LATIN AMERICA ADVISOR

A DAILY PUBLICATION OF THE DIALOGUE

www.thedialogue.org

Friday, July 7, 2023

FEATURED Q&A

What Would a Tax Treaty Mean for the U.S. & Chile?

A U.S.-Chile tax treaty that had stalled in the U.S. Congress for years finally won senators' approval last month. Chile's capital, Santiago, is pictured. // File Photo: Wikiedro via Creative Commons.

Q **The U.S. Senate on June 21 advanced a tax treaty with Chile, which the U.S. Chamber of Commerce has called an important priority. The measure, which passed the Senate on an overwhelming vote of 97-2, must receive a final vote in the chamber, and President Joe Biden must sign the treaty for it to go into effect. What are the most important provisions of the treaty? How critical is it to U.S. and Chilean business interests? Which industries would benefit the most?**

A **Jorge Heine, research professor at the Frederick S. Pardee School of Global Studies at Boston University and former Chilean ambassador to China:** "The U.S. Senate's approval of a U.S.-Chile treaty to avoid double taxation is an important step in the countries' relations and in U.S.-Latin American relations more generally, as it will hopefully open the door to similar treaties with other countries in the region (until now, only Mexico has one). For Chile, the United States is a key trade and investment partner, and this treaty, if finally ratified and signed by President Biden, should facilitate bilateral trade and investment flows and give greater legal certainty to business deals. That said, an obvious question is why a treaty that was signed in 2010 and ratified by Chile in 2015 is only receiving U.S. Senate ratification in 2023. It surely is not a coincidence that this is happening precisely at a time when U.S. companies, in stiff competition with Chinese companies, are eager to participate in bids for acquiring the rights to mine Chile's lithium deposits. As it happens, Chile has had a treaty to avoid double taxation with China since 2017. This means that U.S. companies would

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Brazil's Lower House Approves Tax Reform Plan

The lower house of Brazil's Congress early today approved a major tax reform in a win for President Luiz Inácio Lula da Silva. The measure now faces debate in the Senate.

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BUSINESS

Telefónica Sells Stakes in Peru Fiber Network

Spain-based telecommunications company Telefónica announced today that it has sold stakes in its Peru fiber optic network to U.S.-based equity fund KKR and the local unit of Chile-based Entel.

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POLITICAL

Colombian Rebel Leader Márquez Dies: Report

Prominent Colombian rebel leader Iván Márquez, who helped to broker the country's historic 2016 peace deal with the FARC rebels but later returned to arms, reportedly died in Venezuela.

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Márquez // File Photo: Sortu via Creative Commons.

POLITICAL NEWS

Colombia Rebel Leader Márquez Dies in Venezuela: Report

Prominent rebel leader Iván Márquez, who helped to broker Colombia's historic 2016 peace agreement with the Revolutionary Armed Forces of Colombia, or FARC, rebels before later returning to arms, has died in Venezuela, Reuters reported. Márquez, whose real name was Luciano Marín Arango, was severely wounded more than a year ago in an attack on his camp believed to be led by Iván Mordisco, the leader of a rival FARC dissident group, the wire service reported, citing security sources. "The information provided by the group is that he died in a hospital in Caracas, where he received medical attention for serious injuries he suffered in an attack in Venezuela at the end of June 2022," an unnamed source close to Márquez's Segunda Marquetalia dissident faction, told the wire service.

ECONOMIC NEWS

Brazil's Lower House Approves Tax Reform in Win for Lula

The lower house of Brazil's Congress early today approved a tax reform that would restructure the country's consumption taxes, the Financial Times reported. The Chamber of Deputies approved the measure on a vote of 375-113, Bloomberg News reported. Several previous presidential administrations had introduced similar legislation, but unsuccessfully. "After decades, we passed a tax reform. It seemed impossible. It was worth fighting for," Finance Minister Fernando Haddad said after the vote, the Financial Times reported. The legislation, which will seek to amend the constitution, now faces two votes in the Senate. If the proposal is approved, it would mark a victory for President Luiz Inácio Lula da Silva, who, since taking office in January has struggled which a legislature dominated by the opposition, Reuters reported. "It's a historic moment and a great victory," Lula posted in a tweet after the vote. "Brazil will have its first tax reform of the democratic period ... We are working towards a better future for everyone," he added. The reform could also promote economic growth, adding 2.4 percent to the country's GDP over the next eight years, according to estimates from the Institute for Applied Economic Research. "Lasting growth can only happen with tax reform," said Simone Tebet, government minister for planning and the budget. "It is the only silver bullet we have," she added.

CORRECTION

Due to an editing error, a commentary by Tatiana Benavides Santos in Wednesday's Advisor incorrectly stated that most of Costa Rica's total population is foreign-born. In fact, the commentary should have read that 9 percent of the country's population is foreign-born, with 66 percent of that group being from Nicaragua.

BUSINESS NEWS

Telefónica Sells Stakes in Peru Fiber Optic Network

Telefónica announced today that it has sold a 54 percent stake in its fiber optic network in Peru to KKR, a U.S.-based equity fund, and a 10 percent stake in the network to the local unit of Entel, Reuters reported. Telefónica added that it will retain the remaining 36 percent stake in the network. In recent years, the Spain-based telecommunications company has sold several assets in order to lower its debt level and also pay for the investments needed to build 5G networks. The company said the transactions would cut its debt by $218 million.

NEWS BRIEFS

Deforestation in Brazil Falls 33.6% in First Six Months of Lula's Term

Deforestation in Brazil's Amazon dropped by 33.6 percent in the first six months of President Luiz Inácio Lula da Silva's term, as compared to the same period in 2022, according to data from Brazil's National Institute of Space Research, BBC News reported today. Lula had made ending deforestation of the rain forest by 2030 a key pledge in his presidential campaign. "We have reached a steady downward trend in deforestation of the Amazon," Environment Minister Marina Silva told reporters.

Chilean Fintech Start-up Shinkansen Raises $3 Mn in Funding Round

Shinkansen, a Chilean fintech start-up, successfully closed a seed investment round, Fintech Global reported Thursday. The company, named after Japan's high-speed Shinkansen train network, gained popularity for its revolutionary approach to quick financial transactions. It raised $3 million in the funding round, which is expected to boost the company's growth ambitions and fund its expansion across Latin America, including in Mexican and Peruvian markets.

UBS Taps Coutinho as Brazil Country Head, Latin America Regional Leader

UBS Group has named Sylvia Coutinho its country head for Brazil and also the financial services company's regional leader for Latin America, Bloomberg News reported Thursday. Additionally, Marcelo Chilov, who was formerly Credit Suisse's chief executive office for Brazil and head of its Latin America wealth management division, was also tapped to head UBS' global wealth management business in Latin America, the news service reported, citing an internal memo.

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be at a disadvantage in terms of their tax exposure in comparison with their Chinese counterparts. Revealingly, Chile is only one of six countries in the world that has FTAs both with the United States and with China. An obvious lesson for the region from this action by the U.S. Senate is that a proactive engagement with China by Latin American countries strengthens rather than weakens their bargaining position vis-a-vis the United States and can unblock U.S. legislation to further their interests."

A **Kathleen C. Barclay, director of AmCham Chile:** "After 13 years, the U.S.-Chile bilateral tax treaty was ratified by the U.S. Senate completing the U.S congressional approval process. The treaty received approval in Chile in 2015. President Biden still needs to sign the treaty. Chile will then need to pass the reservation language through its Congress before the treaty goes into effect. We expect full implementation by Jan. 1, 2024. This agreement will facilitate cross-border investments in both directions. For dividends from the United States to Chile, the rates of tax retention will be 15 percent, with 5 percent in certain cases. For dividends from Chile to the United States, 100 percent of corporate taxes will be creditable, for a total effective taxation rate of 35 percent. This means savings of approximately 9 percent. Additionally, there are benefits for royalty payments, interest payments and capital gains. The treaty will facilitate U.S. investments in Chile in key sectors such as critical minerals, including copper and lithium. Both countries are committed to a clean energy transition to fight climate change, for which these critical minerals are essential. From Chile to the United States, a broad range of sectors will benefit, including financial services, technology, forestry and various other manufacturing industries. It should help to facilitate more U.S. investment from Chilean entrepreneurs. This is the first bilateral tax treaty approved by the United States with a Latin American country in more than 20 years. It will deepen the already strong economic relationship based on shared values and a highly successful free trade agreement which has been in effect for 20 years."

A **Nelson Altamirano, professor of economics in the Department of Finance, Economics and Accounting at National University in San Diego:** "The tax treaty's legal wording is lengthy and complex, requiring businesses to seek the help of tax experts to evaluate their specific needs. But the idea of the treaty is simple, avoiding double taxation, and potentially reducing withholding tax rates and capital gains taxes. The main supporters are American and Chilean firms in the copper, lithium, liquefied natural gas, agriculture and food products sectors, but also machinery, services, consulting and technology industries that support U.S. companies. Chile has already signed tax treaties with 33 countries, including China and Canada. China and Canada are the first- and third-largest foreign direct investors in Chile, and because of their respective tax treaties, their firms enjoy a tax burden-for-profit distribution in Chile nine percentage points lower than companies from countries with no tax treaty. The United States is the second-largest foreign direct investor in Chile, and the U.S.-Chile tax treaty would level the field for American firms competing with Chinese and Canadian firms in copper and lithium mines. It is also expected all the machinery, maintenance, consulting and services related to mining and agriculture will indirectly benefit from the tax treaty. I expect growth for service firms that would crush activities into less than 183 calendar days to take advantage of the Permanent Establishment (PE) rule, and a significant flow increase in the number of trainees, apprentices and researchers between Chilean and American firms."

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

LATIN AMERICA ADVISOR
is published every business day by the Inter-American Dialogue ISSN 2163-7962

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Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at
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Washington, DC 20005

www.thedialogue.org