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Taxation

M. J. Langer

J. P. Corrigan Jr.

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TAXATION

MARSHALL J. LANGER and
JOHN P. CORRIGAN, JR.,
Attorneys at Law
Miami, Florida

ARGENTINA

Inter-American Center for Tax Studies

The Argentine Government has officially decided to support the operations of the Inter-American Center of Tax Studies in Buenos Aires. This action stemmed out of an agreement between the Organization of American States and the Income Tax Bureau of Argentina, whereby the latter will provide technical advice, equipment and other furnishings for the operation of the Center. The purpose of the Center will be to provide tax officials from member countries with training on tax administration and fiscal policy.

Value Added Tax

The Director of the Income Tax Bureau pointed out at a recent meeting of the Argentine Tax Law Association that the Value Added Tax will probably be adopted in Argentina but that administrative problems of applying the tax to wholesalers and retailers are preventing its immediate implementation; also, that it would probably not be made applicable to all stages of production, at least, not in the very near future.

Recent Income Tax Changes

Interpretative legislation has recently been enacted clarifying the changes in the income tax law enacted at the beginning of the year, and implementing additional changes. Among the most important changes is the new law reinstating the dividend exemption on preferred stock and the credit for tax withheld on inter-company dividends. Also of importance is the clarification that branch net profits are subject to the 12% distributions tax when paid or credited to the foreign parent company. If such profits, however, can be attributable to earnings derived by the branch prior to January 1, 1969, no tax is due upon their remittance. The other changes refer to sales taxes, excise taxes on imports, certain insurance premiums and cigarette taxes.

New Rules on Depreciation Allowances

The Income Tax Bureau has promulgated new rules dealing with the computation of allowance of depreciation for assets which are only partially used in the business during the taxable year. *General Resolution No. 1297 of August 8, 1969.*

BOLIVIA

Tax Reform Commission

The Tax Reform Commission appointed in 1966 has submitted several bills to Congress proposing amendments to the Fiscal Code, the Law of Corporations, the creation of a sales tax, the reinstatement of the excise tax on telephone service and a standing authorization to the executive branch to amend existing tax laws. All these bills are still under consideration and have not been enacted.

Tax Law Changes

A new "Total Income Tax" feature has been introduced in the Bolivian income tax system which significantly alters the overall tax structure in that country. Unlike the old overall Complimentary Tax, this new tax is an overall tax and is imposed not only on the regular income of resident and domiciled individuals but also on capital gains and other occasional items of income. Under the new tax, the liability arises when the income or gain is realized and not when the income is actually received as was under the old law. This new tax is imposed on resident and non-resident individuals and on foreign legal entities but not on domestic legal entities.

The old progressive rates of 13% to 36% have been changed to a progressive rate for resident individuals not to exceed 20% of net income after deductions, and a fixed 15% to 20% rate will be applied to non-residents and foreign legal entities, the rate depending on the income received. A 40% withholding tax is imposed on dividends received from bearer shares by resident and non-resident persons. Otherwise, the general rate is 15% but dividends, branch profits, interest and royalties paid or credited by an affiliate to a foreign parent company are subject to a 20% rate.

The "Total Income Tax" has to be filed before March 30th of each year. It applies to total income received by or credited to resident individuals from 1968 and to bearer share dividends paid to January 8, 1969. Income paid or credited to non-resident and foreign legal entities is subject to the new rates from January 8, 1969.

Codification of Laws

The Bolivian income tax laws have recently been codified into two laws, one pertaining to the income tax on total income and the other to income tax on earned income.

Taxes on Exported Minerals

The Bolivian government has recently increased to 25% the royalty applicable to exports of minerals. The royalty previously ranged from zero to 15%.

BRAZIL

Income Tax Changes

Commencing 1970, all firms domiciled in Brazil are required to file an income tax declaration regardless of their nationality or business. The purpose of this requirement is to facilitate identification of companies established in the country. The ordinance will also cover non-profit organizations, associations, syndicates, educational institutions, foreign shipping and airline companies, investment companies and other firms, whatever the amount of their gross income. Individuals having income of over 4200 *new cruzeiros* in 1970 must present income tax declarations.

Decree-Law No. 815 (1969) exempts from income tax at source commissions paid to exporters' foreign agents, interest and commissions on foreign credits to finance exports, and interest on commissions on the discount abroad of bills of exchange for exports.

The Treasury has introduced the following tax measures: taxes on revaluation of inventories and on revaluation of real property; a withholding tax on sales, commissions and freight charges; a 25% tax on interest paid to foreign sellers; extension of tax-free capitalization of profits and subsequent capital reductions. *Portaria No. 253 of July 11, 1969.*

Aid to Airlines

Brazilian airlines have been made exempt from the income tax on interest paid abroad on certain installment purchases pursuant to Decree-Law No. 716 (1969).

Export Promotion Regulations

Among the most important new tax benefits granted to exporters are the authorizations permitting unused tax credits to be credited over

to subsequent taxable years or to be transferred to affiliated industrial enterprises.

Incentives for the Amazonia Revised

Under Decree-Law No. 756 (1969), all Brazilian legal entities may invest in qualified projects up to 50% of the income tax due if they match such an investment with other funds representing at least one-third of the tax allowed to be reinvested.

Hotels located in Amazonia and the Northeast may reinvest up to 8% of the income tax due, tax free. There are also 100% exemptions for qualified enterprises in terms of capitalized earnings tax and real property taxes. Amazonian enterprises must match with other funds at least 50% of the tax invested.

CAYMAN ISLANDS

New World's Newest Tax Haven

For an interesting article on this increasingly important tax haven, please refer to *Foreign Tax Law Weekly Bulletin*, p. 27-28, Nos. 27 and 28 of November 19th and 26th, 1969.

Marshall J. Langer and W. S. Walker, Esqs., have announced a 1970 updated reprinting of their article "*The Cayman Islands — A New Base for Foreign Companies and Trusts*," published in Prentice-Hall Tax Ideas.

COLOMBIA

Proposed Tax Reforms

Significant changes in the income tax law are pending. These would apply for tax years after 1969 and pertain principally to personal exemptions and non-business deductions for individuals, a 30% exemption for severance payments and a 70% exemption for prizes (e.g. lottery winnings). Another significant innovation would apply to taxpayers receiving more than 75% of their gross income from sources other than salaries or dividends; these taxpayers would be required to pay an estimated tax. Under consideration also is a major overhaul of the sales tax.

ECUADOR

Amendments to the Industrial Promotion Laws

Import duty exemptions which have been granted to "indirect" raw

materials used in manufacturing processes will no longer be applicable unless such materials are actually incorporated into the finished products.

Under a separate decree, newspaper, radio and television broadcasting will be regarded as processing industries and as such be able to enjoy the benefits granted by the industrial promotion law to such enterprises.

Tax on Foreign Exchange Transactions

A new 1% tax on foreign exchange purchased and sold has been enacted by executive decree.

EL SALVADOR

The National General Fund Contribution

An emergency contribution of 2.5% to 5% on earnings of individuals during July, 1969, and a tax of 1 to 5 per thousand on the net capital owned by individuals or foreign legal entities as of December 31, 1968, will be taxed as a one-time contribution to the National General Fund. A person liable for more than one contribution will only have to pay the largest one.

GUATEMALA

Offset of Income Tax Liability with Promissory Notes

A recent executive order has allowed a domestic company to offset its income tax liability with promissory notes issued by the Government in favor of an affiliated foreign company.

MEXICO

"Added Value" Tax

The government is currently experimenting with the establishment of the "added value" tax by acquainting taxpayers with the proposed text of the law.

The tax will be imposed at the general rate of 5% on the value of the goods delivered and services rendered. Certain luxury items and entertainment services are subject to a 10% rate. Transactions involving real estate have a rate from 1% to 5%. Personal services under employment contract are subject to the tax at the rate of 1%. Several exemptions, deductions and tax credits are contemplated.

A survey has been conducted among 5000 taxpayers that calls for a hypothetical tax return reporting transactions for the month of March 1969 including a questionnaire designed to obtain statistical data.

PARAGUAY

Tax on Capital and Reserves

Commencing January 1, 1969, capital and reserves of corporations are subject to a tax of five mills.

Revision of Sales Tax

The sales tax has been revised to the general rate of 3% on domestic goods and 5% to 10% on imported goods. Certain exemptions and deductions are allowed.

PERU

Changes to the Tax Code

The Tax Code has been amended as regards the procedure to be followed by the Tax Intelligence Bureau in fighting tax evasion.

Aid to the Exporting Industries

A proposed "Exporting Industries Law" has been prepared by the Superior Council of the National Economic Development Fund providing for total exemption from all taxes by every person working for companies which produce any kind of goods for exportation. The companies will be exempt for 10 years for up to 90% of gross profits. To qualify, a company would be required to train nationals and to pay them vacations in shares of stock.

URUGUAY

Taxation of Services Performed by a Local Branch Office

The Income Tax Bureau has recently ruled that services rendered by the local branch of a foreign company and paid by the latter are not taxable transactions because the service was not an act performed by one party on behalf of another, as required by the tax law. The services in question consisted of sales promotion and quality control. *Opinion No. 1120, Income Tax Bureau (Sintesis No. 242, June 9, 1969).*

Tax Reform Measures

Important tax law changes have been approved by the House of

Representatives relating to income and sales taxes, the tax on net worth of individuals and the tax on legal entities. *Sintesis No. 246, July 28, 1969.*

VENEZUELA

Taxation of Interest on Foreign Loan

The Tax Court recently held that interest paid by a Venezuelan company to a foreign lender under a loan contracted abroad is taxable in Venezuela. The argument that the foreign lender did not carry on economic activities within Venezuela, as required under Venezuelan law, was overruled. The Court regarded the use and enjoyment of the funds as the performance of the contract, and such performance took place within Venezuela. The Court in effect disregarded the place where the contract was executed and the funds delivered.

Savings and Loans Exemptions

The income tax exemption for dividends received by shareholders of savings and loans companies has been increased by an additional 1% under a recent decree.

Specially Noted

In 1966 the U. S. Congress terminated, effective January 1, 1973, the exemption from U.S. income taxation (and estate tax of individuals) of U. S. savings bank and savings and loan interest earned by foreign corporations and nonresident aliens. The recently enacted Tax Reform Act of 1969 extended this termination date to January 1, 1976.

An excellent summary of the Latin America program of technical assistance sponsored by the U. S. Internal Revenue Service and the Agency for International Development is contained in the October 20, 1969 issue of *International Commerce*.