

BOARD OF ADVISORS

Diego Arria
Director, Columbus Group

Devry Boughner Vorwerk
CEO,
DevryBV Sustainable Strategies

Joyce Chang
Global Head of Research,
JPMorgan Chase & Co.

Paula Cifuentes
Director of Economic & Fiscal Affairs,
Latin America & Canada,
Philip Morris International

Marlene Fernández
Corporate Vice President for
Government Relations,
Arcos Dorados

Peter Hakim
President Emeritus,
Inter-American Dialogue

Donna Hrinak
Senior VP, Corporate Affairs,
Royal Caribbean Group

Jon E. Huenemann
Former Corporate and
Government Senior Executive

James R. Jones
Chairman,
Monarch Global Strategies

Craig A. Kelly
Senior Director, Americas
Int'l Gov't Relations, Exxon Mobil

John Maisto
Director, U.S. Education
Finance Group

Nicolás Miscal
Chairman,
Grupo Marhnos

Thomas F. McLarty III
Chairman,
McLarty Associates

Beatrice Rangel
Director,
AMLA Consulting LLC

Jaana Remes
Partner,
McKinsey Global Institute

Ernesto Revilla
Head of Latin American
Economics, Citi

Gustavo Roosen
Chairman of the Board,
Envases Venezolanos

Andrés Rozental
President, Rozental &
Asociados

Shelly Shetty
Managing Director, Sovereigns
Fitch Ratings

FEATURED Q&A

Is Ecuador Taking the Right Steps on Digital Taxation?



Ecuadorian President Lenín Moreno last October proposed a simplification of the country's tax system after a plan to eliminate fuel subsidies was met with violent demonstrations. // File Photo: Ecuadorian Government.

Q Hundreds of digital services became subject to a value-added tax (VAT) in Ecuador starting Sept. 16, amounting to an additional 12 percent levy. What companies will be most affected by the new tax, and will their customers end up paying the bill? How will the measure influence investment decisions in the Andean nation? How does Ecuador's move relate to delayed efforts at the OECD and other groups to coordinate international taxation policies for the global digital economy?

A Marisol Andrade Hernández, director general of Ecuador's Internal Revenue Services (SRI): "It's important to clarify that it is not a new tax, but rather the formalization of the VAT in terms of imports of digital services, as it occurs with any other local service. VAT collection originates from each import of a digital service, and the registry of digital service providers is updated quarterly. In the registry, which is available on the SRI website, there are digital services for which the 12 percent VAT rate and those for which a zero percent rate applies. The website also distinguishes providers that are local and those that reside abroad. The measure is in line with the OECD's efforts. The scheme implemented in Ecuador allows the collection of VAT on the import of digital services, provided by nonresidents of Ecuador, in three ways: 1.) by means of payment by the provider of the digital service, when it chooses to register with the SRI, 2.) when the provider does not register with the SRI, through the retention in charge of financial institutions when payment is made by credit or debit card or 3.) withholding by the consumer himself when payment is made by other means (not credit

Continued on page 3

TODAY'S NEWS

POLITICAL

Iranian Fuel Tankers Reach Venezuela

The Iranian tanker ship Forest, one of three vessels bringing hundreds of thousands of barrels of fuel, is sailing to the El Palito refinery port in defiance of U.S. sanctions on Venezuela.

Page 2

POLITICAL

Protesters Clash With Police in Mexico City

Hundreds of pro-choice protesters on Monday clashed with police in Mexico City in a flaring debate over abortion rights. Demonstrators used hammers to break windows along the march route.

Page 2

ECONOMIC

Bolivian Economy Minister Resigns

Bolivian Economy Minister Óscar Ortiz and other high-level officials resigned on Monday, just three weeks before national elections. Ortiz said he disagreed with a move by interim President Jeanine Áñez related to the shares of a nationalized power company.

Page 2



Ortiz // File Photo: Bolivian Government.

POLITICAL NEWS

Iranian Fuel Tankers Reach Venezuela

The first vessel in an Iranian convoy of ships carrying fuel reached Venezuelan waters on Monday, Bloomberg News reported. The Iranian tanker *Forest*, one of three vessels bringing hundreds of thousands of barrels of fuel, is sailing to the El Palito refinery port. Due to a combination of factors such as maintenance neglect and U.S. sanctions, state oil company PDVSA has been unable to meet domestic demand for gasoline, leading to shortages and long lines nationwide for fuel. Pressure from the United States has fomented closer strategic ties between Iran and Venezuela, who see the United States as their common enemy. In exchange for fuel, Iran has received gold shipments from Venezuela by plane as payment, according to media reports. Iran's foreign ministry has said any attempt by the United States to stop the fuel shipments will be met with "a swift and decisive response." National elections in Venezuela are scheduled for December, but the opposition has been split over whether to boycott the process, which international observers by and large agree would not meet minimum democratic conditions, *The Washington Post* reported Monday. The opposition-controlled National Assembly, led by Juan Guaidó, is boycotting the December vote, which it argues will be manipulated and used by President Nicolás Maduro to consolidate power. The United States has also called for a boycott. [Editor's note: See related [Q&A](#) in the Sept. 14 issue of the Advisor.]

Protesters Clash With Police in Mexico Over Abortion Rights

Hundreds of pro-choice protesters on Monday clashed with police in Mexico City in a flaring debate over abortion rights, the Associated Press reported. Demonstrators used hammers to break windows along the march route. Some

tossed flares and bottles of gasoline at officers. Abortions are currently allowed in Mexico City but not in most of the rest of the country. Conservative anti-abortion groups have set up their own protest encampment in the city's central plaza. Led by Claudia Sheinbaum, the city's first female mayor, municipal authorities said they would not allow Monday's march to advance while protesters carried dangerous objects, according to the report. In related news, pro-choice advocates have renewed pressure on President Alberto Fernández of Argentina to honor his electoral pledge to legalize abortion in the South American country. More than 1,000 public figures, writers, journalists and artists added their names to an advertisement published in three Argentine newspapers on Sunday, calling for the government to keep its commitment, *The Guardian* reported. Marches were also held in other Latin American countries Monday to mark International Safe Abortion Day, according to Agence France-Presse.

ECONOMIC NEWS

Bolivian Economy Minister, Others Resign Cabinet Posts

Just three weeks before national elections, Bolivia's government under interim President Jeanine Áñez Chávez began to unravel Monday with the resignations of three senior economy ministry officials, the Associated Press reported. Economy Minister Óscar Ortiz resigned in opposition to Áñez's decision to return shares in a nationalized electricity company to its user-shareholders because of the close proximity of the election. "I will always put principles first over personal interest. No role, no matter how important, justifies going against the principles and ethics that have always guided my actions," Ortiz said Monday, Reuters reported. Labor Minister Óscar Mercado and Productive Development Minister José Abel Martínez also left but did not state a reason for their resignations. According to the latest polls, the leftist MAS party candidate, Luis Arce, is favored to

NEWS BRIEFS

Record Number of Women, Minorities Register for Brazil Elections

A record number of women have registered as candidates in Brazil's municipal elections scheduled to take place Nov. 15 and Nov. 29, *Folha de S.Paulo* reported Monday. The share of female candidates reached 34 percent, surpassing 177,000 individuals, according to election officials. Also setting a record, this year for the first time the number of candidates who identified themselves as black or brown surpassed the number of white candidates. The elections will determine mayors, city councilors and other local officials in more than 5,500 cities.

Liberty Latin America Poised to Raise \$350 Mn in Share Offering

Denver-based Liberty Latin America on Monday announced the preliminary results of its rights offering. The company said it received subscription requests (including oversubscription) in excess of the 49,019,607 Class C common shares available. At the previously announced subscription price of \$7.14 per share, Liberty Latin America estimates it will receive gross proceeds from the rights offering of \$350 million, before expenses, when it issues the shares on or about Oct. 2.

Advent Raises \$2 Billion for Latin America Fund

Boston-based private equity firm Advent International today announced that it has raised \$2 billion from global institutional investors for a new Latin America fund. The new fund brings Advent's total capital raised for Latin America since 1996 to approximately \$8 billion. The company will invest the funds primarily in Brazil, Colombia, Mexico and Peru, and may also invest in other countries, including Argentina and Chile, Advent said in a statement.

win the first round of the Oct. 18 election, followed by Citizen Community candidate Carlos Mesa, according to local newspaper La Razón.

BUSINESS NEWS

U.S. Gov't Adds Cuba Remittances Firm to Restricted List

The U.S. Department of State on Monday said it is adding a debit card service provider, American International Services (AIS), to its sanctioned Cuba Restricted List. "AIS is a financial institution controlled by the Cuban military that processes remittances sent to the Cuban people," Secretary of State Mike Pompeo said in a statement. The U.S. government alleges that AIS, under its parent company FINCIMEX, manipulates the remittance and foreign currency market. "The profits earned from these operations disproportionately benefit the Cuban military, furthering repression of the Cuban people and funding Cuba's meddling in Venezuela," Pompeo said. "We urge anyone who sends remittances to family in Cuba to use means other than Cuban government-controlled remittance entities," he added. FINCIMEX is a Cuban state company that processes remittances and issues the American International Services card. The government began accepting it in July amid the Covid-19 pandemic, which has worsened food shortages on the island and sparked long lines for goods, the Associated Press reported. FINCIMEX temporarily stopped accepting applications in mid-August due to its popularity, but it resumed them this month. In Cuba, the volume of remittances has been decreasing this year, and it is expected to continue to drop, despite gains in other countries of Latin America, in part due to U.S. sanctions, Denisse Delgado, a scholar at the University of Massachusetts in Boston, wrote recently in a [blog](#) posted by the Inter-American Dialogue. [Editor's note: See also the Advisor's [video](#) interview with Marta Colomar-Garcia, an attorney at Diaz Reus in Miami, on the outlook for U.S. sanctions related to Cuba.]

FEATURED Q&A / Continued from page 1

or debit) or when the payment is made to a provider that does not appear in the registry."

A **Ubaldo González de Frutos, lead specialist of public finance at the Inter-American Development Bank:** "Digital services in Ecuador are now subject to the standard VAT rate of 12 percent, regardless of where the supplier is based. What is news is the provision imposing on foreign suppliers the obligation to charge, collect and remit the VAT. The move follows other countries in Latin America (Argentina, Costa Rica, Colombia, Chile, Mexico, Paraguay, Peru, Uruguay...) and more than a hundred countries elsewhere. In terms of policy, it follows the VAT design principle of neutrality: there was no reason to be taxing service providers established in the Andean nation while foreign companies were able to operate tax-free. The new schema also speaks well of the Ecuadorean Servicio de Rentas Internas, as the remote compliance arrangement follows international best practices, with a withholding fallback should companies fail to remit the tax voluntarily. This should send a positive signal to foreign investors. VAT on digital services is surely not the last chapter; the explosive growth in e-commerce means that in the near future we shall see, in Ecuador as well as throughout the region, a schema to tax cross-border e-commerce relying on digital platforms. Reasons of fiscal sustainability, especially after Covid, and the need to keep a level playing field between e-commerce and bricks-and-mortar shops, are pushing digital taxes at an unprecedented speed. We at the IDB are monitoring developments and providing advice and support to countries, including Ecuador."

A **Mauricio Pozo, former finance minister of Ecuador and CEO of Multienlace:** "The tax system of the Ecuadorean economy requires a new and deep reform that modifies the current structure. It implies a simplifi-

cation of certain taxes, the elimination of others and the increase of some. It also requires a change in the law and legislative approval from the National Assembly; therefore, the political environment in the Assembly and the political power of the central government is critical to obtaining support for a sensitive topic such as tax reform. The assignment of a new single tax on digital services is an incomplete fiscal policy, given that the tax structure has multiple inefficiencies that demand an urgent but comprehensive reform. Considering that the Ecuadorean economy is dollarized, its unacceptable to maintain a 5 percent tax for capital outflows, given that it has become a big constraint to attract foreign direct investment. Therefore, an additional tax to the value-added tax of 12 percent for digital services offered by international companies implies a total tax of 17 percent. More taxes during the current recession is not a good decision for the Ecuadorean economy. If in upcoming years the economy recovers, a new and comprehensive tax reform can be analyzed and timely implemented."

A **María Fernanda Valdés, author and coordinator of tax issues for the Friedrich Ebert Stiftung in Colombia and Latin America:** "To create a level playing field for all businesses in the sector and collect an estimated extra \$21 million every year, the VAT was created for a selected list of foreign firms (Ecuadorean firms' digital services were already subject to this tax). Ecuador follows the footsteps of other countries in the region, such as Colombia, Mexico, Argentina, Chile and Uruguay. As happens with all taxes, the question of whether this tax is paid by the firms or by their customers is an empirical one, but the international experience shows that some digital companies have enough market power to largely pass VAT costs to their consumers. In Ecuador, for instance, companies such as Netflix have already communicated to their customers an

Continued on page 4

FEATURED Q&A / Continued from page 3

extra charge of 12 percent due to the tax. As such, the tax does not affect much multinationals and their prospects of investment in the region. Although this tax may sound as a unilateral solution taken by Ecuador to face the delay in OECD proposals, the truth is that this tax was part of a 2019 law, which came into effect long before the OECD 2020 deadline was not reached. Moreover, a VAT of this kind does not represent a unilateral solution to the digital economy problem that the OECD is attempting to solve, namely the problem of ensuring that multinationals providing digital goods and services pay their fair share of income taxes in the countries where they operate, something they still do not do, even in the presence of new VAT taxes."

A **Oscar Caicedo, vice president of strategy for Latin America at Sovos:** "As a result of Ecuador's new law, foreign digital service providers in Ecuador become 'agente de percepción,' meaning they are required to charge the corresponding VAT amount to end-users, while payment processors become a withholding agent for the VAT payment. As such, we don't consider this a new tax, but instead an expansion on how the Ecuadorean government defines responsibility for capturing VAT for nonresident digital service providers. From our perspective, the new law to tax digital services will have little to no impact on investment decisions within Ecuador. In fact, the law levels the playing field between local and foreign suppliers of services. We've seen this trend extend beyond Ecuador's borders. Ecuador's new law has more to do with local indirect tax and less to do with the OECD and other groups delaying efforts to coordinate an international taxation policy for the global digital economy. However, there is a consensus that local indirect taxes should be applied to transactions such as digital services to avoid unfair competition within local markets. As a result, governments will continue to look at aggregators

such as multinational companies and payment providers for indirect tax collection."

A **Miguel Abad, head of public affairs for Latin America at Cabify:** "From our very beginnings in Ecuador, Cabify has been a formally established company subject to the country's tax laws and regulations, being therefore active contributors to the SRI. Our service as a technology platform has always included the corresponding 12 percent VAT as well as all other tax obligations, in line with any other Ecuadorean company. That is to say, the new tax for nondomiciled digital platforms that became applicable on Sept. 16 does not apply to our service. However, at Cabify, we are optimistic, and we do not expect this new tax figure to have a significant negative impact on the FDI made in the Andean region. In line with the OECD's global efforts to determine standard rules for tax models in the digital economy, at Cabify, we are always willing to collaborate with the authorities, work together and introduce regulations that foster fiscal transparency in the country; always prioritizing the formality and fairness of participants' tax obligations. This approach applies to Ecuador but also to our 10 other operating countries, where we operate as a local entity registered in the respective country. During our nine years of global operation and four years of presence in Ecuador, we have been pioneers in the digitalization of the country's mobility ecosystem and, backed by our technological knowledge and experience, we will continue to contribute to public policy innovation so as to tackle the constant challenges arising from the new economic models. Currently, our platform provides opportunities for roughly 6,500 registered collaborating drivers in Ecuador. We are an environmentally, financially and socially sustainable company. In this sense, we always seek to make a positive impact by shaping the future of mobility day by day, integrating technology for the benefit of all."

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



Michael Shifter, President
Rebecca Bill Chavez, Nonresident Senior Fellow
Sergio Bitar, Nonresident Senior Fellow
Joan Caivano, Senior Advisor
Michael Camilleri, Director, Rule of Law Program
Kevin Casas-Zamora, Nonresident Senior Fellow
Héctor Castro Vizcarra, Nonresident Senior Fellow
Julia Dias Leite, Nonresident Senior Fellow
Ariel Fiszbein, Director, Education Program
Peter Hakim, President Emeritus
Nora Lustig, Nonresident Senior Fellow
Margaret Myers, Director, Asia and Latin America Program
Manuel Orozco, Senior Fellow
Xiaoyu Pu, Nonresident Senior Fellow
Jeffrey Puryear, Senior Fellow
Mateo Samper, Nonresident Senior Fellow
Tamar Solnik, Director, Finance & Administration
Lisa Viscidi, Director, Energy Program
Denisse Yanovich, Director of Development, External Relations & Special Projects

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

The opinions expressed by the members of the Board of Advisors and by guest commentators do not necessarily represent those of the publisher. The analysis is the sole view of each commentator and does not necessarily represent the views of their respective employers or firms. The information in this report has been obtained from reliable sources, but neither its accuracy and completeness, nor the opinions based thereon, are guaranteed. If you have any questions relating to the contents of this publication, contact the editorial offices of the Inter-American Dialogue. Contents of this report may not be reproduced, stored in a retrieval system, or transmitted without prior written permission from the publisher.