Tax Barriers to Services Imports in Latin America and the Caribbean:

THE CASE OF IT SERVICES

Danielle Trachtenberg

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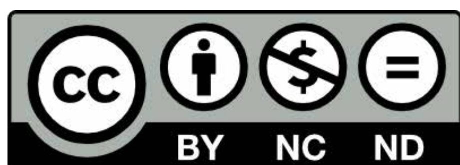

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Executive Summary

This document uses responses from a questionnaire sent to tax advisory professionals in 10 countries to examine whether tax policy is a barrier to information technology (IT) services imports in Latin America and the Caribbean. The responses to this questionnaire show that existing policies do not create a level playing field in the upfront tax burden paid on transactions, although whether domestic or imported IT services face lower burdens varies by country.

In Brazil, Trinidad and Tobago, and El Salvador, imports face a larger upfront tax burden, and the questionnaire responses indicate that existing international treaties could be improved to address discriminatory barriers. In Colombia, Costa Rica, Honduras, and Uruguay, the questionnaire responses reveal that domestic providers of IT services face higher upfront tax burdens, suggesting that tax policy results in reverse discrimination against domestic providers. When domestic providers face higher upfront tax burdens than foreign providers, it is generally due to preferential rates for imports or the absence of a value-added tax that is applicable to IT services imports. In Mexico and Peru, whether imports or domestic purchases of IT services face larger tax burdens depends on the exact rates applied.

The questionnaire responses also underline that the issue of taxation of services imports is primarily taken up in double taxation treaties rather than preferential trade agreements. This tendency suggests that preferential trade agreements do not ensure equitable treatment between domestic and imported purchases as effectively for services as for goods. The responses also indicate that while most countries in this study feel that existing treaties do an adequate job of addressing discriminatory tax policies applicable to imports, there are several ways in which these treaties could be improved.

Keywords: International trade, trade in services, tax law, trade policy, regulation, IT services

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1. Motivation

Tax policies around services are an important consideration for countries in a global economy that has become increasingly digital and dependent on services. While goods imports face tariff schedules that are generally publicly available and easy to interpret, services imports can be subject to domestic tax regimes that are opaque and complex. These regimes result in additional costs or barriers to importing services, in addition to trade costs originating in regulations or domestic policies. Overly complicated or outdated tax regimes can deter imports and result in countries missing out on the benefits of global supply chains.

This document sheds light on the tax treatment of imported and domestic information technology (IT) services in Latin America and the Caribbean (LAC). It finds that it varies from country to country whether higher tax burdens fall on domestic purchases of IT services or imports of these. While tax policy is just one component of the liberalization in trade in services, this study's examination of the issue fills a gap in existing knowledge of the liberalization process in LAC. The gap has been harder to analyze for services than goods, largely due to the difficulty in measuring trade costs and barriers applying to services.

What is known about the barriers that services face comes from information on behind-the-border measures (such as regulations and GATS commitments) and theory-based estimates (such as those derived from gravity models), both of which have limitations. Data on regulations is useful in understanding the types of barriers in place but generally does not capture issues of taxation or the heterogeneous impacts of policies. Moreover, the use of indices and count variables to quantify regulations can be difficult to work with in a quantitative setting. In trade economics, gravity models are often used to estimate how policies that affect the cost of trading goods or services may impact trade flows. Gravity models were first proposed by Tinbergen (1962) as a way to explain trade flows between two economies based on the size of each economy and the distance between them. They were later given a theoretical foundation by Anderson and van Wincoop (2003). Gravity models are based on relationships derived from theory relating trade costs to trade flows and can be used to derive theory-based estimates of trade barriers, albeit with limitations: model assumptions can be restrictive, and distinguishing between structural and policy determinants of trade costs can be difficult.

Collecting and analyzing quantitative and qualitative information on trade costs is important to understanding the liberalization of services trade and identifying any remaining barriers that could be removed. This is particularly true in LAC, where the literature on services trade costs suggests that although these are higher in the region than elsewhere, there is heterogeneity within it (Trachtenberg, 2021). Tax policy is not often studied in relation to the importation of services, but it may be a significant barrier in some LAC countries. A 2016 survey of the tax burden of selected countries (including some of the largest LAC economies) suggests that high tax burdens may be a major trade barrier (CNI, 2016).

On the other hand, foreign service providers may enjoy more favorable tax burdens due to the growing digitalization of cross-border services. This difference is potentially problematic when it comes to collecting taxes from foreign providers that do not have a physical presence in jurisdictions in which they owe taxes (Brondolo and Konza, 2021). Moreover, international treaties, such as double taxation treaties (DTTs), may also lower the tax burdens faced by foreign service providers without addressing the tax burdens on domestic providers, resulting in reverse discrimination.

This document uses responses from a questionnaire sent to tax advisory professionals in 10 countries to shed light on tax policy as a barrier to importing IT services in LAC, the existence of reverse discrimination in tax policy, and the role of international treaties in creating differential tax burdens between domestic and imported services.

2. Questionnaire

The questionnaire described above, which is included in appendix 1, is based on one used in a 2016 study by the Brazilian National Confederation of Industry (Confederação Nacional da Indústria, CNI). The purpose of this original questionnaire was to compare the taxation of imported services in Brazil with a select group of countries in Europe, Asia, and Latin America.[1] The study found that the high tax burden and the complexity of the tax regime led to low use of imported services in Brazilian industry, which had a negative effect on competitiveness (CNI, 2016).

The questionnaire was modified to include more questions on the differences between the taxation of domestically purchased and imported services and the role of preferential trade agreements (PTAs) and DTTs in lessening the tax burden. The questionnaire was sent to Ernst & Young tax advisory professionals for 10 countries—Brazil, Canada, Colombia, Costa Rica, El Salvador, Honduras, Mexico, Peru, Trinidad and Tobago, and Uruguay—resulting in a set of 10 responses for each question.

2.1. IT services

The questionnaire focuses on IT services, as defined by the UN Central Product Classification Version 2.1 classes 8313 through 8316.[2] This definition includes IT consulting and support services, IT design and development services for applications, networks and systems, software originals, hosting and IT infrastructure provisioning services, and IT infrastructure, network, and computer systems management services.

IT services are a major component of modern economies and are also an important input into other services sectors, particularly digitally deliverable services. These include IT services, as well as sectors that may have ICT-enabled services, such as financial and insurance services, telecommunications, and business services such as management and consulting services.[3] In 2019, digitally deliverable services accounted for US$3.1 trillion, or 52% of world services exports, while IT services accounted for US$462 billion, or 8% of world services exports.[4]

1 The questionnaire used in this study was developed from the CNI questionnaire by members of the International Trade team at King & Spaulding and the Integration and Trade Sector at the Inter-American Development Bank.

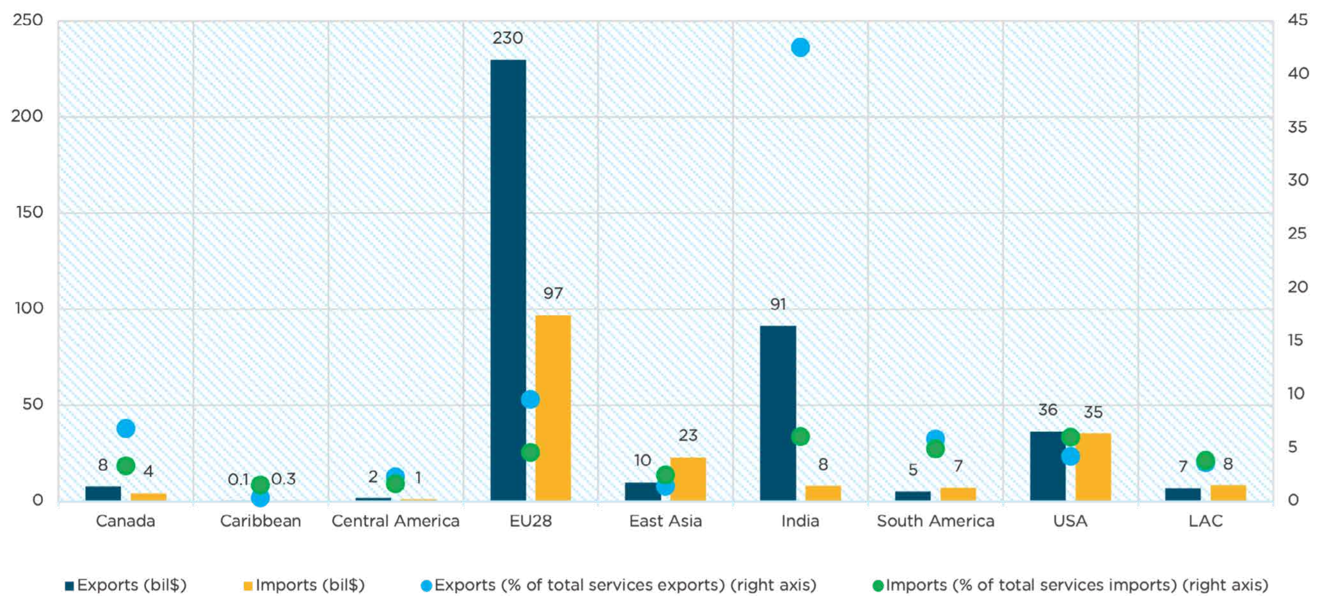
2 A description of the services covered by the questionnaire can be found in appendix 1.

3 UNCTAD defines digitally deliverable services as those sectors which may provide ICT-enabled services. This definition follows the classification of sectors in the IMF Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6, 2009) and includes insurance and pension services, financial services, charges for the use of intellectual property, telecommunications, computer and information services, other business services, and audiovisual and related services.

4 Calculated using IMF Balance of Payments data.

Figure 1 shows exports and imports of IT services, the focus of the questionnaire, for selected regions and countries in 2019. Exports of IT services are large in the EU28 and India (9% and 42% of total services exports, respectively), but both exports and imports of IT services are relatively moderate as a share of total services exports or imports in the other regions and countries shown in figure 1. Imports of IT services stand at US$8 billion in LAC, or 4% of total services imports in the region, compared to 3% in Canada, 5% in the EU28, 2% in East Asia, and 6% in India and the United States. South America accounts for US$7 billion of LAC's US$8 billion in IT services imports, while IT services imports in the Caribbean and Central America are low, at only 2% of each region's total services imports. Because IT services are an important input for digitally deliverable services sectors, manufacturing, and other industrial sectors, low imports of IT services may jeopardize the competitiveness of other sectors in the absence of a strong domestic industry.

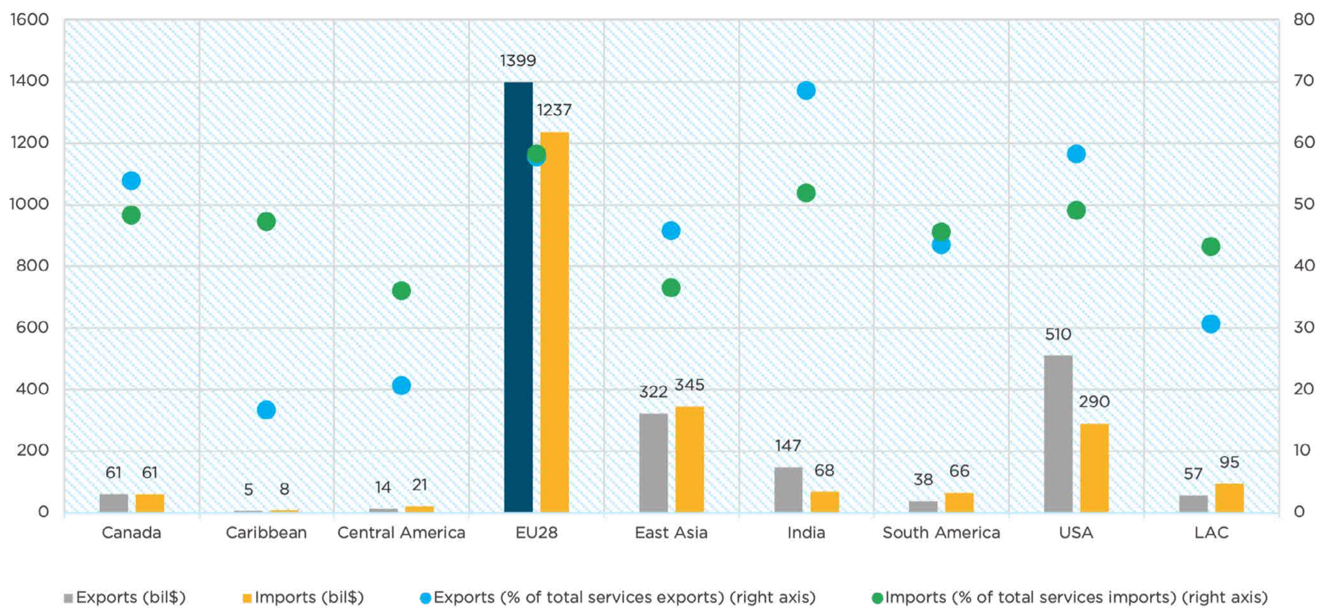
FIGURE 1.
Exports and Imports of IT services, 2019.



Source: IMF Balance of Payments; UNCTAD. Note: IT services are defined as "computer services" in the IMF BPM6, which is available at https://www.imf.org/external/pubs/ft/bop/2007/pdf/bpm6.pdf. Caribbean: Anguilla, Antigua and Barbuda, Aruba, Bahamas, Cayman Islands, Curaçao, Dominica, Dominican Republic, Grenada, Haiti, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Sint Maarten, and Trinidad and Tobago. Central America: Belize, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, and Panama. East Asia: China, Japan, South Korea, Mongolia, Hong Kong and Macao. South America: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guyana, Paraguay, Peru, Suriname, and Uruguay. LAC includes the Caribbean, Central and South America.

Figure 2 shows trade in digitally deliverable services in 2019 for selected countries and regions. These include IT services and other sectors in which services can be delivered digitally. LAC exports of digitally deliverable services generally account for a lower percentage of the region's total services exports compared to regions such as the EU28 and East Asia and leading digital services-exporting countries such as Canada, India, and the United States. For example, exports of digitally deliverable services make up 17% of total services exports in the Caribbean, 21% in Central America, 44% in South America, and 31% in the region overall, as compared to 54% of total services exports in Canada, 58% in the EU28, 46% in East Asia, 69% in India, and 58% in the United States. LAC's imports of digitally deliverable services are higher as a percentage of total services imports than the region's exports of these same services and are comparable to those of several of the other regions and countries shown in figure 2. Digitally deliverable services imports account for 43% of total services imports in LAC, 48% in Canada, 58% in the EU28, 37% in East Asia, 52% in India, and 49% in the United States. Within the region, most of LAC's trade in digitally deliverable services comes from South America.

FIGURE 2.
Exports and imports of digitally deliverable services, 2019.

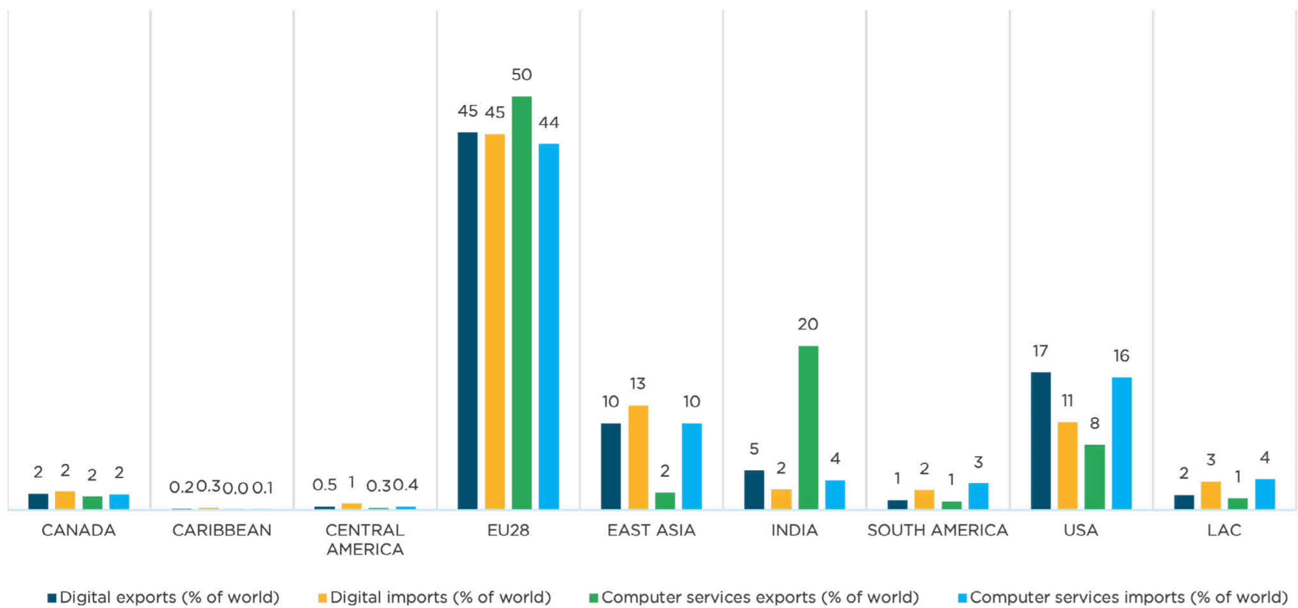


Source: IMF Balance of Payments; UNCTAD. Note: Digitally deliverable services are based on the UNCTAD definition and include insurance and pension services, financial services, charges for the use of intellectual property, telecommunications, computer and information services, other business services, and audiovisual and related services. Caribbean: Anguilla, Antigua and Barbuda, Aruba, Bahamas, Cayman Islands, Curaçao, Dominica, Dominican Republic, Grenada, Haiti, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Sint Maarten, and Trinidad and Tobago. Central America: Belize, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, and Panama. East Asia: China, Japan, South Korea, Mongolia, Hong Kong, and Macao. South America: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guyana, Paraguay, Peru, Suriname, and Uruguay. LAC includes the Caribbean and Central and South America.

Figure 3 shows digitally deliverable and IT services as a percentage of world trade in these sectors, providing a measure of the largest players in digital services. LAC's share in global exports and imports of digitally deliverable and IT services is low compared to other regions, particularly in the Caribbean and Central America. In South America, the 11 countries in the region export and import a similar share of world trade in these sectors as Canada on its own. While the regions and countries in figure 3 tend to be either net exporters or importers of IT services, trade in digitally deliverable services is more balanced. This suggests that two-way trade in digitally deliverable services sectors is common, particularly in large regions such as the EU28, where member countries may specialize in one or two digital sectors and import other digital services from neighboring economies.

FIGURE 3.

Digitally deliverable and IT services as % of world, 2019.



Source: IMF Balance of Payments; UNCTAD. Note: Digitally deliverable services are based on the UNCTAD definition and include insurance and pension services, financial services, charges for the use of intellectual property, telecommunications, computer and information services, other business services, and audiovisual and related services. IT services are defined as "computer services" in the IMF BPM6, which is available at https://www.imf.org/external/pubs/ft/bop/2007/pdf/bpm6.pdf. Caribbean: Anguilla, Antigua and Barbuda, Aruba, Bahamas, Cayman Islands, Curaçao, Dominica, Dominican Republic, Grenada, Haiti, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Sint Maarten, and Trinidad and Tobago. Central America: Belize, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, and Panama. East Asia: China, Japan, South Korea, Mongolia, Hong Kong, and Macao. South America: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guyana, Paraguay, Peru, Suriname, and Uruguay. LAC includes the Caribbean and Central and South America.

2.2. Benchmark country

The questionnaire used in this study was designed to obtain information on the taxation of IT services purchased domestically and imported in nine countries in LAC and Canada, which is used as the benchmark country. Canada was chosen as a benchmark because of its low level of regulatory restrictiveness in digital and computer services. It ranks as the least restrictive of 74 countries in the OECD's Digital Services Trade Restrictiveness Index (STRI) for 2020 and the 13th-least restrictive country of 51 in the 2020 STRI for the computer services sector.[5] However, the regulatory policies covered in these indices do not exhaustively cover the tax policies that apply to the importation of services. The choice of Canada as a benchmark country in this study assumes that low regulatory barriers to services imports in a country (as measured by these indices) are correlated with lower tax burdens on services imports. However, it is important to keep in mind that the questionnaire used in this study only covers tax policy. Regulatory policies change the tax burden faced by domestic and foreign service providers in other ways that are not covered in this study, as do several other factors (including a country's macroeconomic environment).

As a result of Canada being one of the least restrictive countries in digital and IT services, these sectors are a major component of its economy: digitally deliverable and IT services represent 48% and 7% of Canada's total services imports, respectively (figures 1 and 2). Canada accounted for 2% of total world imports of IT services in 2019 (figure 3), which is lower than countries such as India and the United States but significantly higher than any single country in LAC. The LAC countries that import the largest share of IT services from the world are Brazil (0.2% of world imports), Argentina (0.005%), and Colombia (0.003%).

2.3. Comparability of responses across countries

Questionnaire responses were coordinated across countries and collected in a unified manner by Ernst & Young tax advisory professionals to ensure comparability in responses across countries. The questionnaire included several questions on IT services, types of cross-border transactions, and levels of taxation within a country, which can be used to further ensure comparability across countries. All countries indicated that firms in their jurisdiction were involved in all four areas of IT services covered by this questionnaire (UN Central Product Classification Version 2.1 classes 8313 through 8316). The types of cross-border transactions that are considered to be services imports are the same in most countries (table 1), so responses can be compared effectively across countries. The exception is Uruguay, where there is no legal definition of what constitutes services imports. Moreover, the respondent countries are also comparable in terms of the levels of taxes they impose. In seven of the ten countries, taxes are only levied at the federal level either because there are no political subdivisions in the country (Costa Rica, El Salvador, Honduras, Trinidad and Tobago) or because services are not taxed at these different sublevels (Mexico, Peru). In Brazil, Canada, and Colombia, municipal or provincial taxes vary depending on location, although only domestic services are subject to these taxes in Colombia. Different levels of taxation are taken into account in the discussion and analysis in this study.

The rest of this document is structured as follows. Section 3 documents the types of taxes paid on domestic and imported purchases of IT services (table 2). Section 4 examines whether these taxes are recoverable or deductible (table 3). Section 5 compares the upfront tax burden on domestic and imported purchases of IT services (tables 4 and 6). Section 6 discusses the role of international treaties. (figure 4, table 7). Section 7 concludes.

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5 The OECD's Digital Services STRI can be found at https://stats.oecd.org/Index.aspx?DataSetCode=STRI_DIGITAL. The OECD's STRI for Computer Services and other sectors can be found at https://stats.oecd.org/Index.aspx?DataSetCode=STRI.

TABLE 1.
Types of Cross-Border Transactions That Are Considered Services Imports.

	Leasing/renting	Licensing or granting rights to use technology	Providing technical services in support of product operation with the transfer of technology	Providing technical services in support of product operation without the transfer of technology	Providing technical assistance and training for local personnel
Brazil	Yes/No	Yes	Yes	Yes	Yes
Canada	Yes/Yes	Yes	Yes	Yes	Yes
Colombia	No/No	Yes	Yes	Yes	Yes
Costa Rica	No/No	Yes	Yes	Yes	Yes
El Salvador	Yes/Yes	Yes	Yes	Yes	Yes
Honduras	Yes/Yes	Yes	Yes	Yes	Yes
Mexico	Yes/Yes	Yes	Yes	Yes	Yes
Peru	Yes/No	No	Yes	Yes	Yes
Trinidad and Tobago	Yes/Yes	Yes	Yes	Yes	Yes
Uruguay	No definition of importation of services in Uruguayan law, but all categories may be taxable by non-resident income tax and the last three may be taxable by VAT.				

Source: Questionnaire responses.

3. Types of Taxes Imposed on IT Services

Imports and domestic purchases of IT services are subject to two groups of taxes, direct and indirect taxes, which are summarized for each country in table 2.

3.1. Direct taxes

Direct taxes consist of only income taxes in all but one country, Colombia, which also imposes an industry and commerce tax. In general, the income tax levied on domestic purchases of IT services is not subject to withholding tax (WHT); however, WHT is applicable for imported IT services. WHT rates on imported IT services vary from 0%–35% in the countries surveyed, and several countries have a second, higher WHT rate that is applicable to payments going to tax havens.

3.2. Indirect taxes

Indirect taxes are taxes imposed on the transaction itself, such as VAT. All of the ten countries except Brazil impose VAT on purchases of IT services.[6] VAT rates vary from 12.5% in Trinidad and Tobago to 22% in Uruguay. For domestic purchases of IT services, the VAT operates as usual and is charged by the provider of the service at each stage in the value chain. The VAT paid by the user of the service on services used as inputs into taxable production is deductible from the VAT owed by the user on their own sales, meaning that the tax burden is economically neutral (OECD, 2017). For purchases of imported IT services, VAT is generally levied through the reverse-charge mechanism, in which the resident business importing the service charges the VAT as if it is the provider of the service and is eligible for a credit on the amount of VAT paid if the service is used as an input. The reverse-charge mechanism is the standard international approach to taxing cross-border services (see KPMG, 2017; OECD, 2021). VAT is not levied on imported IT services in Honduras and Trinidad and Tobago and is only applicable to imported IT services in Uruguay if the service is provided in the country. Although IT services are frequently delivered digitally, no countries reported any issues in connection with collecting VAT on digital transactions for domestic or imported IT services.

In addition to a VAT, Colombia and Peru impose financial transaction taxes of 0.4% and 0.005%, respectively, and Uruguay charges a net wealth tax of 1.5%–3%. In place of VAT, Brazil imposes four indirect taxes on domestic purchases of IT services and six indirect taxes on imported IT services. On domestic purchases, Brazil charges a social contributions tax (Programa de Integração Social, PIS), a social security financing tax (Contribuição para o Financiamento da Seguridade Social, COFINS), and a general services tax (Imposto sobre Serviços de Qualquer Natureza, ISS), and a social contribution is withheld. In addition to these four taxes, imports of IT services also face a contribution forintervention in the economic domain tax (Contribuição de Intervenção no Domínio Econômico, CIDE) and a tax on currency conversion (IOF-FX).

6 Note VAT is known as goods and services tax (GST) in Canada and as sales tax in Honduras.

TABLE 2.
Types of Tax Applying to Domestic and Imported IT Services.

Country	Direct Taxes		Indirect Taxes	
	Domestic purchases	Imports	Domestic purchases	Imports
Brazil	Income tax (IRRF) (15%)	Income tax (IRRF) payable as WHT (15% or 25% for payments to tax havens)	PIS (0.65% or 1.65%, based on gross revenue of provider) COFINS (7.6%, based on gross revenue of provider) ISS (5%, based on cost of service) Social contribution withheld (1%)	PIS (0.65% or 1.65%, based on cost of service) COFINS (7.6%) ISS subject to withholding, burden falls on nonresidents (2%–5%, based on cost of service) Social contribution withheld (1%) CIDE (10%, based on amount due to residents abroad) IOF-FX (0.38%, based on currency exchange conversion)
Canada	Income tax	Income tax payable as WHT (15% or 25% for payments to tax havens)	HST (13% or 15%, based on cost of service) GST (5%, based on cost of service) QST (Quebec only) (9.975%, based on cost of service) Certain provinces have retail sales taxes	HST (13% or 15%, based on cost of service) GST (5%, based on cost of service) QST (Quebec only; 9.975%, based on cost of service) Certain provinces have retail sales taxes
Colombia	Income tax (35%, based on net income) Industry and commerce tax (ICA) varies by location and may be payable as a WHT (0.2%–1.2%, based on gross income)	Income tax payable as WHT (20% or 35% for payments to tax havens, based on gross income)	VAT collected by provider of service (19%, based on value of service) Financial transactions tax if payment made from Colombian bank (0.4%)	VAT paid by purchaser of service through reverse-charge mechanism (19%, based on value of service) Financial transactions tax if payment made from Colombian bank (0.4%)
Costa Rica	Income tax (5%–30%, depending on annual gross income, exempt if acquirer of services is beneficiary of free trade zone)	WHT (exempt if importer is beneficiary of free trade zone) only for services rendered in Costa Rica	VAT (13%, based on sales price, exempt if importer is beneficiary of free trade zone)	VAT (13%, based on sales price, exempt if importer is beneficiary of free trade zone)
El Salvador	Income tax (25%–30%) subject to WHT rate of 10% only for payments provided by local individuals	Income tax payable as WHT (20% or 25% for payments to tax havens)	VAT paid by service provider (13%)	VAT paid by purchaser of service through reverse-charge mechanism (13%)

Country	Direct Taxes		Indirect Taxes	
	Domestic purchases	Imports	Domestic purchases	Imports
Honduras	Income tax	Income tax payable as WHT (10%)	VAT (known as “sales tax”) (15%, based on value-added)	VAT not applicable
Mexico	Income tax payable by monthly tax return (30%, based on transaction value)	Income tax payable as WHT (25% or 35%, based on transaction value)	VAT paid by service provider (16%, based on transaction value)	VAT paid by purchaser of service (16%, based on transaction value)
Peru	Income tax (29.5%, based on net income)	Income tax payable as WHT by provider of service, amount depends on the type of service (0%–30%)	VAT paid by provider of service (18%) Financial transactions tax on debits and credits in Peruvian bank accounts (0.005%)	VAT paid by purchaser of service through reverse-charge mechanism (18%) Financial transactions tax on debits and credits in Peruvian bank accounts (0.005%)
Trinidad and Tobago	Income tax	Income tax payable as WHT only for services rendered in the country (15%, based on gross amount of payment to nonresidents), no WHT otherwise	VAT (12.5%)	VAT not applicable
Uruguay	Income tax (corporate income tax of 25% or personal income tax of 0%–36%)	Nonresident income tax (15% or 25% for payment to tax haven, based on gross income and where services are provided from)	VAT (22%) Net wealth tax (1.5%, 3% for payment to tax haven, 0.1%–0.3% for payment to individual, based on credits held by foreign entities or individuals against debtors located in Uruguay)	VAT only applicable if service rendered in Uruguay (22%, based on value-added) Net wealth tax (1.5%, 3% for payment to tax haven, 0.1%–0.3% for payment to individual, based on credits held by foreign entities or individuals against debtors located in Uruguay)

Source: Questionnaire responses, Ernst & Young, Ernst & Young Worldwide Corporate Tax Guide 2021.

4. Recoverable Taxes, Deductions, and Credits

Table 3 examines which of the taxes presented in table 2 can be recovered in some form, thus lowering the effective tax burden imposed on purchases of IT services. The majority of the taxes listed in table 2 are partly recoverable, with the exception of several of the indirect taxes imposed in Brazil, province-level sales tax in Canada, the industry and commerce tax in Colombia, the WHT held on imports of IT services in Mexico, the financial transactions tax in Peru, and the net wealth tax in Uruguay.

4.1. Direct taxes

For domestic purchases of IT services, in all countries, the amount paid for the service is a deductible expense for income tax purposes if the service is an input into core business activities or taxable production or other necessary conditions are met. The deductibility of the WHT paid on imports of IT services is treated differently depending on which company must pay it (the foreign service provider or resident importer and user of the service). In cross-border taxation, a foreign service provider can include a gross-up clause in the contract so that it can gross up the amount charged to the resident importing business to cover the WHT, effectively forcing the burden of the WHT onto the local purchaser of the service (Brown, 2017). Otherwise, tax is withheld from the payment made to the foreign service provider, and the tax burden falls on the provider.

If a gross-up clause forces the burden of the WHT onto the local purchaser, the WHT paid is often a deductible expense for the local business, although a gross-up clause does not need to be in place for any WHT paid to be deductible or recoverable. The WHT paid is a deductible expense in all countries but Costa Rica and Mexico, but importing businesses in Costa Rica may be exempt from the WHT if they are associated with a free trade zone. Moreover, in both Costa Rica and Mexico, expenses relating to the importation of the service are deductible.

In Brazil and Canada, gross-up clauses may be used to make the WHT burden fall on the local purchaser of the service. In Peru, notably, a gross-up clause is not necessary to force the local purchaser of the service to bear the tax burden or for the WHT paid to be deductible. In Colombia, the WHT is not deductible under a gross-up clause, although the amount paid for the service may be a deductible expense.

4.2. Indirect taxes

There is more uniformity among the 10 countries with respect to the recoverability of VAT. The VAT is fully recoverable as an input credit in all countries that impose VAT on domestic and imported IT services. There are, however, some indirect taxes that are not fully recoverable. In Canada, the harmonized sales tax(HST) and goods and services tax(GST) are recoverable as credits or deductible expenses if certain conditions are met, but the Québec sales tax(QST) is not recoverable. In Brazil, the PIS and COFINS taxes are recoverable with certain requirements, but the ISS and social contribution are not recoverable for domestic or imported IT services, nor are the CIDE and IOF-FX imposed on imported IT services. The financial transactions tax in Peru and net wealth tax in Uruguay are not recoverable, although 50% of the tax collected from the financial transactions tax in Colombia is recoverable.

TABLE 3.
Recoverable Taxes and Fees and Credits on Purchases of Domestic and Imported IT Services.

Country	Direct Taxes		Indirect Taxes	
	Domestic purchases	Imports	Domestic purchases	Imports
Brazil	Income tax (IRRF): standard corporate income tax deductions Fees paid to purchase services are deductible expenses under certain conditions and only for companies that assess profits through an actual profits method	Income tax (IRRF) payable as WHT: burden generally falls on the service provider (non-resident). WHT is only deductible if a gross-up clause is in place that makes the paying company bear the burden. Fees paid to import services are deductible expenses for the importing business under certain conditions and only for companies that assess profits through an actual profits method	PIS, COFINS: 100% recoverable with certain requirements ISS, social contribution: not recoverable	PIS, COFINS: 100% recoverable with certain requirements ISS, social contribution, CIDE, IOF-FX: not recoverable
Canada	Income tax: standard corporate income tax deductions, including fees paid to purchase domestic services	Income tax payable as WHT: deductible expense if a gross-up clause is adopted. Fees paid to import services are deductible expenses for the importing business under certain conditions	HST, GST: input tax credit and/or deductible expenses under certain conditions, recoverable amount varies QST, retail sales taxes: not recoverable	HST, GST: input tax credit and/or deductible expenses under certain conditions, recoverable amount varies QST, retail sales taxes: not recoverable
Colombia	Income tax: 100% of amount paid for service (expense) deductible for purchaser of service under certain conditions. The service provider can subtract WHT paid by purchaser from net income tax in income tax return ICA: no specific deductions or credits noted Fees paid to purchase services are deductible expenses under certain conditions	Income tax: 100% of amount paid for service (expense) deductible under certain conditions WHT: does not become a deductible expense if a gross-up clause is adopted Fees paid to import services are deductible expenses for the importing business under certain conditions for 8313, 8314, and 8316. Only 15% of fees paid to import 8315 is deductible	VAT: input VAT can be applied as a credit against output VAT for 8313, 8314, and 8316 Financial transactions tax: 50% of which is deductible	VAT: 100% of input VAT is recoverable for 8313, 8314, and 8316 by purchaser of service. 0% recoverable for 8315 Financial transactions tax: 50% of which is deductible

Country	Direct Taxes		Indirect Taxes	
	Domestic purchases	Imports	Domestic purchases	Imports
Costa Rica	Income tax: exempt if acquirer of services is beneficiary of free trade zone Fees paid to purchase services are deductible expenses under certain conditions	WHT: exempt if importer is beneficiary of free trade zone Fees paid to import services are deductible expenses for the importing business under certain conditions	VAT: credit if the purchase is directly related to an operation subject to VAT	VAT: credit, recoverable amount depends on the VAT rate paid (i.e., full rate, reduced, or exempt) by the operation related to the acquisition of the services
El Salvador	Income tax: amount paid for service (expense) is deductible if certain conditions met	Income tax: amount paid for service (expense) deductible if certain conditions met, any WHT paid is a deductible expense with proper documentation Fees paid to import services are deductible expenses for the importing business under certain conditions	VAT: credit	VAT: credit
Honduras	Income tax: amount paid for service (expense) is deductible if certain conditions met	Income tax payable as WHT: amount paid for service (expense) is deductible if certain conditions met, WHT paid is a deductible expense with proper documentation Fees paid to import services are deductible expenses for the importing business under certain conditions	VAT (known as sales tax): credit	No VAT applied
Mexico	Income tax: deduction of items that are necessary expenses to core business activities	Income tax payable as WHT: nonrecoverable The deduction of items that are necessary expenses to core business activities is allowed for businesses importing services	VAT: 100% of the net VAT balance is recoverable	VAT: fully credited for importation of intangible services

Country	Direct Taxes		Indirect Taxes	
	Domestic purchases	Imports	Domestic purchases	Imports
Peru	Income tax: amount paid for service (expense) not deductible	Income tax payable as WHT: WHT deductible if certain conditions met or with contracts where the total amount payable is the gross-up amount. A gross-up clause is not necessary for WHT to be deductible or to make the Peruvian company bear the WHT burden and the existence of one may be challenged by tax administration	VAT: credit for acquirer of service Financial transactions tax: not recoverable	VAT: credit for acquirer of service Financial transactions tax: not recoverable
Trinidad and Tobago	Income tax: amount paid for service (expense) deductible if certain conditions met	Income tax payable as WHT only for services rendered in T&T, no WHT otherwise: WHT deductible if certain conditions met Fees paid to import services are deductible expenses for the importing business under certain conditions	VAT: recoverable	No VAT applied
Uruguay	Income tax: expenses deductible if income tax is at rate of 25% or higher	Nonresident income tax: expenses deductible if certain conditions met, any WHT is a deductible expense if local company bears the burden and certain conditions met	VAT: deductible or credit for purchases related to exports Net wealth tax: not recoverable	VAT only applicable if service rendered in Uruguay: deductible or credit for purchases related to exports Net wealth tax: not recoverable

Source: Questionnaire responses, Ernst & Young, Ernst & Young Worldwide Global Tax Guide 2021.

5. Overall Upfront Tax Burden

Table 4 shows the upfront tax burden disaggregated by the type of tax paid on purchases of domestic and imported IT services for a simulated US$1,000 purchase of domestic or imported IT services. The upfront tax burden is calculated as the amount of tax paid (nominal rate multiplied by the tax base) divided by the US$1,000 transaction amount. It does not take into account any of the instances of recoverability or deductibility listed in table 3. The upfront tax burden in table 4 provides a measure of the immediate costs associated with purchasing IT services. These costs may be a barrier to purchasing IT services even if recoverability or deductibility reduces costs at a later stage.

In most countries in the sample of 10 countries, imports face a higher upfront tax burden for direct taxes than domestic purchases due to WHT rates being higher than domestic income tax rates. A higher upfront tax burden for direct taxes on imports is balanced out in Honduras, Trinidad and Tobago, and Uruguay, where imports do not have to pay VAT. In countries where both imports and domestic purchases are subject to VAT, the rate is the same. In Brazil, the many indirect taxes lead to a significantly high upfront tax burden for imports (41%).

TABLE 4.
Upfront Tax Burden on Purchases of Domestic and Imported IT Services.

Country	Direct Taxes			Indirect Taxes		
	Domestic	Imports	Imports under DTTs****	Domestic	Imports	Imports under DTTs
Brazil	15%	15%	0%-15%	16.62%	41.01%	41.01%
Canada	9%-15%	15%	15%-20%	18%	18%	18%
Colombia	7.97%	20%	0%-10%	19%	19%	19%
Costa Rica	5%-30%	0%	N/A	13%	13%	N/A
El Salvador	10%	20%	0%-10%	13%	13%	13%
Honduras	0%	10%	N/A	15%	0%	N/A
Mexico	6%	0%-25%	0%-25%	16%	16%	16%
Peru	29.5%*	0%-30%***	0%-15%	18%	18%	18%
Trinidad and Tobago	0%	15%	0%-12.5%	12.5%	0%	0%
Uruguay	12%	0.6%-12%**	0%-10%	22%	0%	0%

Source: Questionnaire responses, Ernst & Young, Ernst & Young Worldwide Global Tax Guide 2021. Note: Overall upfront tax burden calculated as the tax paid (nominal rate multiplied by the tax base) divided by the transaction value for a simulated transaction value of US$1,000. The tax burden under DTTs for Canada is calculated using only the rates from the Canada-India DTT. N/A indicates there are no applicable DTTs or PTAs. *Tax base is net income instead of transaction value. **Depends on assumptions made to determine tax base. ***Varies by type of service. ****Preferential rates applicable to direct taxes vary by DTT and, in the case of Brazil, by the classification of the service and interpretation of treaty clauses.

Table 4 also provides the upfront tax burden for IT services that are imported under preferential rates in PTAs or DTTs. According to the questionnaire responses, PTAs and DTTs reduce direct taxes paid by lowering the WHT rate and do not reduce the VAT rate paid for imported services in any country in the survey. In Brazil, the high upfront burden from indirect taxes on imported IT services is not covered by PTAs or DTTs, although reduced WHT rates may apply. In Costa Rica and Honduras, there are no relevant agreements that impact the taxation of imported services.

PTAs and DTTs that are relevant to the importation of IT services were considered in all countries except Canada. Due to the complexity of the latter's agreements, only one PTA was reviewed: the Canada–India DTT. However, India is a major player in the global IT services landscape, and Canada's imports of IT services from India are high. Consequently, the Canada–India DTT covers a significant portion of Canada's imports of IT services. Table 5 shows the number of PTAs and DTTs in effect that impact the taxation of services in each country. The table makes it clear that the taxation of imported services is taken up as a policy issue in DTTs rather than PTAs. Although many PTAs contain chapters on services trade, the text in those chapters generally has to do with market access and commitments rather than the taxation of imported services.

TABLE 5.
Number of PTAs and DTTs Impacting the Taxation of Services.

Country	No. of PTAs that impact the taxation of services	No. of DTTs in force
Brazil	N/A	32
Canada	0	100
Colombia	0	10
Costa Rica	0	0
El Salvador	0	1
Honduras	0	0
Mexico	0	49
Peru	1	8
Trinidad and Tobago	0	29
Uruguay	0	23

Source: Questionnaire responses, Ernst & Young.

Table 6 combines the information presented in table 4 on the upfront burden on direct and indirect taxes into a number measuring the overall upfront tax burden for purchasing domestic or imported IT services in each country. This overall upfront tax burden does not take into account any instances of recoverability or deductibility that may lower the tax burden at later stages. Instead, it provides a single measure of the immediate costs associated with a transaction for domestic purchases and imports.

In four countries (Colombia, Costa Rica, Honduras, and Uruguay), the overall upfront tax burden on domestic purchases of IT services is greater than for imports of these, suggesting that tax policy results in reverse discrimination that is biased against domestic services providers in these countries. In Honduras, for example, the upfront tax burdens of 15% for domestic purchases and 10% on imports results in US$150 in taxes on imports and US$100 in taxes on domestic purchases for a US$1,000 transaction. Thus, for equivalent US$1,000 transactions, domestic purchases result in an additional US$50 (50%) in taxes compared to imports.

There are three countries (Brazil, El Salvador, and Trinidad and Tobago) where the overall upfront tax burden on imports is greater than on domestic purchases, suggesting that tax policy creates discrimination against imported services. In Brazil, the upfront burden of 56% on imports and 32% on domestic purchases results in US$560 of taxes paid for imports and US$320 of taxes paid for domestic purchases for each US$1,000 transaction. Imports thus result in US$240 (75%) more taxes collected per US$1,000 transaction than domestic purchases do.

In the remaining three countries (Canada, Mexico, and Peru), whether the upfront burden imposed on domestic purchases or imports is greater depends on the exact rates applied. However, there are other costs and barriers associated with importing services that are not covered by the questionnaire and may result in higher costs for imports even if they face lower tax barriers. Moreover, the regulatory and macroeconomic environments in countries can help or hinder both domestic purchases and imports of IT services in ways that are not covered by the numbers presented in this study from the questionnaire.

Taking preferential rates in PTAs or DTTs into account, there are more countries where the overall upfront tax burden for domestic purchases is greater: Colombia, Costa Rica, Honduras, Peru, Trinidad and Tobago, Uruguay, and possibly Mexico. While treaties lower WHT rates, benefiting importers and foreign service providers, this can also have the unintended consequence of reverse discrimination against local service providers. Indeed, for the countries in this study, treaties increase the instances of reverse discrimination. Even with preferential WHT rates codified in treaties, imports of IT services still face high overall upfront tax burdens in some countries where reverse discrimination is present, particularly Brazil, Canada, Colombia, Mexico, and Peru.

Table 6 also shows how each country ranks in the OECD's Digital Services STRI for 2020 (where this information is available). The Digital Services STRI is a composite index that quantifies the barriers to digitally enabled services in infrastructure and connectivity, electronic transactions, payment systems, intellectual property rights, and other barriers. These may complement or substitute liberalized tax policy regimes on IT services. For the handful of countries where both the tax burden and the STRI rank are available, the STRI rank is moderately correlated with the tax burden (correlation coefficients of 0.72 for the tax burden on imports and 0.56 for the tax burden on domestic purchases). This result suggests that liberalized tax regimes for IT services are complementary to low levels of regulatory restrictiveness in digitally enabled services. This justifies the choice of Canada as a benchmark country in this study based on its low level of regulatory restrictiveness.

TABLE 6.
Overall Upfront Tax Burden and Digital Services STRI.

Country	Domestic	Imports	Imports under DTT/PTA	OECD Digital Services STRI Rank (2020)
Brazil	32%	56%	41%-56%	48
Canada	27%-33%	33%	33%-38%	1
Colombia	46%	39%	19%-29%	58
Costa Rica	18%-43%	13%	N/A	3
El Salvador	23%	33%	13%-23%	
Honduras	15%	10%	N/A	
Mexico	21%	16%-41%	16%-41%	10
Peru	48%	18%-48%	18%-33%	55
Trinidad and Tobago	13%	15%	0%-12.5%	
Uruguay	24%	0.6%-12%	0%-10%	61

Source: Questionnaire responses, Ernst & Young, Ernst & Young Worldwide Global Tax Guide 2021, OECD.
Note: The Digital Services STRI rank is out of a total of 74 countries.

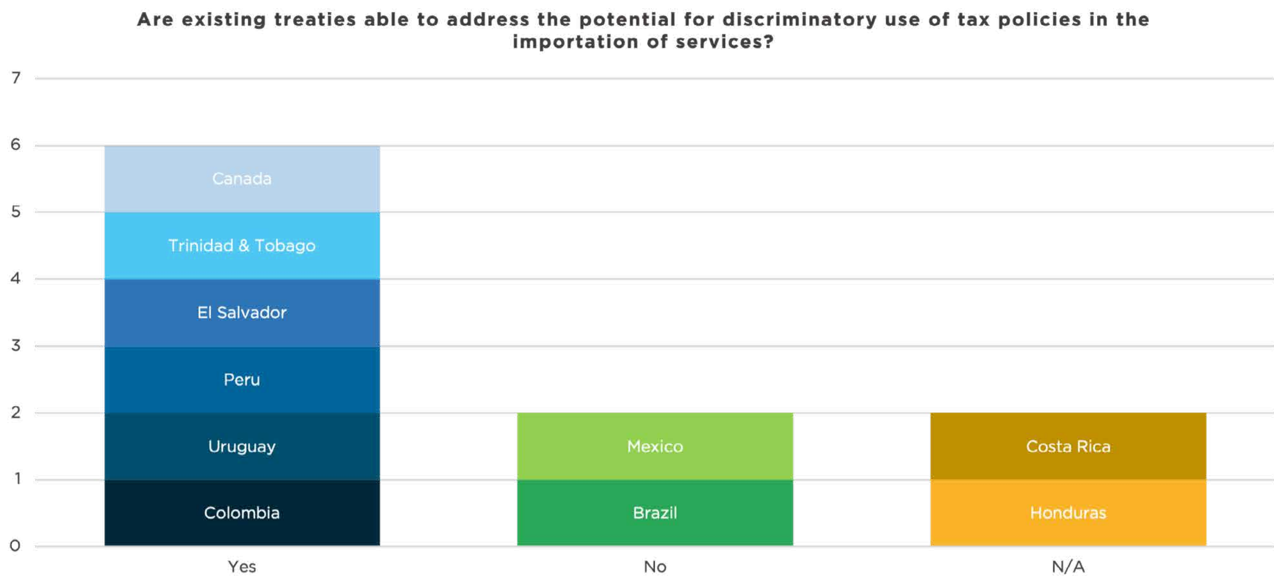
When comparing Canada's overall upfront tax burdens to those of the LAC countries in the study, it is clear that Canada's low regulatory restrictiveness is not necessarily indicative of a low tax burden. Canada's upfront tax burden on imports is higher than all but a handful of the LAC countries included in this analysis. The upfront tax burden on imports in Canada is also higher than the upfront tax burden on domestic purchases. Despite having higher upfront tax burdens than many LAC countries in this study, Canada imports more IT services than all LAC countries but Brazil, despite having less than 20% of the population of Brazil. This suggests that higher tax rates may not necessarily be a barrier to services trade if other conditions are right (e.g., regulations impacting services imports and a favorable macroeconomic environment).

6. The Role of International Treaties

In the previous sections, the questionnaire responses showed that DTTs are the most notable type of international treaty addressing the taxation of services. DTTs serve to lower the WHT rates paid but do not lower the rates of VAT or other applicable indirect taxes. The upfront tax burdens in tables 4 and 6 show that DTTs are effective at lowering the tax burden for imported services relative to domestic purchases, at times resulting in reverse discrimination for purchases of domestic IT services. However, treaties may not fully address tax policies that discriminate against imported IT services.

Figure 4 plots the questionnaire responses on whether existing treaties adequately address the potential for discrimination faced by imported services. Six countries indicate that existing treaties are adequate, confirming the result discussed in the previous section that DTTs do lower the overall effective tax burden. Two countries (Brazil and Mexico) responded that existing treaties do not address the potential for discrimination. In Brazil, the questionnaire responses indicate that one reason existing treaties are not adequate is because they only address WHTs and not the number of other taxes levied on imported services (table 2). The questionnaire responses in Mexico suggest that there are no provisions in current treaties that provide for lower tax rates for imports but that there are no tax barriers to the importation of IT services.

FIGURE 4.
Responses on the Adequacy of Existing Treaties.



Source: Questionnaire responses, Ernst & Young

The questionnaire also asked countries how existing treaties could be improved to lift barriers or reduce the discriminatory use of tax policies in the importation of services. Four countries gave suggestions, summarized in table 7, that include reducing the WHT rate in Peru and Trinidad and Tobago, implementing nondiscrimination in El Salvador and avoiding double taxation, and reducing the tax burden and facilitating the exchange of information in Brazil.

TABLE 7.
Areas in Which Existing Treaties Could Improve.

Country	Response
Brazil	Avoid double taxation, reduce indirect tax burden, facilitate exchange of information between jurisdictions
El Salvador	Nondiscrimination with respect to taxation of IT services
Peru	Reduce WHT rates
Trinidad and Tobago	Reduce WHT rates and eliminate the 2% limitation on deductibility

Source: Questionnaire responses.

7. Conclusions

This study's analysis of tax policies regarding domestic and imported purchases of IT services sheds light on another angle of the liberalization of services trade in LAC. A key aspect of any liberalization process is the principle of national treatment, or the equal treatment of imported and domestically made goods and services. However, the questionnaire responses show that existing policies do not create a level playing field in the upfront tax burden, although whether domestic or imported IT services face lower burdens varies by country. The upfront tax burden presented in this document is a measure of the immediate costs associated with the purchase of domestic or imported IT services. The size of the upfront burden can be a barrier to such purchases, even if these costs are recoverable or deductible at later stages or the effective size of the tax burden is changed by other factors such as the regulatory or macroeconomic environment in a country or costs impacting imports.

In Brazil, Trinidad and Tobago, and El Salvador, imports face a greater upfront tax burden, and there is room for DTTs or other international treaties to reduce the tax barriers faced by importers, which would be in line with the principle of national treatment of imported services. In Brazil in particular, there is room to reduce the levels of taxation and bias against imports. In Colombia, Costa Rica, Honduras, and Uruguay, domestic providers of IT services face higher upfront tax burdens. This reverse discrimination creates resource misallocation among domestic sectors, reducing the competitiveness of all goods and services sectors that use domestic IT services as inputs, particularly for digitally deliverable services that rely heavily on efficient, low-cost IT services. In these countries, changes to tax policy could result in equitable taxation for domestic and imported IT services.

The questionnaire responses indicate that while existing international treaties reduce the WHT rates paid on IT services imports, which makes them effective at lowering the barriers faced by imports, the taxation of services imports is taken up in DTTs and not PTAs. In contrast to the situation for trade in goods, PTAs appear not to be an effective mechanism for ensuring equitable treatment of domestic and imported services. Moreover, in Brazil, even DTTs may not be effective at lowering barriers to imports. The questionnaire responses showed the wording of DTTs played an important role in determining whether they applied to specific transactions, suggesting this may be an area for improvement in the DTTs of Brazil and possibly other countries in the region. While the majority of countries responded that existing treaties are able to address the potential for discrimination against imports, several countries made suggestions about areas that treaties could focus on to alleviate tax barriers to imports. Notably, in Brazil, the coverage of treaties could be expanded to include various indirect taxes applied to services imports, as well as avoiding double taxation and encouraging the exchange of information.

Overall, the questionnaire responses point to a process of liberalization of services trade in the region that is still ongoing. In some countries, upfront tax burdens on imports are low (e.g., 0%–10% in Uruguay), and changes to tax policy would do best to focus on ensuring equitable, effective tax treatment for domestic and imported purchases. In other countries, upfront tax burdens on imports are high (e.g., 41%–56% in Brazil) and serve as a barrier to imports, suggesting that changes to tax policy should focus on lowering the rates that result in this high burden. Within the region, whether imports or domestic purchases of IT services face higher upfront tax costs varies from country to country. This heterogeneity does not necessarily depend on the nominal rates in place, revealing the complexity of tax policy in LAC and underlining the need for further analysis on the impacts of tax and regulatory policies on services imports.

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Appendix 1: Questionnaire Sent to Tax Advisory Professionals at Ernst & Young

This questionnaire seeks to obtain information on the taxation of information technology ("IT") services as classified and defined under the United Nations Central Product Classification Version 2.1 when the services are (1) purchased in the domestic market; and (2) imported:

- 8313 IT consulting and support services.
- 8314 IT design and development services for applications, networks, and systems; and software originals.
- 8315 Hosting and IT infrastructure provisioning services, including website hosting and application and other service provisioning.
- 8316 IT infrastructure, network and computer systems management services.

QUESTIONNAIRE

1. What area(s) of IT services are companies in your jurisdiction involved in the purchase of domestic and/or imported services: IT consulting and support services, IT design and development services, hosting and IT infrastructure provisioning services, IT infrastructure and network management services?

2. Please describe the median client importing services in your jurisdiction in terms of size (annual sales and number of employees) and sector.

3. What are the taxes charged on the purchase of services by companies in your jurisdiction when the service is:

a) Imported?

b) Purchased in the domestic market?

c) In case of importation of the service, please inform whether each applicable tax:

i. is based on income, value-added, currency conversion, or another factor;

ii. is payable as a withholding tax.

d) In case of purchase of the service in the domestic market, please inform whether each applicable tax:

i. is based on income, value-added, currency conversion, or another factor;

ii. is payable as a withholding tax.

4. Are services in your jurisdiction subject to a tax regime in addition to general corporate tax when the service is:

a) Imported?

b) Purchased in the domestic market?

c) Are taxes levied on the importation of services different than those levied on the importation of goods and/or imported technologies?

d) Are taxes levied on the importation of services different than those levied on domestic services?

e) Do imports of services within the scope of this questionnaire have a different treatment vis-à-vis imports of other services?

5. Which of the following criteria are used to determine whether a given transaction is a service importation? Please indicate the specific taxes with respect to which each criterion is decisive.

a) The remittance of funds abroad.

b) The place of business of the service provider abroad.

c) The performance of the service in the country where the importer is based.

d) The "results" of the service being identified in the country where the importer is based.

e) Other criteria (please specify).

6. Are the following cross-border transactions considered importation of services for taxation purposes:

a) leasing/renting,

b) licensing or granting rights to use technology,

c) providing technical services in support of product operation with the transfer of technology,

d) providing technical services in support of product operation without the transfer of technology,

e) providing technical assistance and training for local personnel?

If applicable, please explain the criteria that are used to distinguish those cross-border transactions from the importation of services.

7. If your country has political subdivisions, please indicate:

a) Whether services taxed at different levels (e.g., at federal, state, and/or municipal levels) when the service is:

i. Imported;

ii. Purchased in the domestic market.

b) If so, does the tax burden vary depending on the place to which services are purchased when the service is:

i. Imported?

ii. Purchased in the domestic market?

8. For services purchased in the domestic market, please indicate, with respect to each tax levied on services purchased in your jurisdiction:

a) the tax rate;

b) the tax base (please highlight any specificities, e.g., if certain taxes are included in the calculation basis of other taxes, and which taxes if so).

Based on answers 8(a) and 8(b), please complete the table below indicating the tax rate applicable to a hypothetical service purchased by a company in the value of $1,000.00.

Simulation of the tax burden on services purchased in the domestic market					
(1) Tax	(2) Transaction value	(3) Tax base	(4) Nominal rate	(5) Effective tax burden	(6) Tax amount paid
	$1,000.00				
	$1,000.00				
	$1,000.00				
TOTAL					

Please inform each applicable tax (e.g., VAT, WHT, etc.).

This is the transaction value in the currency of your country. Please do not change the value and do not convert it to another currency.

Please inform the effective tax base. For example, if the tax base is the value of the transaction plus $50, please inform $1,050.00.

Please inform the tax rate applied to the tax base (e.g., 5%)

Please inform the effective tax burden on the transaction, according to the following formula: (E) = (D) x (C) / (B)

For example: (E) = 5% x $1,050 / $1,000.00 = 5.25%

Please inform the actual tax amount paid, according to the following formula:
(F) = (D) x (C)
For example: (F) = 5% x $1,050 = $52.50

Note: Please inform whether there are variables (e.g., the type of service, the place of business of the purchaser, the place of business of the supplier, etc.) that affect the above answers. In the case of variations relating to item (3) (tax base), please complete as many versions of the table as necessary to reflect all possible scenarios.

9. For imported services, please indicate, with respect to each tax levied on services imported by companies in your jurisdiction in general (i.e., without considering any applicable trade or tax treaties):

a) the tax rate;

b) the tax base (please highlight any specificities, e.g., if certain taxes are included in the calculation basis of other taxes, and which taxes, if so).

Based on answers 9(a) and 9(b), please complete the table below indicating the tax rate applicable to a hypothetical service imported by a company in the value of $1,000.00.

Simulation of the tax burden on imported services					
(1) Tax	(2) Transaction value	(3) Tax base	(4) Nominal rate	(5) Effective tax burden	(6) Tax amount paid
	$1,000.00				
	$1,000.00				
	$1,000.00				
TOTAL					

Please inform each applicable tax (e.g., VAT, WHT, etc.).

This is the transaction value in the currency of your country. Please do not change the value and do not convert it to another currency.

Please inform the effective tax base (for example, if the tax base is the value of the transaction plus $50, please inform $1,050.00).

Please inform the tax rate applied to the tax base (e.g., 5%)

Please inform the effective tax burden on the transaction, according to the following formula: (E) = (D) x (C) / (B)
For example: (E) = 5% x $1,050 / $1,000.00 = 5.25%

Please inform the actual tax amount paid, according to the following formula:
(F) = (D) x (C)
For example: (F) = 5% x $1,050 = $52.50

Note: Please inform whether there are variables (e.g., the type of service, the place of business of the importer, the place of business of the exporter, etc.) that affect the above answers. In the case of variations relating to item (3) (Tax base), please complete as many versions of the table as necessary to reflect all possible scenarios.

10. Are there existing tax or trade treaties that would impact the amounts reported in question 9 or regulatory aspects of the importation of services? If so, please specify:

a) Which trade or tax treaties could be applicable to the importation of the service in your country?

b) Are existing treaties able to address the potential for discriminatory use of tax policies

in the importation of services?

c) Please provide responses to question 9 again, illustrating the primary business effects of the applicable trade or tax treaties.

11. In what areas could existing treaties improve to alleviate barriers or reduce the discriminatory use of tax policies in the importation of services?

12. Can the taxes levied on services imported or purchased in the domestic market by companies in your country be recovered by deducting expenses or by generating tax credits to importers? If so, please specify.

a) The type(s) of tax that can be recovered

i. on the importation of services;

ii. on the purchase of services in the domestic market.

b) With respect to each tax

1. levied on the importation of the service:

i. What is the recoverable percent or amount?

ii. How is the amount recoverable? For example, by using tax credits on

subsequent sales, by a cash refund, etc.

iii. Are there any specific requirements and/or restrictions? Please specify.

2. levied on the purchase of the service in the domestic market:

i. What is the recoverable percent or amount?

ii. How is the amount recoverable? For example, by using tax credits on

subsequent sales, by a cash refund, etc.

iii. Are there any specific requirements and/or restrictions? Please specify.

13. Can the fees paid for the purchase of service in the domestic market by companies in your country be recovered as deductible expenses? Are there any limitations?

14. Can the fees paid for services imported by companies in your country be recovered as deductible expenses?

a) Are there any limitations?

b) In Brazil, there is a mandatory register with public agencies for contracts of importation of services that involve the transfer of technology, with control of the agreed conditions. The expenses with nonregistered contracts are not deductible and the expenses with registered contracts are limited (e.g., 5% of the revenues in Brazil derived from the use of said technology). Does that also occur in your country?

15. If a withholding tax is charged on the importation of services in your country:

a) Is it deducted from the amount payable to the beneficiary of the imported services fees? In other words, what company bears the burden of the withholding tax: the paying company or the beneficiary company?

b) Assuming that the withholding tax is deducted from the amount payable to the beneficiary of the imported services fees, is a gross-up clause usually adopted in your country, in order to make the paying company bear the withholding tax burden?

c) What are the consequences of the adoption of a gross-up clause by a company in your country that imports services?

i. Does the tax base of the withholding tax or of other taxes change? Please specify.

ii. Does the withholding tax become a deductible expense?

iii. Are there other consequences? Please specify.

16. Do specific rules apply with respect to imported services originating in tax haven jurisdictions? Please specify.

17. Are there any direct or indirect tax incentives with respect to services purchased in the domestic market by companies in your jurisdiction? In your response, please consider whether there are incentives to the domestic or international (export) trade of goods or services that use domestic services as inputs in their production or marketing chains.

18. Please comment on any other relevant issues concerning the taxation and regulation of imported services or service imported in the domestic market in your jurisdiction, which have not been addressed in the previous questions.

19. Please describe any barriers, different treatment, or disincentives companies face in the importation of services in your jurisdiction. Please explain whether these barriers have prevented companies from importing a service and opting for a domestic alternative.