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FEATURED Q&A

Will Boric Win Approval for Tax Reform in Chile?

Chilean President Gabriel Boric announced his government's tax reform plan on July 1. The plan would increase copper mining royalties on companies that produce more than 50,000 metric tons per year. // Photo: Chilean Government.

Q The government of Chilean President Gabriel Boric is pushing a tax reform that has changes to mining royalties as a key focus. The reform is necessary to raise money for overhauls to social programs, including ones related to health and education, Boric advisor Giorgio Jackson said recently. What are the most significant parts of the tax reform, and how would the changes affect Chile's economy? How likely is the reform to win approval in Chile's Congress? How would the proposed reforms affect investment in Chile's important mining sector?

A Kathleen C. Barclay, director of AmCham Chile: "On July 1, a tax reform was announced in line with the government's commitment to introduce social reforms, as well as to increase spending for regional development, while at the same time maintaining the fiscal discipline necessary to ensure the reforms' sustainability over time. The package includes a corporate tax reduction from 27 percent to 25 percent, should there be a 2 percent or greater investment in productivity; increased personal taxes with the marginal rates up from 40 percent to 43 percent; the introduction of a 22 percent capital gains tax; measures to reduce tax evasion; a wealth tax of between 1 percent and 1.8 percent for holdings of more than $5 million. It also includes increased mining taxes (hybrid in nature including an ad valorem tax on sales and an increased tax on operational results which vary depending on the price of copper) that would apply to companies with production of more than 50,000 metric tons. Minister Marcel projects that the reform

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TODAY'S NEWS

POLITICAL

Nicaragua Jails Two Employees of Newspaper La Prensa

A Nicaraguan court jailed two employees of local daily newspaper La Prensa after it was one of the few local news organizations to report on the government's expulsion of the Mothers of Charity, which was founded by Mother Teresa.

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ECONOMIC

Remittances to Guatemala Grow 25% in First Half

Guatemala's level of remittances grew 25 percent in the first half of this year as compared to the same period last year.

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BUSINESS

Citgo Ready to Resume Imports of Venezuelan Crude: CEO

Citgo is prepared to resume imports of Venezuelan crude if the U.S. government authorizes it, CEO Carlos Jordá said Friday.

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Jordá // File Photo: Citgo.

POLITICAL NEWS

Nicaragua Jails Two Employees of La Prensa Newspaper

A court in Nicaragua has ordered two employees of daily newspaper La Prensa to be jailed for 90 days, and it was unclear what crime they were accused of committing, the newspaper reported Saturday. The employees were taken to the El Chipote prison, where several opponents of President Daniel Ortega's government are being held. The jailing of the two employees came after La Prensa was one of the few local newspapers to report on the Ortega government's expulsion of the Mothers of Charity organization, which was established by Mother Teresa, the Associated Press reported. The two jailed employees work as drivers for the newspaper, and police also raided the homes of two reporters, according to the AP. The reporters had covered Nicaragua's outlawing of the charity and the expulsion of 18 of its nuns. Ortega's government ordered the charity closed in late June amid a broad crackdown against the government's opponents and virtually every nongovernmental organization not allied with Ortega, the wire service reported. The government has imprisoned nearly 190 people whom human rights groups consider political prisoners.

U.S. Imposes Visa Restrictions on 28 Cuban Officials

The U.S. State Department announced Saturday that it was imposing visa restrictions on 28 Cuban officials whom it said were involved in repression of the peaceful antigovernment protests that began one year ago today in Cuba. The sanctioned officials include high-ranking Cuban Communist Party members who are responsible for setting policies on national and provincial levels, the State Department said in a statement. "Instead of ensuring the safety of the Cuban people and respect for their freedoms of expression and peaceful assembly, these officials permitted or facilitated violent and unjust detentions, sham trials and prison sentences spanning decades for hundreds of protesters," the State Department said. "Also covered are multiple officials who work in the state communications and media sectors who formulate and implement policies that restrict Cubans' ability to freely access and share information and who engage in the spread of disinformation," the State Department added. Following the protests, Cuban authorities arrested more than 1,400 people; 700 of them remain behind bars, The Washington Post reported, citing U.S.-based human rights groups Cubalex and Justicia 11J. Thousands of people have also fled Cuba since the protests.

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will generate an additional 4 percent of GDP in four years. The plan includes commitments to transparency and efficient use of public funds. The plan focuses on income redistribution with limited incentives for investment. There is concern that the reform's timing—in the absence of clarity as to the content and costs of the social reform and in the actual context of high inflation and domestic insecurity, as well as uncertainty related to a new constitution and slowing global economic activity—will be detrimental to employment creation and investment."

A **Mariana Zepeda, Latin America analyst at FrontierView:** "Chile will be one of the first countries in the region to pursue fiscal consolidation following a period of fiscal deterioration stemming from pandemic spending. While the Boric administration's commitment to fiscal responsibility is encouraging, current global conditions, particularly rising inflation, will likely heighten already-existing demand for high public spending. It will be particularly challenging to fund the social priorities enshrined in the

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NEWS BRIEFS

Colombian Forces Kill 10 in Operation Targeting Dissident FARC Members

Colombian security forces killed at least 10 people in the southern Caquetá region of the country in a joint operation targeting rebels who rejected the government's 2016 peace accord with the Revolutionary Armed Forces of Colombia, or FARC, BBC News reported today. The joint operation, made up of almost 300 Colombian police and military members, was targeting Iván Mordisco, the leader of an insurgent faction of the FARC. At least six men and four women belonging to the FARC were killed, and it is unclear if Mordisco was among the dead.

U.S. Border Agents Face Disciplinary Action After 'Unnecessary Use of Force'

U.S. Customs and Border Protection, or CBP, on Friday released a report saying that Border Patrol agents on horseback last September engaged in "unnecessary use of force" against nonviolent and nonthreatening Haitian immigrants at the Rio Grande, along the Texas-Mexico border, the Associated Press reported. No migrants were struck with whips, denied entry to the United States or forced to return to Mexico in the period during which they were blocked forcibly by mounted agents, according to the report. Four Border Patrol employees have been recommended for disciplinary action, CBP officials told journalists.

Moody's Cuts Credit Rating for Mexico

Moody's Investors Service on Friday cut its senior unsecured long-term credit rating for Mexico by one notch to Baa2, Reuters reported. The ratings agency said it expects weak prospects for investment in Mexico as well as higher structural rigidities that it said could constrain economic activity.

BUSINESS NEWS

Citgo Ready to Resume Imports of Venezuelan Crude

Citgo Petroleum is prepared to resume imports of Venezuelan crude if the United States authorizes the flow's resumption following its suspension since 2019 due to former U.S. President Donald Trump's sanctions on Venezuelan state oil company PDVSA, Citgo's CEO, Carlos Jordá, said Friday, Reuters reported. Citgo is a U.S.-based unit of PDVSA. Top officials from Venezuelan President Nicolás Maduro's government and U.S. President Joe Biden's administration have been in conversation since March, negotiating options that could lead Biden to ease oil trading sanctions on the Andean country. "To be competitive in this market, we have to buy the cheapest and most convenient crude," Jordá said during an online conference on Venezuela's foreign energy assets, the wire service reported. He added that the company "should not be at a disadvantage" to other refiners. Last month, the U.S. State Department allowed Spain's Repsol and Italy's Eni to resume their shipments of Venezuelan oil to Europe, which allowed the country to ship an average of 630,500 barrels per day of fuel and crude in June, according to PDVSA documents and Refinitiv data.

ECONOMIC NEWS

Guatemala's Remittances Grow 25% in First Half

Guatemala's income from remittances during the first half of this year increased by 25 percent as compared to the same period last year, according to a report by the country's central bank, Prensa Libre reported Saturday. From January to June of this year, remittances from family members abroad reached $8.7 billion, $1.75 billion more than the first six months of last year. Since March 2021, Guatemala has received more than $1 billion in remittances from abroad each month, benefiting more than 6.2 million people, Prensa Libre reported. Most remittances to the Central American country come from Guatemalan nationals who live in the United States, Canal Antigua reported. The majority of the money coming from remittances goes to consumption, and a smaller proportion goes to the construction of improved livelihoods for those who receive the money from abroad, the television station reported. "Guatemalan migrants have one characteristic, and it is that they constantly send money to their family members to maintain them," said José Alfredo Blanco Valdés, the vice president of the Bank of Guatemala, Prensa Libre reported. Salvador Paiz, president of FUNSEPA and board member of FUNDESA in Guatemala City, told the Inter-American Dialogue's biweekly Financial Services Advisor in a Q&A published Feb. 23 that increased remittances can lead to currency overvaluation. "Most of the income is dedicated to expenses, with little going toward savings, higher level education or other long-term investments," he said. "The outflow of migrants represents a talent drain for the country," he added.

THE DIALOGUE CONTINUES

What Did Maduro Accomplish on His Middle East Trip?

Q In June, Venezuelan President Nicolás Maduro visited Kuwait, Qatar, Turkey and Algeria, among other countries, during a tour of the Middle East and Mediterranean. The trip overlapped with the Summit of the Americas in Los Angeles, which the Biden administration did not invite Maduro's government to attend. What were Maduro's goals for his recent trip, and what did he achieve? Which regional relationships matter most to Venezuela? What do the countries Maduro visited offer Venezuela, and what does Venezuela offer them?

A Ariel González Levaggi, executive secretary of the Center for International Studies (CEI-UCA) at Pontificia Universidad Católica Argentina: "Facing the absence in the Americas Summit, Caracas launched a far-reaching diplomatic tour in the Middle East trying to signal greater international legitimacy, amplify ties with OPEC members and deepen an agenda with countries that have tense relations with the United States, especially Iran. Maduro framed the visits with a narrative on broader cooperation, but the main issues were the signing of 20-year cooperation roadmap agreements with Iran and the search for investments in the energy and mining sectors in Turkey and the Gulf countries. Despite geographical distance and cultural barriers, Maduro's Venezuela has prioritized relations with Iran and Turkey, though based on different interests. Iran has been a central partner in circumventing U.S. sanctions, especially on oil commercialization. However, a common anti-U.S. vision has brought both countries closer since the Chávez-Ahmadinejad years in the mid-2000s. Finally, as the Emtrasur cargo plane scandal in Argentina showed, there is ongoing (and underground) logistical cooperation that is helping to open Iran's influence in the Western Hemisphere. On Turkey, there has been an increasing political affinity, especially after Venezuela's condemnation of the failed coup attempt in Ankara. Later, relations flourished with various investments and trade agreements from mining—especially related to gold—to the food sector, in addition to a broader cultural cooperation."

EDITOR'S NOTE: The comment above is a continuation of the Q&A published in the June 30 issue of the Advisor.

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draft 2022 constitution, but this impulse will persist whether or not the constitution passes in the September referendum. Chile's tax-to-GDP ratio is among the lowest in the OECD, standing at 20.7 percent compared to the 33.8 percent OECD average; however, according to the Boric administration, the hike would affect only around 3 percent of taxpayers. A drastic change to the royalties scheme could hinder investment in Chile's mining sector, which critics argue could undermine the government's goal of financing social spending through mining revenues, but given the positive medium-term outlook for copper and lithium, is unlikely to sink the sector. However, Chile's Congress is highly fragmented, and obtaining support from the right for the tax bill will be challenging. Under the current political environment, Chile is more likely to pass a watered-down reform that falls short of the Boric administration's 4 percent of GDP tax collection goal."

A **Nelson Altamirano, professor of economics in the Department of Finance, Economics and Accounting at National University in San Diego:** "There is an agreement in Chile that a tax reform is needed to increase government spending on health, education, social security, environment and other social areas. The disagreement comes in the details, and the 260-page-long tax reform that the government submitted to Congress on July 7 is complex and full of details. There is a lot for politicians and lobbyists to negotiate given that the Boric administration's proposal comes as the intermediate position between the radical and soft versions approved earlier in the Chamber of Deputies and Senate, respectively. I expect a long and intense negotiation process. The royalty on mining and the corporate tax are two items that may change in Congress. On the one hand, mining companies and their institutional organizations have traditionally opposed the creation of royalties that tax revenue rather than profits. They would also like to continue receiving tax regime stability in order to make long-term investments. On the other hand, it is understandable that the government prefers taxing revenue instead of profits because revenue figures are easier to monitor and verify than profits. Revenues are based on output volumes and international prices, both traceable in internal company documents as well as export documentation in Chile and ports of destination. Profits depend on costs, which are subject to accounting manipulation at the level of mining firms, and it is very hard and costly for government agencies to verify these numbers. In addition, profit and prices are positively correlated, so price level is a good proxy of profitability in the mining industry. For these reasons, I expect the royalty tax to be maintained in the legislature, but the actual rates may be revised down a little in exchange for some sort of tax regime stability for big mining companies. We may also see some increase in the incentives for corporations to reinvest in productivity. The executive branch's proposal reduces corporate tax from 27 percent to 25 percent, with a 2 percent incentive for firms to reinvest in productivity. This 2 percent is low and neutral to incentivize reinvestment. We may see it go up to 3 percent, and corporate tax would consequently go down to 24 percent."

> **"I expect a long and intense negotiation process."**
> **— Nelson Altamirano**

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

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