LATAM: A US tax on remittances could deepen poverty and increase unrest in Central America and the Caribbean | Credendo

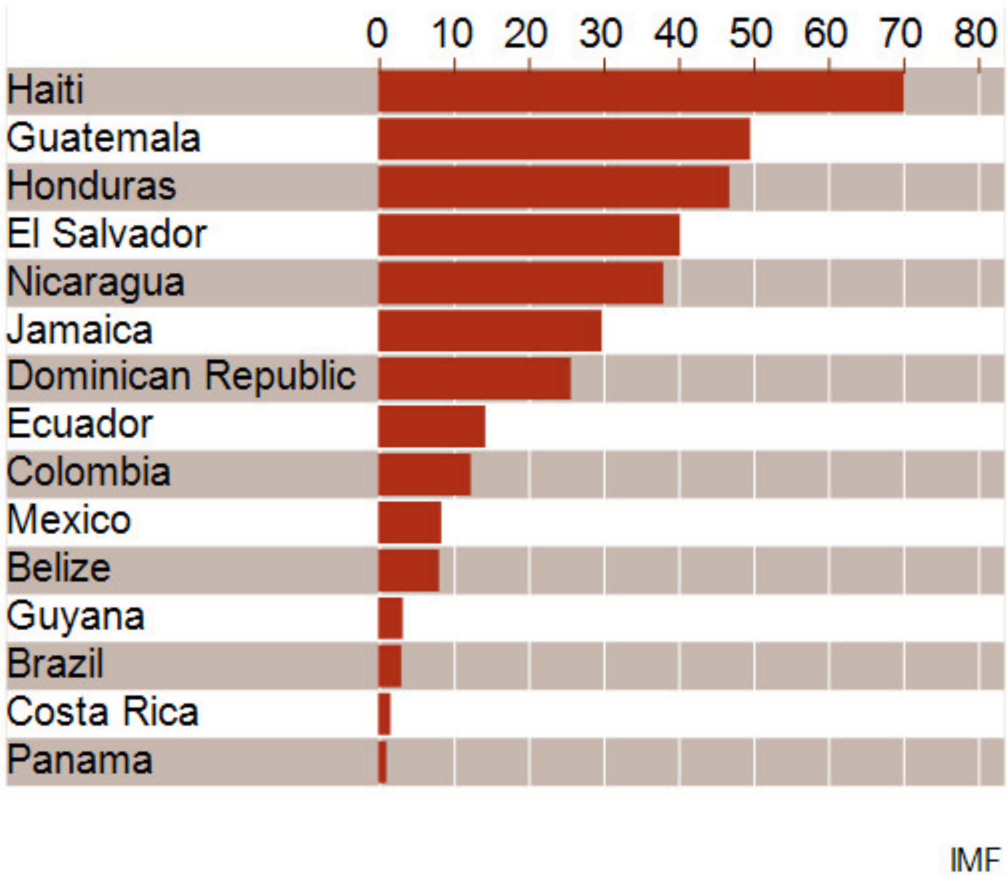
Event

On 22 May, the US House of Representatives approved a bill imposing a 3.5% tax on remittances. The measure could be signed into law by President Trump on 4 July and take effect in 2026.

Impact

The majority of immigrants living in the United States come from Mexico, accounting for approximately 25% of all US immigrants, followed by immigrants from Asia (also around 25%), Central America (10%) and the Caribbean (10%). While Mexico has the largest share of immigrants, remittances play a relatively modest role in Mexico's economy compared to many Central American and Caribbean countries where remittances are a critical source of current account revenues and foreign exchange reserves (see graph below). Despite the potential tax, remittance inflows are expected to remain relatively resilient and should not significantly affect current account revenues or economic growth in the region. However, this outlook could shift if the tax coincides with a high deportation rate or US recession (IMF forecasts economic growth at 1.8% for 2025 and 1.7% in 2026).

Share of remittances in current account revenues 2024 (%)



Moreover, a remittances tax would disproportionately affect low-income households locally, where remittances are the main source of income. In many Central American countries, almost 80% of remittances are spent on essential goods and services, such as food, housing, healthcare and education. As a result, the tax could exacerbate poverty, fuel political unrest and gang violence, and put political violence risk ratings under pressure.

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