Latin American Tax Update

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Latin American Tax Update
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This study reviews the tax developments in eighteen countries of Latin America during the calendar year 1979. Pertinent legislation and rulings, as well as important judicial decisions, are highlighted in order to provide maximum coverage of the following areas: fiscal policy, promotion of economic development, inflation generated measures, social security systems, tax administration, and special situations.

ARGENTINA

In the tax policy area a substantial tax reform has been passed which includes numerous changes for certain taxpayers.

Substantial amendments have been made in the excise tax laws consolidated in 1977. Most of the amendments took effect on February 1, 1979, and concern the payment and administration of the various excise taxes now applied on an ad valorem method. Other changes related to the rate of tax on tires, on automobiles, and on cigarettes. The tax base of imported goods is 150% of the C.I.F. value plus import duties. Among the various non-procedural provisions of the revised text are the following: equal tax rates for dark and blond, tobacco cigarettes; non-payment of the tax on alcohol transferred from a distillery to an alcoholic beverage factory belonging to the same distiller; an increase in the rate of tax on tires from 12.5% to 25% ad valorem; a credit against the tax payable on appliances; for taxes included in their component parts; taxation of automobiles on a progressive rate commensurate with their consumption of gasoline so as to encourage manufacturers to design vehicles rendering higher mileage with lower fuel consumption, except that the maximum tax rate applies to all imported automobiles regardless of fuel consumption.1

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The revised rates of the corporate fee levied by the Bureau charged with supervising the formation and operation of legal entities have been fixed for the 1979 fiscal year.\(^2\)

A recent Revenue Ruling has held that companies comprising an economic unit are not allowed to file consolidated returns, while the Treasury may require them to do so. According to the Ruling, the concept of economic unit may imply that there is a single taxpayer, which is only allowed if expressly contemplated in the respective tax law. No such identification is provided in the income, sales, nor in the old extraordinary profits taxes. The Tax Procedure Law provides in its article 15 that economic units may be taxpayers if so contemplated in the respective tax statutes. No such contemplation is found in the income tax law. According to the Ruling, the power to authorize consolidated tax returns has always been a prerogative of the Treasury, and not of the persons liable for the tax, who retain their legal independence.\(^3\)

Effective January 1, 1980, tax immunity of government-owned corporations engaged in commercial activities has been terminated with respect to national as well as provincial and municipal taxes. Income and capital taxes past due because of elimination of exemptions by an earlier statute have been condoned. Government-owned corporations and governmental agencies may no longer undertake the onus of any tax imposed on persons contracting with them, except in foreign loans executed before January 1, 1980.\(^4\)

Policy on taxation of transfers of used cars has been reversed by repealing the special 5% tax on such transfers. Such transfers have been eliminated from the list of transactions exempt from the sales tax.\(^5\)

The apprenticeship tax levied on payrolls for the education of apprentices has been broadened to apply to the technical education of any worker regardless of age. The change applies from August 1, 1979. The new law has eliminated the provision of the tax for technical education which limited the benefits of the revenue from the tax to workers under 18 years of age.\(^6\)

Within the area of promotion of economic development numerous tax benefits were granted to farming, cattle-raising, manufacturing

\(^2\) Resolution 71 of January 18, 1979.  
\(^3\) Revenue Ruling 5/79 of March 2, 1979.  
\(^5\) Law 22031 of July 17, 1979.  
\(^6\) Law 22030 of July 17, 1979.
and tourist enterprises which located or are located in La Rioja Province. The benefits for new enterprises apply to investments made on or after January 1, 1978, up to and including December 31, 1992. Investors in farming, cattle-raising and manufacturing companies may deduct the investment from their taxable income. Furthermore, payment of up to 75% of the tax imposed on dividends from such investment may be deferred. The tax benefits apply to income tax, import duties tax on capital and added-value tax. Investments entitled to be deducted from taxable income of any taxpayer must consist in direct contributions to capital and the shares or quotas must be held for at least 5 years computed from January 1 of the year following that in which the investment is made.  

Promotion of mining is governed by a new law. Numerous tax benefits have been granted to firms organized within the country, even if they are owned by foreign capital. However, these benefits will not apply to foreign investors to the extent that their enjoyment of such benefits results in a transfer of revenue to foreign treasuries. General benefits consist of the deduction for income tax purposes, of up to 100% of the amounts paid for machinery (excluding import duties, if imported) plant improvements, vehicles and technical assistance fees; the exemption of capital gains tax on mines contributed to the capital of mining companies; the 100% to 10% exemption of added-value tax over a 15-year period, and the exemption from mining exploitation tax. Additional benefits have been granted to projects involving prospecting, the exploitation of new deposits, and the processing of minerals as well as the construction or expansion of installations, and reorganizations and mergers of mining companies. Such additional benefits are an income tax exemption decreasing from 100% to 10% over the first 15 years of operation, or at the taxpayer's option, deferring income tax, capital gains and net worth tax. Operating companies may also use accelerated depreciation and be exempt from import duties on capital assets and replacement parts not manufactured within the country. Investors may credit against income tax up to 25% of the amounts invested in the taxable year and defer payment of income tax for the balance. A new feature in the Argentine pattern of encouraging mining is to allow the capitalization free of tax, of 50% of the mineral reserves appraised in the manner prescribed in the statute. However, such capitalized amount may not be registered as foreign capital investment. The deduction of fees for technical assistance does not refer to exclusion of assistance provided  

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by a foreign affiliated company. However, the deduction is contingent on its approval by the competent authority. Investors must hold their interest in mining companies for at least 5 years or as long as they are deferring payment of income tax.8

As an inflation-generated measure and in compliance with a provision of the Income Tax Law, the General Tax Bureau has updated the amounts expressed in pesos for purposes of personal deductions, dependents and brackets of taxable income of individuals. The adjusted values apply for the taxable year 1978. Personal exemptions and deductions are to be adjusted periodically in accordance with changes in the cost-of-living index. Individuals are taxed, pursuant to the revised brackets, at 7% on taxable income not exceeding 536,268 pesos, progressing to 45% on taxable income exceeding 53,626,800 pesos.9

Lastly, within the special situations area, a tax treaty to avoid double taxation of income and capital signed in Buenos Aires on July 13, 1978 by Argentina and Germany has been approved. Under the treaty, dividends, royalties and interest may not be taxed at a rate higher than 15%. The treaty does not include the Argentine tax on remittances. The treaty applies to the following Argentine taxes: income, occasional gains, corporate capital and net worth taxes. It applies to the following German taxes: income, companies and commerce taxes. The effective date is the thirtieth day after the exchange of ratification instruments and the treaty applies to taxes imposed on any fiscal year begun on or after January 1, 1976, and to any tax withheld at the source on payments made after December 31, 1975.10

BOLIVIA

A series of developments concerning fiscal policy should be reported. The tax on income derived by individuals from mining is to be paid according to new rules. Commencing with the taxable year 1980, such persons are to pay the income tax levied on individuals as determined in their income tax returns. From March 1, 1980, 40% of the net value of the minerals sold by them is to be withheld by the buyer. The amount thus withheld is to be credited against the tax due pursuant to the return.11 Any excess of tax withheld is to be

refunded through a credit note which can be used to pay any tax other than municipal taxes or import duties. Taxes due for the 1975 through 1979 taxable years are payable through a special withholding progressive rate applied to sales of minerals made from March 1, 1979, through February 28, 1980.

In order to discourage smoking, the rates of the recently unified tax on cigarettes have been increased from 142.69% to 187.72% for light tobacco cigarettes, and from 59.34% to 106.15% for dark tobacco cigarettes. The tax applies ex-factory on the selling price.\(^\text{12}\)

Since February 19, 1979, there has been another tax imposed on beer, in addition to the previously existing single excise tax. The additional levy is 10% of the total selling price to distributors, as such price is determined by the law which created said single tax. The additional levy is to be withheld by beer manufacturers at the time the beer is sold to distributors.\(^\text{13}\)

All provisions exempting imports from the 1% import duty created under the law which established the Regional Council for the Development of the Northwestern Region have been repealed effective February 1, 1979.\(^\text{14}\)

Tourist enterprises have been authorized to revalue fixed assets held as of December 31, 1977, free of taxes except for the stamp tax. Assets which are revalued by virtue of a 1977 statute have been excluded. The new value is to be capitalized and the shares representing the capitalization increase are not taxed to the shareholders. The new values shall not affect the basis of assets for depreciation purposes. In computing the net new value, depreciation accumulated as of December 31, 1977 is to be deducted.\(^\text{15}\)

Application of the new Income Tax Law to income from farming has been suspended until a newly appointed Commission submits a study on taxation of income from farming. Farming enterprises were required to file financial statements and pay income tax at the rate of 30%, if the appraisal value of the land was 30,000 pesos or higher. At the farmers' request, this provision has not been applied since the 1976 taxable year.\(^\text{16}\)

\(^{12}\) Decree-Law 16186 of February 16, 1979.
\(^{13}\) Supreme Decree 16206 of February 16, 1979.
\(^{14}\) Supreme Decree 16143 of February 1, 1979.
\(^{15}\) Supreme Decree 16297 of March 21, 1979.
\(^{16}\) Decree-Law 16383 of April 30, 1979.
The Income Tax Law on Enterprises has been amended to exempt interest from foreign loans made to certain oil companies. The exemption applies to financing on behalf of the state-owned oil company Y.P.F.B., and on behalf of private oil companies entering into association contracts with said Y.P.F.B.\(^{17}\)

All imports save for certain exceptions, are now subject to an additional 2% ad valorem duty. Revenue from the new duty is earmarked for the development of the Cochabamba and Beni regions.\(^{18}\)

In order to aid manufacturing industries, the import duty tariff has been revised by a reduction of the duty on certain supplies utilized in manufacturing. This change has been accompanied by a rise in the duty imposed on imported goods which are similar to those produced domestically. These new duties became effective on June 21, 1979. Among the goods now subject to revised duties are photographic film, certain chemicals, aluminum bars and pipes, and kilns.\(^{19}\)

The added-value tax law has been superseded by a new text which contains new technical rules and fewer exemptions. The 5% general tax rate is still maintained. The new text entered into effect on July 1, 1979.\(^{20}\)

Those who borrow from nonresidents, and who undertake to pay the tax levied on the interest to be received by the nonresident lender may claim such tax as a business expense. If the borrower is engaged in mining, in lieu of such deduction, the borrower is granted a tax credit equivalent to 30% of the interest.\(^{21}\)

The most significant occurrence in promotion of economic development was a duty break for the automotive industry. Under a new law which regulates the automotive industry, the Ministry of Industry, Commerce and Tourism has been charged with proposing new tax and duty benefits directly connected with that industry. Automotive assembly has been aided by the reduction of the import duty applied to kits and finished motor vehicles imported by assembly plants. The new ad valorem duties on kits range from 8% to 25%.\(^{22}\)

\(^{17}\) Supreme Decree 16455 of May 9, 1979.
\(^{18}\) Supreme Decree 16640 of June 28, 1979.
\(^{19}\) Supreme Decree 16628 of June 21, 1979.
\(^{21}\) Supreme Decree 16901 of July 25, 1979.
The handicraft and other small industries have been aided by a new law. There is a new import duty exemption for tools, machinery, and raw materials, an income tax exemption for profits reinvested in the industry, and an exemption from tax on capital for loans taken by craftsmen and eligible enterprises. Small industry is understood as comprising activity-engaging machinery worth no more than 1,000,000 pesos and labor. Eligible companies may use accelerated depreciation of fixed assets. The duty exemption for raw materials is limited to those materials not produced within Bolivia and expires 5 years after registration of the enterprise with the Bolivian Institute for Small Industry and Handicraft.\(^\text{23}\)

**BRAZIL**

Important changes have taken place in the fiscal policy area. The presumptive income of legal entities which do not carry books of account or which sell from abroad through Brazilian agents is to be determined according to a new Portaria which implements recent statutory changes on taxation of legal entities. Such income is presumed to be distributed to the owners or partners of the legal entity and is taxed in the manner prescribed in the new Portaria. The new rules apply from the fiscal year 1979 (taxable year 1978).\(^\text{24}\)

The amounts of tax to be withheld at the source have been increased, beginning March 1, 1979. Withholding on salary income is to be increased by 5%. Any other withholding of tax at the source, as an advance of the tax to be paid upon filing the income return, is to be increased by 10%. Among the income items subject to withholding at the source and affected by the 10% increase are dividends, cash bonus and other distributions made to individuals.\(^\text{25}\) In addition, after January 1, 1980, income from employment, including that received by corporate directors as remuneration for services rendered, is subject to withholding at rates ranging from 10% to 35%. Fees paid by legal entities to individuals, including bonuses paid to corporate directors, are subject to withholding at rates ranging from 6% to 30%. In determining net income from employment, the following deductions are allowed: 1,700 cruzeiros per dependent, contributions to pension funds, union dues, alimony, expenses incurred in collecting income, and traveling expenses of traveling salesmen.\(^\text{26}\)

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Amending the statute that allows holders of concessions for public transportation to pay income tax at a 6% rate, a new decree-law raises such rate to 17% for holders of concessions whose prices are fixed by the authorities. The 17% rate applies on income equivalent to a maximum amount of 12% of the invested capital. Income in excess thereof is subject to a 30% rate.\(^{27}\)

Financial institutions which obtain funds from the National Bank for Economic Development will be entitled during 1979 to limit the monetary adjustment of the amounts thus borrowed to seven-tenths of the increase in the value of the Readjustable National Treasury Obligations. The benefit applies only where the funds are used to acquire equity or to finance the acquisition of equity of certain domestic companies described in the statute. The excess of the monetary adjustment to which the Bank would have been entitled shall be offset by a credit against the income tax payable by the aforementioned National Bank.\(^{28}\)

Beginning July 1, 1979, numerous industrialized products tax rates have been reduced to zero. Many other rates have been increased beginning July 15, 1979. Among the products benefiting from the rate reduction to zero are chemicals, paper and common metals. Among the products subject to increased rates are luxury items such as cosmetics, liquor, home appliances, automobiles, and yachts.\(^{29}\)

Legislation revising the single tax on lubricants, and liquid and gas combustibles has been enacted. New rates were to become effective on January 1, 1980.\(^{30}\)

Alcohol used as fuel will be exempt from the single tax on fuels until December 31, 1985.\(^{31}\)

Guidelines for the computation of capital gains and losses in the case of corporate reorganizations have been released. They concern the appraisal of shares of a subsidiary legal entity which is merged into another entity. Capital gains or losses are the difference between the amounts representing such expressions.\(^{32}\)

The First Taxpayers' Council has handed down a decision relating to taxability of profits derived by nonresident sellers from sales made in Brazil with the intervention of a local firm. The Council

\(^{27}\) Decree-Law 1682 of May 7, 1979.
\(^{28}\) Decree-Law 1679 of March 13, 1979.
\(^{30}\) Decree-Law 1691 of August 2, 1979.
\(^{31}\) Decree-Law 1690 of August 1, 1979.
\(^{32}\) Opinion Ruling 51 of September 17, 1979.
found that sales based on orders drafted on the forms of the local firm which fix the terms necessary for a sale to be consumated consistent with the Commercial Code, such as price, identification of goods, delivery and manner of payment, will be considered as having been made in Brazil, notwithstanding that such sales were subject to the approval of the foreign supplier and were invoiced by it directly from abroad. Therefore, the local firm was not a mere mediator as it alleged, but rather an actual agent of the nonresident supplier. This relationship implied power to bind such supplier, who was also affiliated with the agent. The domestic firm was charged with failing to segregate, in the years 1968 through 1971, the profit of the foreign supplier and with failing to withhold the tax on it as required by the Income Tax Law. The taxpayer invoked Portaria No. 228 of May 8, 1974, which defines taxable sales as those made in the exercise of binding power. Since no power has been granted, the sales were direct as between the foreign seller and domestic buyer, alleged the taxpayer. The Court answered this argument declaring that Portaria No. 288 was enacted subsequent to the years in question and did not control. A dissenting opinion found the Portaria applicable to years prior to its issuance because it was meant to construe the tax law, and such Portaria requires the agent to have such power in order to regard a sale as consumated within Brazil.\textsuperscript{33}

Beginning with the fiscal period 1980 (taxable year 1979), legal entities are required to pay income tax at the rate of 35% rather than 30%. A similar rate applies to the profits of transportation carriers which exceed 12% of the invested capital. In fiscal periods 1980, 1981 and 1982, if the actual or presumptive income exceeds 30 million cruzeiros, such excess is taxed at an additional 5%. Special rules are set forth for legal entities which do not close their fiscal year on December 31. Fiscal debts and fines not paid on time will be monetarily adjusted on a monthly basis. No credits are allowed against the additional 5% tax. Legal entities entitled to lower tax rates are not affected by the present decree-law. Fiscal debts which began to be adjusted monetarily prior to January 1, 1980 will be updated in accordance with the laws then in force.\textsuperscript{34}

Starting January 1, 1980, small enterprises engaged in trade, manufacturing, and contract work may elect to be taxed on the basis of their presumptive income pursuant to new rules. The tax shall be 30% applied to 5% of gross receipts from trade or manufacturing and

\textsuperscript{33} Decision of October 17, 1979.

\textsuperscript{34} Decree-Law 1704 of October 23, 1979.
to 10% of gross receipts from contract work or related services. Only sole proprietorships, partnerships and limited liability companies whose gross receipts for the calendar year do not exceed 100,000 National Treasury Readjustable Obligations are eligible. Many rules for the computation of taxable income of legal entities have been revised. Beginning with the taxable year 1980, accounting for income from portfolio investments in affiliated companies will be governed by new rules. Also, donations received by legal entities from private parties are no longer excluded from taxable income, and the losses of merged, consolidated or split companies may not be carried forward to the surviving company.

Beginning with the taxable year 1979, the maximum limit of royalties remittable abroad is to be computed on net sales rather than on the gross sales of the goods manufactured under the license. Other changes indicate that the list of tax exemptions and the rate reductions based on operating profit has been expanded to include benefits contained in all current legislation; provisions for vacation pay and employees' bonuses may now be deducted, while certain provisions contemplated by the Corporation Law for repairs and contingencies are no longer deductible.

From January 1, 1980, income derived by nonresident producers and distributors of foreign motion pictures is fully taxable at the 25% withholding tax rate.

Legal entities which claim losses in connection with amortization of foreign loans must account for such losses pursuant to the procedure set forth in new legislation. The deduction is limited to the changes in the value of the Readjustable National Treasury Obligations for the same period. Any excess should be amortized over the five subsequent fiscal periods or treated as a fixed asset. The new rules apply to fiscal years which include any of the last six months of 1979. If a loan is converted into capital, the excess exchange loss may be deducted in full, but any reduction of capital within the following five years will trigger the tax on the capitalized debt. In computing inflationary profit, the actual exchange loss is to be included in full, that is, the pre-fixed coefficient, as well as the deferred excess.

Subject to numerous exceptions, the general rule is that all exemptions and reductions of the import duty and the industrialized products tax relating to imported machinery, equipment tools, instruments, motor vehicles, aircraft and boats, including their spare parts, have been eliminated as of December 7, 1979. Among the exceptions are imports by exporters of industrialized products, imports financed by long-term loans, goods to be used in Amazonia, the Northeast or Manaus, machinery used by broadcasting enterprises, newspaper companies and power plants, and those imported by educational institutions, diplomatic missions, and sports entities.39

The 12% tax credit for investment in housing by individuals has been restricted to low-cost housing. The maximum credit has been maintained at 7,800 cruzeiros while the minimum credit has been increased to 3,000 cruzeiros, beginning with the fiscal period 1980 (taxable year 1979).40

In the promotion of economic development area the credit against excise tax on domestic sales for excise tax paid on raw materials of exported industrialized products, and the exemption from import duty of capital assets have been revised by two decree-laws. One changed the annual percentages for elimination of the credit by June 30, 1983, while the other authorized the Treasury to reduce or eliminate both benefits. Accordingly, the Treasury suspended the use of the credit until ordered to the contrary, effective December 7, 1979.41

Firms or groups of firms which develop special export programs under the supervision of the appropriate authority (BEFIEX) may export components and replacement parts manufactured by third parties in the terms and conditions set forth in a new statute. Special exportation programs are encouraged by allowing certain import duty and industrialized tax exemptions. Together these should not exceed one third of the manufactured products exported annually. Under the new statute, the value of parts and components manufactured by third parties may be taken into consideration in computing the aforementioned limits.42

The exclusion from gross income of profits derived from exporting industrialized products has been amended and extended to the

fiscal period 1985 (taxable year 1984). The right to import capital assets duty-free has been extended until December 31, 1985, and it is based on the increased of 1984 exports over those of 1983. The income tax exemption granted to trading companies engaged in exporting industrialized products has been extended up to and including the fiscal period 1985 (taxable year 1984).43

The 20% allocation for the National Program for the Redistribution of Land, and the 30% allocation for the National Integration Program, consisting of tax credits for promoted investments, have been extended to the fiscal period 1985 (taxable year 1984).44

Beginning from the fiscal period 1980 (taxable year 1979), investments in the Amazon and Northeast regions made through tax credits are to be reduced by an amount equivalent to 2% of one half of the tax payable, as a contribution to defray the cost of the study and administration of projects located in such regions.45 Except for certain changes, the rules for the election to apply tax money for establishments located within Espirito Santo State have been extended to the fiscal period 1984 (taxable year 1983).46

In advancing inflation-generated measures, the Ministry of the Treasury has fixed at 1.45% the coefficient for updating cruzeiro values contained in the Income Tax Law. The coefficient applies beginning with the fiscal period 1980 (taxable year 1979). A similar coefficient applies for adjusting income tax withheld at the source during the taxable year 1979. Adjusted brackets of taxable income of individuals are also set forth. Implementing the application of the new coefficient, the Secretary of Federal Revenue has released a table of the values expressed in cruzeiros in the Income Tax Law as consolidated in 1975 and subsequent amendments, exclusive of the brackets of taxable income of individuals, and rounded-off to the nearest hundredth of cruzeiro, and a table of the values expressed in cruzeiros in the decree-law that revamped taxation of legal entities.47

Regarding the area of tax administration, a Superior Court of Appeals for Fiscal Remedies has been established within the Treasury. It will take cognizance of special remedies.48

47. Portaria 897 of November 19, 1979; Ruling Instruction 070 and 071, both of November 21, 1979.
Two decrees regulating enrollment in the Taxpayers' Registry by individuals and legal entities have been passed. Under one decree, individuals residing abroad are not required to enroll even if they receive income subject to withholding. However, if such nonresidents appoint an agent within Brazil, such agent must enroll. Under the other decree, legal entities no longer are required to show their taxpayer number when filing with the Commercial Boards documents for their constitution or dissolution, or for revision of articles of incorporation. As a general rule, a taxpayer's registration number does not have to be shown in any transaction, other than those listed in each decree.\textsuperscript{49}

Generally, a tax clearance certificate is not required to be produced before any agency of the Union, except in the cases specified in a new statute. Such cases are declaring bankruptcy, contracting with agencies of the Union, transferring residence abroad, selling through auctioneers, liquidating the company, either partially or completely and any other case in which the Executive Branch may determine it is necessary. Government agencies and government-owned enterprises are not allowed to require a tax clearance certificate except in the cases mentioned above. On the other hand, they are allowed to refrain from entering into contracts with those indebted to the Treasury. Regulations on waiver of the tax clearance certificate in public bidding are to be passed by the Treasury.\textsuperscript{50}

Several provisions of the Income Tax Laws which require permanent reporting of transactions handled by banks, real property registries, Commercial Boards, and the Institute of Industrial Property and Notary Publics have been repealed. Although the provision making it mandatory to report the transactions described in the various provisions within 30 days of their occurrence has been eliminated, the banks, registries, and other organizations remain obligated to furnish information requested by the tax authorities, and to submit periodic reports in the manner which the Treasury may order.\textsuperscript{51}

Finally, several changes regarding liability for income, industrialized products, importation and mineral taxes entered into effect on January 1, 1980. Late payment of any of those taxes is subject to a 30% surcharge; controlling shareholders, directors and representatives of legal entities are jointly liable for non-payment to the Treasury of

\textsuperscript{49} Decrees 84047 of October 2, 1979, and 84101 of October 17, 1979.
\textsuperscript{50} Decree-Law 1715 of November 22, 1979.
\textsuperscript{51} Decree-Law 1718 of November 27, 1979.
industrialized products tax and income tax withheld at the source. Non-operating income of small business companies is to be taxed at the normal rates. The 30% surcharge, which is reduced to 15% if payment is not delayed beyond the last day of the month following that in which the tax is due, applies in addition to other penalties and monetary adjustment.\footnote{52}

**CHILE**

In the fiscal policy area, new legislation allows the payment of import duties levied on machinery and public transportation vehicles to be made in up to fourteen semi-annual installments in the terms prescribed in new legislation. This legislation does not affect the existing system for deferred payment of import duties on capital assets. Sales Tax Law provisions relating to the base of tax on sales of imported assets and Stamp Tax Law provisions on computation of the tax on import documentation have been amended to harmonize them with the new statute. Installments under this plan may not be lower than US $2,500, including principal and interest, and must be paid in national currency, applying the exchange rate prevailing at the date of payment.\footnote{53}

In lieu of existing taxes on the first sale of imported or domestic luxury automobiles, a new levy has been created, effective June 30, 1979. It is to be in force until December 31, 1983, at a rate of 100% of the portion of the selling price in excess of US $12,000. The rate is gradually reduced to 60% by October 1, 1983. This levy may not be deducted as an expense for income tax purposes. Certain provisions of the Sales Tax Law have been amended in harmony with the new levy. The cost of imported automobiles is to be fixed by multiplying the price ex-factory by a 3.6 factor which is to be gradually reduced to 3.0 by July 1, 1982.\footnote{54}

The National List of Chile, granting import duty concessions to LAFTA countries, has been revised and extended from January 1, 1979. Special concessions are granted to imports from Paraguay. They apply to certain chemicals and petrochemicals for the period indicated for each product. The new list applies from January 1, 1979, through December 31, 1979.\footnote{55}

\footnote{52. Decree-Law 1736 of December 20, 1979, and Portaria 099 of February 5, 1980.}
\footnote{53. Decree-Law 2563 of March 20, 1979.}
\footnote{54. Decree-Law 2628 of May 2, 1979.}
\footnote{55. Decrees 282 of March 26, 1979, and 288 and 289, both of March 27, 1979.}
Important reforms of the Sales and Services Tax Law became effective on July 1, 1979. In addition to the general sales tax, the sale of domestic liquor and soft drinks, or their importation, will be subject to a specific tax. The rate ranges from 15% of the selling price in the case of soft drinks, to 30% in the case of liquor. Other changes relate to administration and collection of the new specific tax.\(^5\)

Exercising the authority granted to it by the Sales Tax Law, the Executive Branch has excluded from application of the additional sales tax objects made of silver, air conditioning units, photographic cameras, and electronic sound equipment.\(^6\)

The Internal Revenue Service has ruled that the income tax exemption granted by laws of 1947 and 1966 to sports entities, whether domestic or foreign, and to foreign athletes and sports technical advisors who reside abroad, is in force under the current Income Tax Law and applies to normal income tax as well as to additional income tax levied on nonresidents.\(^7\)

Benefits under the law regulating the automotive assembly industry have been improved. Enterprises will be allowed greater import duty reductions for their imported parts. However, protective duties on finished automobiles have been slightly reduced and will be only 10% ad valorem by 1986. The single 25% ad valorem duty payable by eligible enterprises on imported parts has been reduced to 10% beginning January 1, 1979. The highest new protective duties are 90% in 1979 for passenger automobiles; the duty on trucks is 10% ad valorem from 1979 through 1986.\(^8\)

Under a new law which regulates operations of domestic and foreign airlines, income remitted abroad by domestic commercial airlines will be exempt from the additional income tax. Such income may represent know-how fees, services rendered abroad, interest and other remuneration connected with the payor's business. The same statute amends the sales tax law to allow reimbursement of the sales tax applied on goods and services utilized by airlines.\(^9\) Sales tax benefits for equipment and income tax exemptions for payments made abroad are granted to steamship and shipbuilding companies. Such companies are also entitled to the same tax exemptions granted to exporters with respect to their international trade. The new rules

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entered into effect sixty days after December 22, 1979. Payments made abroad for technical assistance, interest or any other service rendered on behalf of steamship and shipbuilding companies by non-residents, will be exempt from income tax if they are authorized by the Treasury.\textsuperscript{61}

Gains derived by investors in mutual funds are exempt from income tax if the conditions set forth in the law which regulates mutual funds are met. One of the conditions is that the investor is not engaged in the trade or business of buying and selling securities. Detailed rules cover computation of interest and computation of gains from the transfer of quotas in mutual funds.\textsuperscript{62}

With regard to inflation-generated measures, it should be noted that the Executive Branch has updated the fixed rates of the tax by increasing them 21.4\% as of January 1, 1980. A table of such rates has been released.\textsuperscript{63}

Exercising the power vested in it by the Income Tax Law as last amended in 1976, the Executive Branch has revised the dollar values representing the price of minerals used in fixing the progressive rates of income tax payable by miners. Such values have been adjusted upwards by 9.03\%.\textsuperscript{64}

Lastly, the second and third installments of real property tax due in 1979 shall be paid with a 100\% surcharge. The ceiling of appraisal for exemption from the tax has been fixed at 20,000 pesos. The Executive Branch shall revise this amount every sixth month, as provided by law, beginning January 1, 1980.\textsuperscript{65}

**COLOMBIA**

In the field of tax policy changes, the Tax Bureau has held that shareholders of a corporation being transformed into a limited liability company must recognize the occasional gain that originates from accumulated profits. Regulations to this effect have been upheld by the Council of State. On the other hand, the greater value assigned to fixed assets in such a transformation is neither income nor an occasional gain. Although the Code of Commerce provides that where a

\textsuperscript{61} Decree-Law 3059 of December 21, 1979.
\textsuperscript{62} Decree 1019 of November 19, 1979, updating the text of Decree-Law 1328 of 1976.
\textsuperscript{63} Decree 1099 of December 6, 1979.
\textsuperscript{64} Decree 128 of February 2, 1979.
\textsuperscript{65} Decree-Law 2754 of June 29, 1979.
company is transformed into another, the existence, net worth and activity of the transformed company are not affected, for tax purposes the transformed corporation is in theory liquidated and accumulated profits are attributed to the shareholders who have to pay the tax on such occasional gain. Since a company is given the option to revalue assets upon reorganization, the greater value attributed to the fixed assets is regarded as capital, held the Ruling. 66

Financial institutions have been allowed to invest up to 10% of their capital in corporations engaged exclusively in equipment leasing. Equipment leasing is an important source of long-term financing specially suitable for high-cost capital assets, and which grants an option to buy the equipment at the end of the lease. To protect the public, only corporations, which are supervised by the Superintendency of Companies, are the lessors in which financial institutions may invest. 67

Exercising the power vested in it by the law which overhauled tax procedure, the Executive Branch has decreed that profits connected with the acquisition of bearer debt securities is subject to withholding of tax at the source. The withholding rate may not be lower than 1% of the face value of the security nor higher than 40% of the gain. The tax is to be withheld by the issuer at the time of redemption of the security. It is presumed that the full gain derived upon redemption benefits the latest holder of the security, unless such holder proves that third parties derived gains on which income tax has been withheld and paid to the Treasury. 68

Congress has passed a law introducing substantial changes in the taxation of income of individuals and legal entities. The changes relate to personal deductions by individuals, to annual adjustment of amounts expressed in pesos in the income tax statutes by 100% of the variation in the cost-of-living index, to taxation of occasional gains such as those derived from sale or disposition of assets held more than two years, to incentives for investments in other enterprises, and to reinvestments. The new law entered into effect on April 16, 1979. The regulations set forth rules and procedures to revalue fixed assets and cattle, and to compute occasional gains derived from the sale of shares, from the acquisition of inherited or bequeathed property, from liquidation of corporations and from insurance proceeds.

Other provisions deal with conditions to be met to deduct from taxable income, income and profits invested in shares of promoted new corporations. Occasional gains are the following items: (1) gains from sale of capital assets held more than two years; (2) gains from monetary correction of certain readjustable bonds; (3) liquidating dividends if the company was in existence more than two years; (4) inheritances and bequests; (5) cash prizes; and (6) lotteries and other betting prizes. Occasional gains derived by individuals are taxed at 50% of the rate payable on ordinary income by the beneficiary; gains derived by corporations are taxed at a 40% rate; those derived by limited liability companies are taxed at 20%, and lotteries and other betting prizes are taxed at a 10% rate.\footnote{69} Rules for the withholding of income tax at the source have been issued, effective June 1, 1979. They deal with payments of interest and with lottery prizes only. The withholding rate is 5% and 10%, respectively. No withholding applies when payment of interest is made to persons who are not taxpayers, where interest originates in bearer securities (which are subject to special withholding rules not issued as yet), where interest accrued or was paid prior to April 16, 1979, and where the amount of daily interest is lower than 50 pesos.\footnote{70}

Several decrees reducing import duties on over 2,600 items of the import duty tariff became effective on September 12, 1979. Among the products affected are tires, certain tools and motor vehicles.\footnote{71}

In an effort to promote economic development, the National Council for Economic Policy has issued a list of certain activities in which a company receiving investment funds must be engaged for the investor to be allowed to deduct the investment in computing his taxable income. The Executive Branch has also limited the tax benefit to recipient enterprises located outside Bogota, Medellin and Cali.\footnote{72}

With regard to inflation-generated measures, the Executive Branch has updated the amounts expressed in pesos in the Income Tax Law. Brackets of income and of net worth subject to progressive rates applicable in the taxable year 1979 have been revised, accordingly, by 24.4% (100% of the cost-of-living increase). The Executive

\footnote{69. Law 20 of April 16, 1979, implemented by Decree 2595 of October 26, 1979.}
\footnote{70. Decree 1240 of May 31, 1979.}
\footnote{71. Decrees 1409 of June 15, 1979, 1415 of June 18, 1979, 1417 of June 18, 1979, 2255, 2256, and 2257, all of September 12, 1979.}
Branch has also updated peso values contained in various income-related laws and decrees for the taxable year 1979.73

Finally, as to social security developments, under a new law regulating family welfare, employers are to continue paying a 2% payroll tax but such tax may not be deducted in computing income taxes, unless it is shown that by the last day of the taxable period no payroll tax was past due. Employers are required to pay the payroll tax within the first 10 days of the month following that when the salaries were paid to the Colombian Institute for Family Welfare. Donations by individuals or legal entities to such Institute are also deductible.74

COSTA RICA

In the area of tax policy, and in exercising the authority granted it by the Selective Consumption Tax Law and by the Sales Tax Law, the Executive Branch has issued two decrees exempting numerous products from both of those taxes, while taxing others at reduced rates. Under one decree, which applies beginning January 15, 1979, certain farm chemicals, electric household appliances and toys have been exempted from the selective consumption tax, and certain farm tools and tractors have been exempted from the sales tax. Imported footballs and bicycles have been subject to reduced selective consumption tax rates. Under the other decree which applies beginning February 6, 1979, certain automobile accessories, radio receivers, lawn mowers, photo equipment and other items have been exempted from the selective consumption tax, and tractor replacement parts have been exempted from the sales tax. Imported batteries, racing bicycles and other goods have been subject to reduced selective consumption tax rates.75 Congress is studying a bill whereby several taxes would be amended and other taxes created. The amendments to the Income Tax Law include an increase of the amounts allowed as personal deductions and exemptions, and an increase in the brackets of taxable income. The sales tax would apply to telephone services, lodging and certain other services currently not taxed. A new real property tax equivalent to 1% of the value of land exclusive of improvements would be created. The property transfer tax would be repealed and in its stead an 8% betterment tax would be levied upon the transfer or disposition of real estate, including improvements. Other amendments to the Income Tax Law deal with tightening the rules on the

73. Decree 2326 of September 24, 1979.
74. Law 7 of January 24, 1979.
withholding of tax at the source, and with a revision of the tax rates payable by legal entities. The betterment tax would be applied to the difference between the fair market value or the appraisal for the property tax (whichever is higher) and the cost plus improvements.\textsuperscript{76}

New rates were announced for certain exports. The fixed duty on coffee exports has been raised from 8% to 9.4% ad valorem beginning with the 1978-1979 crop.\textsuperscript{77} The rates of the tax on sugar exports have been revised. They range from 1% of the FOB value below $11.50 per 46 kilograms to 9% of the FOB value over $26.50. The new rates entered into effect on September 19, 1979.\textsuperscript{78}

Individuals may claim personal exemptions in the amounts fixed by a new decree. According to that change, another decree has amended the Income Tax Regulations to relieve taxpayers whose income is 23,000 colones or less, from filing tax returns. The deduction for the spouse is 10,000 colones, for each child is 5,000 colones, and for each other dependent is 2,000 colones.\textsuperscript{79}

In an effort to promote economic development, new rules apply to the deduction for income tax purposes, of amounts invested in forestry under the Forestry Law and regulations thereunder. The deduction can be claimed either in the year in which the investment is made, or in 5 equal consecutive annual installments. Prior to the present amendment, investments could be deferred for only 3 years.\textsuperscript{80}

Pursuant to a recent amendment, benefits under the Tourist Promotion Law have been extended to those hotels which have been open to the public before December 31, 1978. The amendment changed the definition of “operating hotels” so as to include those which became operative after the effective date of the regulations.\textsuperscript{81}

The last major development is in the area of special situations. Registration of foreign capital is no longer required. Foreign exchange representing such investment is to be negotiated in the free foreign exchange market. Vested rights under old registration rules are preserved.\textsuperscript{82}

\textsuperscript{76} Bill 8468 of July 2, 1979.
\textsuperscript{77} Decree 9135-H of September 20, 1978.
\textsuperscript{78} Law 6392 of September 10, 1979.
\textsuperscript{80} Decree 10531-H of September 13, 1979.
\textsuperscript{81} Decree 9946-MEIC of April 24, 1979.
\textsuperscript{82} Service Order 14541 of December 19, 1978, Central Bank.
DOMINICAN REPUBLIC

As a change in the tax policy area, the Secretary of Finances has announced that a new Department on Tax Rules and Policy has been created. Its members are working on a major tax reform covering substantive tax laws, procedural tax laws and tax incentives. Several taxes on foreign trade would be eliminated and in their stead a tax on urban real property and an added-value tax would be imposed. An overhaul of import taxes is under study to correct duties which make it more economical to import finished products than the raw material and components to manufacture such products locally. Among the matters under study is the creation of a Taxpayers' Registry, including the enrollment of importers which is currently on the books but is not being enforced. 83

One law increasing the rates of excise tax charged on domestic liquor and beer and another one increasing the rates of excise tax charged on imported liquor and beer have been enacted. 84

In an effort to promote economic development, new legislation favoring exporters of industrialized products, excluding raw sugar, coffee, tobacco and some minerals has been enacted. It establishes a system of tax credit certificates based on the value of the exports. The credit may amount to 15% of such value and, if the export is comprised by a high proportion of domestic farm products, to 25%. The certificates are endorsable, immediately redeemable, and can be used to pay national taxes. Their value will not be computed as income for income tax purposes. The new law also provides for suspension of import duties on raw materials imported to be processed and re-exported within 12 months. Excluded from the benefits of the new law are: raw sugar, molasses, furfural, coffee, cacao, tobacco, minerals and other goods to be indicated by the Dominican Center for the Promotion of Exportations. Exports made by industries classified under category "A" of the Industrial Promotion Law No. 299, and minerals and hydrocarbons which are governed by special statutes are also excluded under the new law. The Monetary Board may excuse eligible exporters from surrendering their foreign exchange proceeds to the Central Bank. 85

Lastly, in the area of tax administration, members of the Organization of American States and Dominican tax officials have drafted a
proposed tax code. It covers tax administration rules applicable to all taxes, taxpayer's remedies, creation of a Tax Court and revised penalties. The draft has been delivered to the Secretariat of Finances and to business associations for them to study it and suggest changes. One of the objectives of the drafters was to set forth uniform procedural rules applicable to all taxes, reserving for each tax law only those procedural matters specifically related to such tax. Another objective was to speed up tax refund claims and to allow payment of interest on taxes refunded.86

ECUADOR

In the area of tax policy, a new tax system has been applied to cigarettes produced within the country. The rates range from 72% to 80% ad valorem and apply to the price ex-factory. A 5% sales tax also applies. The new tax, designated as “tax system on selective consumption of cigarettes” has been in force since March 29, 1979.87

With respect to the promotion of economic development, a new law for the promotion of farming, cattle-raising and forestry has been enacted. Eligible enterprises will be entitled to 100% exemption from import duties on equipment and products to be used in their operations. Farming supplies not covered by the law will pay a new 2% ad valorem import duty. Non-traditional exports of farm products are free from export duties. Individuals and legal entities engaged in the activities covered by the new law shall pay income tax and rural property tax pursuant to the respective general statutes. The new law repeals an earlier statute favoring farming, cattle-raising and forestry enterprises. That law had been enacted by Supreme Decree No. 962 of June 30, 1971, and had granted income tax and property tax benefits not contemplated in the new statute. Processing of farm products qualifies for the benefits provided in laws for the promotion of manufacturing, handicraft and preferred investments.88

Companies owned by Ecuatorian capital and regarded as domestic or “mixed” under the foreign investment rules, and which are engaged in shipbuilding and sea transportation may enjoy several tax benefits under a new law which became effective on May 3, 1979. Among the tax benefits are exemptions from stamp tax, working capital tax and real property transfer tax. Importation of equipment, ships

88. Decree 3289 of March 6, 1979.
and supplies will be free from customs duties if the conditions set forth in the statute are met. Up to 50% of reinvested profits may be deducted in computing taxable income. All exemptions cover only transactions, fuel and goods directly connected with the promoted activity. The exemption from import duties on new or used ships amounts to 100% for ships built up to 6 years earlier, 50% if built up to 8 years before, and 25% if built up to 10 years prior to importation.89

Pursuant to provisions of the Industrial Promotion Law, the Ministries of Industries, Commerce and Integration and of Finances have issued a Joint Order listing the industries to be classified under Category “Special” and “A” of the Law. Minimum capacity requirements are established. Among the activities which qualify under the “Special” category are the processing of certain foodstuffs, chemicals, pharmaceuticals, paper, fertilizers, metallurgic basic industry, cement, building materials and electronic products. Among the activities which qualify under category “A” are certain foodstuffs, textiles, leather, wood, paper, chemicals and metal products listed in the Order.90

In the social security systems area, beginning January 1, 1980, any female worker who has been employed for at least 25 years may demand from the Social Security Institute her retirement irrespective of her age. Under such a system, they may receive a retirement pension equivalent to 100% of the average remuneration of the last 5 years of service.91

In the area of special situations, it has been declared by decree that the Rules on Foreign Investment and Transfers to Technology, adopted by Ecuador in 1971, shall apply to existing and future branches of foreign companies, except for the requirement that allows a company to become a domestic or mixed company merely through the sale of equity to nationals. Existing branches were to apply for registration of their capital no later than February 23, 1979 under penalty of cancellation of their permit to operate in Ecuador.92

EL SALVADOR

No significant changes took place in the area of fiscal policy. It should be mentioned, however, that the consumption tax on domestic

89. Decree 3409 of April 18, 1979.
and imported luxury items which was to expire on February 28, 1979 has been extended for one year beginning March 1, 1979.\textsuperscript{93}

Also, the tax levied on each large bag of packaging material containing synthetic fibers shall not apply if the bags or material are shown to be exported in the manner prescribed by a new law.\textsuperscript{94}

\textbf{GUATEMALA}

The main development in the fiscal policy area has been the new tax on petroleum by-products. Petroleum by-products have been exempted from import duties. In lieu thereof, a compensatory surcharge has been created and will be fixed by competent authorities, and applied as part of the selling price. The surcharge applies to super and regular gasoline, diesel oil and kerosene exported. Aviation gasoline is not exempt from import duty and is not subject to the surcharge. The amount of the surcharge is to be paid by oil refineries or importers upon delivery of the goods at the refinery or warehouse, respectively.\textsuperscript{95}

For the purpose of financing a National Plan for Development of Sports, certain excise taxes have been increased as of October 15, 1979. Domestic and imported machine-made cigarettes are taxed at 100\% rather than 97\% of the price ex-factory or of the CIF value, respectively. The additional tax levied on each litre of liquor, wine and beer has also been increased.\textsuperscript{96}

With respect to the promotion of economic development, tax incentives for enterprises engaged in exporting their manufactures outside the Central American Common Market have been established. Such incentives consist of import duty exemptions and a ten year income tax exemption on the profits attributed to exports. This benefit is not available to nonresidents whose home country taxes such income and allows them a credit for taxes paid to Guatemala. Equipment imported duty-free may not be sold for five years. Supplies imported duty-free and not utilized for one year are subject to payment of the duty waived or revert to the government. Companies claiming the benefits of this law must comply with detailed reporting and administrative controls.\textsuperscript{97}

\textsuperscript{93} Legislative Decree 139 of February 27, 1979.
\textsuperscript{94} Legislative Decree 180 of May 25, 1979.
\textsuperscript{95} Legislative Decree 31-79 of May 30, 1979.
\textsuperscript{96} Legislative Decree 65-79 of October 12, 1979.
\textsuperscript{97} Legislative Decree 30-79 of May 31, 1979.
A partial exemption from the income tax is granted to manufacturing enterprises located outside Guatemala Department which meet certain requirements. The exemption ranges from 70% for eight years to 90% for ten years, depending on the location. Among the requirements needed to qualify for the tax benefit, the taxpayer may not pay abroad as licensing fees more than 15% of its gross annual sales. Companies engaged in oil exploitation, mining, lumber extraction and construction, which are governed by special laws, are not entitled to the benefits of the present statute.98

Several provisions of the law which established the Santo Tomas de Castilla Free Zone have been amended effective May 4, 1979. All businesses and industries established in the area will be exempt from all taxes except income tax, for which a 100% exemption during only the first twelve years will remain. This exemption does not apply to foreign persons whose home country grants them credits for foreign taxes paid.99

In the area of special situations, under an amendment to the law for the Control of Tax Evasion, nonresident aliens who have entered the country as tourists and have remained as such, will be required, upon their departure, to produce a sailing permit if the tax authorities find that they are subject to the Income Tax Law. The new rule took effect on September 11, 1979. Resident individuals departing from the country are required to submit to the immigration authorities proof of having filed income tax returns, or proof of not being affected by the Income Tax Law.100

HONDURAS

In the tax policy area, several tax rates have been revised effective January 1, 1980. Among them are the rates of tax charged on transfers of real property and the rates of excise tax on beer, soft drinks, liquor and cigarettes.101

Under amendments to the Income Tax Law effective January 1, 1980, individuals will be entitled to higher personal exemptions. The new personal exemptions are 3,000 lempiras for the taxpayer, 1,000 lempiras for the spouse and 800 lempiras for each dependent.102

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100. Legislative Decree 48-79 of August 24, 1979.
102. Id.
These amendments also require self-employed individuals and legal entities to pay an estimated tax.

The rate of the excise tax on matches has been increased to .01 lempiras per pack of domestic or imported matches.\textsuperscript{103}

Beginning January 1, 1980, cattle, beef and sugar which is exported will be subject to revised export duties. Exports of sugar will be taxed at a progressive rate depending on the international price of sugar at the time of shipment. The progressive tax on sales of sugar ranges from 5\% if the price per 46-kilogram bag is between 30 and 31.50 lempiras, to 50\% on the portion of such price which exceeds 52.50 lempiras. Contracts for the sale of sugar must be registered with the Secretary of the Treasury and Public Credit.\textsuperscript{104}

The sales tax law has been reformed as of January 1, 1980. The changes relate to exempt products and administrative rules. Taxpayers who fail to register with the tax authorities and who fail to issue invoices will be subject to fines.\textsuperscript{105}

Within the area of economic development, effective July 28, 1979, the tax benefits applicable to Puerto Cortes have been extended beyond the boundaries of Puerto Cortes to the municipalities listed in a new decree. Domestic or foreign enterprises established in Puerto Cortes are free from income tax, and goods imported into that zone are free from import duties in the terms prescribed in Decree No. 356 of June 9, 1976. Such benefits are presently applicable to the same extent in the municipalities of Amapala, Tela, Choloma, Omoa and La Ceiba.\textsuperscript{106}

The last development of interest is related to special situations. Equipment donated by the Swiss government under a Technical Cooperation Agreement with Switzerland, and the personal effects of technicians entering the country to perform projects under this agreement will be exempt from import duties. The exemption applies to import duties on equipment, raw materials and supplies, but not to storage and service fees charged by Customs. Upon completion of their projects, technicians are required to re-export the personal effects brought in duty-free.\textsuperscript{107}

\textsuperscript{103} Decree 775 of June 8, 1979.
\textsuperscript{104} See note 101 supra.
\textsuperscript{105} Id.
\textsuperscript{106} Decree 787 of July 9, 1979.
\textsuperscript{107} Decree 751 of April 23, 1979.
Substantial changes have occurred in the area of tax policy. Since January 5, 1979, coffee exports have been subject to a progressive ad valorem tax commensurate with their selling price. If the selling price is less than 53.61 pesos per kilogram of green coffee or less than 63.35 pesos per kilogram of roasted coffee, the export is exempt. If the price exceeds 97.46 pesos per kilogram, the maximum rate is 20% for green coffee and 15.25% for roasted coffee.  

Foreign international airlines may elect to be subject to tax pursuant to a special system for the 1979 taxable year. Normal tax at the progressive rate applicable to "major taxpayers" is to be levied on the amount of net income which bears the same proportion to net income from all international operations that gross income from Mexican operation bears to their entire gross income from all international operations. Worldwide figures must be supported by submitting copies of the income tax returns filed in the home country by the home office. If no such filing is required, the figures must be supported by audited financial statements notarized before the Mexican Consul. Failure to submit such supporting documents will result in the reconstruction of net income and the assessment of penalties. An annex states guidelines for computing the normal tax and the tax on distributed income.

Numerous items of the import duty tariff have been revised. The duties range from 5% to 80% and are reduced to zero when the good originate in LAFTA countries. Among the items listed in the new decree are chemicals, metal sheets and bars, industrial equipment, lenses, telescopes, photo supplies, and magnetic tapes.

Hundreds of chemicals and precision machines are subject to higher import duties effective September 29, 1979. Special concessions have been granted to some imports if they originate in LAFTA countries and are shipped on or before December 31, 1979, and to most other imports which are shipped on or before December 31, 1980. The new duties range from 5% to 60%, while the same products are taxed from 0% to 10% if originating in the LAFTA countries specified for each product in the new decree. In addition, certain produce and photostatic copiers have been exempted from the import duty since October 19, 1979.
A credit against the new added-value tax is allowed business and manufacturing enterprises for the federal gross receipts tax and other repealed taxes levied on raw material comprising their 1979 year-end inventory. The amount of the credit is to be deducted from the cost of the output in computing profit for income tax purposes. Exercising authority granted it by law, the Executive Branch has exempted sellers or importers of fishing boats and equipment, and their suppliers from the added-value tax, as well as sellers and importers of animal feeds, veterinary medicines, farming supplies and household fuels. These exemptions expire on December 31, 1980, unless terminated before that date. In addition, regulations under the Added-value Tax Law became effective on January 1, 1980. These new regulations cover definitions, rules for computation of the credit for tax paid in earlier transactions, requirements to claim rebate for investments in fixed assets, tables for computing tax in sales subject to interest in deferred payments, appointment of agent by nonresidents, services rendered by nonresidents, taxpayers' duties, and many other matters. The tax credit is to be computed according to a formula set forth in the new statute and it amounts to a rebate equivalent to 4% of the value of inventories after deduction of goods which had not been affected in their cost by gross receipts tax or any other taxes which are supplanted by the added-value tax.\textsuperscript{113}

Important changes to the Income Tax Law entered became effective on January 1, 1980. These new provisions deal with taxation of equipment leasing, royalties paid abroad, rentals of real property and personal property paid to nonresidents, and taxation of individuals.\textsuperscript{114} Since January 1, 1980, the acquisition of real property has been subject to a new tax. The rate is 10% of the purchase price reduced by ten times the minimum salary for the Federal District. Among the taxable events is the merger of companies. Special rules are set forth for the computation of the tax where contiguous properties are acquired.\textsuperscript{115}

New automobiles made in Mexico and first sold by manufacturers or distributors, as well as imported automobiles manufactured within the preceding four years will be subject to a new tax. The rate is determined by a special formula. Although the seller is liable for the

\textsuperscript{113} Executive Decree of November 28, 1979, and Executive Order of December 17, 1979.


\textsuperscript{115} Legislative Decree of December 27, 1979.
tax, distributors are not required to pay the tax until the automobile is sold to the customer. The tax on imported automobiles is payable at Customs together with the import duties.\textsuperscript{116} In addition, the tax on possession of automobiles has been revised by new rules and rates which entered into effect on January 1, 1980. Several provisions of the added-value tax, of the tax on sales of gasoline, and of the tax on salaries have also been revised since that date. Detailed rules for the transition from the old rules to those now in force have been set forth in various transitional provisions of the new law.\textsuperscript{117}

Numerous provisions of the Customs Code as well as many articles of the Tax Code have been amended as of January 1, 1980. The amendments of the Customs Code deal with persons liable for import duties, attachment of invoices, packing material, contents of receipts of duties, penalties, and other administrative matters. The Tax Code has been amended with respect to domicile of taxpayers, the five year statute of limitations, the procedure used to assess penalties, powers of authorities, notifications, collection procedure, remedies, and complaints.\textsuperscript{118}

Applicable tax rates, tax base, payment of the tax and procedural matters relating to the following excise taxes have been revised effective January 1, 1980: soft drinks, beer, alcohol and liquors, production of metals, tobacco and telephone services. Detailed rules for the transition from the old rules to those now in force have been set forth in various provisions of the new law.\textsuperscript{119} Effective January 1, 1980, the following taxes have been repealed: consumption of gasoline, oil and by-products, production of electric power and sales of crystal and glass. Effective March 1, 1980, the tax on salt has been repealed. Effective July 1, 1980, the tax on consumption of electric power has been repealed. Other taxes repealed are the excise tax on “aguamiel”, the tax on migration and the tax on the consumption of cotton.\textsuperscript{120}

Since January 1, 1980, the existing tax on insurance premiums received has been superseded by a new 3\% tax on premiums. This tax is payable by insurance companies.\textsuperscript{121}

Significant changes took place within the area of promotion of economic development. Manufacturers and purchasers of machine

\textsuperscript{116} Legislative Decree of December 22, 1979.
\textsuperscript{117} See note 114 supra.
\textsuperscript{118} Id.
\textsuperscript{119} Id.
\textsuperscript{120} Id.
\textsuperscript{121} Id.
tools are to receive income tax benefits pursuant to an Order of the Secretary of the Treasury and Public Credit effective January 1, 1979. The Order grants manufacturer's import duty and sales tax exemptions as well. Manufacturers will be entitled to up to a 100% exemption from import duties on machinery and raw materials; up to a 75% exemption of the turnover tax levied by the Federation; up to a 20% exemption of the income tax payable by manufacturers of machinery used in basic industries; and accelerated depreciation of machinery and equipment. Purchasers will be entitled to accelerated depreciation of machine tools made in Mexico. To be eligible for the tax benefits, manufacturers must be the direct users of the machinery imported, their output must include domestic materials worth at least 60% of the finished goods value, and their capital and management must be Mexican in its majority.122

Cement producers have been granted up to a 75% exemption of import duties on machinery and equipment, as well as accelerated depreciation of such machinery and equipment for income tax purposes. The amount thus allowed as depreciation must be reinvested within the five years following the taxable year in which the allowance was claimed. Companies claiming the benefits provided in the present Order may not enjoy any other tax benefit and may not sell the machinery imported at a reduced duty for at least two years from the importation.123

Since January 1, 1979, machinery and equipment imported by manufacturers of good for export and by small and medium-size manufacturers of nationally needed goods have enjoyed an import duty exemption in accordance with the terms set forth by two Orders of the Secretary of the Treasury and Public Credit. The benefit may be claimed only by companies owned by Mexican nationals. Manufacturers of goods for exportation may be granted up to a 100% exemption in a percentage commensurate with the amount of goods exported during the three years following the acquisition of the duty-benefitted machinery. Machinery acquired with the import-duty reduction may not be sold for at least two years from the date of importation. The machinery must be unavailable within Mexico and must be used directly in the processing of the goods described in the respective Order. An additional exemption may be granted to companies located in

decentralized areas which export goods comprising over 60% domestic raw materials.\textsuperscript{124}

Under the power vested in it by the Federation Revenue Law, the Secretary of the Treasury has established a 75% subsidy or exemption for import duty levied on boats and equipment imported by companies engaged in fishing pursuant to the General Law for the Promotion of Fishing. Boats and equipment imported under this Order may not be sold or leased for at least two years, and must be unavailable from domestic manufacturers.\textsuperscript{125}

Those manufacturing activities which have been regarded as a high priority for the economy of the country have been aided by a new system of investment credits against federal taxes. The credits, which are represented by "Certificates of Fiscal Promotion" are as follows: from 10% to 25% of funds invested by any Mexican individual or Mexican legal entity in eligible industries; 20% of the minimum salary for each job created in the area where eligible industries operate; 5% of the value of domestic fixed assets acquired by any enterprise operating within the country. Such credits are not includible in taxable income but are deductible from the basis of the assets for depreciation purposes. The Treasury may authorize an exemption from income tax for gains derived from the sale of fixed assets if the full amount of the sale is reinvested for relocating in the promoted areas.\textsuperscript{126} The "Certificates of Fiscal Promotion" may be used within five years of their issuance for payment by the beneficiary of federal taxes except for those certificates earmarked for specific purposes.

A list of eligible industries grouped in two categories, I and II, has been released. Among category I activities are farm product processing, farm supplies producers, industrial machinery manufacturers, and producers of iron, steel and cement. Among category II activities are manufacturers of textiles, clothing, shoes, certain technical equipment and household electric appliances. Also, manufacturing enterprises which made investments between August 4, 1978 and February 2, 1979, in new plants or which commenced operations in areas ineligible under the current law for the promotion of manufacturing may be granted the tax benefits provided in a new statute.\textsuperscript{127}

\textsuperscript{124} Orders 101-667 and 101-661, both of December 29, 1978.
\textsuperscript{125} Order 101-664 of December 29, 1978.
\textsuperscript{126} Executive Decree of February 6, 1979.
\textsuperscript{127} Executive Decree of March 5, 1979; Executive Decree of March 7, 1979; and Executive Order of August 15, 1979.
Finally, under the terms of a new decree all companies producing certain basic foodstuffs subject to price control will be entitled to a tax credit for the 1980 calendar year. Two groups of products are covered; the credit is 2.5% or 3.5% of total sales for each group. The amount of the credit is represented by certificates redeemable during the first five years following their issuance. Such amount is not to be treated as income for income tax purposes. According to the preamble of the present decree, the credit is intended to offset that portion of the fixed selling price of basic foodstuffs which covered the gross receipts tax levied on raw materials prior to the effective date of application of the new added-value tax. Taxpayers lose the right to the benefit if they do not abide by the maximum selling prices.128

NICARAGUA

Of significance in the tax policy area is the new tax on coffee exports. Pursuant to two new decrees effective October 13, 1979, coffee exporters are required to pay, in lieu of an income tax, a progressive tax based on the international price of coffee exported. They also are required to pay a progressive contribution to a Coffee Fund which is computed on the same basis and at the same rate as the tax. The tax imposed by one decree is levied only on the portion of the export price which exceeds 1,000 córdobas per forty-six kilograms F.O.B. A similar scale is provided in another decree for computing the contribution to the Coffee Fund. The purpose of the Fund, which is collected and administered by the Nicaraguan Coffee Enterprise, is to assure coffee growers of a stable price for their crop.129

The Sales Tax Law has been amended to regard manufacturers having sales of over 200,000 córdobas a year as taxpayers; this limit was 300,000 córdobas before the amendment. Special facilities are contemplated to aid in the collection of the tax now imposed on taxpayers who sell between 200,000 and 300,000 córdobas.130

For purposes of determining taxable income in the 1978-1979 period, taxpayers who had liabilities in foreign currency as of April 6, 1979, may revalue their fixed assets and inventory up to 43% but the aggregate shall not exceed the increase in liabilities attributable to the devaluation of the national currency. Casualty losses attributable to the civil war are deductible only in said 1978-1979 period. Payment of past due taxes is encouraged by reducing the tax liability by

129. Decrees 84 and 85, both of September 19, 1979.
50%. Past due income and capital taxes attributable to periods starting in 1975 through 1979 are reduced by 50% if paid on or before December 31, 1979. Extensions granted before July 19, 1979 for the payment of taxes are declared void, but taxpayers may claim the above 50% reduction in paying the balance of the tax due under the terms of the extension.131

Since October 9, 1979, banana exports have been subject to an export tax of US$ .50 per forty pound case. The burden of the tax may not be transferred to producers. The new tax will be collected by the General Revenue Bureau and is payable by the exporter before shipment.132

Within the area of economic development, the tax benefits available to manufacturing enterprises until December 31, 1983, have been restricted to import duty exemptions.133

The highlights in the area of the social security system are the changes effective April 21, 1979. The areas covered by the system and the benefits offered have been expanded. Employer contributions may not be fixed above 15% of the payroll, while worker contributions may not be fixed above 10% of the salary.134

In the area of tax administration, numerous provisions of the Tax Administration Law have been revised effective March 30, 1979. Among such provisions are those dealing with tax clearance certificates, tax returns, fiscal debts, withholding, fines, audits, and accounting records.135

The General Tax Administration Law has been revised with respect to the issuance and validity of tax clearance certificates. Furthermore, the certificate is now required to dissolve or merge companies.136

PANAMA

Within the tax policy area, the Supreme Court of Justice has declared unconstitutional a tax on the transfer of real property where the effective date of the tax is fixed before its publication. According to the Court, that tax became effective on February 3, 1975.137 The

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133. Decree 147 of November 8, 1979.
134. Legislative Decree 789 of April 18, 1979.
retroactive application of social security regulation was also tested in the courts; the Supreme Court of Justice held unconstitutional a Resolution of the Social Security Board which in 1977 approved regulations under a 1975 law and made them retroactive to 1975.\textsuperscript{138}

A new tariff of consular fees has been enacted effective January 1, 1980.\textsuperscript{139} New rates for the navigation tax also became effective on that date.\textsuperscript{140}

With regard to the area of promotion of economic development, the law granting relief from import duties for retired immigrants has been revised. Since the benefit does not apply to persons holding immigration visas, retirees from the Canal Zone may qualify by changing their visa status to that of retired tourists.\textsuperscript{141} The exemption from real property tax under the law for the promotion of low-cost house construction has been revised in the case of the rehabilitation of buildings subject to condemnation.\textsuperscript{142}

Within the area of tax administration, a Customs Bureau has been created under the Ministry of the Treasury. It is charged with the administration, control, and collection of customs duties and with the prevention, prosecution, and assessment of penalties for violation of customs laws. The new Bureau is headed by a Director assisted by a Deputy Director. The Director's duties are enunciated in the new statute and he has the powers vested in the customs authorities by the Fiscal Code.\textsuperscript{143}

Finally, in the area of special situations, numerous provisions of the Fiscal Code have been revised in accordance with the terms of the Panama Canal Treaty signed with the United States in 1977. Such provisions deal with: (a) deposit of imported goods in in-bond warehouses, payment of import duties on goods to be used or consumed in the Canal Zone, and other Customs administrative rules; (b) special Customs system for the Canal Zone; (c) taxation of income derived by residents of the Canal Zone from sources outside Panama; (d) presentation of the tax clearance certificate; (e) refund of excise taxes on goods consumed in the Canal Zone; and (f) credits for sales tax on raw materials of exported goods. Provisions of the law establishing an additional import duty have also been revised. Contractors

\textsuperscript{138} Decision of October 17, 1978.
\textsuperscript{139} Law 55 of December 26, 1979.
\textsuperscript{140} Law 56 of December 12, 1979.
\textsuperscript{141} Law 6 of April 27, 1979.
\textsuperscript{142} Law 52 of November 27, 1979.
\textsuperscript{143} Law 16 of August 29, 1979.
with Canal Zone authorities may import assets connected with the performance of such contract free from import duties. This new law became effective on October 1, 1979.\textsuperscript{144}

**PARAGUAY**

Of significance in the tax policy area is the new tax on imports of oil and petroleum by-products imposed since June 9, 1979. The new taxes range from 9.43 guaranies per liter of super gasoline and 7.73 guaranies per liter of aviation gasoline, to 1.35 guaranies per liter of fuel oil and 1.67 guaranies per liter of gas oil. Regulations implementing the new tax are to be issued by the Customs Bureau and the Internal Revenue Bureau, the authorities charged with the administration and collection of the tax.\textsuperscript{145}

The law governing the 1979 sugar crop grants total exemption from any duty or tax on the exportation of sugar, including those duties or taxes imposed by the customs tariff which became effective on January 1, 1974. The selling prices for exported sugar may be no less than those fixed by the Central Bank on the date of exportation.\textsuperscript{146}

The rates of the additional excise taxes on soft drinks, beer, cigarettes, and imported liquor have been increased effective October 2, 1979. In addition to the excise taxes, soft beverages will be subject to a three-guarani tax per one-half litre, and beer will be subject to a three-guarani tax per litre, except special quality beer which is taxed at the rate of five guaranies per litre. Imported cigarettes will be taxed at ten guaranies per pack and imported liquor will pay the tax at the rate of 3\% of its value.\textsuperscript{147}

The tax authorities have ruled that the stamp tax levied on transfers of funds into or out of the country applies to any transaction which implies such transfer. Thus, where assets are brought into the country by a domestic corporation as a contribution to its capital, such tax applies on the value of the assets so capitalized, even if the corporation is covered by the Investment Promotion Law.\textsuperscript{148}

\textsuperscript{144} Law 36 of September 27, 1979.
\textsuperscript{145} Decree 7360 of June 9, 1979.
\textsuperscript{146} Decree 6916 of May 28, 1979.
\textsuperscript{147} Law 755 of September 4, 1979, implemented by Decree 10149 of October 2, 1979.
\textsuperscript{148} Revenue Ruling of September 3, 1979.
An import duty surcharge equivalent to 1% of the value of the imports has been created. Wheat, flour, foodstuffs, pharmaceuticals, and farming equipment are exempt. The new surcharge is to be deposited in the Central Bank of Paraguay and its revenue earmarked for financing the Institute for the Protection of Disabled or Retarded Individuals.\textsuperscript{149}

Within the area of promotion of economic development, specifically to encourage international tourism, electric and electronic appliances, watches, cosmetics, and other consumer goods sold to tourists will be subject to a 15% ad valorem in-transit tax, and to a 5% sales tax. Such goods may be stored in the International Free Zone created by the same law which established the President Stroessner Free Zone. The new taxes are to be paid by importers located in the city of Puerto Stroessner who shall file tax returns and pay the 15% and 5% taxes monthly. Furthermore, they shall pay 5% of the value of the goods as ground rent for storage in the International Free Zone.\textsuperscript{150}

The public offer of securities has been regulated and encouraged by numerous income and stamp tax benefits. Income tax benefits include: an exemption of 40% of the profits from premiums in the sale of new securities; a 20% exemption on gains from trading in securities; an exemption of up to 8% of interest from bonds of publicly held corporations; a 20% reduction of tax payable by publicly held corporations; and an exemption of up to 8% of net income distributed as cash dividends by publicly held corporations. Stamp tax benefits include: an exemption of all issues during the first five years from the first issue; an exemption of transactions involving transfers and pledges of securities; an exemption of documents showing payment of up to 8% of interest from bonds of publicly held corporations; an exemption from the tax on corporate organization; an exemption of the issuance of shares and convertible debentures; and a 50% exemption of tax on issuance of debentures. Corporations authorized to place their securities in the open market may revalue their fixed assets and pay a 1.5% tax on the increase. Government bonds may be adjusted by the cost-of-living index. Private company adjustable bonds may be issued. The gain from such adjustment shall be exempt from income and stamp tax. Coupons of government bonds and the adjusted value of the bond upon maturity may be used to pay taxes. The law defines securities as bonds, whether guaranteed or not, and

\textsuperscript{149} Law 780 of November 30, 1979.
\textsuperscript{150} Decree 6081 of April 17, 1979.
declares that the law applies as well to publicly offered documents giving the holder an equity in the company. Thus, shares of stock are covered by the law except where especially excluded. Such an exclusion would be the adjustment by the cost-of-living index. Bonds may call for an adjustment, but shares of stock may not. The revaluation of fixed assets is contingent on the cost-of-living index exceeding cumulatively, from the acquisition of the asset, at least 50%. The amount of the revaluation increase may not be distributed as a dividend and must be capitalized eventually. In an effort to recover capital held abroad by residents, the incentives granted to publicly held corporations are made applicable for five years to individuals and domestic legal entities which invest in securities, that is, capital brought into the country through the banking system.\textsuperscript{151}

Exercising the power vested in it by the Income Tax Law to protect against inflation, the Executive Branch has increased the personal exemption and exemption for dependents, which are available to all income taxpayers. In the aggregate, all exemptions may not exceed 660,000 guaranies. The Executive Branch has fixed the personal exemption at 228,000 guaranies, the exemption for the spouse at 114,000 guaranies and the exemption for each dependent at 45,000 guaranies.\textsuperscript{152}

Finally, in the social security system area, the additional employer contribution to the Social Security Fund amounting to 0.5% of the payroll has been extended to continue in effect another five years beginning April 1, 1979. The contribution now extended has been established to apply till April 1, 1989. Its revenue is earmarked for financing a campaign to eradicate malaria.\textsuperscript{153}

\textbf{PERU}

Concerning the tax policy area, many significant measures were taken during 1979. A provision of the Income Tax Law exempting the interest derived from loans transacted by government agencies now excludes certain transactions. The change applies from the 1979 taxable year. The exemption does not apply to loans made by government-owned enterprises, nor to reserves of banking institutions in state banks.\textsuperscript{154}

\textsuperscript{151} Law 772 of November 14, 1979.  
\textsuperscript{152} Decree 11986 of December 13, 1979.  
\textsuperscript{153} Law 732 of December 26, 1978.  
\textsuperscript{154} Decree-Law 22454 of February 20, 1979.
The 6% tax levied on sea freight of goods imported to Peru, under the law for the promotion of shipbuilding, has been increased to 10%. Forty-eight per cent of this fund is to be applied in subsidizing the construction costs, dumping, plant expansion, and other internal costs of ship builders.\textsuperscript{155}

The single tax levied on admissions to non-sports public shows has been reduced for shows featuring live performances or concerts. While the general rate remains at 25% of the tickets sold in the Provinces of Lima and Callao and at 20% in the rest of the country, shows where at least 80% of live performers are Peruvian are taxed at a 10% rate. Tickets to concerts, ballet, and folklore shows are taxed at a 5% rate.\textsuperscript{156}

Under the Income Tax Law, interest and foreign exchange losses attributable to that portion of foreign loans exceeding 400% of the paid-up capital of a Peruvian borrower are not deductible. A new decree implements this provision and authorizes the tax authorities to waive the dis allowance if the borrower is a foreign company which has agreed to sell equity to nationals.\textsuperscript{157}

In accordance with the conditions, terms, and limitations set forth in a new law, and subject to payment of a special tax, manufacturing enterprises may sell assets acquired as tax-free reinvestments to other manufacturing enterprises. Under the new law, such assets may be transferred by paying a tax ranging from 14% of the tax benefit obtained at the time of acquisition of the asset for assets held up to one year, to 3.5% for assets held for more than four years.\textsuperscript{158}

Although the Executive Branch has been granted the power to fix the rate of the tax on revaluation of fixed assets, a formula for determining this rate has been established by law. Despite the application of that formula, the rate may not exceed 10% of the increase in the cost of living.\textsuperscript{159}

Higher rates apply to the excise tax on gasoline, kerosene, diesel oil and other petroleum by-products. These new rates are higher on products refined in plants located in the Coast and Mountain regions than on those refined in plants located in the Jungle area.\textsuperscript{160}

\textsuperscript{155} Decree-Law 22448 of February 13, 1979.
\textsuperscript{156} Decree-Law 22459 of February 27, 1979.
\textsuperscript{157} Supreme Decree 026-79-EF of March 21, 1979.
\textsuperscript{158} Decree-Law 22494 of April 11, 1979.
\textsuperscript{159} Decree-Law 22493 of April 11, 1979.
\textsuperscript{160} Decree-Law 22503 of April 17, 1979.
Effective July 1, 1979, the sales tax onus has been alleviated. Numerous products sold within the country or imported are now exempt or taxed at lower rates. Others are allowed a reduction in the tax base. The reduction is either 35% or 65%, as specified, in the new statute.\textsuperscript{161}

Certain imports from Andean Group countries will be exempt from the 10% ad valorem tax, the 10% tax on sea freight charges and the 1% ad valorem tax created to finance the fund for non-traditional exports. Products included in the List of Exceptions or in Sectorial Programs for Industrial Development are those eligible for the exemptions granted by the present decree.\textsuperscript{162}

The exemption from income tax imposed on interest from foreign currency bank certificates and the exemption from inheritance tax imposed on transfers of such certificates have been extended an additional year, until December 31, 1980.\textsuperscript{163} The certificates are issued by commercial banks in consideration for foreign currency imported from abroad.

The rate of the excise tax on soft drinks has been reduced from 18% to 16% of the retail price. The rate of the excise tax on light tobacco domestic cigarettes has been reduced from 69% to 67%. These new rates became effective July 1, 1979.\textsuperscript{164}

The Executive Branch has been ordered to revise the import duty tariff so as to take into consideration present provisions granting duty exemption. Upon the enactment of the revised tariff, the present tariff and all legal provisions establishing duty benefits shall cease to be in effect. The tariff does not include the temporary 10% ad valorem tax on imports, the additional 1% ad valorem tax applied on imports not affected by the 10% tax, and the 10% tax on sea freight.\textsuperscript{165}

Financial institutions have been authorized to own machinery, equipment, and vehicles for the purpose of financial leasing, with or without an option for the lessee to buy the property at the end of the lease term. Special rules for depreciation of the property leased by the lessor have been set forth. Depreciation allowances of the leased property may be increased by 50%, provided that the property is not depreciated over less than three years.\textsuperscript{166}

\textsuperscript{161} Decree-Law 22574 of June 12, 1979.  
\textsuperscript{162} Decree-Law 22545 of May 15, 1979.  
\textsuperscript{163} Decree-Law 22553 of May 22, 1979.  
\textsuperscript{164} Decree-Law 22568 of June 12, 1979.  
\textsuperscript{165} Decree-Law 22619 of July 30, 1979.  
\textsuperscript{166} Decree-Law 22738 of October 23, 1979.
An individual’s increase in net worth as of December 31, 1978, which produces unreported income, and income from assets representing such increase will be subject only to a special low tax and will be free from penalties if reported in the manner prescribed in a new statute. Increases of up to S/1,000,000 are taxed at 4%; increases between S/1,000,000 and S/5,000,000 are taxed at 8% on the excess over 1,000,000. The increase exceeding S/5,000,000 is taxed at 12%.167

The Executive Branch has issued regulations under the law allowing a credit against income tax for a portion of investments in promoted activities made by legal entities and individuals. Since legal entities are required to share their profits with workers and with “workers’ communities”, old rules about the computation of taxable income have been replaced by those of the present regulations. The remittable profits of branches of foreign companies are considered to consist of the branch’s taxable income less: (a) payable income tax reduced by the investment credit; (b) workers’ and workers’ communities’ share in profits, and the contribution to technological research; (c) amount of any profits reinvested during the fiscal year; and (d) the percentage of profits attributable to shares owned by workers. These new rules were initially applied in the 1979 taxable year.168

Cash investments made by individuals in bonds of certain government-owned enterprises will qualify for an exclusion from taxable income of up to 62% of the amount invested. Interest from such bonds is also taxfree.169

Beginning with the 1980 taxable year, certain non-business deductions available to resident individuals have been revised. The imputed rental value of the residence is fixed at 7% of its appraisal. Rules for determining gross and net income contained in the Income Tax Law have also been revised.170

Exercising the power vested in it by the statute which ordered the monetary adjustment of fixed assets, the Executive Branch has fixed the rate of tax imposed on the increase in the value of assets at 5%. The rate is 2% for real estate, hotel, and forestry companies, and 1% for farming enterprises. Detailed rules for computation of the adjusted value are set forth. The increase in value for 1979 is to be included in computing the net worth tax of enterprises. Regardless of

the fiscal year, depreciation allowances are to be computed from January 1, 1980, on the basis of the adjusted value of the assets.\textsuperscript{171}

To promote economic development, individuals and legal entities not engaged in mining may invest profits in mining activities without incurring income tax liability. However the limits for such investments, set forth in an earlier law, are still applicable.\textsuperscript{172}

Shares of tourist enterprises acquired with tax-free profits may be sold regardless of the length of the holding period of such shares.\textsuperscript{173}

Manufacturing firms and tourist enterprises which exploit lodging establishments may reinvest, tax-free, up to 18\% of their net income for working capital. Capitalization of at least 30\% of the reinvestment is required. This reinvestment is to be included within the limits set forth by law for tax-free reinvestment of profits. Firms which utilize the reinvestment allowed under this new statute are barred from making loans to their shareholders or their partners for three fiscal years.\textsuperscript{174} Dividends from and participations in profits of enterprises established in the Jungle Area are exempt from income tax. Dividends and profits remitted abroad are excluded. This exclusion does not bar nonresident shareholders or partners from enjoying the exemption, so long as the exempt funds remain invested in the enterprise or in other promoted activities, and are held by the same investor for five years.\textsuperscript{175}

Numerous tax benefits have been established for companies and individuals located outside the provinces of Lima and Callao. Such benefits apply from January 1, 1980, through December 31, 1990. Among these benefits are a reduction of up to 70\% in the net worth tax and the tax on revaluation of assets, a reduction of up to 90\% in the tax on earned income, and a credit against income tax based on the payroll. These benefits may be claimed by manufacturing companies, fisheries, and health clinics. Special tax benefits are granted to transportation carriers and to individuals domiciled outside the Lima and Callao provinces. The income tax credit is equivalent to up to 10\% of the payroll multiplied by the average rate of the tax. Companies located outside the provinces of Lima and Callao may use up to 50\% of the profits as working capital and then reinvest same free of tax.\textsuperscript{176}

\textsuperscript{171} Supreme Decree 181-79-EF of December 26, 1979.
\textsuperscript{172} Decree-Law 22488 of April 3, 1979.
\textsuperscript{173} Decree-Law 22487 of April 3, 1979.
\textsuperscript{174} Decree-Law 22544 of May 15, 1979.
\textsuperscript{175} Decree-Law 22770 of November 28, 1979.
\textsuperscript{176} Decree-Law 22836 of December 26, 1979.
Personal exemptions available to individual taxpayers for the 1979 taxable year have been revised. Since these exemptions are based on the "minimum vital salary" for Lima Province and such salary has been fixed at 18,000 soles per month effective January 1, 1980, the amounts computed based on the 15,000 soles salary effective October 1, 1979, are superseded. The exemptions for the 1980 taxable year are as follows: a special deduction for income from employment or from self-employment, S/432,000; personal exemption, S/378,000; spouse, S/216,000; each child, S/162,000; and other dependents, S/81,000.177

As to social security developments, social security protection has been extended to include independent workers and family members of the insured. The financing of this system is to be fixed by regulations.178

Decision No. 113 of the Cartagena Commission has been approved by Peru. It established the Andean Instrument on Social Security, to regulate social security for citizens of each of the member countries residing in another member country. The Instrument contains rules regarding applicable law, computation of time periods, benefits granted to protected workers, workmen's compensation, and administrative authorities.179

Finally, in the area of tax administration, certain provisions of the Tax Code dealing with the authority to enforce customs law have been revised in line with the elimination of the Tax Intelligence Bureau, which had previously been charged with enforcement of both customs and tax laws.180 Provisions of the Tax Code relating to the statute of limitations have also been revised. These provisions deal with the occurrence of the taxable event and the computation of the term for statute of limitations purposes.181

URUGUAY

In the tax policy area, taxpayers subject to the tax on income from commercial and industrial activities are allowed to deduct from gross income 15% of the value of their inventory existing at the beginning of the fiscal year. This deduction may not exceed 10% of the

value of the inventory existing at the close of the fiscal year. The
deduction applies only for fiscal years which commenced during the
1978 calendar year. The amount so deducted must be capitalized.\textsuperscript{182}

In accordance with a new import duty policy, a basic 35% duty
includes the single import duty, surcharges, and customs fees on im-
portation. Current customs charges are to be gradually reduced so as
to reach the aforementioned basic duty by January 1, 1985. Capital
goods imported after January 10, 1979, shall only pay the 10% minimum surcharge. Beginning January 1, 1979, the 150% and 110% surcharges, imposed on certain goods were reduced to 110% and 90%, respectively.\textsuperscript{183}

The Executive Branch has been authorized to impose an export
tax on products subject to countervailing duties in the country of de-
stination. In exercising such authority, the Executive Branch has de-
creed that the exportation of certain goods to the United States will
be taxed with the percentage of their F.O.B. value indicated for each
of them. The tax is payable upon shipment and is assessed in a tax
return to be filed in the General Tax Bureau. Since the law pre-
scribes that the rate of the tax is to be equal or lower than the coun-
tervailing duties imposed by the country of destination, the rates
range from 3.03% on cotton or synthetic fabrics to 32.39% for wool
garments, and from 3.687% for leather garments to 6.43% for leather
shoes and boots.\textsuperscript{184}

To finance a recently-created Council for Technical Education,
all declared exports will be subject to a special tax which may not
exceed five per thousand of their F.O.B. value. The Executive
Branch has been ordered to implement the law and to fix the tax rate
each year.\textsuperscript{185}

The rates of the single tax on banking activities have been re-
duced from five per thousand to .5 per thousand per month, and
from 2.5 per thousand per month to .3 per thousand. These new
rates apply to loans granted on or after May 1, 1979. All special rates
currently applicable to loans are repealed.\textsuperscript{186}

The 10% basic import duty applicable to capital assets has been
extended to those assets comprising an industrial plant imported

\textsuperscript{182} Decree 748 of December 17, 1978.
\textsuperscript{183} Decree 736 of December 26, 1978.
\textsuperscript{184} Law 14868 of January 31, 1979.
\textsuperscript{185} Law 14869 of February 23, 1979.
\textsuperscript{186} Decree 198 of April 4, 1979.
complete. The 110% surcharge imposed on certain goods has been reduced to 90% effective August 1, 1979.\textsuperscript{187}

Effective November 22, 1979, the 40% tax levied on foreign remittances of profits exceeding 20% of the registered foreign capital has been repealed. Also repealed from that date are the tax imposed on real property transfers, rural leases, and insurance companies, the stamp tax, and many others.\textsuperscript{188}

Most of the added-value tax rates have been revised not only by reducing the general rate from 18% to 14% and increasing the minimum rate from 7% to 8%, but also by revising the list of exempt goods, eliminating exemptions granted to certain industries, and taxing at the general rate goods previously subject to the minimum rate. The new rates entered into effect on November 22, 1979.\textsuperscript{189}

Taxpayers engaged in industry and business are to include in taxable income the profit or loss resulting from adjusting assets (except fixed assets and assets used in exempt activities) and liabilities on account of inflation in the manner prescribed in a new law. Other changes relate to revaluation of fixed assets, monetary adjustment of carried over losses, revaluation of portfolio securities, taxation of broadcasting abroad rights, gradual elimination of tax deductions for reinvestments, and gradual elimination of exemption for export profits. Uruguayan source net income from the use of containers in international trade is fixed at 15% of the price agreed upon. The new rules on inflation-based adjustments apply to fiscal years beginning on or by July 1, 1980, and the adjustments are to be progressively increased each year from 30% in 1980, to 60% in 1981, and finally to 100% of the cost-of-living index in 1982. Investment incentives and exporters exemptions will be eliminated over a three-year period.\textsuperscript{190}

Two taxes affecting farming have been created. One is an annual tax on farming activities payable by those in possession of farmland even if they do not exploit it, and the other is a tax on the purchases of certain farm products. The imputed tax on farmland is based on the assumed output of the average hectare of farmland in the District less certain expenses. Such imputed income is subject to a progressive tax ranging from 25% to 70% of the net output depending of the

\textsuperscript{187} Decree 439 of August 1, 1979.
\textsuperscript{188} Law 14948 of November 7, 1979.
\textsuperscript{189} Id.; Regulations, Decree 666 of November 19, 1979.
\textsuperscript{190} Law 14948 of November 7, 1979, Regulations, Decree 663 of November 19, 1979.
number of hectares held. Holdings under 500 hectares are taxed at a 15% rate under special rules, and those under fifty hectares are exempt. The first purchase of milk, fruits, sugar cane, cereals, and grain has been taxed at a maximum of 4% on their purchase price or importation cost, since December 1, 1979, and the purchase or first processing of wool and hides will be so taxed from May 1, 1980. The Executive Branch has been authorized to determine other farm products which are to be subject to a new tax on farm products. The taxable event is the first processing of wool or hide and their exportation without processing or marketing of wool or hide by the producer. Regarding other products, the taxable event is their purchase, importation, or marketing by the producer.191

Beginning with fiscal years closed on or after December 31, 1979, net worth tax rates will be 4.5% for legal entities, 5% for bearer securities and unnamed bank accounts, and from 1% to 4.3% for individuals and undivided estates.192

Effective November 22, 1979, the excise tax on consumption of luxury items has been applied to houses under construction or built thereafter if they are regarded as luxurious by the National Mortgage Bank. The rate is 10% of the construction cost. Also subject now to excise taxes on consumption are motor vehicles, lubricants, fuels, and electricity, in lieu of other taxes on such goods which have been repealed. The new tax on construction of residential property is levied on the construction company on the basis of its charge, or on the owner/builder on the basis of the cost of the materials used. Municipalities may not issue a certificate of occupancy without proof of payment of the tax.193

Exercising the authority vested in it by law, the Executive Branch fixed at 2% the rate of the tax on soft drinks. The new rate applies from December 24, 1979.194

In the promotion of economic development, importation of farming and cattle-raising supplies has been declared exempt from all customs charges. The single import tax on such products has been reduced to zero.195

As an inflation-generated measure, the values applicable in computing the tax on imputed minimum income from farmland for the period October 1, 1977, through September 30, 1978, have been fixed. The average basic production per hectare is 117.61 new pesos. The brackets of imputed taxable income range from up to 65,750 new pesos taxed at a 28% rate, to over 526,000 new pesos taxed at a 56% rate. The tax thus determined shall be paid with a 30% reduction.196

In the area of social security systems, employers who fail to appear when summoned by the Ministry of Labor and Social Security will be subject to heavy fines. Such fines are to be assessed in the manner prescribed by the Tax Code. The fine shall be equivalent to up to ten days' minimum wages for each worker involved, and shall be fixed considering the economic capacity of the company.197

As a tax administration measure and pursuant to the power vested in it by the Tax Code, the Executive Branch has fixed at 4.5% per month the interest for extended payment of taxes and fines.198

VENEZUELA

With regard to the tax policy area, and in compliance with provisions of the Income Tax Law, the Executive Branch has fixed the percentage of fees for know-how, and technical assistance rendered from abroad by nonresidents which is presumed to be net income. Technical assistance, which is defined by the regulations, is presumed to derive net income equal to 30% of the gross fee. Licensing of know-how, which is also defined by the regulations, is presumed to derive net income equal to 50% of the gross fee. Net income from licensing tradenames and trademarks is determined by deducting actual expenses incurred in Venezuela, unless it is paid as a royalty. In those cases 90% of the royalty is presumed to be net income. Provision is made for the percentage applicable where the contract does not stipulate the value of the technical assistance separately from the value of the know-how. The present decree applies from December 31, 1979, and repeals earlier decrees dealing with nonresident's fees.199

Exercising the power granted it by the Law on Tax on Cigarettes and Tobacco, the Executive Branch has exempted domestic tobacco

from the excise tax imposed by that law. The exemption applies from March 1, 1979.200

Concessions granted to imports of petrochemicals originating in certain LAFTA countries have been revised. The new duties will be in effect until December 31, 1979. The concessions apply to imports originating in Argentina, Bolivia, Brazil, Chile, Ecuador, Mexico, Paraguay, and Uruguay.201

Several items of the Import Duty Tariff approved in 1974 and related to certain fruits, including those originating from LAFTA countries, have been subject to revised duties since October 21, 1979. Apples, pears, cherries, and plums are now subject to a 20% ad valorem duty.202

To promote economic development, new regulations govern the Paraguana Industrial Free Zone, in the State of Falcon. Income tax exemptions for income derived by companies established within the zone and for interest of loans made to them will apply for ten years from the start-up of production. Fifty per cent of interest and dividends paid to bondholders and shareholders of such companies will also be exempt for ten years from the listing of the corporation in the Securities National Registry.203 In addition, goods produced with imported materials within Paraguana Industrial Free Zone may be introduced into the national territory, subject to payment of import duties, as provided in a new joint ministerial resolution. If the producer is a foreign-owned company, its goods may not be introduced into the national territory unless 80% or more of its output is exported.204

With regard to the area of social security systems, and amending the regulations under the Social Security Law, a new decree has set forth new rules for computing disability pensions. The monthly disability pension must amount to 150 bolivars plus 30% of the insured’s salary.205

The Venezuelan Institute for Social Security has been ordered to extend application of social security protection against illness and disability nationwide to all workers. Other benefits have been likewise

in force since October 1, 1979. Full medical assistance and cash allowances for temporary disability have been extended to several areas located in the States of Anzoategui, Aragua, Bolivar, Miranda, Lara, Tachira, Yaracuy, and Zulia.\textsuperscript{206}

To close this tax law update, it should be noted that the decree which created the Taxpayers' Registry called for by the Income Tax Law has been replaced by a new decree. All taxpayers, entities which carry out economic activities in Venezuela or own property located in Venezuela, and withholding agents are required to enroll. Enrollment must be applied for no later than October 1, 1979. A registration certificate must be produced to bid in public works, to petition tax exemptions, and in any other situation provided for in the regulations to be issued.\textsuperscript{207}

\begin{itemize}
\item \textsuperscript{206} Decree 368 of November 19, 1979.
\item \textsuperscript{207} Decree 193 of July 2, 1979.
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