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Taxation

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TAXATION

EDITOR'S NOTE: The Taxation Report in this issue will consist of contributions from Dr. M. M. Marti, Marshal J. Langer, Esq., and material gathered by the Staff from the Newsletter published by the Inter-American Center of Tax Administrators in Panama.

LATIN AMERICAN TAX LAW UPDATE: 1973 — Dr. M. M. Marti*

This study reviews the tax developments in seven countries of Latin America during 1973, thus completing the Latin American Update: 1973 which appeared in the June 1974 issue of the *Lawyer*. The review emphasizes those changes affecting North American investors and corporations. Pertinent legislation and rulings, as well as important judicial decisions in the countries listed are highlighted so as to give maximum coverage in each of the areas listed below.

Area No. 1 — Fiscal Policy

Area No. 2 — Promotion of Economic Development

Area No. 3 — Inflation Generated Measures

Area No. 4 — Social Security Systems

Area No. 5 — Tax Administration

Area No. 6 — Special Situations

Mexico

In the Tax Policy Area, substantial reforms in the Income Tax Law became effective on January 1, 1973. Under the amendments, certain rules on tax returns, refunds and administrative proceedings have been

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revised; depreciation allowances for computers and research equipment have been increased; interest on deferred payment for imports accruing after December 31, 1972 is taxed at a 20% rate, rather than 10%; interest, fees and other income derived by nonresidents, if taxed at progressive rates, will be subject to withholding on accumulated payments, rather than at a 20% rate; and dividends and profits distributed to nonresidents will pay a 20% tax withheld at source, regardless of the amount distributed. Among changes in the taxation of individuals are new rates and rules applicable to withholding of tax on interest from securities, revised rules on inclusion and computation of gains and losses from the sale or exchange of real estate and on inclusion of dividends in overall income.¹

The same statute introduced several changes in the gross receipts tax law, the most important of which affect the rate of the tax. A general rate of 4% has been established, as opposed to a combined 3% rate (1.8% federal tax plus 1.2% local tax). Income received by brokers and agents, as well as income from the sale and leasing of luxury items, is subject to a 10% rate. Luxury items exported or sold within free zones are taxed at the general 4% rate. Under the amendments, the leasing of new automobiles whose official price is higher than 55,000 pesos and of yachts and sailboats is taxed at the 10% rate.

Also effective January 1, 1973, various excise and sales taxes were amended by the same tax reform law. These are the stamp tax and taxes on tobacco, cotton consumption, soft beverages, diesel vehicles, telephone service, mining concessions, and the first sale of glass and crystal products. The tax rates remain unchanged, except for the tax on tobacco, which has been increased by 61%, and the stamp tax on real property leases, which has been fixed at 3%, regardless of the amount of the rent.

In order to make the yield on domestic investments by the general public competitive with the higher interest paid in international markets, without increasing the cost of borrowing the extraordinary interest which credit institutions may be authorized by the Bank of Mexico S.A. to pay on certain deposits and investments made by the general public will be exempt from income tax. The tax benefit applies to extraordinary interest paid on any of the following: term deposits, mortgage bonds, loans to finance companies, term investment portfolios and any securities issued by national credit institutions.²

In Area No. 2, the most important development was the law on promotion of domestic investment and regulation of foreign investment. The

law defines foreign investment as that undertaken by foreign individuals and corporate entities and Mexican enterprises controlled by foreigners. As a general rule, foreigners may not control more than 49% of the capital of business enterprises or real estate trusts within border or shore zones. Mexicans are given a right of first refusal in the case of a proposed acquisition by foreign investors of equity in excess of 25% of established enterprises. Foreign investors and domestic companies, trusts of shares fully or partially owned by foreigners must be registered no later than November 9, 1973 in the National Foreign Investments Registry created by the law.³ Rules for the National Registry of Foreign Investments became effective on December 29, 1973. They govern in great detail the procedure to be followed in applying for and processing registration of foreign investors, securities held by foreigners, Mexican companies whose equity belongs to non-resident persons, and trusts. Such registration is subject to the payment of fees fixed by Decree.⁴

Another important development in Area No. 2 was the issuance of a Decree which granted fiscal incentives to companies promoting the industrial and tourist development of the country. To this effect "development units" are created. They are defined as economic units comprised of a "development company", which is actually a holding and finance company, and "promoted companies" which are the operating companies. Dividends paid by the "promoted companies" will not be subject to withholding. Gains derived by the "development company" from the sale of shares of "promoted companies" will be exempt from income tax. The "development unit" may elect to file a consolidated tax return. If the income tax shown on this return is higher than the total tax paid by the member holding company and the operating companies, the difference shall be paid to the Treasury by the "development company." If the income tax shown is lower, the difference may be claimed as a credit against the tax due by the "development company", or with the latter's consent, against the tax payable by any of the "promoted companies." Among the various requirements for eligibility for the incentives is that "development companies" must be totally controlled by Mexicans and must invest at least 75% of their assets in stock of industrial and tourist companies or in loans to such companies; but loans are limited to 30% of said assets. For a "development unit" to be eligible for the incentives, it must show that the operating companies have increased the volume of their sales and services at least by 20% above the growth index of their respective industries within the country. They must show a significant increase in the following:

- 1) Mexicanization of companies with a majority of foreign investors;
- 2) Creation of new jobs;
- 3) Creation of new industrial and tourism enterprises;
- 4) Development of national technology;
- 5) Increase of exports;
- 6) Substitution for imports;
- 7) Investments in less-developed areas;
- 8) Industrialization of natural resources;
- 9) Expansion of industrial and tourist enterprises; and
- 10) Placement of shares with the public.

Detailed rules are provided in the statute to implement the foregoing requirements.⁵

Promotion of industrialized exports underwent some changes through the year. In order to reflect the higher rate of the gross receipts tax prevailing since January 1, 1973, Exporters Tax Credit Certificates have been increased 10% on their original amount, effective February 3, 1973.⁶

Furthermore, the Secretary of the Treasury and Public Credit has released an order setting up standards for the purchase by the National Bank for Foreign Trade of Tax Credit Certificates not used by exporters. Once all requirements are met, the Bank will purchase certificates for 90% of their value at the time of the transaction.⁷

Finally, exporters of know-how will be entitled to receive tax rebates pursuant to an Executive Order which became effective on October 15, 1973. The amount of the rebate will be represented by "Tax Credit Certificates" and varies according to the percentage of Mexican components of the contract for the transfer of technology. Special rules apply if machinery has been used abroad for at least 12 months in performance of the contract.⁸

Regional development has also been the subject of governmental action. Early in the year, numerous products were excluded from free zone import duty privileges by an Order of the Customs Bureau which became effective on January 3, 1973.⁹ Fiscal incentives will be granted

to qualified industrial, fishing, lumbering or tourist enterprises established in the Tehuantepec area. They include exemption of up to 100% from import duties, stamp tax, gross receipts tax and income tax on certain profits.¹⁰ The fiscal incentives granted to qualified industrial, fishing, lumbering or tourist enterprises in the Tehuantepec Area have been extended to several municipalities in the States of Oaxaca and Chiapas.¹¹ An Executive Decree has extended the duration of the Free Zone benefits for the Nogales area until June 30, 1974, except for those products listed in the new decree.¹² Several border towns have been declared eligible for the benefits granted to shopping centers located therein. Among such benefits are exemption of up to 100% from import duties and accelerated depreciation of fixed assets.¹³ A free zone for the temporary storage of imported goods has been established in the Port of Veracruz, effective from November 1, 1973.¹⁴ Guidelines for granting tax subsidies to selected industries and the National Workers Housing Funds have been set forth by law.¹⁵

Under the Social Security Area, effective from April 1, 1973, a lengthy new Social Security Law has been enacted. A new class has been added to the existing classes of employees divided according to their basic salary; it includes employees earning over 280 pesos a day. The contribution due for this class, unlike that for the other classes, is a percentage of the taxable salary (9.375% for the employer and 3.75% for the employee) rather than a fixed amount over the average salary for the class. This classification will become effective on November 3, 1973. Beginning November 1973, employers will pay a premium for nursery facilities for children of insured females, at the rate of .3% of net daily salaries. This rate is to be .6% in 1975 and 1% from 1976 on. Maximum salary in computing the contribution under the new classification and the nursery premium may not exceed 10 times the minimum salary prevailing in the federal district (10 times 38 = 380 pesos per day for 1973). The new nursery contribution is payable exclusively by the employer, and whether or not female workers are employed. The taxable salary is to be computed by including daily basic salary, gratuities, bonuses, commissions, meals and lodging, and any other benefits. Overtime, profit sharing, payments to the National Housing Fund, bonuses for attendance, savings matched by the company, food or lodging not furnished gratuitously, food packages, tools, and the employer contribution to the union or social welfare fund are to be excluded. This law repeals the old law of December 31, 1942, but the regulations remain in force when not in conflict with the provisions of the new law.¹⁶

The Labor Department has issued Rules and Regulations for the voluntary inclusion of domestics in the present Social Security System. Fixed contributions are set forth according to basic salary brackets. If a domestic earns over 280 pesos a day, the contribution is a percentage of the taxable salary, (8.892% for the employer and 3.093% for the employee).¹⁷

Concerning Area No. 5, provisions of the Fiscal Code relating to imprisonment for failure to file tax returns and to examination of taxpayers' books and records are among those amended as of January 1, 1973.¹⁸ Several provisions of the Customs Code have been revised, including the provision which fixes the maximum value of border traffic that may be engaged in without import or export documentation.¹⁹

Area No. 6, covering Special Situations was highlighted by an important statute. Contracts to be performed in Mexico, which stipulate the use of patents, trade-names or designs, and/or the furnishing of technical or administrative assistance, must be registered pursuant to new legislation. Failure to register will render the contract unenforceable and legally invalid. Registration may be denied if a contract does not conform to the guidelines set forth in the statute. The benefits granted under promotion legislation will be contingent upon producing the registration certificate. The law became effective 30 days after December 30, 1972.²⁰ The Executive Power has issued a decree fixing the fees for the registration of transactions relating to such transfers, use and exploitation.²¹

Nicaragua

With regard to Area No. 1, in order to provide funds for rebuilding the city of Managua after the December 23, 1972 earthquake, all basic exports have been subject to a 10% tax on their FOB value. The tax will be in force for two years beginning January 6, 1973, during which period no income tax will be withheld and no other export duty will apply. Such basic exports are coffee, plantains, cotton, meat, tobacco, lumber, raw-hides, cattle, sugar, copper, and gold.²² The Executive Power has enacted regulations under the law imposing a 10% tax on the FOB value of certain exports. Exports to countries signatory to the General Treaty for Central American Economic Integration will be subject to the duty only if they exceed their 1973 level.²³ By Legislative Decree, it has been provided that the 10% tax on the FOB value of certain exports, created by a prior Legislative Decree, be extended to products destroyed or damaged by disaster, if such products were covered by insurance.²⁴

For two years beginning January 6, 1973, all exemptions from the tax on consumption of combustibles and lubricants will be suspended.²⁵

Effective from November 9, 1973 a special compensatory consumption tax on gasoline and diesel has been levied on the increases of the basic refinery price. The tax will be 30% on such increase for regular and cordoba tax per litre.²⁷

Effective December 1, 1973, distilled liquors and beer sold within the country have been subject, respectively, to a 5.00 cordobas tax and a 1 cordoba tax per litre.²⁷

In Area No. 6, two important Protocols were ratified by Congress. One is the Protocol signed in Managua on October 15, 1973 extending the Protocol to the General Treaty of Central American Integration to November 8, 1978. The extended Protocol deals with emergency measures to protect the balance of payments and is known as the Protocol of San Jose.²⁸ The other Protocol ratified by Congress is the Second Protocol to the Central American Agreement on Tax Incentives for Industrial Development, signed in Guatemala City on October 25, 1973. This Second Protocol will apply to enterprises whose tax benefits under the First Protocol expire between January 1, 1973 and March 31, 1975.²⁹

Panama

The main development in the Fiscal Policy Area was the establishment of a betterment contribution. The tax applies to appreciation on any real property due to public works. The statute covers the factors to be taken into consideration in determining the appreciation, the formulae to be used in computing the tax, the taxpayer's intervention in the taxing process, and the acquisition, sale and barter of real property. The contribution is payable in up to 10 years. Its amount is to be determined in accordance with the increase in value ascertained in technical studies. Properties prejudiced by the public works will be indemnified according to the resulting loss in value.³⁰

The existing Fiscal code has been amended in the provision related to non-taxable donations to non-profit educational or welfare institutions. The amendment provides that when the donation is in kind rather than in cash the deduction shall be on the purchase price if new or on book value if used.³¹

Important changes have been introduced in the existing stamp tax. Under the new law, taxpayers are permitted to pay the tax by filing monthly returns, beginning in January, 1974. Taxpayers must apply for authorization to use such method of payment. The General Director of Revenue, in its own discretion, may grant or refuse such authorization after studying the application. Returns are to be filed with the General Bureau of Revenue, within the first five working days of each month. If advice on the applicability of the tax is required, taxpayers may seek assistance by depositing the amount of the tax in question. The Bureau must rule on the issue submitted within 30 days of the filing of the inquiry.³²

The tax treatment of income earned by foreigners from work performed within or without Panama has been restated by the General Tax Bureau. Aliens hired to perform services within the country must pay tax at an 8% rate on 80% of the gross earnings, if they hold a temporary visitor visa. If they hold a transient visa, the tax is applied and withheld at the normal rates applicable to resident individuals and permanent employees. Under certain conditions, aliens hired to perform services outside Panama are not taxable.³³

Pertaining to Area No. 2, three laws encouraging the construction and financing of low-cost housing projects have been passed.

Exemption from real property tax is granted for 10 years for housing which is to be rented for up to 150 balboas per month, increasing to 25 years if the rent does not exceed 50 balboas per month. A 20-year exemption is granted to homeowners living in their houses, and a 5-year exemption is granted if buildings subject to condemnation are rehabilitated. In the latter case, the owner will be exempt from income tax on the income derived from the property for 5 years, which may be extended.

Another law exempts from income tax interest derived from loans granted to finance the construction of housing which is declared to be in the public interest.

A third law excludes from the application of the tax on inheritances and gifts transfers of realty appraised at 30,000 balboas or less.³⁴

In the Area of Tax Administration provisions of the Fiscal Code requiring the presentation of a tax clearance certificate were amended and others repealed. Under the new law, the certificate will be required for the annual inspection of motor vehicles.³⁵

Also within Area No. 5, a General Appraisals Bureau has been created, replacing the old Department of Inventory and Appraisals. The new Bureau is authorized to issue general, partial and specific appraisals. General Appraisals are those covering all the properties in the country or in a province or city; partial appraisals are made in a district, county or neighborhood where changes in value are due to specific causes; specific appraisals of a particular piece of property are made at the request of an interested party. These Rules for Appraisals of Real Estate have been implemented by regulations issued by the Ministry of the Treasury.³⁶

Paraguay

Under Area No. 1, important changes affected the income tax law. Congress approved with certain changes the Decree-Law which introduced reforms in the Income Tax Law in February, 1972. A new feature is the imposition of special withholding tax rates on certain income paid or credited to nonresidents. The rates are the following: dividends and partner's distributive share, if not reinvested, 10%; fees and salaries of foreign directors, 30%; taxable fees, commissions, interest, royalties, rentals, annuities, profits and any other taxable income, 30%. Among other major changes, it is provided that domiciled individuals and sole proprietorships will be subject to a new progressive rate, and the 5% tax on gains from sales of real estate is to be computed according to new rules. The provision making the procedural and administrative rules contained in the income tax law applicable to the substitute inheritance tax has been omitted. Individuals will pay income tax at a rate ranging from 5% on the first 50,000 guaranies of taxable income to 30% on taxable income in excess of 5,000,000 guaranies. The old rate's highest bracket was 25% applicable on taxable income in excess of 100,000 guaranies.³⁷

The transfer tax imposed on each head of cattle has been raised from 250 guaranies to 500 guaranies. This levy, as well as a 200-guarani tax on each head processed, applies in lieu of income tax. Thus, meat processors or exporters of the 1972 herd had to pay on each head of cattle industrialized or exported G/200 plus G/250 if they raised the animal, plus G/506 complementary tax.³⁸ For the 1973 herd, in lieu of income tax, cattle industries will be subject to a 300-guarani tax per head of cattle processed, and a 500-guarani transfer tax per head of cattle raised by them. In order to continue stimulating industries which process and/or

export cattle products and by-products, various tax benefits are awarded for the 1973 herd. To compensate for such benefits, a complementary tax of 506 guaranies is levied. The benefits include exemptions from: stamp tax on certain transactions; export duties; consular fees and import duties on equipment, parts and fittings, motor vehicles and materials for or related to cattle raising; import duty and transfer tax on cattle for industrialization; substitute inheritance tax, and income tax.³⁹ Another tax is levied on cattle sold or slaughtered for consumption, processing or exportation; the revenue therefrom is earmarked for financing a national campaign to eradicate hoof-and-mouth disease. This levy was raised to 100 guaranies per head.⁴⁰

Important changes have been made in the Sales Tax Law. All business and industrial concerns with annual sales of 4,200,000 guaranies or more must register in the Sellers' Register. Firms with sales under the yearly minimum must declare their stock of taxable goods, and the tax will be paid on the cost of such goods, plus 30% of estimated profit. New firms must register in the quarter following that in which their sales reach or surpass 1,050,000 guaranies. The new law also changes the monthly declaration to be made to the Internal Revenue Department.⁴¹

The law governing the 1973-1974 sugar crop has granted total exemption from any duty or tax on the exportation of sugar.⁴²

In Area No. 5, implementing legislation on the withholding tax levied on certain income paid or credited to nonresidents, the Income Tax Council has ruled that the statutory provisions are effective from December 28, 1972 in Asuncion and January 5, 1973 in the rest of the country. Amounts credited prior to the effective date of the law are subject to the withholding tax, if paid after that date. In the case of transfers or remittances made abroad through banks or brokers, the liability for withholding the tax is on those ordering the remittance.⁴³

New rules for collecting rental income were passed. All taxpayers receiving rental income must register in the Taxpayers' Register. When paying a monthly rent of 25,000 guaranies or more to persons domiciled in the country, the payer must withhold and deposit 3% of the amount paid with the Income Tax Department. The amount withheld is treated as an advance payment of the income tax payable by the landlord. Landlords must indicate their Taxpayers' Register number in the rent receipts. Payors will not be allowed to deduct rental expenses if the receipt does not comply with this rule. Amounts withheld in excess of the tax due as shown in the annual return will be applied to future taxes.⁴⁴

Finally, in Area No. 6 — Special Situations, it is to be observed that the Central Bank has expanded the free foreign exchange market by authorizing certain institutions to conduct various exchange operations in a new fluctuating free market. The new market is based on the rate of exchange resulting from the free supply and demand of currency from certain transactions, rather than the rate fixed by the Central Bank for the free market. The institutions authorized to operate under this type of exchange system shall assume the risk of fluctuation in the foreign currencies in which they deal. The Central Bank will not receive or supply foreign exchange from or for any of the transactions listed in the new resolution. Among the listed sources of foreign exchange are non-registered foreign capital entries, tourists' expenditures, personal remittances from abroad, etc. Among the listed requirements for foreign exchange are border trade, foreign trade, foreign travel expenditures, travel fares, remittances of interest, dividends and profits from non-registered capital, remittances for family assistance, etc.⁴⁵

Peru

Numerous Fiscal Policy developments took place in Peru during 1973, four of which relate to the added-value tax created the preceding year.

The added-value tax, effective since January 1, 1973, has been adapted for application to the area known as the Jungle Region. Sales tax in the region runs from 0% to 3%, depending upon the product. Products similar to those produced in the region do not enjoy benefits. Reductions of 50% in tax base are granted to local banks operating with persons domiciled within the region.⁴⁶ Under another Decree-Law, the Government has added new products regarded as essential, such as medicines and wheat flour, to the list of those entitled to exemption from the added-value tax, and has made amendments to other provisions.⁴⁷

The rates of the added-value tax were also revised. Beginning January 1, 1973, the rate was reduced to 3% on the domestic sales at the manufacturer's level or imports of the following products: compounds for concentration of minerals; explosives; insecticides and pesticides; vessels over 2,000 tons; passenger and freight vehicles, including trailers; soil movement machinery; and hydrobiological products for human consumption. A reduction of 50% in the tax base is granted to products of second-priority enterprises under the Industrial Promotion Law. ⁴⁸ Effective October 1, 1973, several products have been made subject to the

added-value tax at lower rates. For instance, soft drinks, silks, lace and motor vehicle accessories have been excluded from the luxury items taxed at 25%.⁴⁹

Two measures were taken within the Tax Policy Area, to attract foreign capital. Foreign currency accounts held at the Bank of the Nation by nonresident individuals or legal entities will enjoy income and inheritance tax exemptions from May 17, 1970 to December 31, 1978.⁵⁰ In order to encourage borrowing abroad, it has been decreed that enterprises which have entered into contracts with the state may take out loans abroad for terms longer than such contract and make payments of interest and principal by using foreign exchange certificates.⁵¹

Effective January 1, 1973, a single tax on salaries has been established, superseding prior social security contributions. The new levy applies on payroll at a 2.5% rate, payable by private and public employers, 1% rate payable by employees, and at a 2% rate payable by the self-employed. The Regulations passed under the new law deal with, among other things, computation of the tax base in the case of employees receiving a share of the profits as compensation; fees, distributions or allowances of manager owners; payments to temporary employees; earnings of members of professional associations; and fees paid to self-employed professionals.⁵²

It is to be observed that according to the Tax Court, since gains from the sale of assets owned by enterprises are taxable as ordinary income, a sale of shares which produces a profit is subject to income tax even though the seller is a foreign company not engaged in business within Peru.⁵³

By a Decree-Law, the maximum balance in savings accounts qualifying for tax-exempt interest has been raised for individuals and non-profit associations.

By another Decree-Law, the interest exemption relating to transactions with financial institutions has been extended to December 31, 1974.⁵⁴

By Supreme Decree, the rules and regulations under the net-worth tax on enterprises, have been enacted. The Decree governs the entities subject to the tax, the tax base, the determination of assets and liabilities, deductions allowed and exempted enterprises. For income tax purposes, the levy is deductible as an expense in the year in which it is actually paid.⁵⁵

As a substitute for the outstanding "Anti T.B. stamp tax" on cosmetics, a new excise tax has been created, effective as of August 1, 1973. The new tax is applied to sales by manufacturers and to imports. The tax base is the sales price at the manufacturers' level in the former case, or customs CIF value in the latter case. The tax is applied at a 20% rate.⁵⁶

A new law has been enacted reducing to one single tax all taxes on professional sports events. The amount of the tax is equal to 15% of the admission fare to all professional sports events and is based on the total value of the ticket without any deduction.⁵⁷

Area No. 2 regarding Promotion of Economic Development, features legislation expanding the preexisting broad range of tax privileges for the tourist industry which expired on July 27, 1973 has been enacted. The tax concessions related to import duties, income tax, free investments and reinvestments, accelerated depreciation of fixed assets, stamp and transfer taxes bearing on corporate organization and financing, real property taxes, income tax on interest, etc. The duration of those benefits is 10 years from the date of the Supreme Resolution granting them. Broad tax benefits had been granted by Decree-Law No. 18916 of July 22, 1971. The new Decree-Law will apply to enterprises which request such benefits no later than December 31, 1975. Eligible enterprises will be entitled to reinvest or invest in other tourist enterprises up to 75% of net income free from income tax. Investments exceeding that limit may be carried forward up to five years. Any other legal entity or individual may invest in tourist enterprises up to 50% of net income, free from income tax. These benefits are forfeited if the recipient of the investment reduces its capital or liquidates within the following 3 years, or if the investor transfers the stock within the following 3 years. Additional benefits are available for enterprises situated outside Lima and Callao Provinces.⁵⁸

Enterprises which qualify under the Industrial Promotion Law and produce goods which have been exclusively assigned to another country of the Andean group will be allowed to invest profits tax-free in shares of similar enterprises established in any other country of the Andean group. The transfer of capital assets under such investment program will be exempt from Peruvian sales tax and export duties. In order to receive the above benefits, the Peruvian enterprise must show that the investment is beneficial to the national development and must promise to bring into the country any distribution of profits made by the foreign company, as well as its share of liquidating dividends upon dissolution of that company. The Peruvian enterprise may not transfer the shares thus acquired

prior to the time set forth in the Ministerial Resolution authorizing the investment.⁵⁹

In order to promote faster development rehabilitation programs for the provinces of Trujillo and Chancay, new tax benefits have been added to the existing ones granted by previous legislation. The taxable base for the added value tax has been reduced 50% and the deadline for filing tax returns on this tax was extended to June 30, 1973. Also, the 1% single tax on salaries paid by employees created by previous law has been exempted up to December 31, 1973.⁶⁰

A major step was taken in the Social Security Area. The Government has created the National Social Security Pension System, consolidating in one law the several existing pension funds. Contributions will be paid two thirds by the employer and one third by the employee, and the amount of such contributions will be equal to a percentage of the salary, to be fixed by Supreme Decree. Maximum pension benefits are equal to 80% of the salary and to those who have contributed to their funds for 30 years, in the case of men, and 25 years in the case of women.⁶¹ Following the consolidation of all pension funds under one single system, the government has further merged the administration of the National Social Security Fund, the Employee's Social Security and the National Pension Fund into a single Bureau, the "Social Security of Peru".⁶²

Tax Administration, Area No. 5, also underwent some changes. Several provisions of the Tax Code which deal with the assessment of taxes and the determination of presumed gross income have been revised.⁶³ A new General Customs Law will enter into effect on July 1, 1974. Detailed provisions deal with the administration of import duties, temporary importation or exportation of goods without payment of duties, forwarding agents, documentation covering shipments, etc.⁶⁴

Area No. 6 includes three Special Situations worth reporting. The Revolutionary Government has issued a Decree-Law setting June 30, 1974 as the deadline for foreign industrial companies to conform to the divestment provisions of the Industrial Promotion Law and to sign the corresponding Transformation Contracts.⁶⁵ As of July 19, 1973, insurance companies have been required to start compliance with the fade-out provisions contained in the Rules on Foreign Investments issued by the Cartagena Commission and approved by the Peruvian government.⁶⁶

The most "special" of the legal situations developed during 1973 was the novel legal concept regarding ownership of enterprises.⁶⁷ *Editor's Note:*

For developments in this area please see Inter-American Legal Developments Reports in this and previous 1974 issues of the *Lawyer*.

Uruguay

Important legislation effecting changes in almost every existing tax is the feature development on Fiscal Policy. The changes relate, among other things, to the tax on imputed income from farm land, taxes on net worth, inheritance and corporations, and gross receipts, sales and services, excise, stamp, travel abroad tickets and banking activities, taxes, sole tax on small merchants, registry fees, etc. Minimum capital of corporations is now 50,000,000 pesos; the reorganization or liquidation of corporations and the transfer of property to shareholders in compliance with the capitalization requirement are exempt from all taxes and registration fees.⁶⁸

Among the amendments introduced in the Income Tax Law by that legislation is a revision of the tax on industrial and commercial activities; the rate has been raised from 6% to 15%, and a 10% surtax is applicable to domestic corporations and branches of foreign companies which, thus, will pay 25%. Foreign companies will pay tax on Uruguayan source income at the rate of 25% if they operate through a branch; otherwise the rate is 44%. The personal exemption for individuals will be, for taxable year 1972, 425,000 pesos, and the deduction for each dependent 170,000 pesos. The additional deduction allowed to individuals deriving income from employment has been increased from 200% to 250% of the personal exemptions. Pursuant to the regulations passed under the new law, net operating losses from industrial and commercial activities may be carried forward for up to five years. A special deduction is allowed for earnings actually distributed. This deduction is not available if the distributee is a foreign company whose home country does not allow a deduction for the amount of the tax thus saved. The tax payable by holders of bearer shares or bearer bonds will be withheld at a 25% rate. Stock dividends are not taxed, unless shares have been redeemed within the 2 years preceding the distribution. Until earnings and profits are exhausted, the tax levied on foreign companies applies to all amounts credited or remitted to them.⁶⁹

The same law imposed an additional surcharge equivalent to 50% of the income tax paid for taxable year 1971 by individuals, corporations and taxpayers engaged in industrial and commercial activities.

The exemption for interest derived from purchase-money loans granted to importers has been extended. It will apply to the interest paid to such creditors by the Central Bank when the delay in the remittance is attributable to the Bank.⁷⁰

The last Fiscal Policy development to be observed can also be regarded as belonging in Area No. 2. In order to aid exports and thus improve the balance of payments, the Executive Branch has decreed that all exports are to be exempt from export duties, from October 15, 1973.⁷¹

Another measure belonging in Area No. 2 benefits wool exporters. Exporters of wool in textile form or as finished products have been entitled since 1968 to a bonus credited against export duties equivalent to 22% of the FOB value of exports. Export duties were later replaced by a single tax, which in turn was suspended in 1971. In order to make the bonus effective, the Bank of the Republic will issue "Premium Certificates (22%)" which may be used to pay any of the taxes administered by the General Tax Bureau. The certificates are negotiable and will expire 6 months from issuance date.⁷²

Within Area No. 3, due to inflationary pressures, the amounts of the personal exemptions for income tax purposes had to be updated in accordance with the increase of the cost-of-living index between October 1, 1972 and September 30, 1973. The personal exemption for a single taxpayer is 890,000 pesos and for a head of household is 1,780,000 pesos. The deduction for each dependent is 356,000 pesos.⁷³

Also due to inflationary pressures, the values applicable in computing the tax on imputed minimum income from farmland for the period October 1, 1971 through September 30, 1972 have been revised. The average basic production per hectare is 6,107 Uruguayan pesos. The brackets of imputed taxable income have been updated, ranging from up to U.P. 3,400,000 taxed at a 25% rate to over U.P. 27,200,000 taxed at a 50% rate.⁷⁴

The Executive Branch has established the co-efficients, or factors, to be used in revaluing fixed assets. The maximum and minimum co-efficients thus established will apply to fiscal years begun on or after January 1, 1972. The minimum and maximum co-efficients for assets acquired in 1954 or preceding years are 155.1 and 189.6, respectively. If real property is subject to a lease, the co-efficients are reduced by 50%. The Executive Branch must fix these co-efficients every second year.⁷⁵

The Executive Branch has approved a Resolution of the Commission for Productivity, Prices and Income whereby corporations are permitted to pay dividends in accordance with new limits. Such dividends may not exceed either the amount of profits subject to income tax or 24% of the capital determined for purposes of the substitute inheritance tax.⁷⁶

Many new provisions appeared in the Social Security Systems field (Area No. 4). Beginning January 1, 1973, social security and other payroll taxes have been combined into single contributions. The old employer contributions amounting to 20% in the aggregate, are reduced to a single 15% payroll tax. The old employee contributions amounting to 18% in the aggregate, are reduced to a single 15%. The employer payroll taxes payable to the Family Subsidy Fund have been reduced from a rate amounting in the aggregate to 12.8% to a single 10% rate.⁷⁷ Beginning July 1, 1973, the single social security contribution paid by employees of industry and commerce has been reduced by 20%. Therefore, male employees will pay 12% of their salaries and female employees 13%.⁷⁸

Employer and employee contributions to the rural workers' retirement pension fund have been raised commensurate with the wage increases granted in 1972. These increases include a 31.40% raise, which became effective on January 1, 1973. Thus, such contributions have been increased by 89.22% for the period February 1, 1973 to January 31, 1974.⁷⁹ Following this raise, the employers contribution to the rural workers retirement fund has been increased by 100% in order to finance a 71.48% raise of retirement pensions. The new rates are effective from July 1, 1973.⁸⁰

The highlight in the Tax Administration Area has been the consolidation of tax statutes. Exercising the authority granted it by law and decree implementing the law, the Income Tax Bureau has consolidated the text of all the tax laws administered by the Bureau. The new text has been approved by the Executive Branch, and its provisions will be cited as "Text Ordained-Law No. 14100 of December 29, 1972." The laws thus consolidated relate to income, net worth (patrimony), substitute inheritance, franchise, value added, luxury goods, inheritance, transfer, stamp, contract, excise and miscellaneous taxes.⁸¹

A new Administrative Proceedings Law has been enacted. The provisions of the law apply to all administrative proceedings, but only as ancillary law in the case of special proceedings now in force.⁸²

Two provisions regarding payment of estimated tax were passed. Taxpayers liable for the tax and surtax on income from industrial and commercial activities will be required to pay estimated tax. Such payment must be made in two installments. Each installment is to be an amount equivalent to 25% of the tax paid in the preceding year.⁸³ Those liable for the tax on imputed income from agricultural land are required to pay 100% of the tax paid for the taxable year 1972, as an advance payment of the tax payable for the taxable year 1973. Under decrees now repealed, such advance was 200%.⁸⁴

A special situation of great interest to foreign companies stands out in Area No. 6 — the definition and remittance of royalties and fees. A recent decree defines royalties and technical assistance for income tax purposes. Royalties are taxable insofar as they represent compensation to the holders of intangible assets for the transfer of such assets or of the right to their exploitation. If the recipient can show that expenses were incurred, only 70% of the gross royalty is taxable. Technical assistance consists of the direct and effective rendering of services by the technician with adequate means for doing so. The mere possibility of obtaining a transfer of technology is not technical assistance. If the services are rendered abroad, no tax applies.⁸⁵ Pursuant to Regulations issued by the Central Bank, remittances of dividends and profits abroad are limited each year to 10% of the invested foreign capital. The latter is defined as the contribution to the capital of an enterprise in foreign currency transferred through the national banking system, or the reinvestment of profits eligible to be remitted. The amount remittable is subject to income tax withheld at the source as prescribed in an earlier decree dealing with the remittance of royalties and fees. The amount of profits remitted may not exceed, in any one year, 10% of the invested capital increased by the reinvestment of profits. Special rules govern the computation of the investment and reinvestment in national currency, and the proof of the importing of the foreign currency. In order to fix the equivalent in local currency, investments in foreign currency are to be converted by applying the rates at which the funds were sold in the banking system, and reinvestments of profits are to be converted by applying the rates prevailing on the date when the distribution was finally approved.⁸⁶

Venezuela

No significant changes took place under Area No. 1, but rather restatements of existing tax law. For instance, an important rule on source

of income has been laid down by the Income Tax Bureau. According to the Bureau, dividends paid to nonresident shareholders by Venezuelan companies are income from Venezuelan sources and taxable, although the payor may not have been subject to tax in Venezuela because the profits were earned by a foreign branch. The ruling emphasizes that the shareholder, a foreign company, is a different entity than the corporation. While the corporation's activities may be carried out abroad through a branch and therefore the resulting income is not subject to tax in Venezuela, the shareholder's activity consists in holding shares of a Venezuelan company and the income therefrom, that is the dividends, are subject to tax in Venezuela.⁸⁷

Exercising the authority granted it by law, the Executive Branch has issued new rules on the procedure to be followed in fixing the price of various grades of oil and minerals exported, on the basis of which oil and mining company income is calculated yearly. Under the new rules, much efficiency is gained, since time periods have been shortened and those set for public hearings eliminated.⁸⁸

The First Income Tax Court has held that a bad debt loss carryover may not be deducted, when such loss originated with another business subsequently acquired by the taxpayer. The Court further held that in order to consider a bad debt loss deductible, it has to have been declared previously as income. It also reasoned that the bad debts had arisen in the ordinary course of business of the acquired company, rather than in the import/export business of the taxpayer.⁸⁹

The Internal Revenue Service has recently determined that there is no withholding of income tax on the amount paid by a subsidiary to its parent company for technical assistance supplied from abroad in the form of blueprints, drawings or data relating to the manufacture of products. It further ruled that the subsidiary payor may not deduct the amount of such ordinary and necessary expenses because they have been incurred outside Venezuela. The rationale of the ruling is based on the territoriality of the Venezuelan tax system. The ruling further stated that there is no connection between whether or not the recipient of a payment is subject to tax in Venezuela, and the deductibility of the expense according to the country where the expense is incurred.⁹⁰

In Area No. 2, various regions and activities have been aided by tax incentives. Exercising the powers granted it by the Income Tax Law, the Executive Branch has created an Industrial Promotion area in the State of Tachira, in order to develop the economy of the Andean region.

Tax benefits to new industries in the area include: full exemption from income tax for five years from the start-up of operations, with a possible extension for the same amount of time; full exemption from income tax on interest from capital invested for the promotion of the area, such benefits to also run for five years; 50% exemption from income tax on dividends and interest from stocks and bonds issued by eligible enterprises, such exemption to be for 10 years from the date of issue of the security; and, lastly, exemption from import duties on raw materials for the industrial exploitation of the area, provided the raw materials are not produced in the country. Exemptions are granted by individual Resolution of the Ministry of the Treasury, and the beneficiary must start operations within 2 years of the date of the Resolution in order to receive the benefits. In the case of corporations and associations operating in the area, the income tax benefits are conditioned on reinvestment of profits in excess of 6% of the beneficiary's capital plus reserves in the Andean region.⁹¹

In order to encourage exportation of industrialized products, exporters will be entitled to tax credit certificates commensurate with the value added by them to the raw material processed. The benefit may be extended to agricultural, livestock, fishing and forest products as provided for in regulations to be issued. The certificates will be valid to pay any kind of national tax if they are used within two years from the date of issuance, will be issued to the order of bearer, and will be freely negotiable. Exports of oil and petroleum by-products, unprocessed minerals, coffee and cocoa, products of a local added value below 30%, in-bond imports, materials exported as scrap, auto parts exported by assembly plants, and any other product expressly excluded from the law's benefit by the Executive Branch, are not entitled to tax credit certificates in any case.⁹²

Congress has enacted a new law for the promotion and protection of tourism as a means, of economic and social development of the country. It applies to all individuals and concerns engaged in tourism. The Executive is vested, in certain cases, with powers to exempt or reduce for up to a 15-year period, income tax on profits from investments in tourist enterprises or on interest of loans to such enterprises.⁹³

The basic law regulating the securities market has been enacted. The Executive Branch is authorized: to exempt from income tax gains from the sales of securities of registered companies; to exempt registered companies from up to 15% of the income tax payable on their earnings;

and to grant partial or full exemption to dividends and interest on securities issued by such companies. The law entered into force three months after its publication, that is, May 1, 1973. All tax incentives are effective for a maximum period of 10 years from the date of registration of the securities in the new National Securities Registry. The benefits are granted to "open capital companies", which are defined as corporations whose shares are offered to the public and satisfy other conditions set forth in the new statute. Registered "open capital companies" shall have priority in obtaining tax incentives and other benefits granted by the Government under promotional policies.⁹⁴

Exercising the authority granted by the Income Tax and Tourism Laws, the Income Tax Bureau has declared to be exempt from income tax (1) profits derived from the construction and operation of new hotels in Merida and Nueva Esparta and (2) interest from loans to finance their construction. New hotels are those built pursuant to a municipal permit granted after January 1, 1973 and prior to July 31, 1975, and for which a certificate of occupancy has been issued after October 29, 1973 and prior to December 31, 1976. The income tax exemption for profits applies for seven years, computed from the date of the municipal permit in the case of construction profits, and from the date of the certificate of occupancy in the case of operating profits.⁹⁵

The last development of interest is related to Tax Administration, (Area No. 5), more specifically, customs administration. Provisions of the Customs Law dealing with harbor services, documentation to be produced by carriers, and penalties for undervaluing imports have been amended.⁹⁶

To close this tax law update for 1973, an important event falling under Area No. 6 is to be noted, which opens a new era in foreign investment and foreign trade policies in Venezuela—the adhesion of Venezuela to the Andean Pact. Congress has approved the Agreement for Sub-regional Integration (Andean Group), the Consensus of Lima whereby Venezuela became a member of the Andean Group, and Decisions 24, 37, 37-A, 40, 46, 50, 56 and 70 of the Cartagena Commission. Congress also authorized the Executive Branch to implement the Decisions of the Commission, especially with regard to their effective date within Venezuela. Venezuela became the sixth member country of the Andean Group, upon the signing of the Consensus of Lima on February 13, 1973. Congress has made clear that decisions of the Cartagena Commission which amend Venezuelan legislation or deal with legislative matters should be approved by Congress.⁹⁷

NOTES

- ¹Tax Reform Legislative Decree of December 29, 1972
- ²Executive Decree of June 18, 1973
- ³Investment Law of February 26, 1973
- ⁴Executive Decrees of December 11 and 18, 1973
- ⁵Executive Decree of June 19, 1973
- ⁶Order No. 101-062 of February 1, 1973
- ⁷Official Circular No. 309-1-10268 of June, 1973
- ⁸Executive Order of September 6, 1973
- ⁹Official Circular No. 301.A.108926 of December 20, 1972
- ¹⁰Executive Decree of April 5, 1973
- ¹¹Executive Decree of May 23, 1973
- ¹²Executive Decree of June 20, 1973
- ¹³General Declarations of November 15, 1973
- ¹⁴Executive Decree of September 4, 1973
- ¹⁵Federation Expenditure Law of December 29, 1972
- ¹⁶Social Security Law of February 26, 1973
- ¹⁷Executive Order of August 20, 1973
- ¹⁸See note 2 *supra*
- ¹⁹*Id.*
- ²⁰Legislative Decree of December 28, 1972
- ²¹Executive Decree of January 30, 1973
- ²²Legislative Decree 85 of January 6, 1973
- ²³Executive Decree 1 of January 12, 1973
- ²⁴Legislative Decree 95 of March 2, 1973
- ²⁵Legislative Decree 84 of January 6, 1973
- ²⁶Executive Decree 54-MEIC of November 8, 1973
- ²⁷Legislative Decrees 282 and 283, both of November 23, 1973
- ²⁸Executive Decree 10 of October 22, 1973 and
Legislative Decree 14 of November 1, 1973
- ²⁹Executive Decree 11 of October 29, 1973 and
Legislative Decree 15 of November 1, 1973
- ³⁰Law 4 of October 4, 1974
- ³¹Law 76 of September 20, 1973
- ³²Law 44 of June 14, 1973

- ³³Resolution 201-16 of May 8, 1973, Income Tax Bureau
- ³⁴Laws 100, 101 and 102, all of October 4, 1973
- ³⁵Law 45 of June 21, 1973
- ³⁶Law 63 of July 31, 1973 and Resolution 261 of September 19, 1973
- ³⁷Law 367 of November 22, 1972
- ³⁸Law 384 of December 22, 1972
- ³⁹Decree-Law 57 of February 9, 1973
- ⁴⁰Decree-Law 64 of March 31, 1973
- ⁴¹Decree-Law 59 of March 2, 1973
- ⁴²Decree 32387 of May 2, 1973
- ⁴³Resolution G-2 of March 30, 1973, Income Tax Council
- ⁴⁴Resolution 1 of March 7, 1973, Income Tax Bureau
- ⁴⁵Resolution 2 of March 16, 1973, Central Bank
- ⁴⁶Decree-Law 19931 of February 6, 1973
- ⁴⁷Decree-Law 19884 of January 9, 1973
- ⁴⁸Supreme Decree 038-73-EF of February 14, 1973
- ⁴⁹Decree-Law 20145 of September 25, 1973
- ⁵⁰Decree-Law 20125 of August 28, 1973
- ⁵¹Decree-Law 20138 of September 11, 1973
- ⁵²Decree-Law 19839 of December 9, 1972 and
Supreme Decree 341/73/EF of December 26, 1973
- ⁵³Resolution 8342 of May 7, 1973, Tax Court
- ⁵⁴Decree-Laws 20020 of May 16, 1973 and 20003 of May 7, 1973
- ⁵⁵Supreme Decree 096-73-EF of May 29, 1973
- ⁵⁶Decree-Law 20061 of June 19, 1973
- ⁵⁷Decree-Law 20060 of June 19, 1973
- ⁵⁸Decree-Law 20104 of July 31, 1973
- ⁵⁹Decree-Law 19956 of March 20, 1973
- ⁶⁰Decree-Law 20013 of May 8, 1973
- ⁶¹Decree-Law 19990 of April 24, 1973
- ⁶²Decree-Law 20212 of November 6, 1973
- ⁶³Decree-Law 20127 of August 28, 1973
- ⁶⁴Decree-Law 20165 of October 2, 1973
- ⁶⁵Decree-Law 19863 of December 26, 1972 as amended by
Decree-Law 19883 of January 2, 1973
- ⁶⁶Decree-Law 20088 of July 17, 1973

- ⁶⁷Bill released August 31, 1973
- ⁶⁸Law 14100 of December 29, 1972
- ⁶⁹Decree 47 of January 16, 1973
- ⁷⁰Decree 523 of July 5, 1973
- ⁷¹Decree 843 of October 4, 1973
- ⁷²Decree 715 of September 6, 1973
- ⁷³Decree 1083 of December 13, 1973
- ⁷⁴Decree 84 of January 25, 1973
- ⁷⁵Decree 734 of November 6, 1972
- ⁷⁶Executive Resolution 473 of March 21, 1973
- ⁷⁷Decree 837 of December 29, 1972 as construed by Circular 1281 of April, 1973, Central Council for Social Security Funds
- ⁷⁸Decree 513 of July 3, 1973
- ⁷⁹Decree 60 of January 17, 1973 and Executive Resolution of January 2, 1973
- ⁸⁰Decree 494 of June 30, 1973
- ⁸¹Decree 526 of July 5, 1973 as amended by Decree 1036 of December 6, 1973
- ⁸²Decree 640 of August 8, 1973
- ⁸³Decree 694 of August 23, 1973
- ⁸⁴Decree 757 of September 13, 1973
- ⁸⁵Decree 314 of May 3, 1973
- ⁸⁶Circular 361 of September 14, 1973, Central Bank as construed by Resolution of December 5, 1973, Central Bank.
- ⁸⁷Revenue Ruling in Impuesto sobre la Renta No. 66, September-October, 1972, pp. 23, 24 and 25
- ⁸⁸Decree 1384 of August 29, 1973
- ⁸⁹Decision 495 of April 28, 1972, First Income Tax Court
- ⁹⁰Revenue Ruling HIR-900-003090 of November 9, 1972
- ⁹¹Decree 1251 of March 21, 1973
- ⁹²Law of September 26, 1973
- ⁹³Law of June 21, 1973
- ⁹⁴Law of January 31, 1973
- ⁹⁵Resolutions 452 of September 14, 1973 and 542-1 of October 24, 1973
- ⁹⁶Law of September 26, 1973
- ⁹⁷Law of September 26, 1973

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Dominican Republic

It has been reported that tax treaty negotiations have been commenced between Canada and the Dominican Republic. There has been no report yet as to the outcome of these negotiations.

Law Number 556, of September 17, 1973, exempts from income tax for a period of 10 years the income derived from buildings constructed in Santo Domingo which cost more than one million Dominican pesos.

Grenada

Grenada became a newly independent nation early in 1974. Government officials have announced the intention of turning Grenada into a tax haven country, but details are not yet available.

Guyana

Guyana's Income Tax Ordinance (Chapter 299) has been amended by the Income Tax (Amendment) Act, 1973 (No. 12 of 1973). This has resulted in a slight reduction of the tax burden on low income individuals, for years beginning with 1974. The lowest rate is now 5% instead of 6%. However, the maximum rate remains 70%.

A new "development levy" of 5% on incomes exceeding G\$500 per year will be imposed, in addition to the ordinary income tax. Since the ordinary income tax rates have a maximum of 70%, the addition of the development levy will increase the maximum rate to 75%.

Jamaica

A new income tax treaty between Jamaica and the United Kingdom entered into force on December 31, 1973. It is effective retroactively as of April 1973 in the United Kingdom, and as of January 1, 1973 in Jamaica.

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Netherlands Antilles

A new method for computing taxable profits of oil companies operating in the Netherlands Antilles was introduced as of April 1, 1974. It applies to oil refining companies resident in the Netherlands Antilles, principally Shell Oil on Curacao and Lago Oil (Exxon) on Aruba. The Government anticipates that revenue from the increased tax on oil refining will amount to more than NAf. 120 million (approximately US \$67 million).

Puerto Rico

Puerto Rico is considering the enactment of a complete revision of its income tax laws. A commission has been appointed to make recommendations as to major substantive changes in the Puerto Rican Internal Revenue Code.

St. Kitts

The Associated State of St. Christopher and Nevis, more commonly known as St. Kitts, may join the ranks of tax haven countries. The Honorable Paul Southwell, Deputy Premier and Minister of Finance, has proposed new offshore companies legislation designed to make St. Kitts competitive with the major tax havens. Further details are not yet available.

A number of tax changes were announced in the 1974 budget message. The maximum tax rate on individuals was reduced from 75% to 55%. An exemption from tax was provided for interest on savings and fixed deposits in local banks.

Trinidad & Tobago

Trinidad and Tobago and Switzerland exchanged notes on March 20, 1974, with respect to the income tax treaty between them signed on February 11, 1973. The treaty is effective as of January 1, 1973. The Double Taxation Relief (Switzerland) Order, 1973, and the English text of the treaty between Switzerland and Trinidad and Tobago were published as a supplement to the Trinidad and Tobago Gazette on June 21, 1973.

The Fiscal Incentives Act, 1973 (No. 36 of 1973) received the required assent on September 24, 1973. It harmonizes fiscal incentives which were previously available under a series of separate accounts. The new Act permits the granting of tax holidays to approved enterprises for periods of from 5 to 10 years.

MISCELLANEOUS TAX MATTERS — STAFF

Argentina

Law 20,643 (1974)

This law provides that individuals and corporations may compute as payments on account of the tax on profits for the years 1974, 1975 and 1976 — within certain limitations and conditions — any sums deposited with authorized banks for the purchase of non-redeemable stock, shares in common investment funds, and of debentures and bonds issued by official financing institutions and investment banks. The deductions admitted for 1974 range between 100% of the tax (when the tax due is of up to 150 pesos) and 8% (when the tax due exceeds 250 pesos). The deduction for joint stock corporations is of 3% irrespective of the tax due. These rebates are decreased for 1975 and 1976. The law also provides that any securities issued by private institutions will be registered and non-endorsable but that they may, however, be transferred under certain conditions. Any bearer shares in existence are to be presented for conversion to registered shares within the term to be established by the Executive Branch.

Law 20,644 (1974)

This law provided for the establishment of the National Directorate of Federal Fiscal Police within the Ministry of Economy. This Directorate will be responsible for audit of national and provincial taxes on the basis of agreements with local governments, as well as with the organization of a centralized system for economic-fiscal information. The Directorate of Federal Fiscal Police will — in general terms — be entrusted with the audit functions presently assigned to the General Directorate of Taxes. It was established, however that the General Directorate of Taxes will continue with its audit work in a joint or separate fashion with the Federal Fiscal Police but that, in each case, the taxpayer is to be ensured unified procedures should a simultaneous investigation be necessary.

Also, as of January 21, 1974 and on the basis of the provisions of Article 24 of Law 20,532 of September 18, 1973, the General Directorate of Taxes established the requirement of presenting the *Tax Identification Card* as a prior requisite for transactions and requests involving, among other things, the following: obtaining a municipal permit for the exercise of industrial activities; obtaining loans in amounts exceeding 100,000 pesos; registration of by-laws and documents in public registries; imports and exports; participation in public bids. The Tax Identification Card will be issued by the General Directorate of Taxes and will include the following information: registration number, data for taxpayer identification and date of expiration of the respective card.

Brazil

The Center for Economic-Fiscal Information of the Secretariat of Federal Revenue of Brazil has prepared some highly interesting educational booklets aimed at providing information and guidance to the general public—and particularly to taxpayers—on the procedures for filing and payment of individual and corporate income tax returns for the fiscal year 1974. Two extremely well edited booklets—one for individuals and one for corporations—give detailed explanations on the procedures for the completion of income tax returns. These booklets that are distributed free of charge under the denomination of “Orientation Manuals” are supplemented with “Operational Instructions” for officials assigned to the reception of income tax returns. All of this documentation is a very good illustration of how it is possible to communicate with the taxpayer and fulfill his information requirements and they provide a very clear description of the structure of federal income tax in Brazil.

Canada-Mexico

The Governments of *Mexico* and *Canada* jointly approved a Double Taxation Agreement which comes retroactively into effect with respect to fiscal years commencing on or after 1/1/73. According with the Agreement both governments shall exempt, reciprocally from income tax and any other taxes on profits imposed by it, the earnings derived by a Mexican enterprise from the operation of a ship or aircraft in international traffic. The tax exemption shall also apply to the earnings derived by an enterprise from its participation in a pool, a joint business or an international operating agency. This Agreement shall remain in force for an

indefinite period but either Government may, on or before June 30 of any calendar year after the year 1974, give notice of termination to the other Government. In such event, the Agreement shall cease to be effective for fiscal years beginning on or after the first day of January in the calendar year following that in which the notice is given.

Chile

Sales Tax (Tax on Sales and Services). Sales tax rates were simplified by eliminating around 20 differential rates which were previously applicable to "semi-luxury" goods and certain specific sales taxes were repealed (Decree Law 292, January 30, 1974).

Land Tax. The major amendment was the suppression of the automatic readjustment of valuations for 1974, with the establishment of a special readjustment system to update these valuations which had become outdated due to inflation. To off-set the tax increase implied in this new valuation, a new exemptions scale in decreasing percentages has been established.

Colombia

The Division for Dissemination of Tax Information at the Directorate of National Taxes of Colombia has published, and distributed free of charge, two very comprehensive booklets with instructions and illustrations on the assessment of income and net worth taxes. As is pointed out by this tax administration, the first booklet is divided into two main sections: the first portion provides detailed information and instructions for filers of the "white" form (individuals not participating in partnerships with other individuals) which are also almost totally applicable to filers of the "yellow" form (individuals participating in partnerships with other individuals). The second portion of the booklet contains life size model forms and instructions on the presentation of the annexes that are, in some cases, to be attached to the income tax return. The other booklet gives instructions for filers of the "pink" form (individual with income only derived from salaries below \$50,000 a year, and/or net worth below \$100,000).

Peru

One of the elements that obviously complicates tax assessment and, particularly, completion of tax forms, is the existence of different business

accounting and recording criteria accepted by the Tax Office. The possibility of unifying criteria on technical bases — so that the need for tax adjustments may be decreased, and so that the point of view of the tax office and the taxpayer may be reconciled — is an issue which has deserved special attention for some time and which was mentioned in one of the Resolutions carried by the CIAT Conference recently held in Quito. A first step in this direction is Decree-Law 20172 passed by the Government of Peru on October 16 of last year. This Decree provides that, as of January 1, 1974, businesses will adopt the accounting system known as "The Single Accounting System" to be established by the Ministry of Finance on the basis of an Overall Accounting Plan formulated by the National Commission that was appointed in 1970. The only enterprises exempted from this obligation are credit institutions, insurance companies and other companies expressly exempted by the Ministry on the basis of economic indicators given in the text of the law, and specifically referred to under Supreme Decree 275.

Uruguay

On April 30, 1974, the Republic of Uruguay passed Law 14,189, "Statement of Accounts and Budgetary Allocations for the Years 1971/1972", which introduced different amendments to the organization of the revenues and expenditures of the Central Government. The more important amendments concerning the tax field were the following:

1. An incentive was provided for industrial corporations with capital exceeding 3 million pesos (one dollar = 1,300 pesos). This incentive grants a total income tax exemption for dividends derived from new capital investment as of two years after the investment is made. A 60% exemption is granted on dividends derived from previous capital investments.

2. Income derived from technical service or advisory services rendered from abroad is to be declared for individual income tax purposes. It further established that the percentage for deduction of expenses from the same may not exceed 50%.

3. Non-taxable individual minimums were increased, setting a 3 million pesos minimum for individual deductions, and 1.2 million for each dependent.

4. The fixed tax imposed on corporations was repealed and the substitute inheritance tax rate imposed on the assets of these corporations was raised to 1.2%.

5. The tax rate of the tax on rural real estate was set at 9%, and it was established that this yield is to be destined to local governments.

6. A system was established for cash settlement or settlement in installments of all outstanding tax debts to March 31, 1974.

7. A special system was established for the settlement of previously non-declared income for income tax or pension fund purposes.