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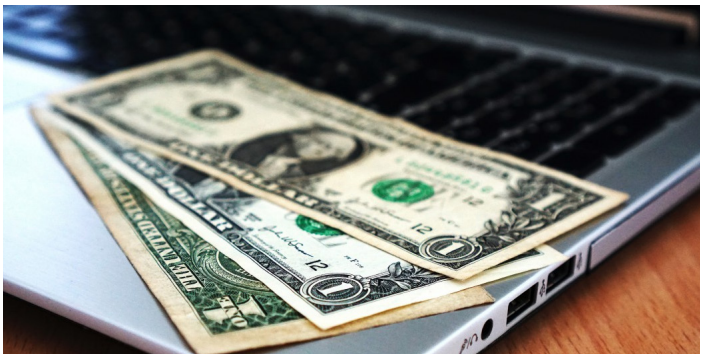
FEATURED Q&A

How Should Latin America Tax the Digital Economy?



Officials from countries around the world are grappling with how to tax businesses in the digital economy. // File Photo: pxhere.com via Creative Commons.

Q 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?

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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TODAY'S NEWS

POLITICAL

Municipal Vote Halted in DR Due to System Failure

Election officials in the Dominican Republic halted Sunday's municipal election after about three hours because of a massive failure of the country's electronic voting system.

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ECONOMIC

Guyana's Ruling Party Vows to Distribute Wealth From Oil Finds

Guyana's ruling party said that if it wins the upcoming March 2 vote that it will distribute a portion of the country's new oil wealth directly to citizens.

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POLITICAL

Brazil's Homicide Rate Falls to at Least 12-Year Low

Brazil's homicide rate fell 19 percent last year to its lowest level since at least 2007. President Jair Bolsonaro, who vowed during his campaign to fight crime, celebrated the news.

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Bolsonaro // File Photo: Brazilian Government.

POLITICAL NEWS

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.

ECONOMIC NEWS

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

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I consider a consensus achievable precisely because the OECD proposal does not offer a real solution. A real solution must be much more ambitious than the one presented. A good approximation to such a solution is the one proposed by ICRICT, the alternative commission chaired by José Antonio Ocampo and composed of many well-known scholars, such as Piketty, Stiglitz and Sepúlveda. It is not easy to know how much revenue a real solution will generate for Latin American countries. Nevertheless, if countries with well-structured tax systems and robust tax institutions, such as European countries, are struggling with taxing the digital economy 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."

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NEWS BRIEFS

At Least 15 Children Killed in Haiti Orphanage Fire

At least 15 children were killed in a fire at a Haiti orphanage run by a U.S. religious nonprofit group, police said, CNN reported. About 60 children survived the blaze at the facility run by the Pennsylvania-based Church of Bible Understanding outside Port-au-Prince, said Jennifer Melton, Haiti's chief of child protection for UNICEF, the United Nation's children's agency. The religious group did not have the proper license to operate the orphanage, according to the director of Haiti's Institute of Social Welfare and Research. Officials are investigating whether a burning candle started the fire.

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.

production, which began in December when an ExxonMobil-led consortium started pumping crude in the offshore Stabroek block, is seen as a test case for whether oil wealth can drive sustainable development in countries with weak institutions, according to the report. President David Granger's APNU+AFC coalition has vowed not to use funds from oil sales until after the election, in which plans for how to use the new flow of money are a major issue. One possibility is direct payment to citizens, a measure that would be similar to one used in the U.S. state of Alaska, where there is an annual dividend from oil and gas revenues. In a manifesto for its potential second five-year term, the coalition said it would approve cash transfers to citizens "for the purchase of essential items" as well as conditional cash transfers" for single parents, public transit and elder care, among others. The opposition People's Progressive Party has said it supports "targeted cash transfers" toward the elderly, children and the poor. The International Monetary Fund has forecast that Guyana will see economic growth soar to 86 percent this year, up from 4.4 percent last year, driven by oil revenues. [Editor's note: See related **Q&A** in the Nov. 15 issue of the Advisor.]

BUSINESS NEWS

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. 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.

HEALTH BRIEFS

Consumption of Sugary Drinks Plummets in Chile Following New Food Law: Study

Chileans are drinking significantly fewer sugar-laden drinks four years after the South American country adopted sweeping measures to fight mounting obesity, a new study published Feb. 11 in PLOS Medicine showed, The New York Times reported. Consumption of sugary beverages fell nearly 25 percent in the 18 months following a series of regulations including advertising restrictions on unhealthy foods, bold front-of-package warning labels and a ban on junk food in schools. Over the same period, researchers noted a five percent increase in the purchases of bottled water, diet soft drinks and fruit juices without added sugar, according to the report. The new rules came into effect in 2016. Three-quarters of Chilean adults and more than 50 percent of children are overweight or obese. In a Q&A last year, Paula Uribe, senior manager of global public policy and government affairs at PepsiCo, told the Advisor that taxes on sugar-sweetened beverages are "highly regressive and disproportionately affect low-income households." [Editor's note: See **Q&A** in the Feb. 6, 2019, issue of the Advisor.]

Colombia First Country in Latin America to Run Coronavirus Tests: Government

Colombia was the first country in Latin America to conduct its own diagnostic tests for the coronavirus, the flu-like virus that broke out in China and has spread to at least 24 other countries, Colombia's health ministry said Feb. 4. Latin America has no confirmed cases of the disease, but Colombia tested 50 travelers for the virus in early February. The move means that local authorities will no longer have to send samples from potentially infected people to be tested in the United States, according to the health ministry. The World Health Organization has declared the virus a global emergency. [Editor's note: See related **Q&A** in the Feb. 11 issue of the Advisor.]

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.

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A Ubaldo González, lead specialist on tax administration at the Inter-American Development Bank: "Adapting the international tax system to the digital economy requires efforts both at the technical and the political levels. Significant effort has been dedicated by the OECD to the former but, judging by how Trump, threatening to launch a tariff war, froze in Davos last January, and Macron and other European leaders' plans to impose a digital service tax, it seems that much 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."

> **"Adapting the international tax system to the digital economy requires efforts both at the technical and the political levels."**
> **— Ubaldo González**

A 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**.

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