**FEATURED Q&A**

**How Should Latin America Tax the Digital Economy?**

A group of 137 countries and jurisdictions last month agreed to continue with negotiations to reach a consensus-based solution to the tax challenges of the digital economy, according to the Organization for Economic Cooperation and Development, or OECD. The negotiations come as several countries, including Mexico, have been seeking to impose unilateral digital taxes on companies such as Facebook, Amazon and Google. Will politicians from around the world soon be able to agree on how to tax digital companies, and what should that solution look like? How much revenue could such taxes generate for governments? How effectively are digital platforms currently being taxed in Latin America and the Caribbean, and what will current taxation trends mean for businesses and consumers of online services in the region?

**Q**

**A**

María Fernanda Valdés Valencia, author and coordinator of tax issues for the Friedrich Ebert Stiftung in Colombia and Latin America: “I find it feasible that under OECD leadership there will be a consensus-based solution. However, this ‘solution’ will surely be close to the proposals for the two pillars that the OECD already disclosed for consultation, and it will not solve the challenges that the digitalization of the economy poses—namely, the opportunities for evasion and avoidance that digitalization entails, not only for the usual suspects (Facebook, Amazon and Google) but also for other companies. Here it is important to emphasize that what countries are discussing is not a digital tax, but rather a whole reform of the international tax system.

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Dominican Republic Halts Local Vote Due to System Failure

Election officials in the Dominican Republic on Sunday halted their municipal election because of a massive failure of the country’s electronic voting system, Dominican Today reported. The president of the Central Electoral Board, Julio César Castaños Guzmán, said the vote would be rescheduled for an “opportune date.” He added that voting was halted after approximately three hours due to problems at about half of the polling places that use electronic ballot machines, the Associated Press reported. The machines were in use in Santo Domingo and 17 other municipalities, mainly the most populous ones. Opposition parties in the Caribbean nation said some of their candidates were not appearing on electronic ballots. Election authorities said they would open an investigation into the failure of the voting system in an effort to determine what caused the problems and whether they were intentional. The officials in charge of running the elections also said they would meet with leaders of political parties in coming days in order to determine a new date for the balloting. An Organization of American States electoral observation mission said it was informed Saturday night about the problems but added that it was impossible to correct them before voting began. The OAS also said it would continue to support the country’s electoral process. Luis Abinader, the leader of the Dominican Republic’s opposition Modern Revolutionary Party, said the vote’s suspension was “outrageous and unjustified,” Reuters reported. Opposition parties, including former President Leonel Fernández’s People’s Force party, have objected to the use of the electronic voting system, saying its software could be manipulated. More than 7.4 million voters were set to elect officials to 3,849 positions in 158 municipalities across the country. Additionally, two people were killed in separate incidents Sunday in cases of election-related violence, Dominican Today reported.

Guyana’s Ruling Party Vows to Distribute Oil Wealth

Guyana’s ruling party said last Friday that it would distribute a portion of the country’s oil wealth directly to citizens via cash transfers if it wins re-election in the upcoming March 2 vote, Reuters reported. Guyana’s new oil and are losing important revenue due to evasion and avoidance carried out by large multinationals, what can we realistically expect from Latin American countries, such as Colombia, Paraguay or El Salvador? Latin American countries depend much more than any other region on taxing companies. The question should not be how a solution would affect booming businesses or Amazon’s customers, but rather how poor countries could finance their schools, their care systems and their development if companies do not pay their share. That is the most relevant—and pressing—question."

Costa Rican Authorities Seize More Than Five Metric Tons of Cocaine

Costa Rican authorities on Saturday seized more than five metric tons of cocaine hidden in a container that was destined for the Netherlands, Agence France-Presse reported. It was the largest drug seizure in the country’s history. The cocaine was concealed in a load of ornamental flowers at the APM Terminal in the Moín port, in the Caribbean province of Limón, said Public Security Minister Michael Soto. Police also arrested a 46-year-old Costa Rican suspect.

Brazil’s Homicides Fall to Lowest Level Since 2007

Brazil’s homicide rate fell last year to its lowest level since at least 2007 when the country’s Violence Monitor Index was launched, the Associated Press reported. Brazil recorded 41,635 killings last year, a 19 percent decrease from the previous year. President Jair Bolsonaro celebrated the decline. “Our government extends a strong embrace to all the security agents of the country. Brazil continues on the right path,” Bolsonaro said in a tweet.
Colombia Tells Facebook to Strengthen Security

Colombia’s government on Monday told Facebook that it must strengthen its security measures in order to better protect users’ data, Reuters reported. The tech giant has until June 14 to implement new “useful and effective” security measures to prevent the fraudulent use of personal data, said Colombia’s Superintendency of Industry and Commerce. “A company as vital to global cybersecurity as Facebook … has a duty to be more than diligent in processing data,” the superintendency said in a statement. The agency added that new security measures would help protect the 31 million Colombians who have accounts with Facebook.

U.S.-Mexico Migration Policies Have Damaging Health Effects: Report

The United States’ and Mexico’s new migration policies are having damaging effects on the physical and mental health of migrants stuck at the border, international medical humanitarian organization Doctors Without Borders said in a report released Feb. 11. The study was based on 480 interviews and testimonies of Central American migrants and asylum seekers, as well as experiences of the organization’s staff and medical data from more than 26,000 people at the U.S.-Mexico border. The results show migrants held in Mexico following tougher deterrence policies implemented over the past months face “overcrowding, insufficient medical care, and a lack of adequate resources,” according to the statement. During the Doctors Without Borders team’s visits to detention centers in Mexico, physicians treated people “with infectious diseases and diarrhea, as well as victims of violence, in particular those with acute mental health needs,” the organization said.

The company will be required to certify through an external auditing firm that it has made the needed security improvements, said the superintendency. A Facebook spokesman told Reuters that the company would not comment on the Colombian regulator’s statement.
Adapting the international tax system to the digital economy requires efforts both at the technical and the political levels.”

— Ubaldo González

more work needs to be done on the latter. Reaching a consensus solution at the G20 later in the year seems, as of today, rather unlikely, and countries around the world, including of course in Latin America and the Caribbean, need to start thinking about their own unilateral solution. The extent of the damage to the international tax system may be larger than anticipated because there will not be a real incentive for developing countries to continue to honor tax treaties that, for nondigital income, limit their sovereignty with concessions in favor of residency, while for digital business actually prevent them from imposing a corporate tax. If this scenario should materialize, it will be interesting to contemplate the effects of a patchwork of unilateral solutions over international trade and investment. Less contentious are indirect taxes, as there is agreement around the principles of neutrality and destination. The IDB has partnered with other international organizations to develop a toolkit for Latin America and Caribbean countries to apply value-added taxes to the digital economy in a simple, transparent and effective way. The works are being launched, and it is expected that a result will be available by the end of the year.”

Maryleana Méndez, secretary general of ASIET: “Fiscal reforms for digital business are definitely needed, with the aim of providing a suitable framework for its development. While some countries have started to provide unilateral measures seeking to deal with these challenges, it is key to work on a global solution in order to provide certainty. In that sense, the ideal approach would be a multilateral agreement that addresses the concerns in a consistent manner. We celebrate the efforts of the OECD and the G20 in this regard. It is important to mention that current taxation regimes are inconsistent with the nature of the digital ecosystem nowadays, creating distortions and asymmetries across actors. Therefore, a new fiscal approach is needed to massify digital connectivity and services and to ensure healthy competition within the digital ecosystem. This is a great opportunity to modernize tax systems and adapt them to digitalized economies. New fiscal designs should be consistent with a series of objectives. In the first place, it should stimulate digitalization, so a light and flexible approach is required. Thus, current taxation levels should be reduced to boost demand and close the digital divide. This should include digital infrastructures, highly overtaxed (compared to other industries due to heavy specific taxes), particularly in Latin America. Moreover, it should be similar across the different actors within the whole digital ecosystem, avoiding asymmetries and discriminatory designs. In general, Latin American tax systems need to be rebuilt as tax burdens are supported by a limited number of player and in most countries government revenue levels are low.”

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