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FEATURED Q&A

Will Latin America See Big Gains From Global Tax Reforms?

A global minimum tax is expected to raise hundreds of billions of dollars in revenue. However, Colombian Finance Minister José Antonio Ocampo has said the tax accord doesn't go far enough. // File Photo: Colombian Government.

Q Revenue gains from the implementation of a historic agreement to reform the international tax system will be higher than previously expected, according to new OECD analysis released Jan. 17. The proposed global minimum tax is now expected to result in annual global revenue gains of around $220 billion, or 9 percent of global corporate income tax revenues, as opposed to a previous estimate of $150 billion. However, speaking in Davos about the tax accord, Colombian Finance Minister José Antonio Ocampo called for a Latin American regional tax plan that goes further, saying the OECD's plan is "too limited." With a year to go before the implementation of the OECD's tax reforms take effect, what is the state of readiness for their implementation? Will revenue gains be as much as the OECD has forecast? Why have some Latin American countries expressed dissatisfaction with the plan, and will regional efforts such as those proposed by Colombia arrive at alternatives that meet with agreement from all stakeholders?

A Angel Melguizo, founding partner of Argia and senior non-resident fellow at the Inter-American Dialogue: "The OECD remains the most technically solid and politically open effort to adapt international taxation to the 21st century by designing and implementing global rules for digital services (when users and providers are in different places), as well as a minimum income tax to fight tax evasion. Indeed, the process is slow, in particular on the taxation of businesses. This reflects not only the challenges to align 135 countries and jurisdictions, but also shows that its reach is far from

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U.S. Charges Four in Assassination of Haiti's Moïse

U.S. authorities on Tuesday announced charges against four people in connection with the July 2021 assassination of Haitian President Jovenel Moïse.

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Mexico Earnings Fuel Record Profits at BBVA

Spanish bank BBVA on Wednesday reported a 38 percent rise in net profit for last year to a record level. A strong performance in Mexico fueled earnings.

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BUSINESS

Pemex Issues 10-Year Bond to Refinance Debt: Report

Mexican state oil company Pemex reportedly issued a 10-year bond worth at least $1.5 billion to refinance debt. President Andrés Manuel López Obrador has vowed to "rescue" the heavily indebted company.

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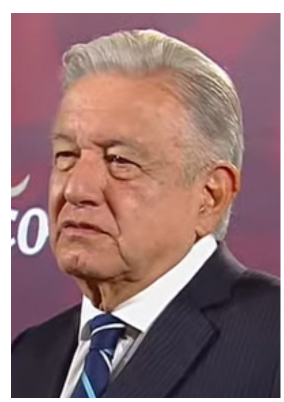

López Obrador // File Photo: Mexican Government.

POLITICAL NEWS

U.S. Charges Four in Assassination of Haiti's Moïse

U.S. authorities on Tuesday announced charges against four additional suspects in connection with the July 2021 assassination of Haitian President Jovenel Moïse, bringing to seven the number of people in custody on charges related to the killing, the U.S. Justice Department said in a statement. In the new criminal complaint, Haitian-American citizens James Solages, Joseph Vincent and Colombian citizen Germán Alejandro Rivera García are accused of conspiring to commit murder or kidnapping outside the United States and providing material support and resources resulting in death. In a separate criminal complaint, dual Haitian-American citizen Christian Sanon stands charged with counts related to smuggling. Solages, Vincent, Rivera and Sanon are scheduled to appear in federal court in Miami this afternoon. Three other men, Mario Antonio Palacios Palacios, Rodolphe Jaar and Joseph Joel John, were arrested last year and are in U.S. custody in connection with the assassination. In April 2021, Solages, Sanon and others met in South Florida "to discuss regime change in Haiti and support for Sanon, an aspiring Haitian political candidate," the Department of Justice said in its statement. After the meeting, Sanon and Solages obtained a list of equipment and weapons including rifles, machine guns, tear gas, grenades, ammunition and bulletproof vests "needed for the regime change operations," the Justice Department said. The following month, Sanon allegedly contracted for equipment needed for his "private military" force in Haiti that included 20 Colombian nationals with military training, the statement said. Solages, Vincent, Rivera and others are alleged to have met at a house near Moïse's residence where weapons were distributed and Solages announced that the plan was to kill the president. Moïse was assassinated in his home the next day. Solages, Vincent and Rivera face life imprisonment if convicted, the Justice Department said, adding that Sanon, if found guilty, faces up to 20 years in prison. The four men were arrested in Haiti and detained there before they were transferred on Tuesday to the United States, the Justice Department said. [Editor's note: See related Q&A in the Jan. 24 issue of the Advisor.]

CORRECTION

The title of Vanessa Rubio-Márquez was misprinted in Tuesday's Advisor. In addition to being a former member of Mexico's Senate, she is associate dean of the School of Public Policy and a professor of public policy, not a professor of political science, at the London School of Economics.

BUSINESS NEWS

Mexico Earnings Fuel Record Profit for 2022 at Spain's BBVA

Spanish bank BBVA on Wednesday reported a 38 percent rise in net profit, to a record 6.42 billion euros ($6.98 billion) for 2022, Reuters reported. The jump in profits was facilitated by a double-digit increase in lending income, as well as a strong economic performance in Mexico which the bank expects to be maintained this year. Mexico accounted for more than 60 percent of the bank's net earnings last year, and profits ballooned 64 percent while income from lending rose 44 percent. Net profits for the fourth quarter reportedly increased 17.6 percent to 1.58 billion euros. Both quarterly and annual figures reported were slightly higher than market forecasts. "Total bank credit grew 4.9 percent year on year in real terms in December and has been on a gradually accelerating trend," Alberto Ramos, managing director and head of Latin America economic research at Goldman Sachs, wrote Tuesday in a note. "Consumer lending remains one of the most buoyant segments. Corporate credit growth remains sluggish. In nominal terms, credit grew

NEWS BRIEFS

Peruvian Lawmakers Remain Undecided on Early Elections

Peru's Congress on Tuesday remained undecided on a plan to call early elections amid deadly protests that have been occurring since lawmakers ousted President Pedro Castillo in early December, Agence France-Presse reported. Following Castillo's removal from office and arrest, lawmakers moved up elections to 2024, but protesters have demanded a vote this year instead.

Chile's Economy Performs Better Than Expected in 2022: Central Bank

Chile's economy performed better than expected in December, though it still closed 2022 with a slowdown following a swift post-pandemic recovery, Reuters reported, citing central bank data posted today. The country's main economic activity index, IMACEC, a close proxy for GDP figures, fell by 1 percent in December as compared to the same month the year prior. The economic downturn comes amid lower commerce and manufacturing activity results.

ExxonMobil Reports Increased Output From Guyana, Permian Basin

ExxonMobil, the largest U.S. oil producer, boosted output from Guyana last year, Argus reported Tuesday. Gross production in Guyana rose by more than 160,000 barrels per day through the start-up Liza Phase 2 project. Production also increased in the Permian shale basin in Texas and New Mexico. "We've continued to strengthen our industry-leading portfolio and increased production from high-return, advantaged assets in Guyana and the Permian," Chief Executive Darren Woods said. ExxonMobil reported fourth-quarter profits of $12.75 billion, up from $8.87 billion during the same period the previous year.

13.1 percent year-on-year," he added. In a bid to grasp greater opportunities for growth, BBVA has been expanding in emerging economies, the wire service reported. Banks across Europe are starting to benefit from higher borrowing costs, despite concerns of a recession. [Editor's note: See **Q&A** on Mexico's banking sector in the Dec. 14 issue of the biweekly Financial Services Advisor.]

Pemex Reportedly Issues 10-Year Bond to Refinance Debt

Mexican state oil company Pemex on Tuesday issued a 10-year bond worth at least $1.5 billion in order to refinance part of its debt, Reuters reported, citing two unnamed sources at the company. "The funds obtained will be to pay bonds maturing this year," one of the sources told the wire service. The company had planned to raise between $1.5 billion and $2 billion in this year's first quarter, the source added. Pemex declined to comment to Reuters on the report. Investors demanded a yield in the double digits for the issuance, the Financial Times reported. Mexican President Andrés Manuel López Obrador has vowed to "rescue" the state oil company and has sought to bolster the company with billions of dollars worth of tax breaks and other support in order to help it manage its more than $100 billion in debt, the newspaper reported. Pemex last issued new debt in 2022, and some investors had hoped that Mexico's government would offer the company additional support before it needed to again tap debt markets, the Financial Times reported. "It's a pragmatic arrangement where the government tries to keep the pressure on the company to be self-sufficient," an unnamed Pemex bondholder said of the state oil company's move to issue new debt, the Financial Times reported. "It's not a permanent solution, and indeed we don't really expect a permanent solution. It'll be this piecemeal approach for the foreseeable future," the bondholder said.

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limited. Meanwhile, advances on the second pillar–the establishment of a 15 percent global minimum tax—have been solid. As a consequence, according to the December KPMG track, only seven jurisdictions (notably the United States) in the world were waiting for a global solution. By contrast, 32 countries had enacted digital tax legislation (including Argentina, Colombia, Costa Rica, Mexico and Uruguay), three more were in public consultations (including Brazil), and six announced their intention to move forward (including China and Japan). I hope the OECD initiative does not lose momentum and succeeds in incorporating smart taxes on digital services. The nature of the digitalized economy is almost borderless and calls for relatively similar rules across different countries as users are located and move between them. The good news is that many countries—including the more proactive European ones—have declared they would dismantle/merge the taxes imposed should an international agreement be reached, so a global solution is still possible. Smart and updated regulations on taxes, data security and IP protection are key for a sustainable digital ecosystem."

A **Carlos Vargas Alencastre, chief executive officer of TPC Group:** "In 2021, 137 countries and jurisdictions integrating the Inclusive Framework on Base Erosion and Profit Shifting, including 31 Latin American and Caribbean countries, endorsed the historic international global minimum tax, subjecting multinational companies with revenues exceeding 750 million euros ($815 million) to a minimum effective tax rate of 15 percent on their generated profits. This new global tax rate will promote tax competition between countries, given that large multinationals will look favorably upon investing in jurisdictions that comply with this low tax rate since developing countries (mostly in Latin America) will try to offer the best and most attractive agreement to generate tax income and investment therein, giving rise to businesses and jobs. The task for the 31 Latin American and Caribbean member countries of the inclusive framework is to work toward the implementation of this agreement, of voluntary adhesion, through the double taxation avoidance agreements or multilateral agreements such as Decision No. 578 of the Andean Community of Nations, to participate in the tax rate and benefit from it. The impact of this new tax is clearly a step toward homogenizing the international tax system, which is necessary nowadays to face the economic Covid-19 crisis and the political instability of various Latin American countries."

A **Eugenio Grageda, partner at Holland & Knight:** "The OECD plan is not only comprised of a global minimum tax. It also includes Pillar 1 which, roughly put, will provide big market jurisdictions like Brazil, Colombia and Mexico the right to tax certain residual profits based on sales of big international companies in their jurisdictions. The benefits for developing countries under Pillar 1, although still unclear, should not be 'too limited,' and definitely greater than the ones under the proposed global minimum tax (GloBE). Yet, its implementation is still uncertain. GloBE is to be implemented domestically, not through a multilateral treaty as will be the case with Pillar 1. However, the vast majority of companies and administrations of developing countries are still waiting for the final rules and haven't initiated the efforts to be ready when they become enforceable. Many countries still have to figure out how GloBE will cohabitate with other current domestic rules. The complexity concerns relate chiefly to how the Pillar 1 and the GloBE are administered in practice; it is especially relevant for developing states that are the ones typically with limited tax administration capacity. It is possible to end up with centralized administration processes, however, that could undermine the

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sovereignty of participant developing states. With respect to Pillar 1, although developing countries have supported its implementation based on the idea that it will increase their allocation of taxable profits, the dissatisfaction comes from three major concerns: limited scope, complexity and implementation barriers. They always have pressured for a reduction in the very high qualification threshold, but many perceive its implementation as unlikely because they don't see the United States approving a measure that affects mostly U.S. companies. With respect to the GloBE, the dissatisfaction comes from the fact that it will not leave some countries substantially better off than now."

A **Manuel Baltazar Mancilla, general director of Grupo México Fiscal:** "One year after the international tax reforms proposed by the OECD came into force, there is widespread discontent in Latin American countries—this is logical, since there is a natural dilemma in the distribution of the proposed minimum tax, and neither party wants to give in. Developed countries believe they are entitled to a greater benefit, because they are the ones that invest in the infrastructure and maintain the assets that allow for digital commerce. However, the consumption carried out by developing countries also enables the generation of wealth. The challenge will be in finding the balance of distribution between the countries that invest in the industry and those that are the source of wealth. The projected annual global revenue is uncertain, but there is a constant growth in digital commerce, and applications generate a greater trend of use every day, contrary to established businesses, many of which continue to be displaced by generational change. It is undeniable that the constant growth of the digital economy will continue, so a consensus around distribution will have to be reached shortly."

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— Manuel Baltazar Mancilla

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta.

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