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FEATURED Q&A

Who Gains the Most From Piñera's Tax Reforms in Chile?

Chilean President Sebastián Piñera greeted supporters in Concepción last week. // Photo: Chilean Government..

Q Last month, Chilean President Sebastián Piñera formally announced major tax reform proposals, saying in a televised address that the changes would "modernize" the country's revenue system while boosting investment by both domestic and foreign firms. Additionally, Piñera said the changes would calibrate the taxes paid by technology and service companies with more traditional producers of goods. What are the advantages and disadvantages of Piñera's tax reforms? How likely is it that Chile's opposition-run Congress will approve the proposed changes? How will the government's tax plan affect digital commerce companies?

A **Kathleen Barclay, past president of Amcham Chile:** "President Piñera's proposed legislation to modernize Chile's tax system focuses on the promotion of investment and on simplification, with an emphasis on support for small- and medium-sized businesses and the middle class. The main components of the tax reform reintegrate the tax system, thereby encouraging the reinvestment of corporate earnings, reduce taxes on the purchase of real estate with certain limits, include a 2 percent corporate tax reduction for small- and medium-sized companies, require the use of electronic billing (to reduce VAT tax evasion) and implement a tax on e-commerce transactions. A stronger defense for the individual taxpayer in respect was also included. Expected increases in revenues from e-commerce transactions and reduction in VAT evasion is expected to offset elements including the reintegration of the system, making the proposed modernization fiscally

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TODAY'S NEWS

ECONOMIC

U.S., Canada to Resume NAFTA Talks Wednesday

The White House backed off an Aug. 31 deadline for the two countries to reach an agreement on renegotiating the North American Free Trade Agreement, U.S. President Donald Trump has threatened to leave Canada out of the pact.

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Guatemala's Morales to Shut Down U.N. Commission

Guatemalan President Jimmy Morales announced that his government would no longer recognize the decisions of the U.N. Commission Against Impunity in Guatemala, or CICIG.

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ECONOMIC

Macri Unveils Austerity Plans

Argentine President Mauricio Macri announced that his government would take emergency measures to deal with the plummeting peso.

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Macri // File Photo: Argentine Government.

ECONOMIC NEWS

U.S., Canada to Resume NAFTA Talks on Wednesday

U.S. and Canadian negotiators plan to resume talks over the renegotiation of the North American Free Trade Agreement on Wednesday, following the two sides' failure to reach an agreement by last Friday, Reuters reported. The Trump administration had earlier set Friday as a deadline for Canada and the United States to work out a deal, less than a week after U.S. and Mexican negotiators reached a preliminary agreement on the three-country trade pact. However, the administration eased off on the deadline after four days of marathon negotiating sessions in Washington. "Today the president notified the Congress of his intent to sign a trade agreement with Mexico—and Canada, if it is willing—90 days from now," U.S. Trade Representative Robert Lighthizer said Friday in a statement, The New York Times reported. The U.S. Congress has authority over trade deals, and lawmakers have told the White House that any deal to revise NAFTA must include Canada and Mexico. Canada is the top destination for the exports of 36 states, and congressional Republicans could sink any deal to revise NAFTA that excludes Canada. On Saturday, U.S. President Donald Trump tweeted that Canada would be left out of the trade accord if a "fair deal for the U.S." isn't reached, and he warned members of Congress that he would scuttle the deal entirely if they "interfere" in the negotiations. "There is no political necessity to keep Canada in the new NAFTA deal," Trump said in a posting on Twitter. "If we don't make a fair deal for the U.S. after decade[s] of abuse, Canada will be out. Congress should not interfere with these negotiations or I will simply terminate NAFTA entirely & we will be far better off." Trump and other top U.S. officials have expressed willingness to proceed with a bilateral U.S.-Mexico deal that leaves Canada out, The Wall Street Journal reported. While Trump does have the power to terminate NAFTA, it is unclear whether such a termination could withstand legal challenges. In response to Trump's tweets, a spokesman for Canadian Foreign Minister Chrystia Freeland said "a win-win outcome is achievable" and that the country would only sign a deal "which is good for Canada."

Argentine President Unveils Emergency Austerity Measures

Argentine President Mauricio Macri announced in a televised address on Monday that his government would be taking emergency measures to deal with the country's economic crisis as its currency plummets, Clarín reported. Macri said he would reduce his cabinet to just 10 ministers and implement a new tax on exports to ease the budget deficit. "What we have to face is a basic problem, which is we cannot spend more than we have," the president said, The New York Times reported. He added, "This is not just another crisis. It has to be the last." The announcement came days after the central bank raised Argentina's benchmark interest rate to 60 percent from 45 percent. Despite Macri's announced measures, the Argentine peso continued to fall, dropping 3 percent against the dollar on Monday. The currency has lost almost 50 percent of its value this year. Argentine officials will meet with the International Monetary Fund today to discuss the early disbursement of the international lender's $50 billion standby credit agreement.

POLITICAL NEWS

Guatemala's Morales to Shut Down U.N. Commission

Guatemalan President Jimmy Morales announced in a televised address on Friday that the government would no longer recognize the decisions of the United Nations Commission Against Impunity in Guatemala, or CICIG, and will not renew the anti-graft agency's man-

NEWS BRIEFS

Venezuela to Increase Fuel Prices by October: Maduro

Venezuelan President Nicolás Maduro announced on Monday that fuel prices would increase by October, as the cash-strapped government aims to boost its coffers as a hyperinflation crisis has heightened the country's economic collapse, Reuters reported. Prices of gasoline in Venezuela are heavily subsidized, with $1 buying nearly 400,000 gallons of fuel. Maduro said he would set the cost of gasoline at the international price.

Whereabouts of Two Former Leaders of FARC Unknown

Colombian authorities said Friday that the location of two former leaders of the Revolutionary Armed Forces of Colombia, or FARC, is unknown, the Associated Press reported. Luciano Marín, commonly known as Iván Márquez, and Henry Castellanos, who helped negotiate the peace deal with the government in 2016, have disappeared, raising fears about the future of the agreement. President Iván Duque, who has fiercely criticized the peace process, said on Friday that he would welcome a United Nations mission to track the implementation of the deal.

Colombia's Attorney General Charges 13 Ex-Chiquita Executives

Colombia's attorney general's office on Friday charged 13 former executives of fruit producer and distributor Chiquita in connection with the financing of paramilitary death squads, UPI reported. From 1997 to 2004, Chiquita executives paid $1.7 million to the United Self-Defenders of Colombia, or AUC, according to prosecutors. Chiquita acknowledged making the payments in a 2007 U.S. settlement and paid a $25 million fine. The company has said it was "forced" to pay the AUC.

date when it expires a year from now, Prensa Libre reported. The agency, which was set up in 2006, has been investigating Morales for allegedly receiving upwards of $1 million in illicit financing during his 2015 campaign, allegations Morales has denied. Earlier in August, the Supreme Court had accepted CICIG's request to strip Morales of his immunity from prosecution. With a flank of military officers beside him during his announcement, Morales said he had asked the agency to begin to cede its authority to local prosecutors, although CICIG's mandate does not officially expire until September of next year, The Wall Street Journal reported. Officials from the United States and the European Union, the main funders of CICIG, criticized Morales' decision. In the past 12 years, the agency has investigated a number of crimes, brought prosecutions to Guatemala's attorney general's office and locked up dozens of high-level officials, including former vice presidents, heads of the central bank, the head of congress and former President Otto Pérez Molina. Last year, Morales tried to expel the CICIG's head, Iván Velásquez, from the country, but a top court blocked the move.

Nicaraguan Gov't Expels U.N. Rights Team After Report

Nicaraguan President Daniel Ortega's government last week expelled a United Nations human rights team two days after a U.N. report blamed the government for violent repression of protesters, the Associated Press reported. "We put forward the report not to polarize, but rather to make known what we had seen," Guillermo Fernández Maldonado, the head of the United Nations' human rights mission in Nicaragua, told reporters Friday. "This has had a lot of media coverage and we did not expect the government's reaction in this sense. We only did our job." Fernández said his team would leave Nicaragua on Saturday. In a statement, the U.N. human rights regional office for Central America said it would continue reporting remotely on the situation in Nicaragua, where more than 300 people have been killed since a wave of violent anti-government protests began in mid-April.

Ninety Percent of Artifacts Feared Lost in Rio Museum Fire

Officials fear that some 90 percent of the artifacts in the 200-year-old National Museum of Brazil may have been lost following a devastating fire on Sunday that gutted the building, which was once home to the Portuguese royal family, The Guardian reported. The museum, in Rio de Janeiro, is home to one of the largest historical and scientific collections in Latin America. It houses items including a skull that was among the oldest fossils ever discovered in the Americas, Andean mummies, an Egyptian mummy and several other ancient Egyptian artifacts. On Monday, about 15 museum employees entered the building's charred remains, removing lumber, shingles, metal beams and other debris in an effort to find any artifacts that had survived the blaze, according to state-run Agência Brasil. "Very little will be left," João Carlos Nara, the museum's preservation director, told the state-run news agency. "We will have to wait until the firefighters have completed their work here in order to really assess the dimension of it all." Senior museum staff, politicians and protesters have blamed the fire on years of government underfunding and neglect.

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neutral. The incentives for the middle class and small business also point in the right direction. Discussion will center on the calculation of the fiscal neutrality of the overall package, as well as on the mechanism for, and expected tax revenues from, the tax on digital transactions. Another point of discussion will be whether the tax authorities will be sufficiently empowered in the context of the proposed creation of the office of taxpayer defense. The modernization seems to be an attractive proposal to stimulate investment and to simplify taxes with areas for discussion where reasonable agreements should be able to be reached. However, the fragmented nature of the Chilean Congress and the fact that the president's coalition does not have a majority will make it difficult to reach a political agreement, particularly when the fragmented opposition is not clear regarding its own political identity. To pass the tax modernization legislation will require significant political skill on the part of President Piñera's government, including effective communication and negotiation strategies. At a minimum, the debate will take us well into next year."

> **"At a minimum, the debate will take us well into next year."**
> **— Kathleen Barclay**

A **Arturo Garnham, partner at Garnham Abogados in Santiago:** "In theory, one of the reasons why the coalition led by Sebastián Piñera returned to power in Chile was the inadequate reforms made by the previous government. This was especially relevant in the tax area, in which President Bachelet had added several layers of complexity. The new government aims to simplify taxes, reduce uncertainty and make things easier for businesses. The key is simplification. The bill is labeled as an effort to 'modernize' and clearly does so in terms of tax residence, reorganization rules, the digital economy, foreign tax credit rules and corporate social responsibility. It also brings several technical corrections in general tax deductibility and specific deductibility requirements for derivatives. Surprisingly, the bill goes much further than that. It proposes, among other things: 1.) major changes to the General

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Anti-Avoidance Rule; 2.) reductions to the powers of the Chilean IRS; 3.) the creation of a taxpayer defense agency; 4.) additional flexibility to tax deductibility of corporate expenses; 5.) a higher VAT benefit for home construction; and 6.) a new tax amnesty. Most of these likely face deep political resistance, particularly in the context of an opposition-controlled Congress. Maybe some of these items were thrown in as bargaining chips, but from a technical perspective, a greater focus on simplification is missing. The elimination of special tax regimes and unnecessary complexities, as well as simpler capital gains rules, were obvious targets. Despite all of the above, it is too early to predict what will be the end result of the legislation."

A **José Luis Ruiz, finance professor at Universidad de Chile:** "There is very little space for the opposition to back the administration's tax reforms for three reasons: reintegration, the anti-evasion norm and the reduction of revenue. Reintegration allows for the simplification of the tax system; however, larger companies would benefit far more than small- and medium-sized businesses. Moreover, it implies reducing tax revenue by around $800 million. The intent is to improve companies' competitiveness, and introduce incentives for foreign direct investment in Chilean companies and as such boost growth. A positive aspect is the proposed instant depreciation of 50 percent of the investment of fixed assets and of the remaining 40 percent in an accelerated manner, which also favors larger companies. Another positive point is the doubling of the extension of tax benefits in housing sales to roughly $180,000. The average value of middle-class homes today in Chile rendered the previous limit of the benefit obsolete. Among the principal measures of collection, the government proposes mandatory use of electronic tax payments and a 10 percent tax on the digital economy. It is expected that this additional source of revenue will offset the tax cuts and benefits. In sum, Chile continues to lag behind in implementing a progressive tax system and, knowing Chile's history, estimates for the cost of new benefits will always be more accurate than the estimates for revenue from new taxes."

A **Luis E. Gonzales Carrasco, associate researcher at the Centro Latinoamericano de Políticas Económicas y Sociales:** "The significant expansion of expenditures over the last several years generated a negative gap that must be financed in order to meet a structural fiscal rule. In this context, the proposed reform is important for establishing positive incentives for medium-, small- and micro-companies. The main incentive is instant depreciation for the companies, especially in Chile's poorest region—the Araucanía region—where companies could depreciate their fixed capital at 100 percent of value. Another positive signal is the modernization and simplification for foreign investment and the unification of the tax system, which currently operates separately for companies and people. However, there are costs for the government: $833 million due to the system integration, $7 million in incentives for foreign investment and $204 million in growth incentives. Nevertheless, the government plans to balance these costs with three measures: the use of electronic payment methods for all businesses, the modification of local pollution and carbon taxes ('green taxes') and a new tax on digital commerce. The latter is considered one of the main sources of revenue to mitigate the cost of the reform. In the short term, there will certainly be a decrease on the demand side of this industry because of expected price increases, but they will recover in the medium term. The debate in Congress seems to be complex. The opposition reacted immediately to express discomfort with the proposal. However, recent polls show a 40 percent approval rating for the reforms, not a bad starting point."

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