LATIN AMERICA ADVISOR

A DAILY PUBLICATION OF THE DIALOGUE

www.thedialogue.org

Thursday, June 4, 2020

THEDIALOGUE

FEATURED Q&A

Will a Global Deal on Digital Taxes Help Latin America?

The Organization for Economic Cooperation and Development, led by Angel Gurría, is working on a proposal for standardized taxation on digital services. // File Photo: OECD.

Q A long-debated blueprint from the Organization for Economic Cooperation and Development, or OECD, to standardize legislation regarding global digital taxation will be pushed back until October because of coronavirus-related complications, Secretary General Ángel Gurría said in May. The organization had originally aimed to present the framework in July, but it now hopes it will be approved by participant countries in a meeting scheduled for November. What does the blueprint consist of, and will it be ready by the end of the year? How significant is the need for consensus on a standardized set of international tax rules for the digital economy, particularly at a time when digital services are taking on even bigger roles due to the Covid-19 pandemic? What would the framework mean for countries in Latin America and the Caribbean, especially in terms of tax revenue?

A Ubaldo González de Frutos, lead specialist on tax administration at the Inter-American Development Bank: "The significance of corporate income tax in Latin America and the Caribbean (15.4 percent of revenues) is much higher than in OECD countries (9 percent). It is therefore extremely important to protect the tax base and ensure a fair and balanced allocation of taxing rights, particularly at a time when countries are suffering fiscal imbalances due to the Covid-19 and the commodities crisis. The OECD blueprint provides hope in two senses: it assigns part of the tax base of digital multinational enterprises (MNEs) to market jurisdictions; and by imposing an anti-BEPS (base erosion and profit shifting) tax, the GloBE, it curbs wasteful tax incentives by developing countries. Additionally, the version of the blue-

Continued on page 3

TODAY'S NEWS

POLITICAL

Brazil, Mexico Report Highest Daily Death Tolls From Covid-19

Latin America's two most populous nations reported new daily death toll records from the novel coronavirus. Brazil reported 1,349 new deaths, and Mexico reported 1,092.

Page 2

POLITICAL

Authorities Arrest Ex-Ecuadorean Leader Bucaram

Abdalá Bucaram, who was Ecuador's president for about six months in the 1990s, was arrested after agents searched his house in connection with a graft case.

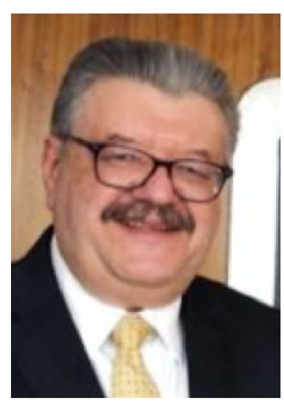
Page 2

ECONOMIC

Mexico's Mining Output Expected to Fall 17 Percent

Mexico's mining production is expected to decline by approximately 17 percent this year due to the coronavirus pandemic, said the head of the country's mining chamber, Fernando Alanís.

Page 2



Alanís // File Photo: @falaniso via Twitter.

POLITICAL NEWS

Brazil, Mexico Report Highest Daily Death Tolls From Covid-19

Brazil and Mexico, Latin America's two most populous nations, reported their highest daily death tolls so far from the novel coronavirus. On Wednesday night, Brazil reported 1,349 new deaths in the preceding 24 hours, pushing its total number of confirmed deaths from the virus to 32,548, Bloomberg News reported. The country's health ministry also recorded 28,633 new cases on Wednesday, putting the country's total number of confirmed cases at 584,016. Brazil has the second highest number of confirmed cases in the world, behind only the United States, which has more than 1.8 million. Following two months of quarantines that have been loosely enforced, some parts of the country are starting to reopen businesses, and health experts say the peak is yet to arrive. On Wednesday the state government in São Paulo said the state's number of cases could rise to 265,000 by the end of June, from the current level of approximately 118,000. President Jair Bolsonaro has frequently resisted social-distancing measures and has called on people to get back to work to mitigate the economic damage of the pandemic. On Wednesday, economic data showed that the country's industrial output saw its sharpest decline ever in April. The country has also seen historic declines in economic indicators relating to formal jobs as well as retail sales because of the pandemic. On Wednesday, Wilson Witzel, a political opponent of Bolsonaro and the governor of Rio de Janeiro state, said the state was taking over management of field hospitals that are under construction and intended to help the health system cope with a flood of patients with Covid-19. Local media in Brazil have reported on problems including delays and mismanagement in the initiative. Last week, authorities searched Witzel's official residence and seized computers and mobile phones belonging to him in connection with an investigation into the misuse of public money related to the fight against the disease. On Wednesday, health officials in Mexico also reported their highest daily confirmed death toll from Covid-19. The country had 1,092 reported deaths in 24 hours, Reuters reported. Mexico has 101,238 confirmed cases and 11,729 reported deaths. Mexican President Andrés Manuel López Obrador has been under pressure from the United States to reopen major parts of the country's economy in order to reactivate supply chains.

Authorities Arrest Former Ecuadorean President Bucaram

Abdalá Bucaram, who was Ecuador's president for about six months in 1996 and 1997, was arrested Wednesday after authorities searched his home and found a reportedly unlicensed gun and medical supplies in connection with an investigation into corruption amid the Covid-19 pandemic, the Voice of America reported. The raid at Bucaram's house in Guayaquil, a city hit hard during the pandemic, was related to an investigation into suspected embezzlement at a public hospital, according to investigators. Agents reportedly found some 5,000 masks and 2,000 coronavirus test kits in the search of Bucaram's house, the Associated Press reported. "A lot of medical supplies were found," said chief prosecutor Diana Salazar. Bucaram, who was accused of corruption and nepotism during his brief time in office, has so far not been charged in connection with Wednesday's search of his property. As he was taken into custody, Bucaram shouted "Long live the homeland!" to local media. His family members defended him on Wednesday, calling the raid illegal and saying he needed the gun because he regularly faces threats. They also said he had legally purchased the masks and test kits. "This is ABUSE!!!" his son, Dalo Bucaram, said in a posting on Twitter. In all, prosecutors carried out 37 raids on Wednesday in Guayaquil and Quito and have detained 17 people on accusations of criminal organization, influence peddling and overcharging for medical supplies, the AP reported. Other people detained include five people with connections to Quito's

NEWS BRIEFS

U.S. House Democrats Oppose Plans to Expand Economic Ties With Brazil

Democrats on the powerful U.S. House Ways and Means Committee said Wednesday they opposed President Donald Trump's plans to expand economic ties with Brazil, Reuters reported. Committee Chairman Richard Neal (D-Mass.) told U.S. Trade Representative Robert Lighthizer in a letter that Brazilian President Jair Bolsonaro's government had shown a "complete disregard for basic human rights." U.S. and Brazilian officials agreed last month to accelerate talks aimed at concluding an agreement on trade rules and transparency this year.

Bolivian Authorities Detain Three Executives at State Oil Company YPFB

Authorities in Bolivia have detained three executives at state oil company YPFB over alleged irregularities in the process of contracting an insurance policy with local company Credinform for $6.9 million, América Economía reported Wednesday. Sergio Bustillos, an official with the prosecutor's office in La Paz, told reporters that the three individuals being questioned are the contract manager, legal manager and the head of the legal unit of YPFB. Others under investigation will be called for questioning in the coming days, he added.

Mexico's Mining Output to Fall 17% Due to Pandemic: Industry Chamber Official

Mexico's mining production is likely to decline by approximately 17 percent this year due to the coronavirus pandemic, the head of the country's mining chamber, Camimex, told Reuters in an interview Wednesday. The official, Fernando Alanís, added that the chamber expects Mexico's mining exports to decline by about 10 percent this year.

public water company, the former director of the Teodoro Maldonado Carbo Hospital in Guayaquil and the prefect of Guayas province, which includes Guayaquil. Salazar said her office estimates that there was $12 million in overcharging related to the graft scheme.

ECONOMIC NEWS

U.S. Sanctions Cuban Companies Including Remittance Firm

The United States on Wednesday added seven Cuban companies and hotels to its list of entities under sanctions, Agence France-Press reported. The list includes Fincimex, a financial company that handles remittances to the Communist-run island, as well as hotels and other hospitality businesses controlled by the Cuban military, the State Department said. "We will continue to stop the flow of money into the pockets of those who oppress the Cuban people," Secretary of State Mike Pompeo tweeted. Critics of the sanctions say remittances are a lifeline to poor families in Cuba lacking basic necessities, Reuters reported. Under Republican President Donald Trump, the United States has reversed the thaw in relations with Cuba which began under his predecessor, Barack Obama, although some observers say Cuba never robustly opened up to the United States even then. Cuban Foreign Minister Bruno Rodríguez tweeted it was "shameful and criminal to intensify the blockade" during the Covid-19 pandemic, which has hit the country's tourism sector hard. Cuba recently cited the economic fallout of the pandemic in asking the Paris Club of major bondholders for a delay in the repayment of its debt until 2022. The island nation had already missed more than $30 million in payments last year, originally committing to settling those debts in May. [Editor's note: See related **Q&A** in Wednesday's edition of the Advisor.]

FEATURED Q&A / **Continued from page 1**

print put forward in public consultations is extremely restrictive in terms of the scope of the new taxing right (digital only), the size of MNEs affected (750 million euros) and the apportionment of profits to market jurisdictions (10-20 percent of the residual). It is likely that a proposal will be presented to the G20 in November, but it is hard to predict the reaction of its members, particularly those that are home to digital champions. If a deal is struck, it may be at the expense of reducing the financial burden for digital giants to the bare minimum. In such a case, developing countries would need to decide whether to participate in the multilateral schema or continue to tax MNEs unilaterally (DST, withholding, digital PE). Most Latin American and Caribbean countries have not taxed digital MNEs yet, but the time seems right to do the math. Let's hope the multilateral schema will exist and be generous enough."

A **Jose Antonio Ocampo, chair, and Tommaso Faccio, head of the secretariat, both of the Independent Commission for the Reform of International Corporate Taxation (ICRICT):** "Addressing global challenges such as the recovery post-coronavirus, rising inequality, climate change and forced migration cannot be addressed without fairer global tax rules for multinationals. A proposed reallocation of a small share of global multinational profits to market jurisdictions and introduction of a global minimum tax to stop profit shifting to low-tax jurisdictions are currently being negotiated within the OECD/G20 Inclusive Framework. For the first time, multinationals' global profits will be allocated to market jurisdictions through the use of formulas, but the proposal fails to deliver a comprehensive move toward global formulary apportionment of multinationals' profits, as the scope of the proposed reallocation is limited to a small percentage of those profits. The limited scope is reflected in the small expected additional revenue generated based on the OECD's own estimate. On the global minimum tax, two big issues remain outstanding: the rate for the global effective minimum tax (which we argue should be set at 25 percent), and which country gets to apply this rule first: the country of source, which will be the case for many Latin American and Caribbean countries, or the country of residence where the multinationals are headquartered. The outcome of these decisions will affect how much revenue is generated and who is going to collect them. Frustrated with the lack of progress and facing the immediate need to raise revenues, it is not surprising that many countries are moving unilaterally to ensure taxation of digital companies, through the introduction of digital services taxes."

A **Juan de la Cruz Higuera Ornelas, senior associate at JCH Abogados and professor of international tax law at Universidad Panamericana in Mexico:** "To address the tax challenges arising from the digitalization of the economy, the OECD proposes a unified approach that essentially seeks to expand the taxing rights of the so-called market jurisdictions, defined broadly as the places where the customers or users of multinational enterprises (MNEs) are located. Consequently, the OECD suggests new rules to determine where MNEs should pay taxes (nexus rules) and on what portion of their profits (profit allocation rules), even if they have no physical presence there. Nevertheless, there is still a lack of widespread consensus within the OECD/G20 Inclusive Framework (almost 140 member jurisdictions working on this project), including disagreement about ring-fencing digital companies, a safe harbor proposal, scopes and thresholds, which suggests that a final solution is unlikely to be reached in 2020. If a global solution cannot be attained soon, the need for additional revenues to overcome the health and economic crises will force many countries to implement unilateral digital taxes, causing double or

Continued on page 4

FEATURED Q&A / Continued from page 3

multiple taxation, excessive compliance burdens and uncertainty for taxpayers. In a very optimistic economic analysis that is not yet publicly available, the OECD estimates that its unified approach proposal, combined with a global minimum tax proposal, will represent revenues of up to $100 billion annually, although it is still highly uncertain how much of these revenues will actually be collected by countries in Latin America and the Caribbean. One thing is certain though: the Covid-19 pandemic has confirmed the unparalleled importance of the digital economy and its revenue-generating potential."

A **Guillermo O. Teijeiro, partner at Teijeiro & Ballone in Buenos Aires:** "Pascal Saint-Amans, OECD director of the Center of Tax Policy and Administration, has recently recognized that, insofar as Pillar I of the OECD Unified Approach is concerned, the final outcome might be reached by stages over a process that would last until 2021. Pillar I is about developing a harmonized basis on one of two alternate solutions under discussion (value created by user participation or marketing intangibles) to allow market countries to tax a portion of the income originated in cross-border digital economy trades. The OECD's BEPS 2.0 project is currently navigating turbulent waters, partly because of the unexpected Covid-19 crisis and partly because of internal tensions and conflicts within the 140-member-state inclusive framework on what an equitable outcome is. At the core of the discussion is that emerging economies perceive that, in allocating direct taxing rights over the new economy, the OECD is excessively pegged to a theoretical economic approach and lacks the political flexibility needed to arrive at a satisfactory outcome that genuinely contemplates the national interest of market states. This is particularly true for the larger economies in the Latin America region. Theoretically, consensus in international taxation is vital to avoid multiple taxation layers that might harm the natural growth of the digital economy sector. Unfortunately, however, the lack of a timely harmonized approach reached at the OECD level sharply increases the risks that emerging economies proceed unilaterally under the various policy lines already on the menu or even under newly developed, more or less creatively designed, tax tools. Unilateralism has grown lately since the massive shift to digital commerce amid Covid-19, which clearly shows to countries in Latin America the need for tax revenues from profitable segments in this sector of the economy."

> **"Consensus in international taxation is vital to avoid multiple taxation layers that might harm the natural growth of the digital economy sector."**
>
> **— Guillermo O. Teijeiro**

Editor's note: The commentaries in this issue were submitted before this week's statement from the Trump administration that it was investigating the adoption or consideration of taxes on digital services by several countries and the European Union.

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org.

LATIN AMERICA ADVISOR
is published every business day by the Inter-American Dialogue, Copyright © 2020

Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Anastasia Chacón González
Reporter & Associate Editor
achacon@thedialogue.org

Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at
1155 15th Street NW, Suite 800
Washington, DC 20005

www.thedialogue.org

ISSN 2163-7962

Subscription inquiries are welcomed at
ebrand@thedialogue.org