability of these sectors to avoid imposing excessive tax burdens, especially in the financial sector, where many innovative startups are in early growth stages.

Re-evaluating incentives for highly profitable economic activities, particularly those already subject to low tax rates, could be considered. Special treatments and exemptions should be reviewed, considering profitability rankings, specifically focusing on sectors that generate the highest profits while already benefiting from low tax rates.

Establishing eligibility criteria that link benefits to actual investments may help improve the effectiveness of ICA incentives. Best practices highlight the importance of setting conditions based on measurable outcomes, using indicators that demonstrate tangible impacts on key economic variables such as employment and investment (Gascon et al., forthcoming[3]).

Clarifying the roles and responsibilities of different government levels and institutions may also contribute to more effective administration (Gascon et al., forthcoming[3]). While arrangements involving multiple authorities can complicate governance, they also offer benefits by bringing together diverse expertise and policy priorities. It is essential for ministries and agencies to co-ordinate their efforts, clearly define each agency's role, and align on overarching policy objectives (OECD, forthcoming[4]). Additionally, strong intersectoral co-ordination is necessary to regularly assess the efficiency and effectiveness of these tax treatments, ensuring they align with broader economic and fiscal objectives.

ICA invoicing

The implementation of an invoicing system for taxpayers under the preferential regime could strengthen the effectiveness and efficiency of the ICA. Unlike suggested tax returns, invoicing involves the tax administration directly issuing tax assessments based on available third-party and administrative data. These assessments then become enforceable collection instruments. This approach generates significant administrative efficiencies, as the resulting tax bill constitutes an executive title, eliminating the need for a separate official determination process and enabling a more expedited collection procedure.

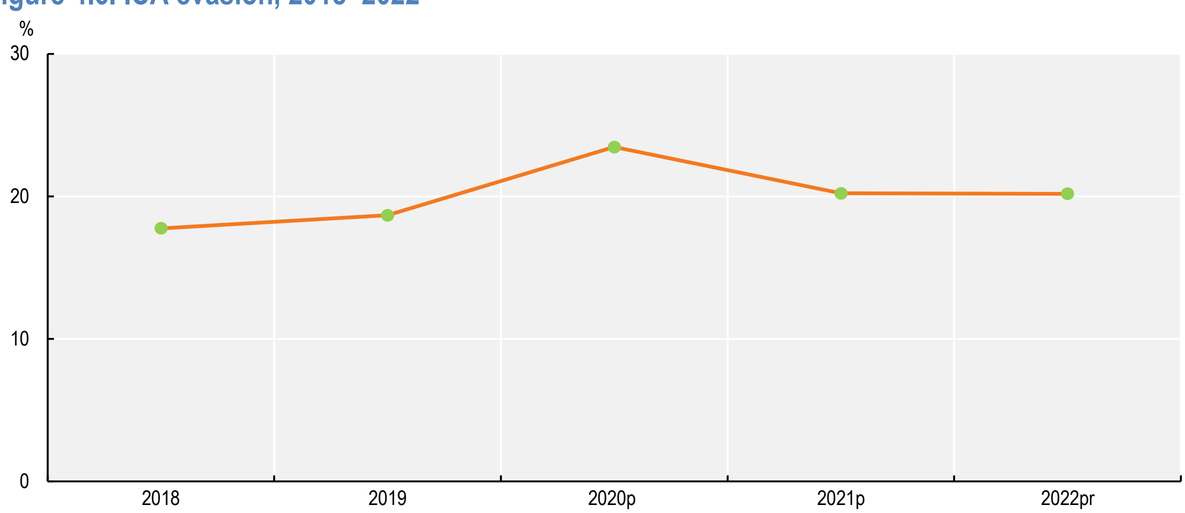
Given the limitations in data quality and the need to minimise fiscal, reputational, and legal risks, implementing an invoicing system can be a more suitable alternative than requiring taxpayers to file returns on their own. By focusing exclusively on preferential regime taxpayers with taxable income between 1 933 and 3 500 Tax Value Units (UVT), invoicing can simplify compliance for small businesses while providing the administration with greater predictability and control over tax collection. This process would rely on exogenous information, data reported by third parties to the tax administration, complemented by statistical studies of taxpayers' historical behaviour, to determine the taxable subject, base, rate, and applicable withholdings (Secretaría de Hacienda de Bogotá, 2024[5]). Eligibility would be restricted to taxpayers registered in the *Registro de Información Tributaria* (RIT, Tax Information Registry) with an active commercial registration, excluding deceased individuals, large taxpayers, and those under the *Régimen Simple de Tributación* (SIMPLE, Simple Tax Regime). The taxable base would be calculated from selected income items reported in exogenous data, under the assumption that all income corresponds to the taxpayer's main economic activity and adjusted for reported withholdings. In addition, the complementary *Avisos y Tableros* tax would apply to taxpayers with at least one registered establishment open to the public (Secretaría de Hacienda de Bogotá, 2024[5]).

An invoicing system for the ICA can offer advantages in easing compliance, enhancing revenue forecasting, and improving administrative efficiency. On the one hand, it would simplify tax management for smaller taxpayers and allow the administration to initiate collections more directly and promptly. On the other, its effectiveness depends heavily on the availability and accuracy of exogenous data, which is prone to errors, inconsistencies, and reporting delays. Moreover, the methodology relies on significant assumptions regarding applicable tax rates and the complementary *Avisos y Tableros* tax, and taxpayers under preferential regimes often lack sufficient historical records to support robust statistical modelling. Extending the invoicing approach to larger taxpayers would entail substantial fiscal risks, as errors in calculating their liabilities could have a disproportionate impact on revenue outcomes.

Tax evasion of the ICA

Tax evasion and avoidance of the ICA show an upward trend from 2018 to 2022 (Figure 4.6). Total evasion without withholdings have increased from 17.8% in 2018 to 20.2% in 2024. This trend suggests potential inefficiencies in tax collection mechanisms, particularly during periods of economic disruption.

Figure 4.6. ICA evasion, 2018–2022



Note: p: provisional. pr: preliminary. The current estimation methodology of tax evasion and avoidance uses aggregate national accounts data that do not allow to identify individual evasion or avoidance. From this perspective, numbers shown here are relevant only at high aggregate level.
Source: (Secretaría de Hacienda de Bogotá, 2024[6]).

More precise and transparent methods for assessing ICA tax evasion could help improve understanding of compliance patterns and support efforts to enhance fairness and efficiency in the tax system. The current methodology for estimating tax evasion and avoidance relies on aggregate national accounts data, which do not allow for the identification of individual cases of evasion or avoidance. From this perspective, the figures presented here are relevant only at a high aggregate level. Shifting towards a more micro-level approach could improve the understanding of taxpayer behaviour and support efforts to reduce evasion and avoidance. In other countries, tax evasion and avoidance are often estimated using primary information from taxpayers. This can involve directly analysing data from other tax returns (such as national income tax) or collecting information from a sample of taxpayers.

Strengthening the methodology for measuring tax evasion and avoidance and enhancing oversight mechanisms can help distinguish between legitimate fluctuations in tax obligations and deliberate attempts to evade taxes. A company may adjust its rates every two months due to changes in its activities, which in turn affect the taxable base. These variations in taxable amounts do not necessarily indicate tax evasion but rather reflect the periodic adjustments in business operations and the corresponding tax obligations. This underscores the importance of addressing tax evasion through improved monitoring and enforcement measures.

Notes

[1] Specific activities related to sector and subsector codes can be consulted in the Classification of Economic Activities CIIU Revision 4 adapted for Colombia, available here: https://linea.ccb.org.co/descripcionciiu/.

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Secretaría de Hacienda de Bogotá (2024), *Local Firm-Level Data (internal document)*. [2]

Secretaría de Hacienda de Bogotá (2024), *Metodología de facturación electrónica (internal document)*. [5]

Secretaría de Hacienda de Bogotá (2024), *Number of ICA rates in Colombian cities (internal document)*. [1]

5 Towards a more progressive property tax in Bogotá

Property taxes represent the second most significant source of fiscal revenue in Bogotá, following the Industry and Commerce Tax. The current property tax system exhibits a progressive structure; however, there remains scope to alleviate the relatively higher burden faced by low-income and informal households, while simultaneously improving compliance. Any reform of the property tax in Bogotá must strike a careful balance between enhancing revenue collection and ensuring equity. This chapter examines the role of property taxation in Bogotá and its potential for reform. It begins by providing an overview of the property tax's fiscal relevance and institutional framework. It then assesses the distributional impact of the residential property tax, with particular attention to household income levels, employment status, and socioeconomic strata, to identify opportunities for strengthening progressivity. Finally, the chapter draws on international experiences from comparable cities to inform policy options for reform. These options are grounded in OECD principles and aim to improve the efficiency, equity, and revenue potential of property taxation in Bogotá.

The property tax[1] (*Impuesto Predial Unificado - IPU*) in Bogotá, understood as a recurrent tax on immovable property, is the city's second source of fiscal revenue after ICA. The property tax represented, on average, 34.7% of Bogotá's total tax revenue in the 2018-24 period. Since 2021, its importance has fallen 4.7 percentage points, representing 34.8% of total tax income in 2024.

The property tax is an annual obligation for property owners. The property tax currently applies to residential, commercial, industrial properties, vacant lots, undeveloped urbanisable land, and rural areas. The levy is governed by a combination of national laws and district-level regulations, including the national law 1450 of 2011 that defines the criteria to be applied by municipal councils to define the property tax tariffs. In Bogotá, the tax rates vary depending on factors such as property usage, and the property's cadastral value, following the National Strategy for the Implementation of the Public Policy on Multipurpose Cadastre detailed in the CONPES 3958 of 2019 (CONPES, 2019[1]). In cases where a property does not have an assigned cadastral appraisal as of 1 January of the tax year, the Secretaría Distrital de Hacienda (District Secretariat of Finance) defines a minimum taxable base. Moreover, in 2024 residential properties located in socioeconomic strata 1 and 2 with a cadastral value below 16 monthly legal minimum wages are exempt from paying the property tax. Bogotá applies 33 tariffs to residential properties, two tariffs to commercial buildings and three tariffs to industrial buildings.

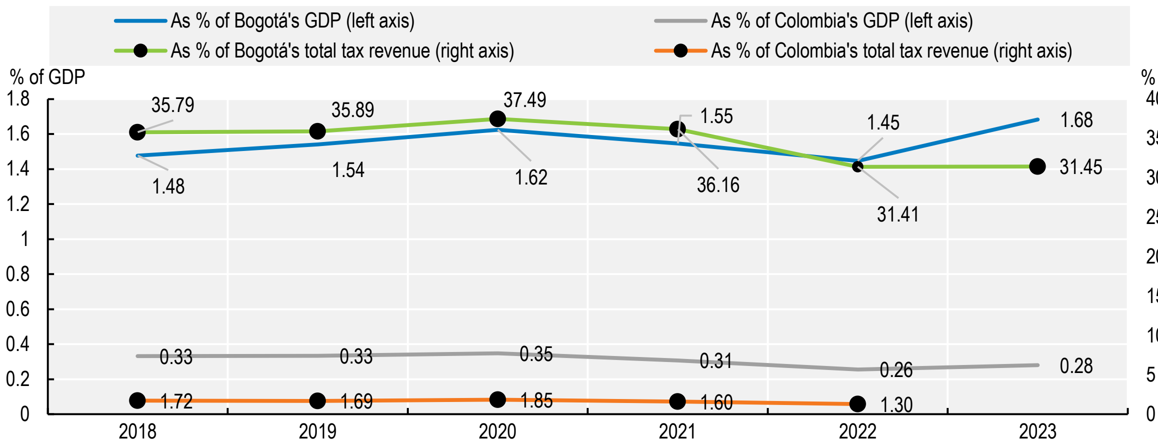
This chapter first presents an overview of the relevance of the property tax in Bogotá. Second, it explores the distributional impact of the residential property tax to promote further progressivity, by examining its relative burden across households, with a focus on income levels, employment type, and socioeconomic stratum.[2] Then, it presents international city experiences aimed at informing the property tax reform in Bogotá. Finally, the last section presents policy options to improve property tax in Bogotá based on OECD principles.

Overview of property tax in Colombia and Bogotá

Property tax is a key source of revenues at the subnational level in Colombia, as in Latin America and the Caribbean and OECD economies. Recurrent taxes on immovable property collected at the local level in Colombia is among the highest in LAC, having reached almost the same level of OECD average economy in 2020 (0.91% of GDP compared to 0.92% in OECD economies). From 2014 to 2021, Colombia's subnational governments led Latin America and the Caribbean in recurrent taxes on immovable property, before being surpassed by those of Uruguay and Chile in 2021 (Chapter 2).

Property taxes are the second main fiscal revenue in Bogotá. Property taxes in Bogotá represented 0.28% of Colombia's GDP in 2023 after ICA (0.43%) and above the revenue derived from vehicle taxes (0.08%). At the city level, the IPU represented 1.68% of Bogotá's GDP and 31.4% of the city's tax revenue in 2023 (Figure 5.1).

Figure 5.1. Property tax revenues in Bogotá, 2018-23



Note: GDP data for Bogotá and Colombia are in constant prices.
Source: Own calculations based on (Secretaría de Hacienda de Bogotá, 2024[2]; DANE, 2025[3]; OECD et al., 2025[4]).

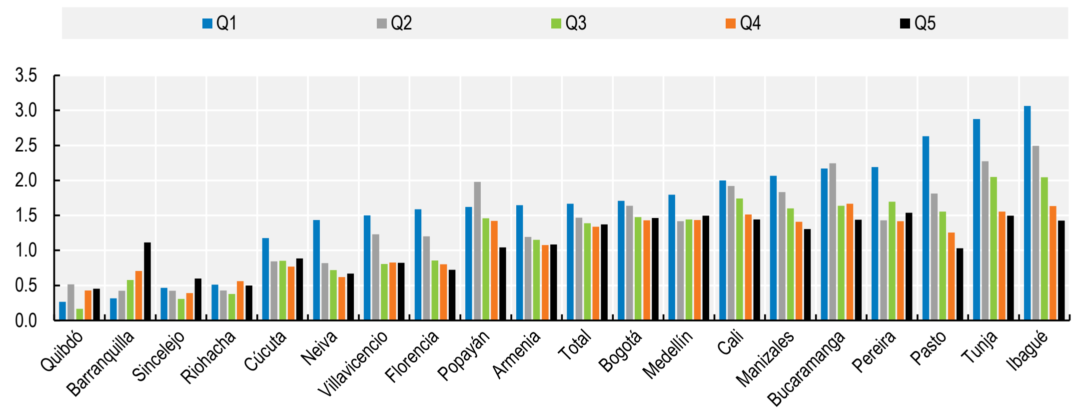
Property tax incentives can be a strategic fiscal instrument for advancing sustainable goals in Bogotá. Cities in LAC and worldwide are using property tax incentives to stimulate the adoption of renewable energy sources, promote cleaner technologies in construction and industry, facilitate the transition to a circular economy and enhance urban green infrastructure, among others (see Chapter 6).

Towards a more progressive property tax in Bogotá

The property tax in Bogotá places a relatively higher burden on low-income households compared to higher income households. In 2022, property tax payments represented nearly 1.7% of reported income for low-income households (quintile 1) and 1.6% for middle-low income households (quintile 2) who declared having paid the levy in Bogotá, compared to 1.4% to 1.5% for other higher income households – indicating that there is still room to improve the progressivity of the property tax (Figure 5.2). In terms of revenue contribution, low-income households (quintile 1) property tax payments account for 1.8% of the total property tax collected in the city, compared to 7.7% from middle-income households (quintile 3). Meanwhile, middle-high income households (quintile 4) contribute 15.6% and high-income households (quintile 5) account for the bigger share at 71.6%. This distribution shows a progressive structure although the design of more targeted benefits or a review of the minimum taxable threshold could be considered to reduce the tax burden on the most vulnerable groups.

Ongoing efforts to reduce property tax evasion in Bogotá may contribute to improving the fairness and effectiveness of the city's property tax system. Between 2019 and 2023, the city experienced an average property tax evasion rate of 16.4%. The largest expected revenue losses from evasion are associated with residential, commercial, and vacant properties. Although the highest evasion rates occur among lower-income strata (1 and 2), the greatest absolute revenue losses are concentrated in middle and high-income strata (3, 4, and 6) (Secretaría de Hacienda de Bogotá, 2024[2]). Improving collection from income taxpayers at the highest end of the income scale could be a good step in this direction.

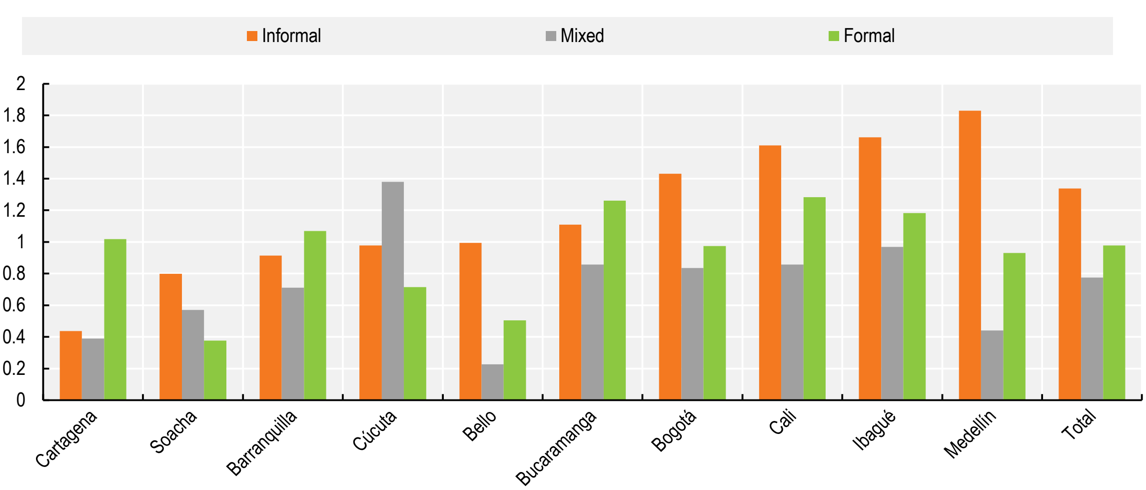
Figure 5.2. Property tax as percentage of households' income, 2022



Note: The data are based on respondents who reported having paid the property tax within the previous year. Households' income is defined as: Labour income + Rents+ Government transfers + Private transfers. The following variables from the Great Integrated Household Survey (*Gran Encuesta Integrada de Hogares - GEIH*) have been used for each income component. Labour income refers to earnings from employment (INGLABO). Rent income includes returns from renting properties or assets (P7500S1A1), interest and investment income (P750S5A1), and severance-related payments (P7510S6A1). Government transfers cover pensions and public assistance programmes (P7500S2A1, P750S2A1, P1661S1A1–S3A1). Private transfers include alimony, remittances, aid from private entities, and other irregular sources such as gambling winnings or asset sales (P7500S3A1, P7510S1A1–S2A1, P750S1A1, P750S3A1, P7510S7A1). The income variables which are reported on a monthly basis (INGLABO P7500S1A1 P7500S2A1 P7500S3A1) have been annualised.
Source: Authors' calculations based on (DANE, 2024[5]).

Property tax in Bogotá is a relatively bigger burden for informal and mixed households compared to households where all members are employed in the formal market. Property tax in Bogotá represents 1.4% of informal households's income, where all members are informally employed, almost 1% of mixed households' income (0.8%), and 1% of formal households' income. These figures are almost equal to the average impact observed in the average of the ten cities included in the National Quality of Life Survey 2022 (*Encuesta Nacional de calidad de vida*) (Figure 5.3).

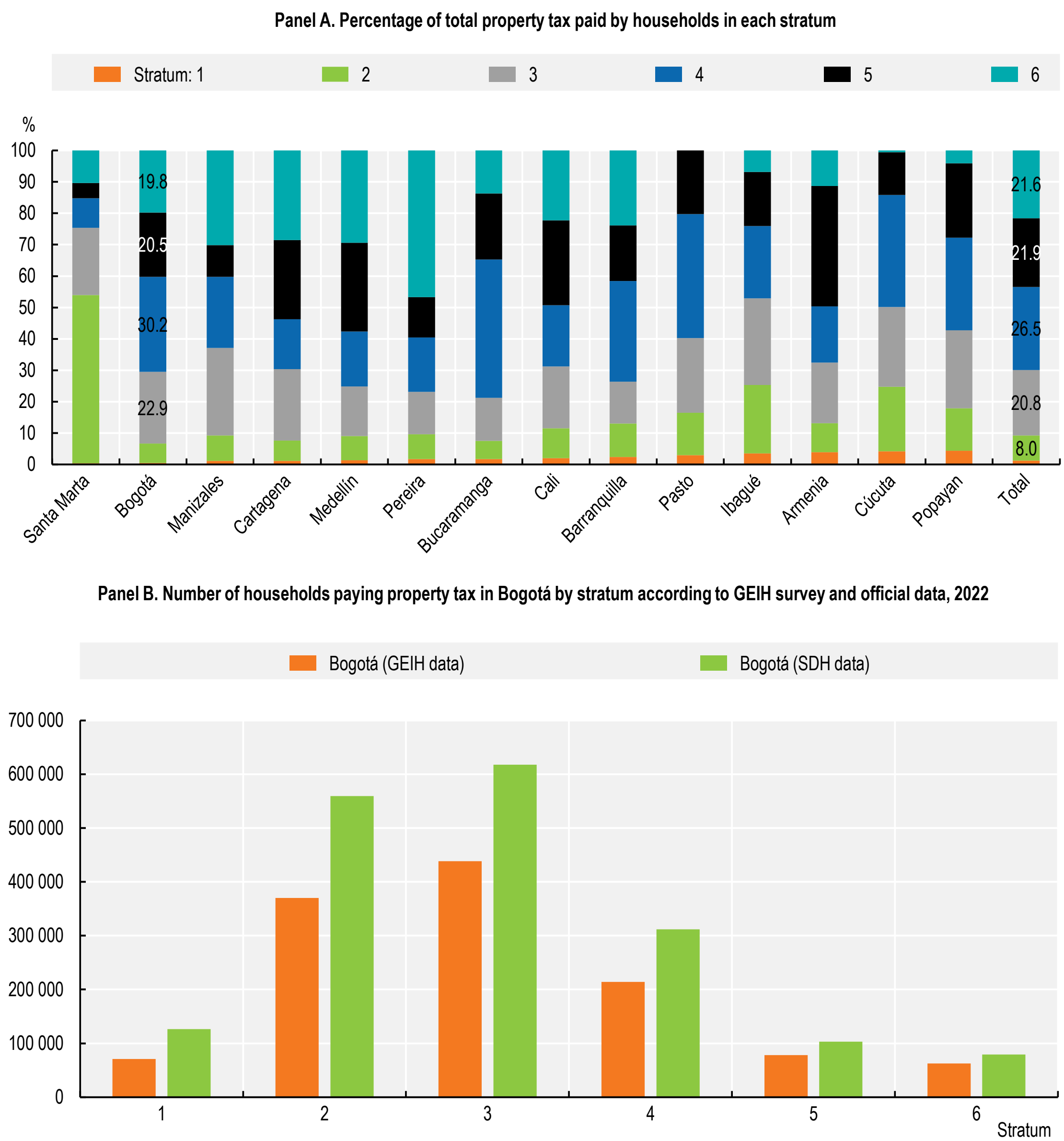
Figure 5.3. Property tax as percentage of household income by employment status in Bogotá, 2022



Note: The data are based on respondents who reported having paid the property tax within the previous year. Following the OECD KIIbIH database (2024[6]) comparable definition, informal households refer to those households in which all income earners are informal workers. Mixed households are those in which at least one income earner is an informal worker. Formal households refer to those in which all income earners are formal workers. These classifications may vary depending on the definition used. At the time of this report's publication, the National Quality of Life Survey (*Encuesta Nacional de calidad de vida- ECV-*) was the only available database capturing the necessary variables across Colombian cities.
Source: Authors' calculations based on (DANE, 2022[7]).

Households living in strata 3 and 4 contribute relatively more to the property tax revenue than households in higher strata. Households in stratum 4 contribute almost one-third of the property tax total collection (30.2%), almost 10 percentage points more than those in strata 5 (contributing 20.5%) and 6 (19.8%), while households in stratum 3 contribute more than households in strata 5 or 6 (Figure 5.4, Panel A), relatively similar to the average of the other cities. Official administrative data from the SDH shows similar trends to the findings in the GEIH (Figure 5.4, Panel B). Two exceptions are observed in the contributory share of households in stratum 5 that is lower according to official data (16.6% in official data compared to 20.5%). Moreover, households in stratum 6 contributes less based on responses to the GEIH survey (19.8%) than what they do based on official data (25.5%) (Secretaría de Hacienda de Bogotá, 2024[8]).

Figure 5.4. Property tax payment levels by stratum, 2022



Note: The data are based on respondents who reported having paid the property tax within the previous year.
Source: Authors' calculations based on (DANE, 2024[5]; Secretaría de Hacienda de Bogotá, 2024[8]).

Designing differentiated strategies to address property tax evasion could help improve revenue collection and promote a fairer system. Tax property evasion in Bogotá has been decreasing since 2020 from 18.8% to 13.1% in 2024. Strata 1 and 2, show higher levels of evasion, nonetheless most of the expected revenue is concentrated in strata 3, 4 and 6 (Secretaría de Hacienda de Bogotá, 2024[8]).

A small share of industrial and commercial properties in Bogotá report paying ICA in manufacturing and retail activities, respectively. The SDH of Bogotá performed a casuistic exercise connecting industrial properties that declare paying ICA. From all industrial properties in the city (12 233), a quarter declares to be paying ICA (3 151) while 10.3% (1 268) declare to pay ICA as performing manufacturing activities (section C). Commercial properties show a similar trend. The 26.8% (76 863 properties) of all commercial properties (286 234) are declaring and paying ICA, while only 5.25% pay ICA in the retail commerce activity (section G) (Secretaría de Hacienda, 2025[9]).

International experiences

International city experiences implementing property tax in the region and worldwide can be useful to inform Bogotá's property tax reform. This section compares how Bogotá, Montevideo (Uruguay), Barcelona (Spain) and Boston (United States) define the property tax taxable base, how often they update their cadastre, the frequency of tax collection, the available discounts and subsidies and aspects related to evasion and progressivity (Table 5.1).

Table 5.1. International experiences: Property tax at the city level

Factor	Bogotá	Montevideo	Barcelona	Boston
Property tax official name	**Impuesto Predial Unificado (IPU)**	**Contribución Inmobiliaria**	**Impuesto sobre Bienes Inmuebles (IBI)**	**Property tax**
Tax base	Cadastral value (represents 70% of a property's market value, on average).	Cadastral value, aligned with market value.	Regularly updated cadastral value.	Estimated market value of the property.
Cadastre update frequency	The property registry is updated every year with annual inflation adjustments.	Annual update based on the real estate market.	Every 1–3 years, based on market values.	Annual, with evaluations based on the real estate market.
Tax collection	Annual, with an option of four instalments without interest (SPAC system).	Annual, with the possibility of three instalments.	Annual, with an option for instalment payments.	Quarterly payments (every three months).
Discounts and subsidies	Discounts for early payment; benefits for rural and social interest properties; and properties affected by natural disasters or terrorist acts.	Discounts for early payment and exemptions for retirees and low-income individuals.	Benefits for low-income families and elderly individuals.	Exemptions and reductions for seniors, veterans, and people with disabilities.
Collection and evasion	Digitalisation has improved collection although evasion is still a challenge.	Low evasion due to a modern and efficient tax collection system.	Low evasion, with an efficient and digitalised collection system.	Very low evasion, due to a robust and transparent collection system.

Source: Authors' elaboration based on (Secretaria de Hacienda de Bogotá, 2025[10]; Intendencia de Montevideo, 2025[11]; Municipal Tax Office of Barcelona, 2025[12]; City of Boston, 2025[13]).

Regular updates of property values to reflect current market conditions can help ensure that the tax burden evolves in line with property price trends. In Bogotá, the IPU's cadastral value represents approximately 70% of a property's market value. The city's property registry is updated every year with annual inflation adjustments. In Montevideo the *Contribución Inmobiliaria* is also based on a cadastral valuation, annually updated and closely aligned with real estate market values (Intendencia de Montevideo, 2025[14]). Similarly, Barcelona's *Impuesto sobre Bienes Inmuebles* (IBI) relies on a cadastral value that is regularly updated to reflect property dynamics, while Boston applies a property tax directly on the estimated real estate market value of the property, updated annually (Municipal Tax Office of Barcelona, 2025[12]; City of Boston, 2024[15]).

Cities are using more frequent property tax collection and targeted discounts to facilitate payment and reduce social impacts. Most cities prioritise an annual tax collection of the property tax although they offer partial instalments and different discounts and subsidies to facilitate collection. Bogotá offers an alternative to the annual payment of four instalments without interest through the SPAC system (*Pago Alternativo por Cuotas)* (Secretaría de Hacienda de Bogotá, 2025[16]). The city offers discounts for early payment and to properties affected by natural disasters or terrorist acts. Montevideo offers the possibility of three instalments and applies discounts for early payment and exemptions for retirees and individuals perceiving low incomes (Intendencia de Montevideo, 2025[11]). Similarly, Barcelona also offers options for partial instalments and offers benefits for low-income families and elderly individuals (City of Barcelona, 2025[17]). In Boston, the property tax is assessed annually but collected quarterly (every three months) to all taxpayers. Exemptions and reductions are available for seniors, veterans, and people with disabilities among others (City of Boston, 2025[18]). Qualified homeowners over 60 can work-off up to USD 2 000 on their property tax bill by offering volunteer services to the city, the equivalent to 133.5 volunteer hours at a rate of USD 15 per hour (City of Boston, 2025[19]).

Effective enforcement mechanisms and digital innovation helped increase compliance levels in property tax systems across leading cities. Digitalisation, social incentives, institutional responsiveness and enforcement, visible reinvestment benefits, and robust institutional frameworks have contributed to low levels of tax evasion in cities such as Montevideo, Barcelona, and Boston. These cities rely on centralised and transparent systems – such as Montevideo's cross-referenced permit databases (Intendencia de Montevideo, 2025[20]), Barcelona's Institut Municipal d'Hisenda, and Boston's market-aligned valuation model (City of Boston, 2025[21]; 2025[22]) – which facilitate accurate assessments and efficient collection. Common success factors include regularly updated property records, integrated online portals for billing and payment, and proactive enforcement tools like audits and targeted inspections to help identify non-compliance and deter evasion. Socially equitable measures, such as exemptions for vulnerable groups and user-friendly services, and institutional efficiency through clear communication, responsive customer service, and visible reinvestment of funds in the community contribute to high voluntary compliance.

Policy options to improve property tax in Bogotá

Any property tax reform in Bogotá requires a careful balance between enhancing revenue collection and maintaining fairness. On the one hand, increasing the number of tax rates can boost progressivity by requiring higher-value properties to contribute more. However, this may introduce greater administrative complexity, higher costs, and increase the risk of tax evasion. On the other hand, a simplified tax structure with fewer rates can help to reduce administrative burdens and improve compliance, but it may result in a less progressive system. Ultimately, the design of an optimal reform should weigh these trade-offs to create a system that is both efficient in revenue generation and equitable in its tax burden.

Going forward, the way the reforms and revenue collection are implemented plays a fundamental role to enhance the efficiency, progressiveness and revenue potential of the taxes on immovable property. Based on OECD experience, regularly updating property values to reflect current market conditions is essential to ensure the fairness and efficiency of property taxation. Such updates enhance both vertical and horizontal equity by requiring households owning properties with rising values to contribute proportionately more, while also reducing market distortions resulting from outdated valuations. In parallel, lowering housing transaction taxes is recommended to facilitate residential mobility and efficient housing allocation, thereby supporting sustainable urban development and fiscal stability. Together, these measures are intended to make property taxation a more stable and predictable revenue source for Bogotá while serving as a critical instrument in fostering a fairer and more efficient housing market (OECD, 2022[23]).

Notes

[1] Unless otherwise indicated, references to property tax in this publication correspond to recurrent taxes on immovable property, and the two terms are used interchangeable.

[2] The strata (*estratos)* are a technical instrument used to allocate subsidies and contributions for public utilities (water, sewage, waste collection, electricity, and gas) in Bogotá. There are six strata. Strata 1 and 2 receive subsidies for water, sewage, waste collection, electricity, and gas. Stratum 3 receives all these subsidies except for gas. Strata 5 and 6, on the other hand, contribute financially to these subsidies – a mechanism known as *cross-subsidies*. Stratum 4 neither contributes nor receives subsidies. Commercial and industrial properties also contribute to the cross-subsidy system (Secretaría Distrital de Planeación de Bogotá, 2024[24]).

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6 Greening the tax system in Bogotá

This chapter examines the potential of local environmental taxes to support Bogotá's green transition while generating fiscal revenue. It focuses on transport and public lighting taxes, highlighting opportunities to reduce greenhouse gas emissions and air pollution. Key measures include introducing a CO_2-based surcharge on the motor vehicle tax and reforming the *Pico y Placa Solidario* system, while addressing potential social impacts. The chapter also examines how implementing a public lighting tax in Bogotá could support the financing of energy-efficient LED and smart lighting systems. In addition, it explores other tax and financing options to foster the green transition in Bogotá. Drawing on international and regional experiences, it offers policy recommendations to align revenue generation with environmental and social goals, promoting sustainable urban development in Bogotá.

Environmental taxes primary aim is to change behaviour rather than maximise revenue. In the short to medium term, however, environmentally related tax revenues (ERTR) can strengthen public finances while advancing environmental and social goals (OECD et al., 2024[1]). In cities such as Bogotá, these taxes can help address air pollution, traffic congestion, and greenhouse gas emissions while also generating additional revenues that can be channelled towards sustainable transport, energy efficiency, and other green initiatives**.** However, as green taxes successfully change behaviour and reduce emissions, the resulting decline in fiscal revenues underscores the need for adaptive strategies to ensure financial sustainability over time.

Bogotá's environmental taxes have been implemented to reduce traffic congestion, GHG emissions, and water pollution. The local government manages transport taxes, such as the motor vehicle tax, with rates ranging from 1.7% to 3.7% of the vehicle's commercial value for private cars, 1.7% for motorcycles over 125 cm³, and 0.7% for public service vehicles. New vehicles are taxed based on their purchase or import value, applied proportionally to the remaining fiscal year. Electric vehicles benefit from capped rates of up to 1.2% and tax incentives, including a 60% discount for electric vehicles and a 40% discount for hybrid vehicles, available until 2030. A fee-based permit system called *Pico y Placa Solidario* is also available for vehicle owners to drive during peak hours despite the city's *Pico y Placa* restrictions. The cost of the permit varies depending on factors such as the vehicle's environmental impact, market value, and registration location. Revenue from the programme is reinvested into public transportation and sustainable mobility projects. Other local environmental taxes managed by Bogotá include a gasoline surcharge and a tax on water discharges, managed by the District and the Autonomous Regional Corporation of Cundinamarca, based on the type and volume of pollutants.

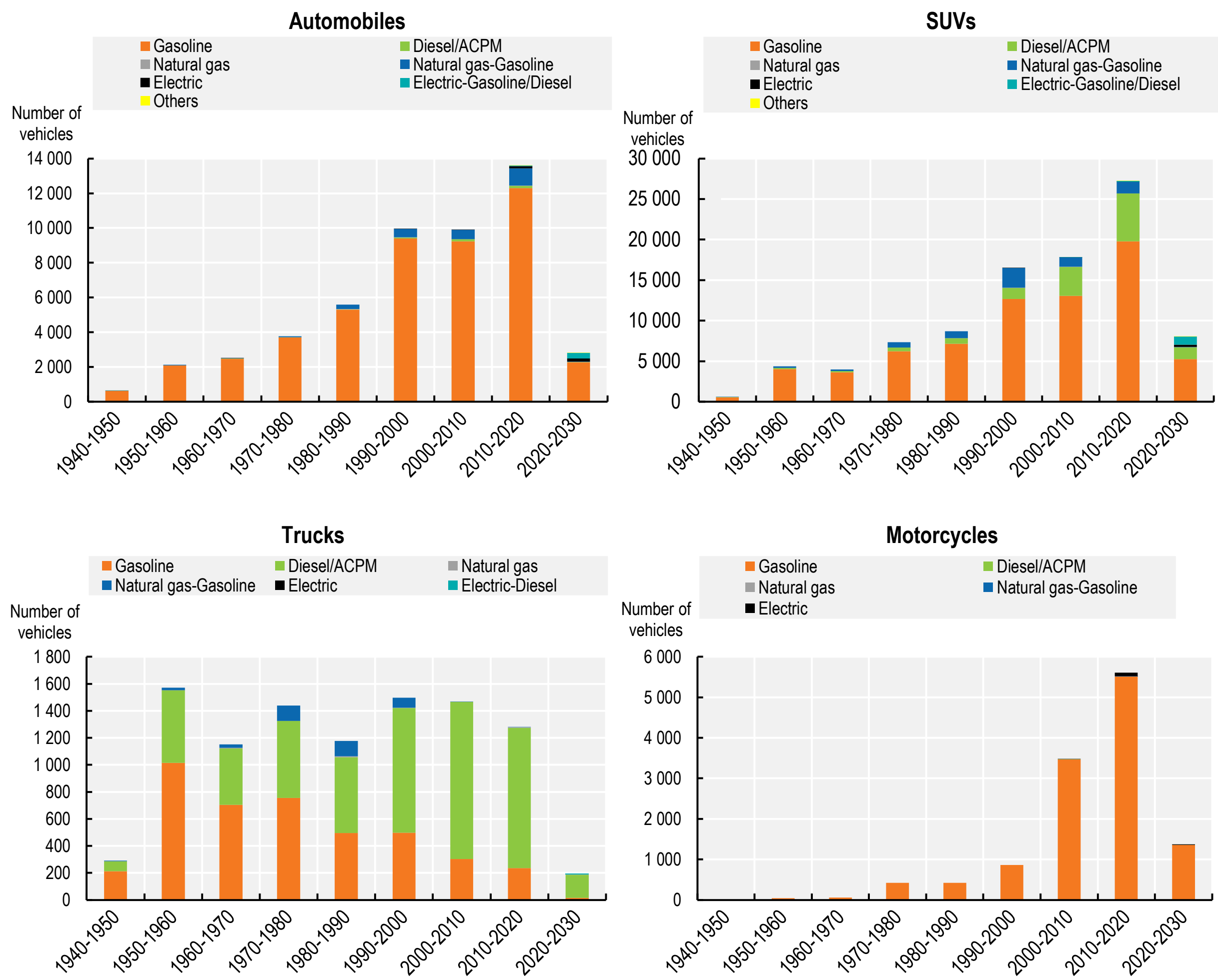
This chapter will first focus on assessing environmental transport taxes, such as the motor vehicle tax, through an analysis of Bogotá's vehicle fleet. It will then provide recommendations for the potential implementation of a CO_2-based tax and suggest possible improvements to the fee-based permit *Pico y Placa Solidario*. Finally, it will assess the public lighting tax and its importance for financing the city's green transition through a new, more sustainable, and more efficient lighting system.

Assessing Bogotá's environmental transport taxes

Environmental transport taxes can play a crucial role in reducing greenhouse gas (GHG) emissions and traffic congestion by shaping consumer behaviour. Transportation-related pollution in Bogotá remains high as 40% of greenhouse gas emissions are due to the transport sector (Secretaría de Movilidad, 2024[2]). 65% of trips are still made using motorised transport modes that rely on fuels such as gasoline, diesel, and compressed natural gas. These vehicles are responsible for emitting local pollutants, such as particulate matter, which contribute to air pollution, as well as greenhouse gases that accelerate climate change (Secretaría de Movilidad, 2024[2]).

Bogotá's vehicle fleet is largely composed of older vehicles that primarily run on fossil fuels (Figure 6.1). Electric and hybrid vehicles make up only 5% of the total fleet, while 93% run on gasoline and 2% use other fuels such as diesel, natural gas, hydrogen, or ethanol. Many of these vehicles date back to the 2000s or earlier. SUVs and trucks constitute a significant portion of the fleet, with sport utility vehicles (SUVs) making up 77% of gasoline-powered vehicles and only 0.3% being electric. Trucks are mostly powered by gasoline or diesel, with a mere 0.03% being electric. Motorcycles are predominantly gasoline-powered, with medium and high engine displacement models being the most common. Specifically, motorcycles in the 501-1 000 cubic centimetres (cc) range account for approximately 63%, while those with high displacement (1 001-1 500 cc) represent around 23%. Motorcycles with the lowest displacement (0-500 cc) make up about 18%, whereas those with very high displacement (1 501-2 000 cc) constitute roughly 7%. Finally, motorcycles with extremely high displacement (more than 2 001 cc) represent less than 1% of the total.

Figure 6.1.Bogotá's vehicle fleet by vehicle type, model year and fuel type, 2024



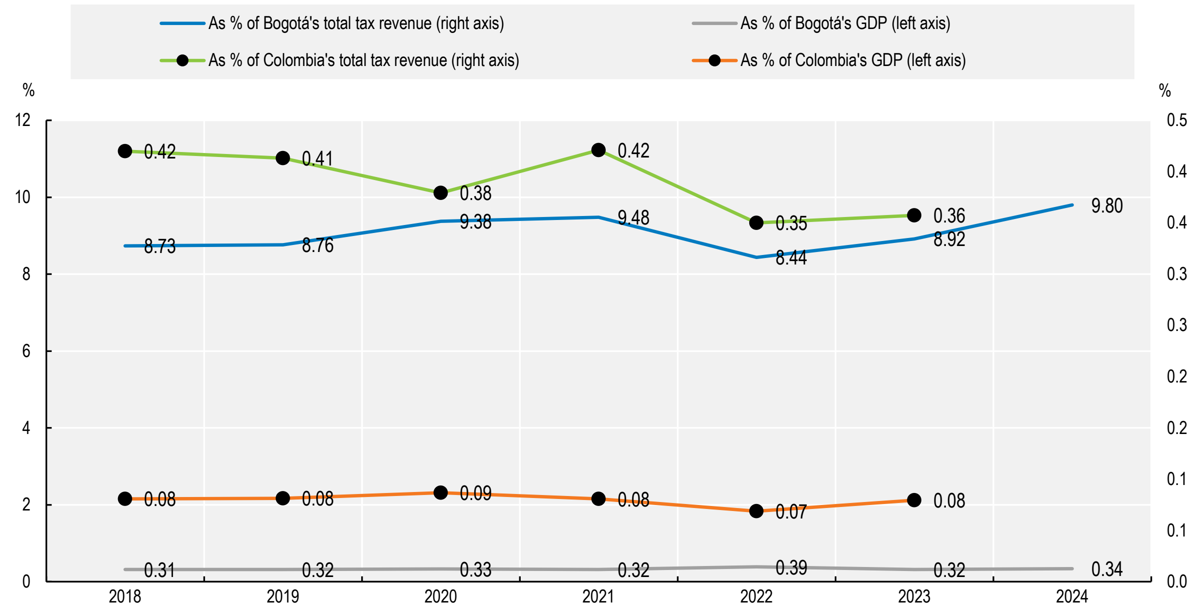
Note: For the "others" category in automobiles, this includes hydrogen and ethanol. In SUVs, the "others" category includes hydrogen and Liquefied Petroleum Gas (LPG). SUVs include off-road vehicles.
Source: Authors' own elaboration based on (Secretaría de Hacienda de Bogotá, 2024[3]).

Green transport taxes and fees have been implemented in Bogotá, but more can be done to account for CO_2 emissions

The motor vehicle tax

In Bogotá the motor vehicle revenues have been growing steadily. Motor vehicle tax revenues accounted for a notable 9.8% of the city's total tax revenues in 2024 (Figure 6.2). In comparison, in 2018, they represented 8.7% of the city's total tax revenues. They accounted for a significant 0.34% of Bogotá's GDP in 2024 – up slightly from 0.31% in 2018. Motor vehicle tax revenues in Bogotá represented 0.08% of Colombia's GDP and 0.36% of total national tax revenues in 2023.

Figure 6.2. Vehicle tax revenues in Bogotá



Note: GDP and tax revenues data for Bogotá and Colombia are in current prices. Data on tax revenues and GDP for Colombia come from OECD Revenue Statistics and are only available up to 2023.
Source: Own calculations based on (Secretaría de Hacienda de Bogotá, 2024[4]; DANE, 2025[5]; OECD et al., 2025[6]).

Bogotá's current annual motor vehicle tax is solely based on vehicle ownership, primarily determined by the vehicle's value. The amount of the tax varies based on the vehicle's value, type, and model year**.** The taxable base for new vehicles is determined by their purchase value (excluding VAT) or import declaration value, and the tax is applied proportionally to the remaining months of the fiscal year. Vehicles are categorised by fuel type, with private cars taxed between 1.7% and 3.7% of their commercial value, motorcycles over 125 cm^3 taxed at 1.7%, and public vehicles at 0.7%. At the national level, there is a vehicle registration tax, which is calculated based on the type of vehicle. This is a one-time payment made when the vehicle is purchased and entered into the RUNT (National Vehicle Registry). After registration, owners pay the annual motor vehicle tax, which is a separate obligation.

Many European countries and cities link their vehicle registration and annual circulation taxes to CO_2 emissions. Vehicle registration taxes apply at the time of purchase, whereas annual circulation taxes are paid regularly and aim to influence long-term driving behaviour. In Bogotá, the annual motor vehicle tax functions primarily as an ownership tax, while in many European contexts, the annual vehicle tax, known as the circulation tax, is determined by factors such as vehicle weight, length, CO_2 emissions, and other considerations. European countries and cities also frequently link registration taxes to CO_2 emissions. 21 out of the 27 EU member states apply CO_2-based taxation to passenger cars, with some applying varying rates depending on the city or region (ACEA, 2022[7]). A study of nine European Mediterranean countries shows that eight have implemented CO_2-based taxation for registration taxes (Croatia, Cyprus, France, Greece, Italy, Malta, Portugal, and Slovenia), seven apply it to annual circulation taxes (Croatia, Cyprus, France, Greece, Malta, Portugal, and Slovenia) and four to both (France, Greece, Malta and Portugal) (Table 6.1). France and Portugal stand out as examples of best practices due to their comprehensive and structured approaches. France employs a well-designed bonus-malus system for registration taxes, offering incentives of up to EUR 6 000 for low-emission vehicles while imposing penalties of up to EUR 20 000 for high-emission vehicles. For annual circulation taxes, a malus applies to vehicles emitting over 190 g CO_2/km. Portugal adopts a similarly robust framework by directly linking both registration and circulation taxes to CO_2 emissions and fuel type, with tiered rates that significantly increase for higher-emission vehicles (Meireles, Robaina and Magueta, 2021[8]).

Table 6.1. CO_2-based taxation in vehicle registration tax and annual circulation tax in European Mediterranean countries

Country	Registration tax	CO_2-based (registration)	Annual circulation tax	CO_2-based (circulation)
Bulgaria			Based on EU emission standards (not directly linked to CO_2 emissions).	No
Croatia	Based on CO_2 emissions, purchase price, and fuel type.	Yes		
Cyprus	CO_2-based taxation.	Yes	CO_2-based taxation.	Yes
France	Bonus/malus system based on CO_2 emissions: incentives (max EUR 6 000 for low emissions) and penalties (up to EUR 20 000 for high emissions).	Yes	Annual malus of EUR 160 for vehicles emitting over 190 g CO_2/km.	Yes
Greece	CO_2-based: rates range from 0.95 (<100 g CO_2/km) to 2.00 (>250 g CO_2/km).	Yes	CO_2-based: ranges from EUR 0.90/g (91–100 g CO_2/km) to EUR 3.72/g (>251 g CO_2/km); exempt under 90 g CO_2/km.	Yes
Italy	Bonus/malus system: incentives (max EUR 6 000 for low emissions) and penalties (up to EUR 2 500 for >250 g CO_2/km).	Yes		
Malta	CO_2-based formula: includes registration value (RV), vehicle length, and CO_2 emissions.	Yes	CO_2 and age-based: EUR 100 (≤100 g CO_2/km) to EUR 180 (150–180 g CO_2/km) in the first 5 years; age factor applies later.	Yes
Portugal	Environmental tax based on CO_2: lowest rate for <110 g CO_2/km; highest for >235 g CO_2/km (varies by fuel type).	Yes	Environmental tax based on CO_2 for vehicles under 2.5 tonnes, registered after July 2007.	Yes
Romania	Scrapping scheme based on CO_2: incentivises replacement of vehicles older than 8 years with low or zero-emission vehicles.	No		
Slovenia	CO_2 -based taxation: ranges from 0.5% (gasoline) and 1% (diesel) under 110 g CO_2/km to 28% (gasoline) and 31% (diesel) over 250 g CO_2/km Incentives based on CO_2 for electric vehicle	Yes		

Source: Authors' own elaboration based on (Meireles, Robaina and Magueta, 2021[8]).

Annual circulation vehicle taxes that account for CO_2 emissions tend to be more effective than registration taxes in reducing emissions and curbing the demand for new fossil fuel-based cars (Meireles, Robaina and Magueta, 2021[8]; Gass, Schmidt and Schmid, 2014[9]). Annual circulation taxes and registration tax instruments differ in their effects on emissions and fiscal revenues over the short and long term. Registration taxes influence the initial purchase decision, often encouraging the adoption of electric or hybrid vehicles through lower rates. In contrast, circulation taxes impose ongoing costs based on emissions, promoting sustained behavioural change. By targeting the operational costs of vehicles, circulation taxes directly influence decisions such as how much to drive and what type of car to own, providing a continuous incentive to choose cleaner, more efficient vehicles and reduce driving over time.

Calculation methods for CO_2-based taxation under the annual vehicle circulation tax vary widely across European cities. Paris, France applies fixed rates for vehicles exceeding CO_2 thresholds under the EU's Worldwide Harmonised Light Vehicle Test Procedure (WLTP) standards (Table 6.2). Flanders, Belgium, adjusts rates based on CO_2 emissions, fuel type, and EU standards, increasing or decreasing by 0.30% per g/km above or below 122g CO_2/km. In the Netherlands, the rate varies according to vehicle weight, fuel type, and region (province). Fixed rates offer simplicity and predictability but often lack flexibility and fairness, whereas variable rates provide stronger incentives for lower emissions but are more complex and costly to administer. The choice depends on a country's or city's climate policies, administrative capacity, public acceptance, and the economic impact on vehicle sales.

Table 6.2. Calculation methods for CO_2-based taxation under the annual vehicle circulation tax in selected European countries

Country	Calculation method
Belgium	Varies by region. In Flanders, it's based on CO_2 emissions, fuel type, age, and emission standards. In Wallonia, a bonus/malus system applies, with penalties for cars emitting 146g/km or more.
Denmark	Based on fuel consumption (i.e. not directly linked to CO_2 emissions) as follows: Petrol cars: semi-annual rates vary from DKK 330 for cars covering at least 50km per litre of fuel to DKK 11 680 for cars with less than 4.5 km per litre. Diesel cars: semi-annual rates vary from DKK 460 for cars covering at least 56.3 km per litre of fuel to DKK 17 090 for cars with less than 5.1 km per litre.
France	Annual malus: EUR 160 for cars emitting over 190g CO_2/km.
Finland	CO_2-based tax component: rates for cars and vans ranging from EUR 53.29 to EUR 654.44. Excise duties for road traffic fuels depend on the energy content and CO_2 emissions.
Germany	CO_2-based for cars registered from 1 July 2009: base tax (EUR 2 per 100 cc for petrol and EUR 9.5 per 100 cc for diesel) plus a CO_2-based component, linear at EUR 2 per gramme of CO_2. Cars emitting less than 95g/km are exempt from the CO_2 component.
Netherlands	Based on CO_2 emissions, vehicle weight, fuel type and region (province).

Source: (ACEA, 2020[10]; ACEA, 2019[11]).

For Bogotá to introduce a CO_2-based surcharge on the motor vehicle tax, several key factors would need to be considered

1. A mechanism to account for vehicle CO_2 emissions in the city

Colombia has yet to implement a CO_2 emissions testing framework like the EU's WLTP; therefore, alternative parameters, such as weight and mass, could be used to account for high-emission vehicles. Applying a CO_2-based surcharge to the existing vehicle ownership tax in Bogotá would require mandating CO_2 emissions certification for new cars, which is a national affair more than a municipal one. At the national level, importers are not currently required to declare certified emissions data, nor does the government enforce emissions testing during registration. In this context, weight is a key factor, especially given the rise of SUVs, which now make up nearly half of global car sales (IEA, 2024[12]). Heavier vehicles emit around 20% more CO_2 than medium-sized cars due to higher fuel consumption and resource-intensive manufacturing. SUVs alone accounted for over 20% of global CO_2 emissions growth in 2023, offsetting gains from improved fuel efficiency and EV adoption. Considering vehicle weight in a potential CO_2 surcharge to the motor vehicle tax would ensure that heavier vehicles, which contribute disproportionately to emissions, bear a greater share of the tax burden. This, in turn, would incentivise the adoption of lighter, more efficient vehicles, helping to reduce overall emissions from the transportation sector (IEA, 2024[12]).

Reducing vehicle mass can also help lower emissions from road transport (International Transport Forum, 2021[13])**.** A study for the European Union shows that returning vehicle mass to levels observed in the mid-1970s could significantly reduce emissions and support EU targets, such as a 60% reduction in transport-related CO_2 emissions by 2050 (International Transport Forum, 2021[13]). In January 2025, France introduced a mass-based tax on passenger vehicles exceeding a certain weight threshold to encourage the use of lighter, more fuel-efficient cars. The specific weight threshold and tax rates are yet to be defined (Direction de l'information légale et administrative, 2025[14]).

Harmonising emissions-based taxes within Colombia and across LAC could enhance cost-effectiveness by providing manufacturers with stronger incentives to reduce emissions. A study on France, Germany, and Sweden found that while CO_2-based purchase and circulation taxes were implemented, they did not significantly impact manufacturers' decisions to produce low-emission vehicles in the long run, likely due to the high fixed costs of redesigning vehicles (Klier and Linn, 2012[15]). However, the study suggests that harmonising emissions-based taxes across countries could improve their effectiveness by creating a larger market incentive. If multiple countries in the region adopted similar CO_2-based tax policies, manufacturers could distribute redesign costs across a broader customer base, making it more profitable to develop lower-emission models rather than merely adjusting prices.

2. Define the scope of the surcharge based on specific criteria

Defining the scope of the CO_2 surcharge based on specific criteria may help clarify its application and support its intended objectives. This includes determining whether it will apply only to new vehicles or if special rates will be introduced for company cars or heavy SUVs. International examples provide useful insights: in Chile, the surcharge applies exclusively to new vehicles, while in the Netherlands and Norway, employees who use a zero-emission company car, such as an electric vehicle, benefit from lower income taxes. These approaches highlight different strategies for structuring vehicle-related surcharges to promote lower emissions (Meireles, Robaina and Magueta, 2021[8]).

3. Consider addressing the potential regressivity of a CO_2-based surcharge

A CO_2-based vehicle surcharge could disproportionately impact lower-income consumers. However, if well-designed with criteria accounting for regressivity, it can be structured to primarily target higher-value vehicles. For instance, these criteria could focus on heavier, more expensive vehicles like SUVs or new vehicles with large mass. Nevertheless, any environmental taxation measure should be complemented by measures to mitigate unintended financial burdens. Targeted subsidies or financial support should be implemented to protect vulnerable populations. Strengthening compensation and mitigation measures, such as cash transfers, in-kind support, active labour market policies, and entrepreneurship programmes, is crucial to cushioning social costs and reinforcing social protection systems (OECD et al., 2024[1]).

4. Consider reassessing tax incentives for hybrid vehicles

Tax incentives for hybrid vehicles could take into account their actual environmental performance and adoption patterns among citizens. Bogotá's motor vehicle tax provides incentives for electric and hybrid vehicles from 2021 to 2030, including a 40% tax discount for five years on new hybrid electric vehicles (excluding gas hybrids). However, these incentives could be reassessed based on CO_2 emissions, weight, and whether vehicles are plug-in (heavier) or non-plug-in (more reliant on combustion engines). Studies show that plug-in hybrid vehicles (PHEVs), if not regularly recharged, can have higher fuel consumption and emissions than fully electric vehicles and even some non-rechargeable hybrids (Degeilh and Prevost, 2022[16]; Dornoff, 2021[17]). For instance, the Netherlands reduced tax subsidies for PHEVs after improved CO_2 measurement methods revealed that these vehicles often fail to achieve the expected emissions reductions under real-world driving conditions (International Council on Clean Transportation, 2018[18]). Additionally, research in the United States (US) indicates that the CO_2 reduction potential of electric and hybrid vehicles is influenced by usage patterns, as these vehicles are often adopted as supplementary rather than primary cars in multi-vehicle households (Squalli, 2024[19]). This highlights the need for targeted policies that encourage the optimal use of hybrid and electric vehicles to maximise their environmental benefits (Squalli, 2024[19]).

5. Strengthen co-ordination with national taxes and policies, considering the existing taxes, fees, and policies already in place to reduce CO_2 emissions

Aligning vehicle taxation with national urban planning, energy and sustainable development policies could support a more coherent and sustainable policy framework. Taxation represents only one element of the broader climate policy toolkit, and achieving effective outcomes will require strong synergies and co-ordination with complementary policy instruments (OECD, 2023[20]). Integrating subnational vehicle taxation policies and annual incentives with national vehicle registration tax strategies will help maintain consistency and efficiency in the tax system. For example, taxes on ownership and fuel consumption at the national level, coupled with incentives for electric vehicle adoption at the local level, can lead to significant environmental benefits (Barros et al., 2021[21]).

Co-ordinating national and subnational policies that take green infrastructure into account may help support the shift towards cleaner transport mechanisms. As demand for low-emission vehicles, such as electric cars, increases, it is crucial to invest in the necessary infrastructure, such as expanded EV charging networks, to accommodate this change. By enhancing green infrastructure, cities can ensure that the transition to cleaner transportation is both practical and efficient, making sustainable mobility options more accessible while helping to reduce overall carbon emissions. This investment not only supports environmental goals but also fosters long-term sustainability in urban transport systems.

There are other taxes, fees, and policies in Bogotá that indirectly address the cost of pollution from vehicles at both the national and local levels. Any proposed CO_2-based surcharge on the motor vehicle tax should consider the existing tax burden on vehicles related to pollution. These include the Traffic Signal Fee (*Derecho de Semaforización*), SOAT (mandatory vehicle insurance), VAT, technical inspection fee, vehicle registration tax, and a 25% gasoline surcharge. Additionally, there are tariffs on gasoline vehicles, parking fees, tolls, VAT on private insurance, and the fee-based permit system, *Pico y Placa Solidario* (see next section on fee-based permit *Pico y Placa Solidario*).

6. Ensure a sustainable and adaptive tax system

A vehicle tax system that includes all vehicle types may help ensure that high-emission vehicles contribute proportionately more, potentially allowing for reduced rates on lower-emission alternatives. Regular adjustments, whether annually or biennially, will help the system remain effective by reflecting changes in market structure and vehicle technology (International Council on Clean Transportation, 2018[18]).

Impact on overall CO_2 emission reductions from a CO_2-based vehicle circulation tax may take years, as older cars are gradually replaced by newer, lower-emission vehicles. A CO_2-based vehicle circulation tax can drive behavioural change with long-term impacts but may have a limited effect on reducing CO_2 emissions in the short term. A study on Germany's tax system found that while higher taxes on high-emission vehicles slightly reduced new car registrations – by an estimated 9 500 vehicles under the most stringent 2014 tax formula – the overall reduction in CO_2 emissions was minimal, at just 35 000 tonnes. This accounts for only 0.4% of the climate costs from newly registered cars and an even smaller 0.02% reduction in total climate costs from the country's entire vehicle fleet. Since the tax only affects new purchases, the full impact on emissions will take years to materialise as older cars are gradually phased out (Malina, 2016[22]).

Leveraging and improving an existing CO_2-based contribution structure in the city, such as the fee-based "Pico y Placa Solidario" scheme, could serve as a transitional measure to reduce CO_2 emissions

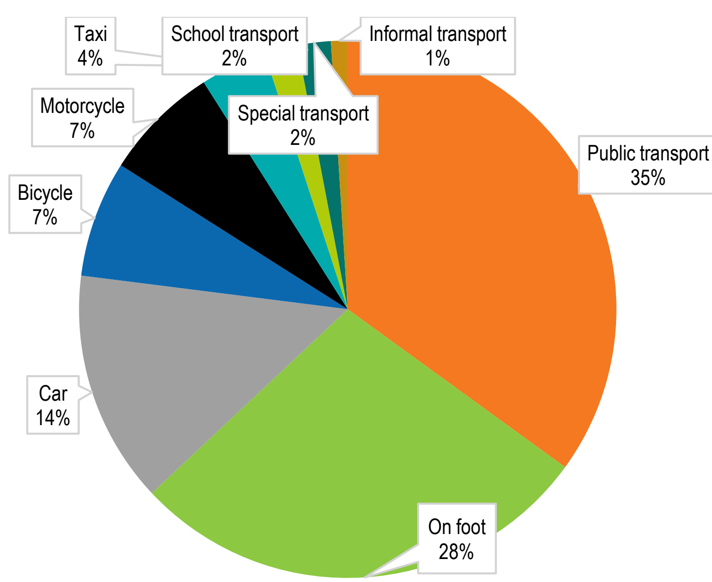
***Pico y Placa Solidario* offers a tiered fee system that accounts for the environmental impact of cars in Bogotá.** Pico *y Placa Solidario* is a voluntary congestion fee that complements the odd-even driving restriction known as the *Pico y Placa*, introduced in 1998 in Bogotá. Over the years, *Pico y Placa* has undergone several modifications aimed at expanding its scope, particularly in terms of the number of vehicles restricted per day. In 2020, a key change was introduced: the option to pay a congestion fee to be exempted from the restriction, a scheme known as *Pico y Placa Solidario* (Montero, Sepúlveda and Basso, 2023[23]). This policy is based on two main vehicle criteria: pollution rate and commercial value. The exemption fee for a given vehicle is calculated by multiplying a base rate, approximately USD 8 per day, by a coefficient that rises according to the vehicle's market value and its emissions, considering both local and global pollutants (Montero, Sepúlveda and Basso, 2023[23]). The pollutants assessed include nitrogen oxides, carbon monoxide, unburned hydrocarbons, carbon dioxide, and fine particulate matter (PM2.5), all of which affect public health (Secretaría de Ambiente, 2021[24]).

Unlike a CO_2-based motor vehicle tax, which would be mandatory and annual, this system operates on a voluntary basis, with higher fees for more polluting vehicles. Funds raised from the policy are allocated to the city's public transportation system. In addition to the *Pico y Placa Solidario*, individuals who wish to use their vehicle can benefit from the Shared Vehicle (*Carro Compartido)* exception, which exempts vehicles with three or more occupants, including the driver, from the *Pico y Placa* traffic restriction (Alcaldía de Bogotá, 2022[25]).

International experiences suggest that congestion charges, such as Bogotá's Pico y Placa Solidario can contribute to reducing CO_2 emissions in cities. In Stockholm, the congestion charge led to a 10-15% decrease in traffic-related emissions, including nitrogen oxides, carbon monoxide, unburned hydrocarbons, carbon dioxide, and fine particulate matter (PM2.5), thereby improving public health. Similarly, Milan's "Area C" congestion charge resulted in a 30% reduction in black carbon levels within the restricted zone, enhancing air quality (Cruz Rodriguez and Olarte Aparicio, 2025[26]).

Including high-displacement motorcycles in the Pico y Placa Solidario scheme could further help reduce CO_2 emissions, as these vehicles contribute significantly to air pollution in Bogotá. With around 520 000 motorcycles in circulation, they account for 45% of carbon monoxide and 39% of volatile organic compound emissions among mobile sources (Alcaldía de Bogotá, 2021[27]). Additionally, 86% of motorcycles in Bogotá fall into the medium and high-displacement categories, with engine capacities ranging from 501 cc to 1 500 cc. Despite being the second most used fossil fuel-powered mode of transport after cars in Bogotá, *Pico y Placa Solidario* does not currently apply to motorcycles (Figure 6.3). Other Colombian cities, such as Medellín, Armenia, and Pereira, have implemented *Pico y Placa* restrictions for motorcycles to address congestion and environmental impact. However, complementary measures would be needed to mitigate the effects on vulnerable populations, as motorcycles are predominantly used by individuals in socioeconomic strata 1, 2, and 3, making them an essential mode of transport for economically disadvantaged groups (Observatorio de Movilidad, 2017[28]).

Figure 6.3. Modal share of daily trips in Bogotá



Source: Encuesta de Movilidad 2023 (Secretaría de Movilidad, 2023[29]).

Advancing implementation and green transformation of the public lighting tax

Public lighting is a significant source of energy use in cities and a less visible but notable contributor to CO_2 emissions. Light pollution can disrupt ecosystems, affect human health by interfering with sleep patterns, and obscure our view of the night sky. In some municipalities, street and area lighting can consume up to 40% of total electricity use, while globally it represents approximately 1-3% of overall electricity demand (Clean Energy Ministerial and IPEEC, 2025[30]). It is also estimated that public lighting contributes to approximately 6% of global CO_2 emissions (Novikova, Hessling and Stelmakh, 2018[31]). These figures highlight the urgency of transitioning from traditional lighting systems to more energy-efficient alternatives. To achieve this, local governments must prioritise public lighting within their sustainability strategies and adopt a well-defined, long-term plan to guide the transition (Pardo-Bosch et al., 2022[32]).

Switching from a conventional public lighting system to Light Emitting Diode (LED) technology can offer municipalities significant energy savings while reducing CO_2 emissions. Street lighting is typically one of the largest sources of energy consumption under a municipality's direct control. By switching to LED streetlights, municipalities can achieve up to 50% energy savings (Clean Energy Ministerial and IPEEC, 2025[30]). Bogotá still needs to replace approximately 100 000 streetlights with LED technology, with lighting capacities adapted to different needs (UASP, 2025[33]). Upgrading public street lighting with more efficient fixtures at the right time can reduce CO_2 emissions by up to 7%, depending on the performance of the new lights (Cumo, Pennacchia and Sferra, 2025[34]). For example, in the municipality of São José dos Campos, Brazil, LED public lighting resulted in energy savings of around 70%, along with reduced energy and maintenance costs (Kivimäki, 2013[35]). The Costa Rican public electricity company, *Compañía Nacional de Fuerza y Luz*, announced a 73% reduction in public lighting costs following the replacement of 2 200 streetlights in San José. The new lights are nearly three times brighter and emit white light, enhancing public safety by reducing dark areas (Serrano, 2023[36]). By investing in better lighting, cities can take meaningful steps towards climate neutrality, protect biodiversity, and help reduce the impacts of climate change – all while improving energy efficiency in urban infrastructure (Cumo, Pennacchia and Sferra, 2025[34]).

Incorporating smart public lighting systems in parallel to LED technology can further enhance maintenance efficiency and reduce CO_2 emissions. Smart lighting systems, which combine LED technology with sensors and remote management, significantly reduce energy use, operational costs, and carbon emissions. Cities like Copenhagen and Chicago have achieved energy savings of up to 65% by upgrading to smart LED streetlights with real-time monitoring (Pardo-Bosch et al., 2022[32]). Beyond lighting, these systems generate valuable data to support integrated urban services such as traffic management, smart parking, EV charging, and environmental monitoring (Jin et al., 2016[37]).

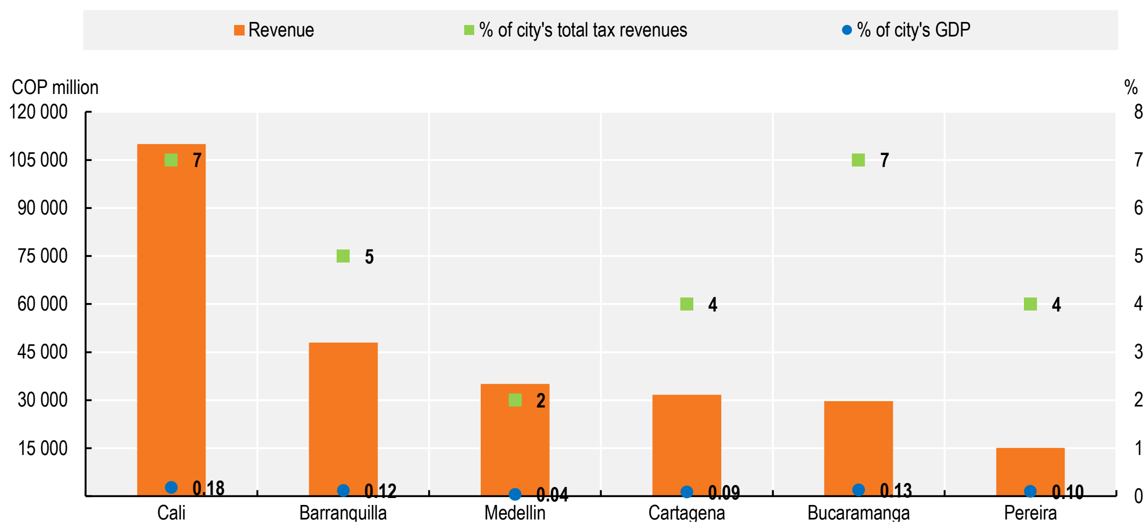
A public lighting tax aligned with sustainability goals may contribute to increasing revenue, lowering CO_2 emissions, and advancing Bogotá's green transition

Specific taxes on energy use, such as public lighting taxes, can play an important role in reducing CO_2 emissions in Bogotá (OECD, 2024[38]). By changing the relative prices of energy, and emission-intensive goods and services, energy use taxes can encourage more sustainable choices (OECD, 2024[38]). The levy acts as a Pigouvian tax, encouraging taxpayers to adjust their electricity consumption habits, since lower usage results in a lower tax burden. This mechanism is beneficial for the environment, as reduced electricity consumption is also associated with lower water use in Bogotá (Alcaldía de Bogotá, 2024[39]).

Several cities in Colombia already use a public lighting tax to finance LED technology, aiming to reduce energy consumption and CO_2 emissions. In Cali, Medellín, Pasto, and Cartagena, the public lighting tax has been used to finance the adoption of LED technology. In Pasto, the modernisation of the public lighting system is expected to reduce installed power by 7.83% (equivalent to annual energy savings of 950 MWh) and cut CO_2 emissions by 362.28 tonnes per year. This decrease in energy consumption will contribute to further reductions in greenhouse gas emissions (Právne Consulting Group, 2020[40]).

Tax revenues from the public lighting tax are already an important source of income for some cities in Colombia that apply it. In Cali, revenues from the public lighting tax represent 0.18% of the city's GDP and a significant 7% of its total tax revenue, amounting to COP 109 986 million (Figure 6.4). Similarly, in Bucaramanga, the tax also accounts for 7% of total tax revenues and 0.13% of the city's GDP, amounting to COP 38 163 million. Barranquilla follows with the tax contributing 5% of total tax revenues and 0.12% of GDP, totalling COP 57 567 million. In both Cartagena and Pereira, the public lighting tax contributes 4% of total tax revenues, representing 0.09% and 0.10% of each city's GDP, respectively. Lastly, in Medellín, the tax represents 2% of total tax revenue and 0.04% of the city's GDP.

Figure 6.4. Public lighting tax in Colombian cities: By revenue, share of city's GDP, and share of city's total tax revenue, January-June 2023



Source: Authors' own elaboration based on (Ministerio de Hacienda, 2024[41]).

Among the cities in Colombia that apply this tax, it is primarily based on electricity consumption, with rates varying from percentages of consumption to fixed monetary amounts. The most common tax base used across municipalities with a public lighting tax in Colombia is electricity consumption (Table 6.3). Municipalities like Cartagena, Ibagué, Bucaramanga, Sincelejo, Sopó, Tocancipá, Buenaventura, Paz de Ariporo, and Cúcuta rely solely on electricity consumption for the public lighting tax. Other cities like Medellín, Cali, Chía, Manizales, Mosquera, Cajicá, and Pasto combine consumption-based charges with property taxes, creating a mixed model. Tax rates vary significantly, typically falling into two categories: percentages of consumption (KWh) and fixed amounts or UVT-based rates. For percentage-based taxes, rates range from low to moderate, such as Tocancipá (2.5%-6%), Cajicá (2.5%-8%), and Bucaramanga (5%-15%). Some cities, like Medellín, apply much higher rates, with up to 96.757% of consumption taxed. Other municipalities, including Cartagena, Mosquera, and Buenaventura, use fixed rates in COP or UVT. For instance, Cartagena's tax ranges from COP 0 to COP 35 883 (2023), while Buenaventura's rate spans 0.04 to 101.17 UVT. This variety reflects how municipalities adapt their taxes to local needs, considering socio-economic factors, energy consumption patterns, and policy goals.

Colombian cities that employ a mixed model, combining a consumption-based public lighting tax with a property tax surcharge, demonstrate how this approach can enhance contributions towards the maintenance and improvement of public lighting services. This model includes a consumption-based public lighting tax alongside a property tax surcharge for properties not connected to the public utility network. In some municipalities, such as Manizales, this model is extended to cover developable but unurbanised land, as well as urbanised but undeveloped areas. For instance, in 2024, Manizales implemented an adjustment that included nearly 1 800 properties that had never been subject to this tax. This additional contribution is vital for sustaining and improving the public lighting service, which plays a crucial role in ensuring public safety and enhancing the quality of life in the city (Alcaldía de Manizales, 2024[42]).

Table 6.3. Adoption of public lighting tax in municipalities in Colombia

Municipality	Tax base	Rate on consumption
Medellín	Consumption/Property tax	0 - 96.757% KWH / 1X1000 Property tax
Cali	Consumption/Property tax	Pesos KWH / 3X1000 Property tax
Cartagena	Consumption	COP 0 to COP 35 883 (2023)
Ibagué	Consumption	0 - 14%
Bucaramanga	Consumption	5% - 15%
Sincelejo	Consumption	0.07% - 15%
Chía	Consumption/ Property tax	4% - 15.5% KWH / 0.5% Property tax
Manizales	Consumption/ Property tax	COP 1 300 – COP 30 500 residential and up to COP 4 241 000 commercial (1 to 100 UVT) – Year 2023
Mosquera	Consumption/ Property tax	0 - 100.8301 UVT / 7% of the property tax
Sopó	Consumption	Fixed amount in pesos (Stratum 1 to 4) / 4% - 16%
Tocancipá	Consumption	2.5% - 6%
Buenaventura	Consumption	0.04 - 101.17 UVT
Paz de Ariporo	Consumption	5.5% - 16%
Cajicá	Consumption/ Property tax	2.5% - 8% KWH / 0.5% Property tax
Pasto	Consumption/ Property tax	Fixed amount in pesos / 17.3% Property tax
Cúcuta	Consumption	13% limits depending on use

Source: (Alcaldía de Bogotá, 2024[39]).

Several municipalities around the world also use electricity consumption as the main tax base for the public lighting tax, often applying different rates depending on whether the user is residential, commercial, or industrial. In San José, the public lighting charge is applied per kWh, with two differentiated rates: one for residential users and another for industrial and commercial users (CNFL, 2025[43]). In Jakarta, a Street Lighting Tax is levied on individuals and classified as an electricity excise tax, set at a rate of 2.4%. Special tax rates are also applied to different types of industrial businesses (Berita Jakarta, 2020[44]). In Accra, a Public Lighting Levy of 3% and a National Electrification Scheme Levy of 2% are applied uniformly across all consumer types, based on the electricity price per kWh (OECD, 2024[45]). In Guatemala, the public lighting tax is also based on electricity consumption, with methods varying according to the Municipal Council. These methods may include a fixed amount, a tiered amount, a percentage of the electricity bill, or mixed methods. Planned reforms to the public lighting law aim to ensure more equitable charges by determining municipal rates based on the number of lamps per 100 users. Previously, methods such as fixed rates constituted up to 59% of the amount billed to users consuming up to 50 kWh per month (Maldonado, 2024[46]; Ministerio de Energía y Minas, 2014[47]).

Determining rates for a public lighting tax could involve considering multiple criteria, such as maintenance and investment costs. For example, in Manizales, new public lighting tax rates were introduced in 2024, based on infrastructure maintenance and investment in the modernisation of the public lighting system. These rates support the city's transition to clean and renewable energy by fundamentally reforming how the tax is applied to energy producers and self-generators (Alcaldía de Manizales, 2024[48]). In Guatemala City, the criteria are similar and include the cost of public lighting energy charged by the distributor at the price set by the National Electricity Energy Commission, as well as the billing for energy consumption related to potable water pumps, municipal building energy use, and residual charges (CNEE, 2020[49]). The purpose of these criteria is to offer economic and legal certainty to users by ensuring the delivery of a high-quality public lighting service, with charges strictly reflecting operational costs.

Considering a citizen-centric lighting design model could support public acceptance of a potential environmental public lighting tax in Bogotá. Engaging citizens in the design of public lighting solutions is crucial, as it helps ensure their needs, preferences, and concerns are reflected in the final design (Castilla, Blanca-Giménez and Llinares, 2024[50]). This approach leads to more inclusive and well-rounded lighting solutions. By considering the perspectives of urban residents and users, planners can develop lighting systems that meet the varied needs of the community, foster sustainability, and enhance overall well-being. Public lighting should also evoke a sense of innovation and modernity, as these qualities contribute to the perception that the system is both energy-efficient and environmentally responsible. These insights can provide valuable guidance to municipal governments in designing solutions that are both efficient and environmentally sustainable (Castilla, Blanca-Giménez and Llinares, 2024[50]).

Other tax and financing instruments to foster a green transition in Bogotá

Environmentally related taxes are increasingly being adopted across OECD and LAC economies. They can provide substantial incentives for innovation, as businesses and consumers seek cleaner, more sustainable solutions in response to the financial costs associated with pollution. Among the policy tools available are: tradable permits (which allocate emission or resource extraction rights); deposit-refund systems, property tax incentives, and discounts to fees and charges (which create positive incentives to promote sustainable practices or increase the cost of polluting products or activities). This section presents examples of cities and subnational governments in LAC and worldwide that are using property taxes discounts and public service charges discounts that could help Bogotá further improve its tax structure while promoting a green transition.

Property taxes and incentives to promote a green transition at the subnational level

Property tax incentives can serve as a useful tool to promote sustainable practices at the subnational level. These fiscal benefits have been widely used to expand the use of renewable energies, to encourage cleaner technologies in production and construction, to reduce waste and to enhance energy efficiency and natural resource management. These incentives can also help foster the transition towards a circular economy and expand green areas to improve well-being in urban areas while increasing adaptation and resilience capacities to face extreme climate-related weather events.

Fostering renewable energies and energy efficiency

Experiences from cities across LAC highlight how property tax incentives can drive the green transition by increasing the demand of renewable energies (Table 6.4). In 2018, the Brazilian city of Salvador introduced the Yellow Property Tax Sustainable Certification Programme (IPTU Amarelo – Imposto Predial Territorial Urbano), a tax discount initiative designed for homeowners and businesses who install solar photovoltaic (PV) systems. The discount is determined by the proportion of energy generated by solar power relative to the property's total energy consumption. Properties that generate 90% or more of their energy from solar power receive a 10% discount, those generating between 70% and 90% receive a 7% discount, and properties generating at least 50% earn a 5% discount (SECIS, 2018[51]). The Municipal Secretariat of Sustainability, Innovation, and Resilience issues the IPTU Amarelo certificate after receiving and verifying the application from property owners (Sefaz, 2025[52]) and can be renewed annually (Salvador, 2018[53]). In 2024, the number of participants in the programme increased by 10% compared to the previous year and as a result, the amount deducted for taxpayers increased by 18% in that period (Sefaz, 2024[54]).

Salvador also created the Green IPTU initiative to promote sustainable construction standards and enhance energy efficiency in buildings. The Green IPTU offers a reduction in the property tax rate for construction and renovation projects based on their investments in sustainable technologies, water and waste management, energy efficiency and the use of renewable energies. The Green IPTU certification is issued by the Municipal Department of Development and Urbanism that oversees the implementation (Salvador Prefeitura, 2022[55]). Projects earn points towards achieving gold, silver, or bronze certification, which entitles them to property tax (IPTU) discounts of 10%, 7%, or 5%, respectively (Prefeitura Municipal do Salvador, 2023[56]). The certificate is valid for five years with the possibility of renewal for an equal period by presenting a report of compliance (Salvador, 2022[57]).

Table 6.4. LAC cities applying property tax incentives and other policy tools to promote renewable energy, energy efficiency and sustainable construction

City	Type of initiative	Objective	Beneficiaries
Salvador, Brazil	Yellow Property Tax (*IPTU Amarelo*) – Discounts of 10%, 7%, and 5% on property tax for installing solar panels, depending on the percentage of solar energy generated relative to total property consumption.	Renewable energy	Businesses / Residents
	Green Property Tax (*IPTU Verde*) – Reductions of 10%, 7%, and 5% on property tax for construction and renovation projects that invest in sustainable technologies (waste, water, and energy management).	Energy efficiency / Sustainable construction	Businesses / Residents
Buenos Aires, Argentina	ABL (Lighting, Sweeping and Cleaning Tax) – 10% tax discount for reducing energy consumption by at least 5% in the last year, meeting environmental requirements, and having no outstanding debts.	Energy efficiency	Businesses
Mexico City, Mexico	Water Supply Fee – 20% reduction if the installation of solar panels, rainwater harvesting systems, or similar technologies results in at least a 20% reduction in energy and/or potable water consumption or water treatment/reuse.	Renewable energy / Energy efficiency / Water consumption reduction	Businesses / Residents

Source: Authors' elaboration.

The city of Buenos Aires in Argentina offers a 10% discount on the Remuneration Rate for Lighting, Sweeping and Cleaning services (Tasa Retributiva de Servicios de Alumbrado, Barrido y Limpieza -ABL) to promote energy efficiency. To qualify for this reduction, businesses must adopt sustainable practices and demonstrate a reduction in energy consumption of at least 5%, over a period of 12 months, compared to the previous year, comply with environmental regulations and have no tax debt (APrA, 2022[58]). The tax reduction is applied annually for a three-year period and can be renewed through the same procedure, with an additional 5% reduction based on the previous consumption reported (APrA, 2022[58]). Furthermore, public or private entities that have a valid national or international environmental certification, accredited by the Argentinian Organisation for Accreditation (*OAA – Organismo Argentino de Acreditación)* can obtain a 5% discount on the ABL tax. The application must be submitted to the Agency for Environmental protection (*APrA*), accompanied by the relevant certification, the OAA accreditation certificate, and a signed statement confirming that the certification applies to the production process or to at least 30% of the products or services offered (APrA, 2022[59]).

The Fiscal Code of Mexico City grants a 20% reduction in the water supply tariff (*Derecho de suministro de agua)* for owners of real estate properties who install and use solar panels, rainwater harvesting systems, or other technologies that reduce by at least 20% the consumption of energy and/or potable water or allow for the treatment and reuse of running water. Owners must submit a certificate issued by the Ministry of Environment (*Secretaria de Medio Ambiente*), specifying the type of devices and benefits provided (Gobierno de la Ciudad de México, 2023[60]).

Protection and expansion of green areas

Brazilian cities have been at the forefront of using municipal property taxes as an incentive for environmental protection and the expansion of green spaces, making urban areas more livable and adaptable (Table 6.5).

Table 6.5. LAC cities applying property tax incentives tools to protect and expand green areas

City	Type of initiative	Objective	Beneficiaries
Curitiba, Brazil	Green Property Tax (IPTU Verde) – Reductions between 10% and 100% of the land value for IPTU calculation, depending on the percentage of land covered by endemic green areas.	Preservation of green areas and local biodiversity	Businesses / Residents
Araraquara, Brazil	Green Property Tax (IPTU Verde) – Discounts of 10%, 20%, or 40%, depending on the percentage of the property's surface covered by trees. Cumulative discount of up to 20% for installing (a) photovoltaic systems (10% discount) or (b) solar water heating systems (4%); presence of permeable green areas covering more than 30% of the land (6%).	Preservation of green areas and energy efficiency	Businesses / Residents
Mexico City, Mexico	Property Tax – Reductions of 10% or 25% if the property has mature trees, green areas covering at least one-third of the property's surface (25%), or green roof installations (10%).	Preservation of green areas / nature-based solutions	Residents

Source: Authors' elaboration.

Since 2000, the Municipality of Curitiba, Brazil, has been implementing a law that provides tax exemptions or reductions on land value for property tax (IPTU) calculations, based on the land's forest coverage, verified by the Municipal Department of Environment (SMMA). The land value reductions are proportional to the percentage of forest cover (Table 6.6). Additionally, an isolated tree whose canopy covers at least 40% of the total property area qualifies for a 50% reduction on the land value and trees that are immune to cutting, as well as Araucaria angustifolia trees with a diameter greater than 0.5 meters, receive a 10% discount each, up to a maximum reduction of 50% per property (Câmara Municipal de Curitiba, 2000[61]).

Table 6.6. Land value reductions proportional to the percentage of forest cover in Curitiba, Brazil

Relevant native forest		Native forest	
% of forest cover	**% of land value reduction**	**% of forest cover**	**% of land value reduction**
Above 70%	100%	Above 80%	60%
50 to 69%	80%	50 to 79%	40%
30 to 49%	70%	30 to 49%	30%
20 to 29%	50%	Above 10% to 29%	20%
10 to 19%	40%		
At least 9%	30%		

Note: Native forests are vegetation masses with the flora of the Municipality of Curitiba, aiming at preserving existing water resources, wildlife habitats, soil stability, landscape protection, and maintenance of balanced distribution of forest masses. Relevant native forests are those that, due to their typology, location and size are registered in the Special Green Areas Sector registry of the Municipal Department of Environment (Câmara Municipal de Curitiba, 2000[61]).
Source: (Câmara Municipal de Curitiba, 2000[61]).

Since 2009, the Municipality of Araraquara in Brazil has been implemented a Green IPTU programme, offering property tax discounts for built areas of less than 1 000 m and built and non-built areas larger than 1 000 m^2, based on the percentage of the property covered by trees (Municipio de Araraquara, 2018[62]). A wooded cover exceeding 80% of the total property land qualifies for a 40%

discount on the annual property tax, between 45% and 80% of wooded cover grants a 20% discount, and between 30% and 45% cover grants a 10% discount (Municipio de Araraquara, 2018[62]; Municipio de Araraquara, 2009[63]). This tax exemption is valid for five years, with the possibility of renewal (Municipio da Araraquara, 2023[64]). However, properties must comply with measures to ensure the good development of the vegetation, such as installing fences, fire prevention measures, regular irrigation, cutting and pest control, and erosion risk monitoring, among others (Municipio de Araraquara, 2024[65]). Finally, since 2018, the tax incentives under the Green IPTU legislation in Araraquara have been expanded to the areas mentioned above, beyond green space preservation. Taxpayers can be entitled to a cumulative discount on property tax (IPTU), with a maximum of 20%, if they install photovoltaic systems (10% discount), have a permeable area greater than 30% of the total property area (6% discount) and/or install solar hydraulic heating (4% discount) (Municipio de Araraquara, 2018[62]).

Mexico City has also made efforts to improve urban green areas by offering reductions of 10% or 25% on property tax (Impuesto Predial) payments. Individuals owning a residential property can receive a 25% reduction of the property tax if they have mature trees (only those planted directly in the ground qualify for the reduction) or green areas that cover at least one-third of the total land area and receive maintenance according to environmental regulations. Property owners who install green roofs in at least one-third of the total surface may receive a 10% reduction. In both cases, a certificate issued by the Ministry of Environment must be submitted (Gobierno de la Ciudad de México, 2023[66]).

Waste management and the circular economy

Cities and regions are using tax reductions, discounts and exceptions to improve waste management practices, reduce food waste and promote a circular economy (Table 6.7).

Table 6.7. Cities using property tax incentives and other policy tools to promote more effective waste management and circular practices

City	Type of initiative	Objective	Beneficiaries
Milan, Italy	20% discount on waste tax for businesses (supermarkets, restaurants, canteens, producers, etc.) that donate their food waste to charities.	Reduce food waste	Businesses
San Sebastián, Spain	15% reduction in waste collection fee, provided that organic waste is disposed of at least four times a month for a minimum of ten months per year in designated public containers.	Improve waste management	Residents
San Francisco, United States	Discounts and exemptions on waste management fees for recycling and waste reduction efforts.	Promote recycling and waste reduction	Businesses / Residents
Mexico City, Mexico	10%, 15%, or 20% reductions in Property Tax for industrial companies that take measures to reduce and prevent pollutant emissions in their production process.	Reduce emissions and industrial waste	Industrial companies
Kitakyushu, Japan	Imposition of the "Future Environmental Tax" on companies that dispose of industrial waste in landfills.	Reduce industrial waste	Industrial companies

Source: Authors' elaboration.

Reducing food waste

Since 2018, the municipal government of Milan, Italy, has introduced waste tax reductions for businesses as part of its strategy to combat food waste. A 20% tax discount is granted to businesses – including supermarkets, restaurants, canteens, and food producers – that donate surplus food to charitable organisations. This initiative is co-ordinated across multiple municipal departments, including fiscal, environmental, and food policy divisions. To date, approximately 10 000 businesses have benefited from the scheme, generating a financial impact of EUR 1.8 million in its first two years of operation.

Recycling and waste reduction

Mexico City, Mexico, grants payroll tax reductions to individuals or businesses that engage in recycling business activities or that reprocess part of the solid waste they generate. The tax reduction depends on the percentage of solid waste reprocessed or recycled: achieving between 33% and 44% is reflected in a reduction of 20% of the payroll tax. Between 45% and 59% qualifies for a reduction of 30%, while recycling between 60% and 100% of solid waste grants a reduction of 40% of the payroll tax. Taxpayers must submit a certificate issued by the Ministry of Environment, through its environmental audit programme stating the percentage of solid waste that has been reused and the total investment made to implement these measures (Gobierno de la Ciudad de México, 2023[60]).

The city of San Francisco, United States, implements a system of discounts and exemptions on waste management fees to incentivise recycling and waste reduction. Residents and businesses are required to pay a monthly waste collection fee, with financial incentives provided to encourage recycling efforts. Similarly, the city of Austin, United States, enables residents to reduce waste collection costs by opting for lower refuse services. Each household is provided with a large recycling bin, alongside the progressive rollout of a compost collection service, aimed at further minimising landfill waste (OECD, 2020[67]). Additionally, the waste collection fee is adjusted based on the size of the trash cart (Austin Texas, 2024[68]).

Organic waste

To promote the separate collection of organic waste, the city of San Sebastián, Spain, has provided households with designated organic waste bins installed on streets, accessible via a personal magnetic card. Households using these containers receive a 15% reduction on their waste collection fee, conditional upon depositing organic waste at least four times per month for a minimum of ten months per year.

Industrial waste

To reduce industrial waste, specifically, Kitakyushu City in Japan, applied an environmental "future tax" imposed on the landfill of industrial waste. Since the tax is not levied on intermediate treatments, it is also expected to promote company recycling activities and reduce any waste generated by them. Revenues are used for an environmental technology development grant. Mexico City offers property tax (*Impuesto Predial)* reductions to industrial and service companies that acquire, install, and operate technologies, systems, equipment, or materials designed to prevent or reduce pollutant emissions. A reduction of 30% to 39% in emissions qualifies for a 10% property tax discount; a reduction of 40% to 49% grants a 15% discount, and a reduction of 50% to 100% qualifies for a 20% discount (Gobierno de la Ciudad de México, 2023[69]).

Innovative financing instruments in Bogotá

The city of Bogotá is exploring different innovative financing instruments to promote a green transition. Bogotá has placed particular emphasis on several innovative financing options. First, the *Public Works for Taxes* (*Obras por Impuestos*) mechanism allows firms to pay part of their taxes in kind by executing and delivering public works. Second, the transfer of construction and development rights enables the city to acquire land to promote restoration and conservation processes, and to generate resources through auctions to create contemplative parks that encourage public use. Finally, Bogotá has been exploring land value capture (LVC) mechanisms, a public financing tool that allows governments to recover a portion of increases in land value.

Public Works for Taxes

The Public Works for Taxes mechanism can serve as a tool for public-private collaboration aimed at addressing infrastructure gaps. It allows private companies to advance their income tax payments by directly financing and executing public investment projects prioritised by national or subnational governments. This approach can accelerate investments in infrastructure while enhancing the competitiveness of both firms and their surrounding region. Projects should be subject to an ex-ante, auditing and ex-post evaluation by the relevant government authority to ensure alignment with public interest. Once completed, the infrastructure is handed over to the government, which assigns responsibility for its management and maintenance. A key risk lies in the potential for private firms to influence local priorities, that could lead to biased investments or conflicts of interest, although projects must be approved by the regional or local government.

Colombia is already implementing Public Works for Taxes. This instrument was made available to companies (both individuals and legal entities) through the 2016 Tax Reform (Law 1819 of 2016) and was regulated by Decree 1915 of 2017. The country is making use of these schemes in areas affected by the armed conflict (so-called Zomac), which cover 53% of the territory. Specialised firms, such as those in engineering or construction sectors, can execute the project themselves. Firms from other sectors can subcontract the execution of the project to specialised firms. Peru is the regional pioneer and launched these schemes in 2008, that can inform Bogotá's initiatives (Box 6.1).

The city of Bogotá has issued Decree 054 in 2025, which regulates the Works for Taxes mechanism. Eligible projects will have to be aligned with the objectives of the Economic, Social, and Public Works Development Plan of the Capital District and must comply with the technical guidelines that will be established by the Operational Manual of the Works for Taxes Mechanism. To carry out the works, taxpayers will have to enter into agreements with public entities at the district level. In return, they will receive Titles for the Renewal of the District Territory, which may be used within a maximum period of two years either for the payment of district taxes or for negotiation in the market.

Box 6.1. Works for Taxes in Peru

In 2008, the Peruvian government designed the mechanism Works for Taxes, with the objective of accelerating and improving the quality of public investments. This mechanism allows private firms to finance physical infrastructure and maintenance expenditures which are the responsibility of local governments in exchange for future tax credits.

Two laws serve as framework for Works for Taxes in Peru. First, a law encouraging regional and local public investment with the participation of the private sector, which introduces the contracting mechanism of Works for Taxes Law No. 29230, modified by Law No. 30138. Second, a law that modifies different laws to facilitate investment, propel productive development and corporate growth, which authorises the use of the mechanism of Works for Taxes for the Public Universities (Law No. 30056).

This type of policy secures local government support and aims to increase the efficiency of infrastructure investments. For local governments with limited capacity to carry out capital investment, *Obras por Impuestos* plays a key role in the execution of investment and the delivery of public goods at sub-national level. This mechanism appears to have benefited regional and local governments by increasing the execution of infrastructure projects, accelerating local infrastructure, using the know-how of private companies to increase the quality of their investments, and enhancing the reputation and image of local governments by helping them to reach their goals and objectives (OECD, 2017[70]).

Transfer of construction and development rights

This instrument aims to open opportunities for landowners in areas of the Main Ecological Structure (*Estructura Ecológica Principal del Distrito Capital*),[1] where construction is not permitted, to be able to transfer construction and development rights in other areas of the city.

Decree 626 of 2023, which establishes the Transfer of Construction Rights in Bogotá, is a land management instrument introduced through the *Bogotá Reverdece* Territorial Organization Plan. It enables the District to acquire privately owned land located within the Ecological Structure—primarily in the Eastern Hills, the Thomas van der Hammen Northern Forest Reserve, and along the Bogotá River (Bogotá Secretary of Planning, 2023[71]). These lands are defined as “generating areas” (*areas generadoras*). These are properties to which construction and development rights are assigned and transferred, as indicated in the CG-3.2 “Main Ecological Structure” Map of District Decree 555 of 2021 (Bogotá Secretary of Planning, 2021[72]). The receiving areas *(areas receptoras)* correspond to lands designated as areas for major metropolitan service activities, located in urban land, in consolidation or urban renewal treatments, where residential uses are intended to be developed, as defined in the CU-5.2 “Activity Areas and Land Uses” Map of District Decree 555 of 2021 (Environment Ministry of Bogotá, 2024[73]).

The commercialisation of construction and development rights is carried out through auctions co-ordinated by the Planning and Finance authorities. The use of this instrument to finance the acquisition/improvement of cultural heritage assets is being discussed in Bogotá although it has not yet been regulated (Alcaldía de Bogotá, 2025[74]).

Land value capture mechanisms

Land value capture (LVC) is a public financing tool that enables governments to recover a portion of land value increases. This can result from public actions, whether through tangible investments – such as infrastructure for water, energy, housing, transport, and public facilities – or intangible measures, including planning and zoning decisions. For instance, access to public transport raised land values by 15-20% in Bogotá, while piped water investments led to land price increases of USD 11.10 per square metre within 10 km of city centres in Latin America (OECD, 2022[75]).

The LVC process typically involves three stages. First, a public action – such as infrastructure investment or regulatory change – triggers land value increases; then, governments apply LVC instruments, or modify existing ones, to capture a share of this value for the common good of the public. Third, the revenues are reinvested in infrastructure, area improvements, or the general budget (OECD, 2022[75]).

LVC instruments can be tax-based or development-based. Tax-based instruments include the land tax (pure land value or split-rate property tax) and betterment contribution (levy or charge). Examples of pure land tax applications are Denmark, Australia and Estonia, while Colombia and Brazil have implemented betterment contributions. Colombia has long been cited as a classic example for the successful usage of betterment levies to fund infrastructure projects. However, the country has faced implementation challenges rooted in disputes over the assigned land value gains used as a basis to calculate levies. Moreover, Bogotá launched a programme in 2007 that attempted to fund citywide improvement of streets and related infrastructure (OECD, 2022[75]).

The OECD Compendium (2022) presents a taxonomy of LVC instruments and a global overview of their application, encompassing both tax-based and development-based tools (OECD/ITF, 2024[76]). It defined key LVC instruments as follows: infrastructure levies, imposed on landowners benefiting from public infrastructure investments; developer obligations, requiring cash or in-kind contributions to cover additional infrastructure or services triggered by private development; charges for development rights, collected in exchange for development potential beyond baseline densities; land readjustment, involving the consolidation and redistribution of land parcels for joint development, with a portion allocated for public use; and strategic land management, whereby governments acquire, develop, and dispose of land to capture value gains.

LVC can promote public transportation funding, for example through transit-oriented development (TOD) (OECD/ITF, 2024[76]). TOD integrates land use and transport planning around major transit investments. This approach promotes urban densification – such as higher floor area ratios near stations – boosting land value uplift (LVU) while fostering sustainable, mixed-use development and encouraging modal shift. Flexible regulations near transit hubs enable more integrated projects, increasing ridership and fare revenues. To maximise public benefit, the OECD recommends enabling intensive TOD around stations and ensuring an adequate portion of the resulting LVU is directed to public use through effective LVC strategies (OECD, 2022[75]). Countries applying this approach include France (Grand Paris), Japan (Tsukuba Express), Korea (Gyeongju), and the UK (Crossrail 1/Elizabeth Line).

Notes

[1] As defined in Bogotá's Territorial Organization Plan (POT, for its acronym in Spanish) 2022-2035, the Main Ecological Structure refers to all the natural elements that maintain and support biodiversity in the Capital District, including the Thomas van der Hammen Northern Forest Reserve, the Eastern Hills of Bogotá, and new Mountain Ecological Parks (Secretaría Distrital de Ambiente de Bogotá, 2024[77]).

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Development Centre Studies

Reconnecting Bogotá

Towards a Stronger Fiscal Pact

How can Bogotá strengthen its fiscal system to build a smarter, fairer and more sustainable city? This report underscores the need for a tax system that is equitable, efficient and aligned with long-term development goals, while fostering a culture of voluntary compliance rooted in trust and transparency. By strengthening trust in the fiscal system, Bogotá can further engage citizens in taxation, mobilise greater revenues, reduce inequalities, and foster inclusive urban development.

The analysis focuses on opportunities to improve the local tax system, reconnect it with citizens, and align it with sustainable development objectives. Drawing on surveys of citizens and businesses, the report identifies scope to simplify procedures, increase progressivity and promote compliance. It also shows that combining technical improvements in tax design with active citizen engagement can strengthen Bogotá's fiscal capacity.

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