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TAXATION IN THE MERCOSUR AND COORDINATION POSSIBILITIES¹

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1. Evolution and structure of taxation in the MERCOSUR countries

1.1 Global tax pressure

In order to assess the importance of tax levels in the MERCOSUR countries, the average taxation pressure was calculated (that is to say, effective tax collection in each country as a percentage of its Gross Domestic Product) for the decade of the 90's. In every case, the jurisdiction taken into account was as wide as possible considering tax revenues of the federal governments, including, when pertinent, state and provincial revenues; municipal revenues were also included whenever this information was available. Likewise, not only internal taxes and customs duties revenues were considered but also contributions and payments for social security funding.

Several conclusions can be drawn not only from Table I, which shows the tax pressure by jurisdiction calculated on the basis of an average for years 1990, 1995 and 2000, with a break-down of the main taxes, but also from the Statistical Annex that includes a jurisdictional classification broken down by tax and by country.²

Table 1

MERCOSUR Tax Pressure by Jurisdiction Average years 1990, 1995 and 2000

Jurisdiction	Argentina	Brazil	Paraguay	Uruguay
Federal Government (internal taxes)	10.9%	13.1%	7.8%	15.0%
Of which: - General Sales Tax	5.5%	n/c	2.9%	7.6%
- Income Tax	2.2%	5.5%	1.7%	1.7%
Intl' Trade	1.0%	0.7%	2.2%	1.3%
Social Security	3.5%	7.4%	2.3%	8.2%
Subnational Governments	2.9%	9.1%	0.2%	2.5%
Total	18.2%	30.3%	12.5%	27.0%

Source: The authors' calculations based on data from the AFIP (General Tax Authority) and the IMF for Argentina; BNDES – Secretariat of Fiscal Affairs and Federal Revenue and Customs Secretariat of Brazil; Ministry of Economy, Undersecretariat of Economy and Integration, Central Bank and IMF for Paraguay; the General Tax Authority; Social Security Bank, Central Bank, Montevideo City Municipality and the Planning & Budget Office for Uruguay.

n/a: The General Sales Tax is applied at the subnational level.

Firstly, considering the current tax pressure, four taxation levels are clearly noted: Brazil has the highest taxation coefficient (32.6% of GDP), followed by Uruguay (28.5%), Argentina (21.7%) and Paraguay (13.7%), all of which refer to the year 2000.

² Tables I through VIII of the Statistical Annex include information on the indicated averages, disclose a steady, growing trend and also provide a detailed historical evolution of the taxation pressure.

Secondly, it is confirmed that the ranking has not varied since the creation of the MERCOSUR; that is, the highest coefficient of taxation pressure has always been Brazil's, followed by Uruguay, Argentina and Paraguay, in that order.

Thirdly, it is noted that the taxing pressure has increased in all countries, mainly in Argentina between 1990 and 1995³, by 8.1 points of GDP, and in Brazil between 1995 and 2000, by 3.2 points of GDP.

In Argentina, total tax revenues of the federal, provincial and municipal governments (including social security income) represented 13.5% of GDP in the 70s and 14.5% in the 80s. As from 1991, there has been an increase that places this pressure at 18% of GDP, taking Argentina to a third level, after Brazil and Uruguay.

In Brazil, the steady growth indicated above, which ends in 2000 at the maximum historical level of 32.6% of GDP, is explained by the economic stability stemming from the *Plan Real* and by further taxing on goods and services, particularly of the cumulative type, meant to finance social security - will revert to this point later – as well as new taxes on financial activities.

The average high tax pressure in Brazil and Uruguay during 1990-2000 (30.3% and 27.0%, respectively) leads to the hypothesis that these two countries have made a tax effort beyond their tax capability. Contrariwise, the average level of tax pressure in Argentina and Paraguay seems to indicate that their tax efforts are below their tax capability.

1.2 Considerations on the countries' tax efforts

The taxing capability of a country can be defined as the percentage of GDP that such country should collect, given the economic features that influence its tax collection capacity, such as the per capita income, volume of exports, mineral resources and the participation of industry and agriculture in GDP (Jenkins, G., Kuo, C.Y. and Shukla G., 2000).

The fiscal efforts of a country are defined as the relationship between its current revenues as a percentage of GDP and its taxing capacity. If this coefficient is lower than one, it would indicate that the government can introduce changes in the taxable bases and/or in the rates and thus increase revenues without excessive economic costs, to the extent that it is presently exploiting its tax yield potential less than the average of countries with similar characteristics. If on the contrary, the fiscal effort coefficient is greater than one, the tax system is collecting more than its potential revenues.

Recent measurements of the taxing efforts in developed and developing countries seem to confirm the previously mentioned hypothesis, after observing the average tax pressure. Indeed, after a recent study (Piancastelli, 2001) which took 1985-1995 as a base period, Brazil's effort coefficient has been estimated at 1.18 and Uruguay's at 1.05, while Argentina's is 0.65 and Paraguay's, 0.58.⁴

³ This paper does not include the earnings of state companies with market power (monopolies and oligopolies) but does include revenue from taxes on non-renewable natural resources (royalties) in Argentina for approximately 0.25% of GDP on average for the decade. Additionally, the authors acknowledge limitations of representation for a country when specific years are defined as reference points, such as the case of Argentina 1990, but comparisons among countries calls for this.

⁴ The estimated taxing capacity coefficients were taken from Piancastelli's paper and compared with the tax pressure coefficients (as a percentage of GDP) calculated for such document. This procedure was used because very significant differences were observed between the effective tax pressure coefficients presented by the author and those calculated in this paper.

Bearing in mind this tax effort and also in the light of Brazil and Uruguay's prudent tax buoyancy⁵ coefficients, very close to one (1.0), it seems clear that the tax pressure increase is limited to solving chronic fiscal unbalances in these countries. But in the case of Argentina, it could be said that this country's option is open to increasing revenues.

Paraguay shows surprising tax buoyancy coefficients, which are over 1.25 for all taxes calculated. The fact that its tax system is relatively young and was structured around the VAT only in 1993, and that there is low taxing pressure explains the strong difference of its tax buoyancy coefficient compared to the coefficients of more mature systems in the other three countries.

⁵ Tax flexibility (*tax buoyancy*) is defined as the quotient between the percentage change in the collection of a tax, including the discretionary changes in the base and/or the rates, and the percentage change in GDP. In turn, the elasticity resulting from tax collection (*tax elasticity*) is defined as the quotient between the percentage change in the collection of a tax - once discretionary changes in the rate and the base have been worked out - and the percentage change in GDP.

Table 2

Tax flexibility coefficient in the 90s in the MERCOSUR countries ⁽¹⁾				
Taxes	Argentina	Brazil	Paraguay	Uruguay
General Tax on Goods and Services ⁽²⁾	0.929	1.021	1.283	1.075
Income Tax	0.839	1.003	1.275	1.283
Social Security	0.973	1.015	1.493	0.994
Subnational Governments	0.961	1.012	n/d	1.109
Total	0.967	1.014	1.262	1.024

Source: The authors' calculations are based on data from the AFIP (General Tax and Customs Authority) and the IMF for Argentina; BNDES – Secretariat of Fiscal Affairs and Federal Revenue and Customs Secretariat of Brazil; Ministry of Economy, Undersecretariat of Economy and Integration, Central Bank and IMF for Paraguay; the General Tax Authority; Social Security Bank, Central Bank, Montevideo City Municipality and the Planning & Budget Office for Uruguay.

(1) The following time frames were analyzed: a) Argentina 1991-2000 in order to cover exclusively the duration of the Convertibility Plan; b) Paraguay 1993-2000, since a new tax system was designed in 1993 and the VAT was implemented; and c) Brazil and Uruguay 1990-2000.

(2) It includes taxes at the Central or Federal Government and Subnational Government levels.

n/d: not determined.

Table 3

Variation of the MERCOSUR tax pressure by jurisdiction 1990 – 2000				
Jurisdiction	Argentina	Brazil	Paraguay	Uruguay
Federal Government (internal taxes)	94.5%	14.3%	20.3%	17.4%
Of which: - General Sales Tax	173.5%	n/c	n/d	22.5%
- Income Tax	615.7%	-8.8%	56.9%	113.0%
Intl' Trade	-47.6%	100.0%	-14.7%	-58.7
Social Security	43.7%	5.5%	59.1%	7.0%
Subnational Governments	143.1%	15.5%	266.5%	48.6%
Total	75.1%	13.2%	22.9%	10.8%

Source: The authors' calculations are based on data from the AFIP (General Tax and Customs Authority) and the IMF for Argentina; BNDES – Secretariat of Fiscal Affairs and Federal Revenue and Customs Secretariat of Brazil; Ministry of Economy, Undersecretariat of Economy and Integration, Central Bank and IMF for Paraguay; the General Tax Authority; Social Security Bank, Central Bank, Montevideo City Municipality and the Planning & Budget Office for Uruguay.

n/c The General Sales Tax is applied at the subnational level

n/d The General Sales Tax came into force in 1993

The analysis of the Tables shown in the Statistical Annex also indicates that the stability of the Brazilian tax system stands out in opposition to the volatility of the Argentine tax system. Since the 1988 constitutional amendment which entered into force in April 1989, no significant changes have taken place in the tax system. On the other hand, the stability stemming from the *Plan Real* also helps to explain its low variation coefficients (as shown in Table 3).

1.3 Jurisdictional Classification of Tax Revenues ⁶

⁶ Tables I through VIII of the Statistical Annex show income tax revenues in the MERCOSUR countries for the years 1990, 1995 and 2000, broken down by collection agency – the federal/central government, subnational governments and social security.

Considering tax revenues according to the jurisdictions in charge of their collection, it is necessary to highlight a significant difference between the two MERCOSUR federal countries. While in Brazil, subnational governments –states and municipalities- collected more than 9% of GDP in 2000, Argentine provinces and municipalities only collected close to 4% of GDP.

Therefore, from the taxation viewpoint, Brazil shows a more decentralized and federal structure than Argentina. In the last two decades, Argentina decentralized a great part of the national spending towards the provinces, but the tax system continues to be highly centralized at the central government level since, out of the total resources of the federal government, provinces only generate 18% with their own resources.⁷

Table 4

Percentage structure of the MERCOSUR tax pressure
Average for 1990, 1995 and 2000

Jurisdiction	Argentina	Brazil	Paraguay	Uruguay
Federal Government (internal taxes)	59.7%	43.4%	62.2%	55.5%
Of which: -General Sales Tax	29.9%	n/c	23.0%	28.1%
- Income Tax	12.2%	18.3%	13.8%	6.5%
Foreign Trade	5.2%	2.2%	17.9%	4.6%
Social Security	19.1%	24.4%	18.3%	30.5%
Subnational Governments	16.0%	30.0%	1.6%	9.4%
Total	100.0%	100.0%	100.0%	100.0%

Source: Calculations are based on data from the AFIP (General Tax and Customs Authority) and the IMF for Argentina; BNDES – Secretariat of Fiscal Affairs and Federal Revenue and Customs Secretariat of Brazil; Ministry of Economy, Undersecretariat of Economy and Integration, Central Bank and IMF for Paraguay; the General Tax Authority; Social Security Bank, Central Bank, Montevideo City Municipality and the Planning & Budget Office for Uruguay.

n/a: The General Sales Tax is applied at the subnational level.

However, the more decentralized tax structure of Brazil - rather an advantage from the standpoint of fiscal federalism to the extent that greater correlation is found between revenues and spending for each government level – can be an obstacle in terms of a future MERCOSUR tax harmonization. As an example, since the Tax on the Circulation of Goods and Services (ICMS) generates the greatest revenue and is a state tax, an institutional problem may arise at the time of trying to harmonize this tax with the VAT charged by the central governments of Argentina, Paraguay and Uruguay, as discussed further ahead.

2. Regulating the main taxes

⁷ It is worthwhile pointing out that the provinces manage taxes which only cover around 30% of their spending (year 2001) and that, considering provinces and municipalities, the taxes levied by these two barely represent 40% of total subnational resources (that is to say, more than 4% of GDP). Finally, resources of all types that fall within the provinces' and the municipalities' authority, do not reach 44% of total subnational resources (the remaining 56% is covered by means of transfers sent from the central government).

Tax systems of the MERCOSUR countries look very much alike at first sight. In all cases, tax revenues are structured around a prevailing general tax burden on goods and services, a high share of contributions and payments to social security and a traditionally low revenue from direct taxes. However, as soon as this is analyzed in depth strong differences arise with respect to the countries' regulations. The Legislative Annex (Tables A through K) provides a detailed comparative description of taxation on consumption, transactions, income and net worth in the four countries.

Comments on certain features of the main taxes follow:

2.1 Taxes on Goods and Services

2.1.1 General excise taxes

At the federal/central government level, Argentina, Paraguay and Uruguay charge VAT on services and transfer of goods. In all these cases, it is a consumption type of VAT, that is to say, the deduction of the tax paid on the purchase of capital goods – machinery and equipment -is accepted. The levy is applied in all countries following the method of tax against tax or debit minus credit. In the case of transfer of goods, the destination criterion is applied in all countries, which means that a tax is levied on imports and exports are tax exempted. Strictly speaking, no duties are charged on exports and thus the tax paid when purchasing the inputs involved in manufacturing the exported product is reimbursed. Likewise, in all cases import duties are paid prior to customs clearance of the merchandise.

The situation is even more heterogeneous when it comes to the tax treatment for services; while in Argentina the destination criteria is applied, in Paraguay and Uruguay the principle of origin prevails – services are taxed within the national territory.

In Brazil, the Tax on the Circulation of Goods and Services (ICMS), technically a VAT-type tax, is the main state tax and is levied on transfer of goods and services in communications and inter-municipal and interstate transportation. The Tax on Services (ISS), a municipal, single-phase tax, is levied on the remaining services.

Supplementary Law 87, dated September 1996, was the last and most important ICMS reform whereby very noticeable distortions were corrected and the ICMS design brought closer to the other MERCOSUR countries' VAT. Firstly, it eliminated duties on primary product exports that until then were the only ones taxed; and at the same time it set up a “zero rate” mechanism which, as stated before, not only exempts all exports from paying the ICMS but also allows the exporter – at least in theory – to recover the ICMS paid when buying inputs taxed and involved in the production of exported goods. Secondly, it allowed for the deduction of the tax paid when buying capital goods -not allowed before-, thus defining it as a consumption-type tax.

As mentioned earlier, both modifications bridge the technical gap between the ICMS and the VAT of the other three MERCOSUR member countries. However other distortions still remain that have not been considered yet despite several reform proposals.

As explained above, the ICMS can be considered a partial VAT as it is only levied on goods and two services: communications and inter-municipal and inter-state transportation. A Tax on Services (ISS) is levied on the rest of the services. By applying each tax separately from the other tax, cumulative effects are generated between them, as one starts to become a part of the cost on which the other is calculated. This causes distortions regarding exports, which have not been corrected yet.

Secondly, although in theory it is possible to recover the ICMS paid on input purchases, in practice the only deduction allowed is the tax included in inputs directly involved in the production process and not the tax on goods and services indirectly involved in the production of the exportable good (for example, administrative expenses of the exporter's offices). This situation, as well as the previous one, brings about cumulative effects in the tax burden of production costs.

Thirdly, it is worth mentioning once again that the ICMS at the national level is applied on the basis of the place of destination criterion. But at the state level it is a hybrid tax partly levied on production (principle of origin) and partly on consumption (principle of destination). ICMS problems with regard to sales between states become evident when considering exports.

Let us consider a company that settles in state A, the production of which is totally and directly exported. Exports do not generate ICMS debits but input acquisitions do generate credits. In the absence of debits to be compensated – it is a purely exporting company - they have to be returned. If the credit originates in a tax paid on input purchases in state A, the reimbursement exactly matches the previous revenue. But if inputs were purchased in another state, let us say state B, which collected the corresponding ICMS (principle of origin), A continues to be the state that must make the corresponding reimbursement. In addition to not collecting, state A now has an obligation to disburse originated in the taxpayer's credits.

In practice, this situation leads to the fact that many states refrain from granting these credits, thus generating a third case of cumulative effects. However in 1999 it was approved that these balances could be transferred to other ICMS taxpayers of the same state.

On the contrary, in Argentina, Paraguay and Uruguay, the mechanisms for refunding exporters' VAT work reasonably well when credits over taxes paid on the purchase of inputs are not enough to be compensated by the resulting debits from domestic market sales.

Finally it must be noted that local production incentives granted by the different Brazilian states – a goal of the ICMS design – are discriminatory against imports from other MERCOSUR member countries.

Regarding Argentina, Paraguay and Uruguay's VAT exemptions, it is important to consider the following:

- Argentina and Uruguay have significant coincidences in exemptions they grant on certain services: real-estate rental, education, cultural and sport activities, health and transportation⁸. Nevertheless, as regards sale of goods there are outstanding differences: Uruguay does not apply the VAT to real-estate, fuel or cigarette sales, but Argentina does.
- Paraguay has the lowest number of exemptions and also a lower rate - 10%.

2.1.2 Excises Taxes

Excises taxes are important generators of fiscal resources within the MERCOSUR – nearly 2 points of the countries' GDP average, basically due to the low price elasticity of the products levied (addictivity or lack of substitutes) and their easy administration (small number of producers and a situation that clearly originates the tax since goods are taxed at factory gate quantities and retail price taxable bases).

⁸ There are differences in health and transportation. In Uruguay, health services rendered by Collective Health Assistance Institutions (Mutualist Institutions) are charged a 3% specific tax – the IMESSA – on sales and a 23% VAT is charged on services rendered by independent professionals. The intention of taxing all services with a 10% VAT was not successful and presently Uruguay is trying to increase the IMESSA by 5%.

Overall, the MERCOSUR countries have not used excises taxes with protectionist purposes in opposition to other South American and Central American countries. As an exception it is worthwhile mentioning that discrimination has been found on imported products in Paraguay and Uruguay by way of higher rates of excises taxes than those applied to national substitution products. There has been a strong conflict between Argentina and Uruguay because the latter doubles the CIF price for imported cigarettes before applying the IMESI tax.

The way fuels were treated illustrates the dispersion of regulations concerning excises taxes in the MERCOSUR countries:

- i) Argentina charges Internal Taxes and VAT on fuel;
- ii) Brazil does not charge the federal Tax on Industrialized Products (IPI) on fuel and, generally it is taxed at state level through the ICMS;
- iii) Uruguay and Paraguay charge specific taxes on fuel, but not the VAT.

The following two features refer to taxing at the federal level in Brazil by means of the specific IPI tax (Tax on Industrialized Products):

- According to its wide base and percentage structure, firstly it is a excises type of tax but it is implemented following the method applied to the value added taxes, as it takes into account credits on taxes from previous production stages.
- As already stated, the IPI is not collected on fuels or telecommunication services, which on account of their characteristics are generally included in the list of products subject to excises taxes. This encourages the ICMS – which does tax the above – to apply high rates on them that resemble more those of a excises tax than those of a general excise tax, like the VAT-type.

States charge a 25% tax on fuels, which means an effective rate of 38.5%⁹ since the ICMS rates are calculated “within”. Besides, telecommunications are subject to a 35% tax (an effective rate of 53.8%).

High rates on gasoline have been established in Uruguay for revenue purposes. Since an identical policy regarding diesel oil would raise the costs of productive sectors that use it as a main input, including transportation, lower rates have been established for this fuel.

However it is clear that there is no underlying energy and/or environmental policy in the determination of those rates, since excises tax rates on sales of diesel-powered automobiles are remarkably higher than those for gasoline-powered vehicles.

On the contrary, Brazil’s IPI does not tax fuel but an environmental policy is involved in determining the IPI for automobiles, whereby lower rates are applied to those vehicles using alcohol and natural gas that have a lower impact on the environment.

2.2 Income taxes

The four MECOSUR member countries apply a tax on corporate income (tax on the legal entities’ income – IRPJ). Moreover, Argentina and Brazil also apply the natural persons’ income tax (IRPF), though this is not in force in Paraguay and Uruguay. However it can be argued that the latter countries have a *schedular*

⁹ The 1988 Constitution brought about the possibility to consider the ICMS a excises tax because it is applied to essential goods or services - to that date only feasible for the IPI. Needless to say, this is implemented through differential rates.

income tax to the extent that the corporate tax is levied on income from company activities developed on an individual basis – unipersonal companies.

In Argentina and Brazil, the only tax applied on the companies' income is the legal entities' tax or corporate tax, that is, dividends are not included in the taxable base of the personal income tax, thus avoiding a double taxation. However the solution is different to Chile's, which also avoids double taxation. In that country, dividends are inserted in the whole of personal income and the beneficiary of the dividends is granted a credit on the tax paid on behalf of the company. The difference lies on the fact that by being included in the personal income taxation base, corporate revenue is incorporated into the progression of the natural persons' income tax.¹⁰

Sin embargo, debe apuntarse que por una parte, en Brasil la tasa marginal del impuesto a la renta personal en Brasil (27.5%) es menor a la tasa del impuesto a la renta empresarial (34%) y que por la otra, en Argentina la tasa marginal del impuesto a la renta de las personas físicas y la tasa del impuesto a la renta de las personas jurídicas son iguales (35%).

Nonetheless, it should be noted that, on the one hand, Brazil's marginal personal income tax rate(27.5%) is lower than the rate of the corporate income tax (34%)¹¹ and, on the other hand, Argentina's marginal rates of the natural persons' and legal persons' income taxes are the same (35%).¹²

As explained above, in Argentina as well as in Brazil, personal income tax is not levied on dividends received from national resident companies, unlike dividends received from non resident companies. In both countries a fiscal credit is granted for the tax paid in the source country.

2.2.1 Corporate tax

Below are some of the important differences regarding corporate taxes in the four MERCOSUR countries:

- Regarding jurisdictional criteria it is important to note that Argentina and Brazil apply the “world-wide income” criterion, that is, these countries levy a tax on individuals residing in the country, national companies and their branches and other “permanent business establishments”¹³ of foreign companies for their national and foreign source income, while levying a tax on non-resident individuals and companies for their national source revenues.
- On the other hand, Paraguay and Uruguay apply the “source” criterion, that is, these countries levy a tax on resident and non-resident companies exclusively on the basis of their national source income.
- All countries apply the principle of “source company” or income flow, that is, all income received by a company is taxed, whether or not such revenue originates in its main activities. Therefore, in all cases a tax is levied on capital gains obtained by the companies as a result of the difference

¹⁰ The solution found in the Chilean case is important since the marginal rate of the personal income tax is 45%, while the personal income tax rate is 15%.

¹¹ The assumed case refers to an income above 240,000 *Reales* which pays a 15% corporate tax plus a surcharge of 10%, in addition to 9% for Social Security Contributions over Liquid Profits.

¹² The Executive Power introduced a bill in December 2002 to reduce to 30% the tax rate charged on the legal entities' income on an exclusive basis, a measure currently being discussed by the Legislature. This modification weakens the above-mentioned grounds.

¹³ OECD's Model Tax Convention on Income and on Capital, article 5, paragraph 1, defines the concept of “permanent establishment” for this Convention as a fixed place set up to carry on the company's businesses. The remaining paragraphs of article 5 define the scope of each term accurately.

between the sales and purchase price of assets such as shares, interests in other companies, real-estate and machinery.

- Regarding the type of corporate shares - an important point of tax control - there are registered shares in Argentina and Brazil, while there are bearer shares in Paraguay and Uruguay.
- Corporate tax is proportional in Argentina, Paraguay and Uruguay, with aliquots of 35%¹⁴, 30% and 35%, respectively¹⁵. In the case of Brazil, a slight progression is observed as a 15% tax is levied on all income plus 10% on those surpassing R\$ 240,000. Besides, an additional rate called Social Contribution on Liquid Profits (CSLL) –9% in 2002¹⁶ - is applied with the purpose of funding social security. Thus the total aliquot amounts to 34%.

2.2.2 Personal Income Tax

Below are some of the important similarities and differences between the Argentine and Brazilian personal returns:

- With reference to taxable income:
 - i) As already explained, neither Argentina or Brazil charge taxes on natural persons' dividends but do so indirectly through the corporate income tax on an exclusive basis. This system can bring about inequality among shareholders whose marginal tax rate is below the maximum tax rate.
 - ii) Interest gained on term deposits in the banking system are not subject to tax in Argentina but they are in Brazil. Likewise, Brazil levies more taxes on other profits in the financial markets than Argentina.
 - iii) Capital gains are only partly taxed in Argentina, when they originate in the purchase and sale of shares in the case of individuals not regularly making transactions and in relation to company stocks not publicly traded. On the contrary, they are more widely taxed in Brazil, generally at a 15% rate.
- An important feature of Brazil's IRPF is that several types of income, especially financial, are not included in the taxpayer's sum of incomes but are subject to final withholdings at the source.
- Exempted revenues as well as accepted deductions are wider in Argentina, and therefore the tax base is more eroded than in Brazil. However, it is appropriate to recall that the 1999 approved reform tried to correct this problem by eliminating some exemptions and reducing the level of deductions allowed.
- As regards aliquots in Brazil, they are applied in only two tax brackets – 15% and 27.5% - while in Argentina the aliquots range from 9% to 35%.

2.2.3 Tax treatment for revenues originating abroad

a) Withholdings on dividends

¹⁴ In this respect, please refer to the footnote on the previous page.

¹⁵ In Uruguay, the rate was increased from 30 to 35% in May 2002 (which impacted on June revenues). Before this, in February 2002, the minimum payment of IRIC had been raised (based on sales brackets). This payment works as a tax advance if the tax is higher, or remains as is if the IRIC settled is lower.

¹⁶ Starting on 1 January 2003, this rate was reduced to 8%.

No withholding on dividends is made in Argentina or Brazil if such dividends are remitted or credited abroad, except in a few cases. Uruguay only withholds taxes if the benefits are subject to taxation in the recipient country and if a tax credit is granted for the duty paid in Uruguay. In fact, Paraguay turns out to be the only MERCOSUR country that withholds taxes on transferred or credited dividends (5%).

b) Tax credit

Argentina and Brazil levy an income tax using the “world-wide income” criterion, that is, a fiscal credit is granted on tax paid abroad on account of foreign source income so as to avoid double taxation.

c) Withholdings on interest

There is consensus supporting the idea that low withholdings on interest would contribute to attract foreign direct investment. However, the dynamics fostering high withholding rates is illustrated in the following example (Byrne 2001).

Since the US levies taxes on interest in the same way as on other income, investors become indifferent as to the type of revenue they receive. Also, many Latin American investment strategies to reduce the tax burden involve debt financing, as interest can be deducted from corporate income tax. The reaction of the countries where investment is targeted translates into fixing high withholding rates on the remittance of interest between related parties. In turn, the foreign companies’ answer is through back-to-back loans, whereby the company lends money to a bank, which then lends it to the branch abroad.

High withholdings on interest, fixed with the purpose of avoiding back-to-back loans, may end up discouraging the granting of common loans (not back-to-back). Since the banks’ net income is approximately 10%, a 4% withholding on gross interest implies a net income of 40%. Consequently, the bank must transfer this cost to the borrower.

The most common withholding rates on interest are: Argentina 15.05%, Brazil 15%, Paraguay 17.5%. In turn, Uruguay does not make withholdings on interest sent or credited abroad.

If a country wishes to attract foreign investment without designing a fiscal incentive scheme, it can just do so by not interfering with debt management between related parties. That seems to be the case of Uruguay which does not make withholdings on interest.

d) Weak capitalization or undercapitalization rules

A great many OECD countries apply rules to treat cases of erosion of the taxable base of resident companies caused by non resident ones, through undercapitalization processes whereby they deduct huge interest amounts. In order to approach this subject, the OECD has prepared a series of reports for the countries to follow guidelines for establishing clear national rules¹⁷.

Within the MERCOSUR, the four countries have either general or specific types of rules for the pertinent sectors, which stipulate the criteria for treating undercapitalization¹⁸.

Argentina had general income tax rules that enabled the tax authority to ignore the loan and treat interest as hidden profits under certain circumstances. Likewise, it was possible to resort to the principle of the economic reality and pretend there was a credit if certain signals did not appear.

Since the enactment of Law 25063 (December 1999), a limitation was set up to restrain interest deductions whenever total liabilities accruing interest were higher than two and a half times the shareholders’ equity

¹⁷ In this respect the 1986 OECD report and 1995 Directives can be consulted as regards “secure ports”.

¹⁸ For further information please refer to Campagnale N., Catinot, S. and Parrondo, A. (2000).

at the end of the fiscal year and the amount of interest surpassed 50% of the net profit subject to tax in that period.

Brazil has no specific rules to control undercapitalization practices. Regarding the implementation of general rules, the existence of a hidden distribution can be presumed when a company does business with people associated under more favorable terms than those it would have agreed with independent third parties, applying the provisions of paragraph VI, article 462, of the Income Tax Regulations. On the other side, since 1995 there are rules regulating the "Regime for Interest on the Company's own capital", which aims at fostering the funding of national companies through their own resources. In this way, the government seeks to eliminate the differences between third-party and company capital.

Paraguay does not have general rules to govern undercapitalization. However there are specific and special rules regarding financial and insurance companies. These companies must comply with a minimum solvency margin with the purpose of strengthening the entity's net worth.

On the other hand, the owners, partners or shareholders cannot deduct interest derived from loans they have made and, owing to the fact no tax can be charged to the creditor on dividends, this weakens the attraction of using these maneuvers.

Lastly, it is noted that in Uruguay there are no specific rules on the matter and that the tax code establishes the preeminence of the economic reality principle over the legal provisions. However, there seems to be no precedent regarding the application of this criterion to the analyzed situations.

e) Rules against tax deferral

As was already noted, Argentina and Brazil levy taxes on the income of resident companies according to the "worldwide income" criterion. This system not only aims at maximizing collection but also at discouraging investment abroad that is based on taxes and not on profitability. This principle is known as the 'capital export neutrality'¹⁹.

At the same time, revenue from foreign sources earned by subsidiaries of resident companies is not taxed in Argentina and Brazil until the time dividends are paid to shareholders.

This concept is known as 'deferral' and reflects the legal principle that income must not be taxed until collected and the practical consideration that, for instance, Argentine resident companies would be at a disadvantage when investing abroad with respect to the local companies if the latter only pay the local tax (let us say 20%) and the Argentinean must pay 35% (20% plus the difference of 15% with income tax in Argentina). This principle is known as 'capital import neutrality'.

The underlying idea that all companies in a territory must pay the same taxes is reflected in the 'source' criterion adopted by various countries in Latin America regarding income tax (Uruguay and Paraguay in the MERCOSUR).

The concept of deferral can and has been used by taxpayers to delay payment of their taxes. A habitual practice has been to create intermediate companies in tax haven countries with the sole purpose of withholding dividends or other revenue until deciding on their re-investment.

¹⁹ This principle can be exemplified as follows: let us suppose that an investment in Argentina yields 100 before income taxes and 65 after such tax and, in turn, in a free area of Peru it yields 80 before and after taxes. Thus, only levying taxes on the revenues of Peruvian sources, Argentina would induce the local company to consider economic reasons and not tax reasons for deciding on the place for its investment.

In Argentina, Law 25,239 included provisions for eliminating the benefits of deferral for taxpayers with offshore investments through non-resident companies. Before the amendment, such dividends only paid taxes after their effective distribution. As a result of the reform, Argentine companies must include in their annual income, the increase in shareholder's equity stemming from 'passive income' coming from foreign companies located in low tax jurisdictions²⁰, in which an interest is held, in the percentage corresponding to that share. 'Active income' continues to be taxed at the time of the effective distribution of dividends.

The definition of 'passive income' includes profits from the sale of shares or interests in foreign companies or funds; financing facility interests, bank deposits, government bonds; profits stemming from financial instruments that are not hedging products; dividends, royalties and leasing of real estate (save for that related to economic activities).

Regarding Brazil, it is noted that there is no specific legislation to tackle the problem of harmful fiscal competition, except in the case of transfer prices that will be dealt with below.

Argentina and Brazil, besides other Latin American countries (among them Mexico and Peru) have established rules that intend to discourage the use of "intermediate companies" (holdings, offshore, trusts) specifically aimed at international tax planning.

It is interesting to note that these rules were designed to protect the tax base of the capital exporting countries, and in turn, the anti-deferral rules of the United States were designed to protect their tax base with respect to foreign source income.

f). Tax havens

In 1996, Brazil and in 1999, Argentina adopted regulations to prevent tax avoidance by stating that transactions carried out by residents with natural or legal persons incorporated or located in tax haven countries shall not be adjusted to normal market prices between independent parties and consequently must be subject to transfer price laws in each of the countries.

In Brazil, a 25% tax is levied on the payment of dividends, interest, royalties and technical assistance to beneficiaries from abroad coming from countries with income taxes amounting to 20% or less. Generally, a tax is not levied on dividends remitted to beneficiaries in countries with which there is no tax treaty and 15% is withheld on the payment of interest, royalties and technical assistance.

g) Transfer prices

Although the objective of lessening the burden of taxation is one of the goals of multinational companies through the management of transfer prices, there are also other purposes that encourage them on this track. This can be related to the need of transferring funds from one country to another, penetrating new markets or reducing competition, bringing down the payment of tariffs, reducing benefits obtained by the branches vis-à-vis the presence of local partners, and several others that could be analyzed.

²⁰Argentina has defined a list of low tax or tax havens which is important not only for the purpose of the anti-deferral regime but also regarding the provisions on transfer prices. This list contains the names of countries with the only exception of the *Sociedades Anónimas Financieras de Inversión* (Financial Investment Corporations -SAFIs) in Uruguay. In this case a form of incorporation in a given country was included since it responds to the criteria of low tax or tax haven.

Despite their presence, we will refer to the goal of diminishing the tax burden particularly regarding corporate tax and, more specifically, regarding the measures adopted by countries to counteract these objectives.

Argentina included in section 14 of its income tax law the arm's length principle or rule of the independent operator. In December 1998 the regulations were strengthened, particularly regarding the criteria applied to re-export and import transactions. These principles were then reinforced by standards included in December 1999 (Law 25,239).

Although such standards maintain the power of the General Tax and Customs Authority (AFIP) for resorting to average prices, indices or coefficients on the basis of the results of the companies operating in equal or similar activities so as to determine the Argentine source of earnings, they state that in order to verify transfer prices of those transactions made between related companies, the price fixation methods established in the law will be used as well as the methods established by the OECD on the matter.

Likewise, the regulations specify the tax treatment to be considered in the case of local companies with foreign capital that must determine their income and deductions as well as comparable transactions among independent parties or when entities or persons settled or domiciled in jurisdictions with no taxes or low-level taxing (tax havens) participate in the transactions. In the latter case, it is presumed that these transactions are not comparable transactions between independent parties and must be subject to a series of special regulations established by the AFIP for information and supportive evidence.

Brazil has enacted legislation under Law 9,430 of December 1996 which specifically regulates transfer prices for import and export transactions between related companies, the remittance of interest between them and transactions carried out with companies established in countries with favorable tax laws (tax havens).

Legislation sets forth the way of calculating deductible expenses on imports and a minimum floor for gross profits on exports in transactions between related parties. There is no principle regarding normal, open market prices on which the transfer price rules are based. The basic rule is the existence of a "minimum secure income".

In order to determine transfer prices in relation to imports, the use of comparative independent price (CIP) methods among unrelated parties is envisaged in the domestic or foreign markets under similar payment conditions; the resale price minus discounts and fees and a margin equal to 20% of the resale price; and finally, the method of production cost plus profits. In this case the transfer price is the average cost of production plus taxes and a 20% margin on costs.

With respect to export prices in Brazil the law enforces the tax haven's regime which states that if prices are 90% lower than the normal sales price on the domestic market, the company must determine prices according to one of the methods described above.

Regarding Uruguay there are no explicit standards on this topic. However, the tax authorities can inquire into the economic reality and make pertinent adjustments if they prove there is a linkage between contracting parties and a price distortion. Anyhow, the tax administration has the burden of proof.

The country does not have any explicit definition about related companies within its tax regulations although certain criteria can be taken from different pieces of legislation.

On the other hand, Paraguay has favorable conditions for international tax planning since there are no regulations as to transfer price control.

The following table summarizes the main provisions on the matter for the four MERCOSUR member countries.

Table 5

Legislation on Transfer Prices in the MERCOSUR

TRANSFER PRICES			ARGENTINA	BRAZIL	PARAGUAY	URUGUAY
Type of documentation	Documentation	Amounts of intercompany transactions	Yes, affidavit submitted every six months plus a supplementary yearly one	Yes, detailed information by transaction. Annual forms.	No	No
		Methods for price analysis	Yes, annual affidavit.	Yes	No	No
		Other statements	Information on companies located abroad, including address, linkage and identification number.	Totals and average prices by transaction (type of product or service imported or exported).	No	No
	Transfer Price Report	Functional Analysis	Yes.	No	No	Legislation establishes that prices must be in agreement with market laws.
		Price analysis at market value	Yes.	No		
		Method identification/justification	Yes, selection between methods established by OECD, identification of selected comparables, detail of adjustments made on comparables, determination of inter-quartile range.	It must be demonstrated with detailed calculations, using one of the authorized methods (CIP, Resale minus or Cost plus) by type of transaction within the safe harbors. Financial documentation (invoices, financial statements) must be attached. Note: New transfer price bill establishing methods consistent with the OECD ones is in Parliament.		
Deadlines	At the same time as	Transactions	No	No	No	No
		Tax Return	Documentation must exist at the time of the affidavit. A special form must be submitted.	Documentation must exist at the time tax return is filed (if calendar year coincides with the fiscal year, 30 June the following year)	No	No
		Request for information by Tax Office	Tax authorities request information through a form that sets forth the deadline for delivery of such documents.	It must be submitted 30 days after receiving request from tax authorities.	N/A	N/A

Penalties		General Penalties	The unpaid difference will be subject to an interest rate of approximately 3% per annum plus a fine of between 50% and 100% of that difference.	75% (150% in case of fraud) depending on the determination of the appropriate amount. This penalty can be reduced to 50% if the pertinent amount is paid in a term of 30 days. 112.5% (225% in case of fraud) if the amount owed is not paid within a term of 30 days.	The penalty for non-payment is equal to 50% of the owed amount.	Non-payment is subject to a penalty of 20% the owed amount plus a monthly interest. Fine is 100% of the amount owed should withholdings be made for sales in country of origin.
		Specific Penalties on Transfer Prices	If it is demonstrated that there was manipulation of transfer prices, penalties of up to 100% of that difference can be applied.		No	No
Bilateral Agreements		APA's Advance Price Agreements	No	Not explicitly envisaged that an advance ruling can be requested.	No	No

3. Tax Administration and Appeals

It can be asserted that the quality of a tax system depends on its administration. Tax Administrations play a key role, particularly in the midst of an economic integration process which requires the determination from participating states to cooperate in combating tax fraud, evasion and avoidance (CIAT, 1999).

The exchange of information is one of the main instruments for enforcement and prevention. In order to ensure that bilateral or multilateral agreements for exchange of information are effective they must take into account the different structures of tax administrations –in the wide meaning of the concept- and their degree of development so as to define, for instance, which are the competent authorities, verify the possibilities of simultaneous oversight or enforcement abroad, etc. For example, in the case of litigation between an investor (a company) in Pernambuco, Brazil, involving the re-settlement of the ICMS –a state tax-, the ISS –a municipal tax- and the Income Tax –a federal levy-, it will undoubtedly be difficult to define who the competent authorities are.

In this respect, vis-à-vis any dispute with the tax administration of the country receiving the investment, the double taxation treaties normally authorize both to work jointly in solving the conflict. This also requires a clear determination of which are the competent authorities. Therefore, it was considered pertinent to set forth in Table 6 the basic characteristics of the tax administrations in the MERCOSUR countries: their functional and financial dependence or independence; the separation or integration of domestic tax collection as well as customs duties and social security contributions; and the type of organization of the tax administrations (functional, by type of taxpayer, etc.).

Regarding integration of domestic taxes and customs duties collection, it must be pointed out that such integration takes place in Argentina, Brazil and Paraguay. Uruguay is the only MERCOSUR member country that maintains separate collection systems. It must be pointed out that the European Union, where administrations work efficiently, almost all –except for Spain, Holland and Denmark- keep separate collection systems for internal taxes and Customs duties. In Argentina, the General Tax and Customs Authority –AFIP- also encompasses the management of contributions and payments to social security.

As was mentioned, an integration process calls for the participating countries to strongly cooperate in combating tax evasion and in this respect, cooperation among the Judiciaries plays an essential role. Therefore, it was also considered pertinent to show in Table 7 the different stages of appeal for taxes. It must be highlighted that both Argentina and Paraguay have a legal institution, the Fiscal Court, that hears appeals to tax administration resolutions. In Argentina, the National Fiscal Court is an administrative court although its members are appointed and its budget is submitted by the National Executive Branch. In Paraguay, the Taxation Council reports to the Ministry of Economy, but is outside the sphere of the tax administration.

Finally, it must be mentioned that within MERCOSUR there is still a lot to be done regarding cooperation among tax administrations, to such an extent that no mechanisms have been developed for consultations and exchange of information.

Table 6**Tax Administration**

Country	Dependent or independent of the Ministry of Economy	Financial Autonomy	Internal taxes, Social Security and Customs Duties	Type of organization
Argentina	The General Tax and Customs Authority -AFIP- reports to the Ministry of Economy	Yes, AFIP can use 2.25% of taxes collected by the DGI (Argentine IRS) and Customs.	Internal taxes, customs duties and Social Security contributions and payments are jointly administered by the AFIP.	Functional organization, with a certain structure according to the type of taxpayer (Big Taxpayers)
Brazil	The <i>Secretaria da Receita Federal</i> (Federal Revenue Secretariat) reports to the Ministry of Finance.	No.	Internal taxes and customs duties are jointly administered.	Functional organization.
Paraguay	The Tax Administration –State Tax Undersecretariat, SET- reports to the Ministry of Finance.	No.	Internal taxes and customs duties are jointly administered by the SET.	Functional organization. The SET has six General Bureaux (GB): Big Taxpayers, Customs, Collection, Control, Planning and Support.
Uruguay	The National Tax Bureau (DGI – the Uruguayan IRS) and the National Customs Bureau (DNA) report to the Ministry of Economy.	No.	Internal taxes are administered by the DGI and customs duties by the DNA. Social Security contributions and payments are managed by the Social Security Bank (BPS).	The DGI has a functional organization, with a structure based on the type of taxpayers (Big Taxpayers Unit) .

Table 7**Appellate Process**

Country	First level	Second level	Final level
Argentina	The taxpayer can file an appeal regarding (administrative) DGI resolutions deciding on taxes or imposing sanctions, with the DGI or the National Fiscal Court.	Fiscal Court judgments can be appealed to the pertinent National Courts of Appeal of the Judiciary.	The last resort is before the National Supreme Court of Justice.
Brazil	At the administrative level, the taxpayer has the right to petition (which forces the Tax Administration to consider the claim) and the right to a wide defense (a guarantee that he can defend himself against any charges). The first step at the administrative level is within the Administration itself.	The second step at the administrative level is before a Council of Taxpayers, made up of taxpayers and the Administration's representatives. The taxpayer can resort to all administrative levels or go directly to court but cannot try both simultaneously.	At the legal level, the Public Finance judges are initially competent to hear cases in court. Only if at any stage there is a sentence against the federal, state or municipal governments can such judgment be reconsidered.
Paraguay	A Taxpayer can file an appeal against a decision regarding his tax debt or a binding consultation before the Tax Administration (TA).	If the TA ratifies the decision, a taxpayer can file an appeal to the Tax Council (TC), that reports to the Ministry of Finance but is outside the TA.	If the TC ratifies the opinion of the TA and the taxpayer does not agree once again with such decision, an appeal can be filed to the Supreme Court of Justice (final level of appeal).
Uruguay	Like in any administrative act, the decision on the tax debt by the DGI can be simultaneously appealed 1) at the DGI (to reverse a judgment) and 2) with the Executive power (subsidiary appeal)		If after the prior stages, the DGI decision is maintained the taxpayer's last option is to file a Nullity Remedy before the Court of Claims.

4. Comparative summary of countries

Table 8

Taxation in the MERCOSUR: Main Differences

Instruments	Point	Counterpoint
VAT and ICMS	<ul style="list-style-type: none"> VAT, national, wide base, few aliquots, total leveraging of credits: Argentina, Paraguay and Uruguay 	<ul style="list-style-type: none"> ICMS, state tax, limited to goods and a few services, great amount of aliquots, with limitations to the use of certain credits from prior stages: Brazil
Cascade Taxing	<ul style="list-style-type: none"> Uruguay and Paraguay have no such taxes 	<ul style="list-style-type: none"> Brazil: Cofins, PIS/PASEP (until 2002) and CPMF: 5.7% of GDP Argentina: Turnover tax, represents half the revenue for the provinces (2.1% of GDP) and Tax on Bank Debits and Credits.
Income tax	<ul style="list-style-type: none"> Individuals pay this tax in Brazil and Argentina Brazil and Argentina apply the worldwide income criterion regarding income, and dividends are not included in the personal tax base to avoid double taxation. 	<ul style="list-style-type: none"> No taxes are paid by natural persons in Uruguay and Paraguay but they apply a schedular tax on income from individual entrepreneurial activities. Uruguay and Paraguay apply the source criterion, levying taxes on residents and non-residents exclusively payable on national source income. Uruguay withholds no taxes on the interests of non-residents.
Taxes on assets	<ul style="list-style-type: none"> Brazil and Paraguay levy no such taxes. 	<ul style="list-style-type: none"> Argentina and Uruguay apply overall taxes on the net worth or assets of natural persons and companies. Argentina also levies taxes on assets abroad.
Co-sharing of taxes	<ul style="list-style-type: none"> Not very important in Uruguay and Paraguay, unitary states. 	<ul style="list-style-type: none"> Very important in Argentina and Brazil, Argentina: Provinces and municipalities collect taxes representing 4.5% of GDP and receive 8% of GDP in tax co-sharing. Brazil: The states and municipalities collect taxes representing 9% of GDP and receive 3% of GDP through transfers
Treaties	<ul style="list-style-type: none"> Argentina and Brazil have signed a treaty and between both , over 30 treaties with developed countries. 	<ul style="list-style-type: none"> Uruguay and Paraguay have no treaties with Latin American countries and very few with developed countries.
Tax Administration	<ul style="list-style-type: none"> Argentina, Brazil and Paraguay have customs and tax administration in one agency. 	<ul style="list-style-type: none"> Uruguay has Customs and Tax Administration structured into two separate agencies.

5. Coordination possibilities

The Asunción Treaty (March 1991) which gave rise to the MERCOSUR establishes the need for fiscal policy harmonization in the member countries, including tax coordination mechanisms in order to avoid distortions that can alter competition conditions of the exchanged products, or modify project profitability thus affecting the location of investments in the region.

At a more specific level, the economic interdependence of the integration process has deep implications on three aspects of taxation:

- a) The important increase in the mobility of factors, particularly the capital factor, which becomes very sensitive to the differences in fiscal treatment, and affects the tax base.
- b) The growing difficulty to determine and collect taxes in activities outside the country's jurisdiction, especially in the case of intangibles.
- c) An increase in the complexity of the tax administration process which requires new instruments and a greater level of information for tax collection which calls for wider cooperation among jurisdictions.

To date fiscal harmonization in the MERCOSUR has focused on the elimination of discriminatory treatment that affects free access to the common market. The remaining aspects of fiscal policy, such as those related to policies regarding public expenditure, indebtedness, regulation and public companies are defined by each country individually.

In this sense it may be said that the very few decisions adopted have been targeted to backing Article 7 of the Asunción Treaty which states that "regarding taxes, duties and other internal levies, products originating in the territory of a State-Party will enjoy, in other State-Parties the same treatment applied to the national product", although regrettably this statement is incomplete since it omits basic aspects of taxation, particularly tax incentives which are essential to avoid distortions in the competition conditions among member countries.

Just over a decade after its creation, the MERCOSUR has only reached agreements to ensure non-discrimination in the trade of goods and services, but there are still distortions in all member countries that affect competitiveness and the location of savings and investment. Anyhow, it must be acknowledged that to date, no integration process worldwide, including the European Union, has achieved significant progress in the harmonization of direct taxes although they are making important efforts in this respect. However, within the MERCOSUR, it has not been possible to decisively promote the harmonization of indirect taxation.

As was already described, the tax systems of the MERCOSUR member countries are very similar, at a first glance. In all cases tax collection is structured on the basis of the great importance given to general taxes on goods and services, a high share of contributions and payments to the Social Security and a traditionally lower collection of direct taxes.

However, as soon as a deeper analysis is made there arise remarkable differences in the regulations of the various countries and little progress has been made to harmonize taxation concepts, systems and procedures in the sub-region, particularly due to two reasons.

Firstly, the main objective was the intra-bloc trade of goods and related services; therefore, taxation was considered an accessory to that purpose and the agreements focused on having taxes not become an obstacle to the trade of goods. Following the principle of non-discrimination between national production and imported goods, basically through indirect taxes, specific agreements were considered for general taxes on sales and excises ones on consumption. For instance, in the only agreement on tax incentives and

free areas, the decision was to limit industrial free zones, stating that their sales to the bloc would be treated as imports from third countries. Meanwhile, free trade areas were admitted -and indeed increased-, where services rendered and other activities are duty free and thus have significant tax repercussions in other member countries, especially on income tax.

Secondly, the Asunción Treaty and the Ouro Preto Treaty (December 1994) do not envisage assigning sovereignty, particularly for tax purposes, to favor community rules, like the Decisions of the Andean Community or the European Union Directives that consider the existence of supranational agencies to enforce such rules, such as the Court of Justice. Although taxes stem from an economic phenomenon, they are substantially based on a legal definition that is expressed institutionally, and community law is in essence an instrument of tax coordination.

The main agreements took place in the field of export incentive harmonization and in the application of the non-discrimination principle, both in relation to excise taxes as well as tax incentives. Amendments to legislations were agreed upon regarding selective taxes to ensure equal tax treatment for national and imported goods in the cases of discrimination. On the other hand, Decision 10/94 in relation to the granting of incentives to exporters is not new but simply the repetition of the principles on the matter set forth in the General Agreement on Tariffs and Trade (GATT).

Although the main objective of this study is to identify the principal asymmetries of the four MERCOSUR member countries' tax systems that can significantly affect the economic integration process, it is obvious at this point of the MERCOSUR process that the above has always been simpler than submitting technically sound and politically viable solutions to accelerate the integration process.

Therefore it is considered that neither the full harmonization option (equaling) of tax systems or absolute tax competition (a fiscal war) are valid options for this purpose. On the contrary, the principle that guides the proposed solutions must be backed by criteria governing the coordination of tax structures.

Given the experience gained from other processes and fields of integration, as well as the current level of macroeconomic imbalances and the disparity of tax structures in force in the MERCOSUR countries, the options proposed should be guided by the following six criteria:

1. They cannot entail an "unnecessary" reduction of fiscal sovereignty;
2. They cannot result in a significant loss of revenue;
3. They should not affect the country's competitive position vis-à-vis other members or third countries;
4. They should not facilitate new forms of tax evasion or avoidance;
5. The cost of the transition and administration must not be high;
6. The sequence and duration of adjustments can be different in each country but with a clearly established calendar of goals.

Regarding tax principles, the measures to be proposed will be governed by the two principles that rule bilateral treaties to avoid double taxation and favor exchange of information: a) non-discrimination between national and imported goods and services; and b) transparency in the application of fiscal regulations and willingness to exchange information. This reinforces the fact that there is only one double taxation agreement among member countries, between Argentina and Brazil.

Additionally, it is considered reasonable to apply varying degrees of tax harmonization and different terms for the transition period according to the type of tax. Regarding indirect taxing that has a strong impact on the trade of goods and services, there should be a trend towards convergence and in certain cases to equaling the burden, as in some excises taxes. And in the harmonization of direct taxes which somehow

affect the location of savings and investments, there should be a trend towards coordination in defining the tax base and cooperation among tax administrations, particularly for exchanging information. Since the change in indirect taxing fully affects the goods and services traded, the process must develop rapidly; but since direct taxes have an impact on production factors, the period of adjustment can be longer.

Despite the logics of the sequence of coordination efforts which moreover coincides with the international experience, problems of indirect taxing adjustment (VAT, ICMS, turnover tax and excises taxes) can reveal very important political difficulties given the problems of fiscal federalism of the main partners. Therefore, it will take a long time to complete the process.

With this purpose it is institutionally proposed to create a sub-working group at the highest level (within the Common Market Group) made up of the authorities in charge of policies and tax administration. Moreover, we recommend the creation of an Arbitration Court specialized in taxes for solving disputes between states regarding unforeseeable cases and how agreements are construed²¹.

On the other hand, the closer the economic relations among MERCOSUR member countries the deeper the need to coordinate among customs and tax administrations to avoid fiscal incompatibilities and antagonisms that may harm or hinder such relations.

This need for reaching an understanding between tax administrations would become, under these circumstances, a permanent coordination mechanism to provide fluency and certainty to transactions between countries and thus keep the integration process from unnecessarily affecting the countries' flow of tax revenue.

The need for tax policy coordination among MERCOSUR countries will require, on the one hand, the identification of specific problems and, on the other, the design of appropriate, targeted solutions. Tax policies and administration will become more interconnected among countries if the coordination process is consolidated. Thus it is necessary to work on prioritizing the following topics:

1. Strengthening of tax treaties or agreements among the member countries;
2. Enhancement and reinforcement of guidelines to be followed for transfer prices in international transactions;
3. Intensification of cooperation between tax authorities, particularly for extending the use of joint audits, anticipated price agreements and very particularly, exchange of information;
4. Coordination of joint actions to avoid harmful tax competition that could affect the flow of investments to the region.
5. The need to minimize customs formalities and coordinate such procedures among the member countries.
6. Move forward in the process of institutionalizing the mechanisms to solve disputes within the framework of MERCOSUR so that these do not hinder the integration process.

²¹ Although the Olivos Protocol envisaged the creation of a Permanent Arbitration Court, the mechanisms for dispute settlement and safeguards (application of penalties) in trade have not been clearly defined and neither have the procedures for settling trade disputes. Regarding taxation, no discussion agenda has been set up, either.

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STATISTICAL ANNEX

TABLE I
ARGENTINA – TAX PRESSURE – YEARS 1990, 1995 AND 2000

Jurisdictional breakdown by tax

1. Expressed in Percentages of GDP

Jurisdiction and tax	1990	1995	2000
Federal Government	7.0	11.9	13.7
On Goods and Services	4.9	8.9	9.2
VAT	2.4	7.2	6.7
Selective	2.3	1.6	1.9
Others	0.1	0.0	0.6
Income	0.5	2.5	3.7
Natural Persons	n/d	n/d	n/d
Legal Persons	n/d	n/d	n/d
Others	n/d	n/d	n/d
Property	1.0	0.2	0.7
Others	0.6	0.4	0.1
Foreign Exchange	1.4	0.7	0.7
Social Security Contributions	2.4	4.6	3.4
Subnational Governments	1.6	3.3	3.9
On Goods and Services	n/d	n/d	n/d
Income	n/d	n/d	n/d
Property	n/d	n/d	n/d
Others	n/d	n/d	n/d
Total	12.4	20.5	21.7

Source: Calculations based on data from AFIP (General Tax and Customs Authority) and the IMF.

TABLE II
ARGENTINA – TAX PRESSURE – YEARS 1990, 1995 AND 2000

Jurisdictional breakdown by Tax

2. Structure Expressed in Percentages

Jurisdiction and tax	1990	1995	2000
Federal Government	56.7	58.0	63.0
On Goods and Services	39.8	43.1	42.3
VAT	19.7	35.1	30.8
Selective	18.9	7.8	8.8
Others	1.1	0.2	2.7
Income	4.1	12.0	17.0
Natural Persons	n/d	n/d	n/d
Legal Persons	n/d	n/d	n/d
Others	n/d	n/d	n/d
Property	7.8	1.0	3.0
Others	4.9	1.9	0.6
Foreign Exchange	11.2	3.6	3.4
Social Security Contributions	19.2	22.5	15.8
Subnational Governments	12.9	15.9	17.9
On Goods and Services	n/d	n/d	n/d
Income	n/d	n/d	n/d
Property	n/d	n/d	n/d
Others	n/d	n/d	n/d
Total	100.0	100.0	100.0

Source: Calculations based on data from AFIP (General Tax and Customs Authority) and the IMF.

TABLE III
BRASIL – TAX PRESSURE - YEARS 1990, 1995 AND 2000
Jurisdictional breakdown by tax

1. Expressed in Percentages of GDP

Jurisdiction and tax	1990	1995	2000
Federal Government	12.6	12.4	14.4
On Goods and Services	6.3	5.9	7.6
VAT	0.0	0.0	0.0
Selective	3.7	2.6	1.9
Others	2.6	3.3	5.7
Income	5.7	5.7	5.2
Natural Persons	0.4	0.3	0.3
Legal Persons	1.7	1.4	1.5
Others	3.7	4.0	3.4
Property	0.0	0.0	0.0
Others	0.6	0.8	1.6
Foreign Exchange	0.4	0.8	0.8
Social Security Contributions	7.3	7.2	7.7
Subnational Governments	8.4	9.1	9.7
On Goods and Services	7.6	7.8	8.2
Income	0.0	0.0	0.0
Property	0.3	0.8	1.0
Others	0.5	0.5	0.5
Total	28.8	29.4	32.6

Source: Calculations based on data from BNDES – Secretary for Fiscal Affairs – and Receita Tributaria Federal (Federal Revenue Secretariat).

TABLE IV
BRASIL – TAX PRESSURE – YEARS 1990, 1995 AND 2000
Jurisdictional breakdown by tax

2. Structure Expressed in Percentages

Jurisdiction and tax	1990	1995	2000
Federal Government	44.0	42.2	44.3
On Goods and Services	22.3	20.2	23.4
VAT	0.0	0.0	0.0
Selective	12.9	8.8	5.8
Others	9.4	11.4	17.6
Income	19.7	19.3	16.0
Natural Persons	1.3	1.1	1.0
Legal Persons	5.7	4.8	4.7
Others	12.8	13.5	10.3
Property	0.0	0.1	0.1
Others	2.0	2.6	4.8
Foreign Exchange	1.3	2.6	2.4
Social Security Contributions	25.4	24.4	23.7
Subnational Governments	29.2	30.9	29.7
On Goods and Services	26.6	26.5	25.0
Income	0.0	0.0	0.0
Property	0.9	2.7	3.0
Others	1.7	1.7	1.7
Total	100.0	100.0	100.0

Source: Calculations based on data from BNDES – Secretary for Fiscal Affairs – and Receita Tributaria Federal (Federal Revenue Secretariat).

TABLE V
PARAGUAY – TAX PRESSURE - YEARS 1990, 1995 AND 2000
Jurisdictional breakdown by tax

1. Expressed in Percentages of GDP

Jurisdiction and tax	1990	1995	2000
Federal Government	6.8	8.4	8.1
On Goods and Services	4.6	5.6	5.9
VAT	0.0	4.4	4.3
Selective	1.8	1.2	1.6
Others	2.9	0.0	0.0
Income	1.1	2.3	1.8
Natural Persons	0.0	0.0	0.0
Legal Persons	1.1	2.3	1.8
Others	0.0	0.0	0.0
Property	0.3	0.0	0.0
Others	0.8	0.5	0.4
Foreign Exchange	2.1	2.8	1.8
Social Security Contributions	2.1	1.3	3.4
Subnational Governments	0.1	0.2	0.3
On Goods and Services	n/d	n/d	n/d
Income	n/d	n/d	n/d
Property	n/d	n/d	n/d
Others	n/d	n/d	n/d
Total	11.1	12.7	13.7

Source: Calculations based on data from the Ministry of Economy –Undersecretary of Economy and Integration-, Central Bank and IMF.

TABLE VI
PARAGUAY - YEARS 1990, 1995 Y 2000
Jurisdictional breakdown by tax

2. Structure Expressed in Percentages

Jurisdiction and tax	1990	1995	2000
Federal Government	60.9	66.3	59.6
On Goods and Services	41.5	44.0	43.2
VAT	0.0	34.4	31.3
Selective	15.8	9.4	11.8
Others	25.7	0.1	0.2
Income	10.2	17.8	13.0
Natural Persons	0.0	0.0	0.0
Legal Persons	10.2	17.8	13.0
Others	0.0	0.0	0.0
Property	2.4	0.2	0.0
Others	6.9	4.3	3.2
Foreign Exchange	19.1	21.9	13.2
Social Security Contributions	19.3	10.2	25.0
Subnational Governments	0.7	1.6	2.2
On Goods and Services	n/d	n/d	n/d
Income	n/d	n/d	n/d
Property	n/d	n/d	n/d
Others	n/d	n/d	n/d
Total	100.0	100.0	100.0

Source: Calculations based on data from the Ministry of Economy –Undersecretary of Economy and Integration-, Central Bank and IMF.

TABLE VII
URUGUAY – TAX PRESSURE – YEARS 1990, 1995 AND 2000
 Jurisdictional breakdown by tax

1. Expressed in Percentages of GDP

Jurisdiction and tax	1990	1995	2000
Federal Government	13.9	14.6	16.4
On Goods and Services	10.4	11.1	11.6
VAT	6.7	7.8	8.2
Selective	3.6	3.1	3.1
Others	0.1	0.1	0.2
Income	1.1	1.8	2.3
Natural Persons	0.0	0.0	0.0
Legal Persons	1.1	1.8	2.3
Others	0.0	0.0	0.0
Property	1.0	0.7	1.0
Others	1.4	1.0	1.5
Foreign Exchange	2.0	1.0	0.8
Social Security Contributions	7.8	8.5	8.3
Subnational Governments	2.0	2.7	2.9
On Goods and Services	0.2	0.1	0.0
Income	0.0	0.0	0.0
Property	1.4	2.1	2.3
Others	0.3	0.5	0.6
Total	25.7	26.8	28.5

Source: Calculations based on data from General Tax Authority, the Social Security Bank, Central Bank, Montevideo City Municipality and the Planning & Budget Office.

TABLE VIII
URUGUAY – TAX PRESSURE - YEARS 1990, 1995 AND 2000
 Jurisdictional breakdown by tax

2. Structure Expressed in Percentages

Jurisdiction and tax	1990	1995	2000
Federal Government	54.3	54.6	57.5
On Goods and Services	40.6	41.3	40.6
VAT	26.1	29.2	28.8
Selective	13.9	11.5	11.0
Others	0.5	0.6	0.8
Income	4.2	6.8	8.1
Natural Persons	0.0	0.0	0.0
Legal Persons	4.2	6.8	8.1
Others	0.0	0.0	0.0
Property	3.9	2.8	3.4
Others	5.6	3.8	5.4
Foreign Exchange	7.7	3.7	2.8
Social Security Contributions	30.4	31.8	29.3
Subnational Governments	7.7	9.9	10.3
On Goods and Services	0.7	0.3	0.1
Income	0.0	0.0	0.0
Property	5.6	7.8	8.2
Others	1.4	1.8	2.0
Total	100.0	100.0	100.0

Source: Calculations based on data from the Tax General Authority, the Social Security Bank, Central Bank, Montevideo City Municipality and the Planning & Budget Office.

**TABLE A
GENERAL TAXES ON CONSUMPTION**

Concept	Argentina	Brazil	Paraguay	Uruguay
Tax	(a) VAT (national) (b) Turnover Tax (cumulative multiphase or cascade; provincial)	(a) VAT at state level (ICMS) (b) Tax on Services (ISS) (municipal)	VAT	(a) VAT (b) Contribution Tax for Social Security Financing (COFIS)
Taxable Base	(a) All sales of movable goods, services rendered or imports for valuable consideration. (b) All transactions for valuable consideration carried out customarily.	(a) All the production of movable goods coming out of the facilities, and transportation and communication services, paid for or not. Imports. (b) All specifically listed services rendered, whether paid for or not, except for transportation and communication services.	Sale of goods, rendering of services and importation of goods.	(a) All sales of movable goods, imports, and services rendered for valuable consideration. (b) Imports and sales to corporations, state agencies and taxpayers of VAT or IMESI, of industrial goods that are subject to VAT at a rate other than zero or that are subject to IMESI, with the exception of fuels.
Imports	(a) Subject to VAT (b) Excluded from paying Turnover Tax	(a) Subject to ICMS	Subject to VAT	(a) Subject to VAT (b) Subject to COFIS, in accordance with the previous item.
Exports	(a) - of goods: 0 tax rate: VAT paid on purchases or upon importation is compensated or refunded. - of services: not subject to VAT since 01/01/99. (b) Not subject to tax. There is no refund of the tax paid by the exporter on his purchases.	(a) of goods: zero tax rate for ICMS: tax paid is to suppliers or at importation is compensated or refunded. (b) subject to ISS	- of goods: 0 tax rate: tax paid to suppliers or upon importation is compensated or refunded. - of services: freight abroad for exports are not taxed.	(a) - of goods: tax rate zero: VAT paid to suppliers or upon importation is compensated or refunded. - of services: international freight is not taxed; construction, repair, cleaning and provisioning of ships; and services rendered to tax free zones, which gives the right to the refund of VAT paid to suppliers and upon importation. (b) Not subject to tax. Tax paid on goods that directly or indirectly make up the cost of the exported good can be deducted. If there is a credit balance for the exporter, such amount is refunded or can be applied to the payment of other taxes, including Social Security contributions.

TABLE A (continued)

Concept	Argentina	Brazil	Paraguay	Uruguay
Aliquots	<p>(a) Basic tax rate: 21% (using legislative authority the Executive Power reduced the aliquot to 19% between 11/18/2002 and 01/18/2003). Maximum rate: 27%: electricity, telephony and drinking water supply services rendered to those who are subject to the tax. Reduced tax rate: 10,5%: cattle, fruit and vegetables, construction companies and others.</p> <p>(b) Variable according to the field of action from 0 to 4%. Commerce: 3% to 3,5%</p>	<p>(a) Inside tax rates. Variable according to the states; the most common are: 18%: State internal operations (effective tax rate: 21,95%). 7%: transactions in Northern and Northeastern States. 12%: transactions in Southern and Southeastern States.</p> <p>(b) between 2% and 10%. The most common, 5%.</p>	Single tax rate: 10%	<p>a) Basic tax rate: 23% Reduced tax rate: 14% (commodities and hotels). VAT included in the acquisition of goods and/or services directly or indirectly used for the production of goods and services which are tax exempt, is not refunded, i.e. it is a cost for the offerer.</p> <p>(b) Tax rate: 3%.</p>
Settlement	<p>(a) Tax payable results from deducting the tax credits arising from purchases or imports from the total debits for sales during the period..</p> <p>(b) Applicable on total turnover of the company during the period. Without any deduction for tax paid on purchases (cascade).</p>	<p>(a) Idem.</p> <p>(b) Applicable on the price of services. Deduction of tax paid to suppliers is allowed only in some cases.</p>	Idem.	<p>(a) Idem.</p> <p>(b) The tax included in purchases of goods that directly or indirectly form part of the cost of sales subject to the tax, is deducted from the total amount of tax billed. When sales subject to tax and not subject to tax are effected simultaneously, the deduction of the tax not exclusively applied to one or the other will be done proportionally.</p>
Treatment of capital goods	Tax credits from purchases of equipment and machinery are deductible.	Tax credits from purchases of machinery are deductible.	Tax credits from purchases of machinery are deductible.	(a) Tax credits from purchases of machinery are deductible.
VAT type	Consumption type: does not tax capital goods.	Consumption	Consumption	(a) Consumption
Fuels	Subject to tax	Subject to tax	No	(a) No
Span of the taxable base	Generalized on goods and services	Generalized on goods and only on transportation and communication services.	Generalized on goods and services	(a) Generalized on goods and services
Other general taxes on consumption:		<ul style="list-style-type: none"> - COFINS: 3% on gross billings - PIS: 0,65% on gross billings and after August/02 1,65% on added value. 		

TABLE B
VAT EXEMPTIONS IN ARGENTINA, PARAGUAY AND URUGUAY

Concept	Argentina	Uruguay	Paraguay
<i>Sales of goods</i>			
Books, newspapers, etc.	- Books, brochures and similar printed matter; newspapers, magazines and periodic publications.	- VAT exemption on imports of books and machinery and inputs for the production of same (Book Law/subjective). - VAT exemption on domestic (hinterland) printed press – newspapers – (subjective). - VAT exemption on the sale of newspapers, journals, magazines books and brochures, with the exception of pornography.	
Real estate		- Sale of real estate.	- Sale of real estate.
Gambling, lottery and associated rewards	- Lottery, raffles or stakes tickets. - Middleman services of lottery brokers and other games of chance.	- Since February 2002, almost all games of chance are subject to VAT at the basic tax rate.	- Tickets, vouchers and other documents related to games of chance and stakes.
Fuels		- Fuels – oil derivatives – with the exception of fuel oil.	- Fuels – oil derivatives – with the exception of diesel oil (tax rate 14%).
Tobacco and cigarettes		- Tobacco, cigars and cigarettes.	
Money, coins and other	- Minted gold or gold bars, traded by official entities or authorized banks. - Metallic coins, that have legal tender or official quotation.	- Foreign currency, precious metals - minted or in bars- securities and certificates - public and private- and property bonds of a similar nature.	- Foreign currency, public and private securities, as well as bonds and securities, including shares.
Stamps and associated rewards	- Postage stamps, revenue stamps and similar; stamped paper, bank notes, bearer bonds, share or obligation certificates and others. - Stamps and quotation or capitalization certificates. - Entrance tickets to shows, exhibitions, conferences.	- The income from official stamped paper and tax stamp brokers.	
Agricultural and livestock products		- As from May 2002, sale of fresh fruit, produce and vegetables are subject to VAT.	- Agricultural and livestock products in their natural state.
Basic Food Basket	- Ordinary natural water, common bread, liquid or powdered milk, whole or skimmed with no additives, when the buyer is the end user or consumer, State agencies or non profit organizations, and drugs and medicines for human use, when resold through drug stores, pharmacies and other authorized stores.	- Pasteurized, vitaminized, skimmed, powdered and flavored milk. Water supply. Ovine meat. Firewood. - Cold storage of fresh fruit, vegetables and produce.	
Aeronautical activities	- Airplanes for passenger transportation, cargo and defense and security.	- Aeronautics: VAT exemption on imports, and internally on airplanes, spare parts, materials and other devices used by national or in transit aviation, and all the necessary inputs for the construction, installation and preservation of airports and similar facilities.	

TABLE B (continued)

Naval activities	<ul style="list-style-type: none"> - Ships and naval artifacts when the buyer is the State or State agencies. 	<ul style="list-style-type: none"> - Naval activities: exemption for the importation of ships over 1,000 tons, the importation of equipment and spare parts, and freight charges in Uruguayan territory. Refund of VAT paid by shipyards on purchases. 	
Rendering of Services			
Financial activities	<ul style="list-style-type: none"> - Interest on stocks and securities, bonds and other securities issued or to be issued by the Nation, the provinces or the Municipalities. - Interest on corporate bonds placed through public offering. - Interest payable corresponding to retirement and pension funds and plans of the <i>Administradoras de Fondos de Jubilaciones y Pensiones</i> – Pension Fund Managers (AFJP) and interest payable related to other savings regimes. - Interest on loans for housing. - Interest on loans or banking and financial transactions when the borrowers are the Provinces or Municipalities. - Life insurance policies. 	<ul style="list-style-type: none"> - Fees charged by the <i>Administradoras de Fondos de Ahorro Previsional</i> – Pension Funds Managers (AFAPs). - Insurance premium on disability and death policies paid by the AFAPs. - Commissions stemming from the participation in the purchase and sale of public bonds and securities. - Banking transactions, except interest of loans to individuals that are not subject to the <i>Impuesto a la Renta</i> – Income Tax (IRIC or IRA). Interests corresponding to the loan. - Interest on social credits (loans) granted by the <i>Banco de la República</i> (BROU). - Interest on credits (loans) of the <i>Banco Hipotecario</i> – Mortgage Bank (BHU) for housing programs. - Interest corresponding to loans given by the <i>Cooperativas de Ahorro y Crédito</i> – Savings and Loans Cooperatives – for amounts under 250 adjustable units. - Public works' concessions (a faculty of the Executive Power; is being applied). 	<ul style="list-style-type: none"> - Assignment of credits. - Interest on public and private securities. - The financial mediation activity foreseen in the <i>Ley de Bancos y Entidades Financieras</i> N° 861/97 – Banks and Financial Entities Law, including loans granted by foreign banks, with the following exceptions: <ul style="list-style-type: none"> (i) Management on behalf of third parties of the purchase and sale of movable assets, and to act as paying agent of dividends, principal and interest. (ii) Credit card issuance. (iii) Mandates and commissions, when they are not related to the authorized financial transactions. (iv) Management of movable asset portfolios and compliance with other financial assignments not established in the aforementioned law. (v) Management of collections, technical and administrative assistance. (vi) Lease of movable assets. - Loans and deposits to financial entities included in Law No. 417/73 of 13 November 1973, as well as entities included in clause e). - Loans granted by: <ul style="list-style-type: none"> (i) Savings and Loans Cooperatives to their members. (ii) The <i>Crédito Agrícola de Habilitación</i> (CAH) – Agricultural Eligibility Credit. (iii) The <i>Sistema de Ahorro y Préstamo para la Vivienda</i> – Savings and Loans for Housing System. (iv) The <i>Banco Nacional de Fomento</i> – National Development Bank. (v) <i>Fondo Ganadero</i> – Livestock Fund. - Loans by permanent or under contract staff at Embassies, Consulates and international agencies, accredited before the national government, in accordance with the legislation in force.
Health	<ul style="list-style-type: none"> - Health care services when they correspond to services that have to be paid by the Health Schemes and PAMI (Medical Assistance for the Elderly and the Poor) . - Burial services when they correspond to services to be paid by the Health Schemes. 	<ul style="list-style-type: none"> - Health care services. Personal earnings related to health care obtained outside of an employee-employer relationship are subject to VAT at the basic tax rate. 	
Rentals	<ul style="list-style-type: none"> - Rental of real estate for dwelling purposes. 	<ul style="list-style-type: none"> - Rental of real estate. 	<ul style="list-style-type: none"> - Rental of real estate.

TABLE B (continued)

Education	- Education	- Education: teaching and cultural institutions.	- Education: teaching and cultural institutions. - Marketing and sale of books, newspapers, journals, magazines and any printed or graphic publication, imported or domestic, for education and cultural dissemination purposes, with the exception of pornography.
Cultural and sports activities	- Cultural and sports activities and shows (artistic, scientific, theatrical, musical, cinematography). - Production and distribution of films to be featured in movie theatres.	- Public shows: sports events, movies and other shows. - Personal earnings obtained outside an employer-employee relationship of cultural activities of artists residing in the country. - Companies that distribute and exhibit motion pictures. - Journalistic companies and AM and FM broadcasting stations from hinterland.	
Transportation	- Passenger transportation: taxi-cab and car rental services; international transportation of passengers and cargo. Medium and long range transportation (more than 100 kilometers) was taxed.	- Passenger transportation. VAT exemption. - VAT exemption on communal passenger transportation (would be only a financial cost if transportation is taxed). - Services rendered by the <i>Administración Nacional de Correos</i> – National Postal Service.	
Household servants	- Personal domestic services.	- Personal domestic services.	

TABLE C
SELECTIVE TAXES ON CONSUMPTION

Concept	Argentina	Brazil	Paraguay	Uruguay
Tax	Internal taxes.	<i>Impuesto federal sobre Productos Industrializados</i> – Federal Tax on Industrialized Products (IPI).	Selective taxes on consumption.	<i>Impuesto específico interno sobre ciertos bienes</i> -- Specific Internal Tax on certain goods (IMESI).
Technical application	Single phase applied to the producer or importer of the goods taxed.	Multiphase non cumulative (similar to VAT) but applied only on imports and transfers of some industrialized goods.	Single phase applied to the producer or importer of the goods taxed.	Idem.
Taxable basis	First transfer, whether for a price or not, of the good subject to tax and imports.	Industrial production outlet and importation of taxed goods.	Importation and first sale whether for a price or not of goods subject to tax.	First sale, whether for a price or not, of the good subject to tax.
Products subject to tax	Tobacco, alcohol, alcoholic beverages, fuels, beer, soft drinks, photographic cameras, audio, cars, insurance, etc.	Tobacco, automobiles, alcohol, alcoholic beverages, beer and a long list of industrialized products. Its tax base is the largest of the four MERCOSUR countries.	Tobacco, soft drinks, beer, alcoholic beverages, alcohol, fuels, etc.	Fuels, lubricants, automobiles, motorcycles, alcoholic beverages and non alcoholic beverages, tobacco and cosmetics and perfumes and toiletries articles.
Imports	Taxed.	Taxed.	Taxed.	Taxed.
Exports	Exempt.	Exempt.	Exempt.	Exempt.
Aliquots	Between 4% and 166%. Most significant items: <ul style="list-style-type: none"> - Occupational accidents insurance: 2,5%; general insurance: 8,5%; insurance on persons and goods contracted by underwriters based abroad: 23%. - Cigarettes: 60%; tobacco manufactures: 16%; tobaccos: 20%; additional emergency tax on cigarette packs: 21%. - Beer: 8%; champagne: 12%; rest of alcoholic drinks (except wines): 20%. - Soft drinks, syrups, extracts and concentrates: 8%. - Automobiles and diesel engines: 10%. - Automobiles and engines, sports or recreation boats and aircraft: as from \$ 15.000 to \$ 22.000: 4%, over \$ 22.000: 8%. - Cellular and satellite telephony services: 4%. - Luxury articles: 20%. 	Between 0% and 365%.	The Law sets maximum tax rates differentiated by items. <ul style="list-style-type: none"> - Cigarettes, Cigars & Tobacco: from 0% to 8%. - Alcoholic and non alcoholic drinks: from 0% to 10%. - Alcohol: from 0% to 10%. - Fuels – oil derivatives – : from 0% to 50%. 	Between 5% and 102%. Maximum tax rates are set by Law.

TABLE C (continued)

Settlement	Net price before VAT on sales. On imports: 150% of the price plus import duties.	Net price for sales. In operations not for valuable consideration: current market value. In imports: CIF price plus import duties and surcharges.	Ex factory sales price excluding VAT. In imports: customs value plus import duties. In the case of fuels it is defined on the basis of the sales price to the public.	Actual price for the transaction or feigned values set by the Tax Administration.
Other taxes		CIDE - <i>Contribución de Intervención en el Dominio Económico</i> – Contribution of Participation in Economic Ownership. Created by Law No. 10336 of 19 December 2001, it taxes the importation and internal sale of fuels, including gas and alcohol with specific aliquots. There is no co-sharing of revenues with states or municipalities.		<i>Impuesto Específico a los Servicios de Salud</i> – Specific Tax on Health Services (IMESSA): It taxes health services rendered within the country to final consumers (services between the sector's institutions are not levied). Tax rate 3%. <i>Impuesto a las Telecomunicaciones</i> - Tax on Telecommunications (ITEL): It taxes international telephony calls and calls to and from cellular phones.

**TABLE D
CORPORATE INCOME TAX**

Concept	Argentina	Brazil	Paraguay	Uruguay
Jurisdictional criterion	Taxes worldwide income. - Argentine companies, agencies and other permanent facilities of foreign companies: income tax applies to profits from Argentine sources and from abroad. - Foreign beneficiaries (non residents): their profits from Argentine sources are taxed.	Taxes worldwide income. - Brazilian companies, subsidiaries of Brazilian companies abroad, branch offices and other permanent facilities of foreign corporations: income tax applies on profits from Brazilian sources and from abroad. - Foreign beneficiaries (non residents): their profits from Brazilian sources are taxed.	Taxes profits from Paraguayan sources, in all the following cases: Paraguayan companies, branch offices and other permanent premises of foreign corporations and branches of foreign beneficiaries.	Uruguayan companies are taxed on their profits from Uruguayan sources resulting from the combination of capital and labor. Subsidiaries of foreign beneficiaries are taxed on all their profits from Uruguayan sources.
Proportional or progressive	Proportional.	Progressive.	Proportional.	Proportional.
Aliquot	35%.	15% + 10% on profits above R\$ 240,000 + 9% for Social Security Contribution on Net Profits (<i>Contribuição Social sobre Lucro Líquido</i> , CSLL).	- Profits derived from commercial, industrial and services activities: 30%. - Profits derived from agriculture and livestock: 25%. - Profits of companies with an annual income of less than 45 million guaranies (approx. US\$ 12,500): 4%.	35% as from May 2002. Until that date it was 30%.
Residence	Residence is established in accordance with the place of creation, regardless of where the control lies.	A company is considered a resident company if it has been created in Brazil.	Residence is determined according to where management is carried out.	Residence is set according to the center of activity.
Legal Nature of the Taxpayer	Capital stock companies: stock companies, joint stock companies, and limited liability companies. Other firms (collective, joint ownership, etc.) and unipersonal firms, assign profits to the owners or partners, who are, in turn, levied by personal income tax.	All corporations including those of individuals and unipersonal firms.	All corporations including those of individuals and unipersonal firms.	All corporations including those of individuals and unipersonal firms.
Type of shares of Stock Companies (Corporations)	Nominative.	Nominative.	Bearer shares.	Bearer shares.
Determination of Profits				
Valuation of inventories	Based on the last purchase. Therefore, LIFO is not valid for tax purposes. Equivalence between accounting and tax values is not demanded.	Average cost or FIFO. LIFO is not admitted.	Average cost, FIFO or LIFO can be chosen.	Average cost, FIFO or LIFO can be chosen. Equivalence between accounting and tax values is not demanded.
Capital gains	Capital gains and losses are treated as normal profits. Capital losses derived from the sale of stocks (shares) and other financial assets can only be deducted against income of the same nature or type.	In general terms, capital gains are treated as normal profits. Capital losses can only be deducted against capital gains.	Capital gains are treated as normal profits (levied at 30%).	Capital gains are treated as normal profits (levied at 30%), except capital gains on rural properties which are tax exempt.

TABLE D (continued)

Dividends between companies	Dividends received from other Argentine companies are not taxed, while those received from non resident companies are.	Dividends received from other Brazilian companies, including subsidiaries are not subject to any withholding.	- Dividends distributed to residents: not taxed. - Dividends distributed to non residents: subject to a 5% withholding.	Not taxed.
Foreign profits.	Argentine companies are taxed using the worldwide income criterion, therefore any profits received from abroad from their agencies and/or subsidiaries, or obtained abroad and not distributed, are taxed. Resident companies receive a <i>tax credit</i> for tax paid abroad on their income from foreign sources, up to the increase of the income tax resulting from including in the taxable base the foreign source profits.	Brazilian companies are taxed using the worldwide income criterion. Therefore, income from Brazilian companies' agencies located abroad are taxed when they are accrued, while income from subsidiaries are taxed when they are available (liquid). Double taxation is avoided through granting of a <i>tax credit</i> . In the case of subsidiaries, the tax credit is payable on demand if the benefits are available for the Brazilian home office within the next two years following the moment at which they were generated.	Income from foreign sources are not taxed.	Income from foreign sources are not taxed.
Stock dividends	Are not levied if distributed by an Argentine company, and are subject to withholding if distributed by a foreign company.	Dividends distributed to resident or non resident individuals or companies, accrued as from 1/1/96, are not subject to withholding.	Not taxed. Whether received by a resident or a non resident, the distribution of <i>stock dividends</i> is considered as a reinvestment.	<i>Stock dividends</i> are not taxed.
Deductions				
Depreciation	Lineal, on a life cycle estimated from a technical standpoint or based on standards (machinery and equipment: 10 years; furniture and fixtures: 10 years; buildings: 2% per annum on cost, unless it can be demonstrated that the useful life is less than 50 years). Equivalence between accounting depreciation and depreciation for tax purposes is not demanded. Profits or losses on sale of the depreciated asset are taxed (at cost less depreciation).	Lineal. The rates most commonly accepted are: machinery and equipment, furniture and fixtures: 10% per annum; vehicles: 20%; buildings: 4%. Accelerated depreciation is allowed for companies with two or more types of operations: they can increase the previous rates by 50% and 100% respectively. Accounting depreciation and depreciation for tax purposes must coincide, save for certain exceptions.	Lineal over the life cycle. Rates vary from 2.5% per annum for urban buildings up to 25% per annum for computers. Equivalence between accounting depreciation and depreciation for tax purposes is not demanded.	Lineal over the life cycle. Rates: 2% per annum for urban buildings; 3% per annum for rural buildings; and not more than 10% per annum for new vehicles. Equivalence between accounting depreciation and depreciation for tax purposes is not demanded. The difference between the sales price of a depreciated asset and its fiscal value – adjusted for inflation – is a taxable income. Capital gains derived from the revaluation of fixed assets are not taxable income.
Loss carry forwards	<i>Carry forward</i> : 5 years. <i>Carry back</i> : not admitted.	<i>Carry forward</i> with no time limitation, but the deduction for losses of prior fiscal years is allowed up to 30% of the income subject to tax. <i>Carry back</i> : not admitted.	<i>Carry forward</i> : 3 years.	<i>Carry forward</i> : 3 years. <i>Carry back</i> : not admitted.

<p>Payments abroad</p>	<p>Payment to foreign affiliates or between related parties are deductible, (the corresponding withholding must have been paid). Deduction of interests: the 1998 reform established <i>thin-capitalization</i> rules. Interests are analyzed in order to determine if their deduction is allowed in the same fiscal year or if they can be carried forward to future fiscal years. Transactions between related parties must be on the basis of the <i>arm's length</i> principle, and according to the rules of transfer prices introduced through the 1998 tax reform.</p>	<ul style="list-style-type: none"> - There are no restrictions for the deduction of interests. However, in the case of non registered loans between related parties, interest deductible cannot be greater than the LIBO Rate (for 6 month deposits in US dollars) + 3%. - Payments for royalties and technical assistance to foreign companies with direct or indirect control over the Brazilian company, are deductible, with certain limitations. 	<p>There are no limits for deductibility of payments related to management services, research and development and, in general, administrative expenses. Note: The Regulation establishes that:</p> <ul style="list-style-type: none"> - Expenses and disbursements effected abroad can not exceed 1% of the FOB value of the goods. - Expenses for health and education shall be deductible if and when they are rendered in general terms, there is no discrimination and they be oriented to the company's activity. 	<p>Interests, royalties and other services paid to foreign subsidiaries are deductible. Payments to the home office or to subsidiaries of the home office are not deductible. However, the expenses incurred by the home office to develop brands, patents, industrial processes and <i>know-how</i> in the Uruguayan subsidiary, are deductible.</p>
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TABLE D (continued)

Taxes	Except for income tax and presumptive taxation, all other taxes are deductible. (1)	Deductible (including surcharges).	Income tax, fines and surcharges are not deductible.	Income tax and tax on equity are not deductible.
Adjustment for inflation	In fact, annulled, because it is compulsory to consider zero inflation.	Cancelled.	No.	Global and static.
<i>Group taxation</i>	Not admitted.	Not admitted.	Not admitted.	Not admitted.
Withholdings on dividends and profits	In general terms, dividends and profits from sale of shares are not subject to withholding. A withholding rate of 35% is applicable on dividends and other benefits if the corresponding amounts have not been taxed by income tax in the distributing company. On the other hand, if the dividends distributed exceed the taxable income, the surplus is taxed at 35%.	Dividends distributed to residents or non residents, individuals or companies, of countries with which there is no tax treaty, accrued as from 1/1/1996 onwards: not subject to withholdings. Payments to non residents of countries with which there is no tax treaty that tax income with a tax rate of 20% or less, are subject to a withholding of 25%.	Agencies and/or subsidiaries of foreign beneficiaries are taxed on their income from Paraguayan sources. Dividends and profits transferred or credited to the home office abroad are subject to a withholding of 5%.	Agencies and/or subsidiaries of foreign beneficiaries are taxed on all of their income from Uruguayan sources. Dividends and profits transferred or credited to the home office abroad are subject to a withholding if: (i) those benefits are taxed in the home office country, and (ii) a tax credit is recognized for the tax paid in Uruguay. - Withholding on dividends: 30% - Withholding on profits: the withholding tax rate is such that, added to the tax rate of 30% per annum of income tax, equals the tax credit obtained in the recipient country, with a limit of 21% (total: 51%)
Withholdings on payments				
Interest	<ul style="list-style-type: none"> - Resident companies: 35%, on account of Income Tax. - Resident individuals: 0%. - Non resident individuals and companies, of countries with which there is no treaty: (i) if the debtor is an Argentine financial entity: 15,05%. (ii) if the debtor is an Argentine company and the lender is a financial institution whose home office is located in a country that has signed the Basle Agreement and is qualified to operate in that country: 15,05%. (iii) if the loan is addressed to the purchase of tangible assets, other than automobiles: 15,05%. (iv) interest on <i>debt securities</i>, under certain conditions: 15,05%. (v) interest on deposits in Argentine financial entities: 15,05%. (vi) payment of interest on other loans obtained abroad: 35%. - Non resident companies and individuals, from countries with which there is a treaty: between 0% and 35%. 	<ul style="list-style-type: none"> - Non resident companies and individuals, of countries with which there is no treaty: 15%. Payments to beneficiaries of countries with which there is no treaty and that have a tax rate equal to or under 20% -<i>tax haven countries</i>- are taxed at 25%. - Non resident companies and individuals, of countries with which there is a treaty: between 10% and 15%. 	<ul style="list-style-type: none"> - Resident companies and individuals: 0%. - Non resident companies: 35%. - Non resident individuals: 35%. <p>Withholding on interest is calculated on 100% of the amount paid when this amount was sent to the home office. In other cases, it is calculated on 50% of the amount.</p> <p>VAT on interest (except in the case of foreign banks) is withheld at a rate of 9,09%.</p>	No.

TABLE D (continued)

Royalties	<ul style="list-style-type: none"> - Resident companies: 6%. - Resident individuals: 6%. - Non resident companies and individuals, from countries with which there is no treaty: <ul style="list-style-type: none"> (i) copyright: 12,25%. (ii) international transportation, international news agencies, reinsurance: 3,5%. (iii) <i>containers</i>: 7%. (iv) <i>chattel</i> leasing: 14%. (v) real estate leasing: 21%. (vi) payments for the local use of foreign films, TV transmissions, videos and other sound and/or image transmissions from abroad: 17,5%. (vii) profits of foreign companies from the sale of assets or rights: 17,5%. - Non resident companies and individuals, from countries with which there is a treaty: between 3% and 21%. 	<ul style="list-style-type: none"> - Non resident companies and individuals, from countries with which there is no treaty: 15% plus a contribution of 10% (cost of the Brazilian company). - Non resident companies and individuals, from countries with which there is a treaty: between 10% and 25%. <p>Payments to beneficiaries of countries with which there is no treaty and have an income tax rate equal or under 20% <i>-tax haven countries-</i> are subject to a tax rate of 25%. If and when they are registered, and under certain conditions, royalties are tax deductible, even when they have been paid or credited to the home office or to foreign companies with direct or indirect control over the Brazilian company.</p>	<ul style="list-style-type: none"> - Resident individuals and companies: 0%. - Non resident companies: 35%. - Non resident individuals: 35%. <p>Withholding on royalties is calculated on 100% of the amount paid when this amount was sent to the home office. In other cases, it is calculated on 50% of the amounts. VAT on royalties is withheld at a rate of 9,09%.</p>	<ul style="list-style-type: none"> - Non resident companies and individuals: 30%. <p>In the case of foreign companies, income from Uruguayan sources is determined as follows:</p> <ul style="list-style-type: none"> (i) insurance companies: life insurance: 3% on premium paid; fire insurance: 8%; maritime insurance: 10%; other risks: 2%. (ii) maritime, air or land transport companies: 10% on the amounts of fares and cargo freight of transport from the country abroad. (iii) producer, distributor and intermediary companies of motion pictures, tapes and live TV transmissions and similar: 30% of the payment they receive. (iv) international news agencies: 10% of the payment received. (v) assignment of the use of containers: 15% of the agreed upon price.
Technical assistance	<ul style="list-style-type: none"> - Resident companies: 6%. - Resident individuals: 6%. - Non resident companies and individuals, from countries with which there is no treaty: <ul style="list-style-type: none"> (i) technical assistance: 21% (35% on an assumed benefit of 60%). (ii) assignment of rights, licenses for the use of patents and, in general, transfer of technology: 28% (35% on an assumed benefit of 80%). - Non resident companies and individuals, from countries with which there is a treaty: between 3% and 28%. 	<ul style="list-style-type: none"> - Payments for technical assistance without transfer of technology, to countries with which there is no treaty: 25% - Payments for technical assistance with transfer of technology, to countries with which there is no treaty: 15% plus a contribution of 10%. - Non resident companies and individuals, of countries with which there is a treaty: between 10% and 25%. <p>Payments to beneficiaries of countries with which there is no treaty and have an income tax rate equal to or under 20% <i>-tax haven countries-</i> are subject to a tax rate of 25%. If and when they are registered, and under certain conditions, payments for technical assistance are tax deductible, even when they have been paid or credited to the home office or to foreign companies with direct or indirect control over the Brazilian company.</p>	<ul style="list-style-type: none"> - Resident individuals and companies: 0% - Non resident companies: 35%. - Non resident individuals: 0%. <p>Withholding on payments for services is calculated on 100% of the amount paid when this amount was sent to the home office. In other cases, it is calculated on 50% of the amount.</p>	<ul style="list-style-type: none"> - Non resident individuals and companies: 30%. If the foreign beneficiaries are levied with income tax and are denied recognition of a tax credit for the tax paid in Uruguay, payments for technical assistance are not subject to this withholding.

Note: (1) The 1998 tax reform created a tax of 15% on interest paid and other financial costs of corporate debts. Said tax is deductible for the determination of income tax. This tax has been repealed as from 2002.

TABLE E
INCOME TAX ON INDIVIDUALS

Concept	Argentina	Brazil	Paraguay	Uruguay
Income tax on Individuals	Yes.	Yes.	No.	No.
Aliquots	9% to 35%.	15% to 27,5%.	---	---
Jurisdictional criterion	<p>It taxes worldwide income for residents and income from Argentine sources for non residents.</p> <p><i>Residents</i> are considered to be:</p> <ul style="list-style-type: none"> (i) Argentine citizens living in Argentina. (ii) Argentine citizens working abroad, during the first year and if they have not obtained permanent residence in the foreign country. (iii) foreign citizens assigned to a working position for 5 years or more in Argentina (iv) foreign citizens that have obtained permanent residence. (v) foreign citizens that stay in the country with a temporary authorization for 1 year or more, except if they prove they do not wish to be granted permanent residence. <p><i>Non residents</i> are considered to be:</p> <ul style="list-style-type: none"> (i) foreign citizens assigned to a working position for less than 5 years. <p><i>Foreign beneficiaries</i> are considered to be:</p> <ul style="list-style-type: none"> (i) individuals working in Argentina for less than 6 months per year. (ii) Argentine citizens working abroad that do not qualify as residents. 	<p>It taxes worldwide income for residents and income from Brazilian sources for non residents.</p> <p>Residence for tax purposes, is determined by the type of visa the individual uses upon entering the country:</p> <ul style="list-style-type: none"> (i) foreign citizens with a V visa (temporary) or permanent visa are considered <i>residents</i> as from the date they enter the country. (ii) foreign citizens with another type of temporary visa, without a formal working position in the country and that do not stay for a period of over 183 days a year, are considered <i>non residents</i>. (iii) foreign citizens that stay in Brazil for more than 183 days are considered to be <i>residents</i>. 	---	
Taxable income	<p><i>Employees:</i> In general, all salaries are taxed, including indemnity payments, housing payments, education, tax reimbursements, General partnerships, de facto partnerships, etc and unipersonal firms: attribute income to the owners or partners, and these, in turn, are taxed with personal income tax.</p> <p><i>Salaries and fees paid to directors:</i> Taxed, since they are deducted by the company that pays them –up to a maximum of between 25% of accounting profits or \$12,500 per director per year-. The percentage of directors' emoluments not deductible by the company is, generally, not considered as taxable income for the director.</p>	<p><i>Employees:</i> In general, all salaries are taxed, including education payments, travel, tax reimbursements. <i>Interest</i> received from abroad is included in the taxable base. <i>Profits</i> from Brazilian and foreign sources are generally included in the taxable base.</p>		

TABLE E (continued)

Other income		
Dividends	Dividends received from resident companies, already taxed at 35% with corporate income tax, are not taxed with personal income tax. Dividends received from non resident companies are taxed.	Dividends from Brazilian companies paid to non residents are not subject to withholding.
Capital gains	There exists an aliquot of 15% for profits on the purchase-sale of shares obtained by residents that owned such shares (corresponding to companies that do not quote on the stock exchange) for at least a twelve month period. Holdings for shorter periods are taxed for individuals at the progressive scale.	Capital gains are tax exempt on one transaction per month if the sales price is smaller – approximately – than US\$ 12,000.- Capital gains on the sale of shares that quote on the stock exchanges of Brazil are taxed at the rate of 10%. Capital gains on the sale of real estate, generally, are taxed at the rate of 15%. Tax exempt: (i) if you owned the real estate for 20 or more years, or (ii) if the real estate is the sole estate you own, and you have owned it for at least 5 years and the sale price is not over – approximately -- US\$ 259,000.
Interest	Interest earned from savings accounts and term deposits in Argentine banks and interest from government bonds are not taxed. Also not taxed are interest on loans to certain Argentine companies.	Interest earned abroad by residents in the country are generally included in the taxable base.
Deductions	<ul style="list-style-type: none"> - Social security contributions. - Medical expenses –up to a maximum of 15% of total deductions- - Donations to governmental institutions and to charity organizations –up to 5% of taxable income- - Insurance premium of life insurance, retirement funds and funeral expenses – up to a certain amount established annually by the tax authorities -. <p><i>Standard</i> deductions:¹ Basic: \$ 4,080. For spouse: \$ 2,040. For each child: \$ 1,020. For other dependents: \$ 1,020. To qualify, dependents must reside in Argentina for more than 6 months and must not have income of over \$ 4,020. Special deduction, available against compensation, stemming from personal services: employees: \$13,500, self-employed: \$ 4,500.</p>	<ul style="list-style-type: none"> - Social security contributions, up to a maximum of 12% of gross revenues. - Alimonies - Approximately R\$ 1,080 per each dependent, without limitations in the number of dependents. - Education expenses of the taxpayer or any of the dependents, with an annual individual limit of R\$ 1,700. - Health care expenses, without limitations. - Contributions to cultural and audiovisual activities and to the <i>Fondo de la Infancia</i> – Children's Fund, up to 6% of the tax.

TABLE E (continued)

Proportional or progressive	Progressive.	
Aliquots	<p><i>Non residents:</i> Temporary non residents in Argentina, i.e. for 6 months or less, are subject to withholding. A <i>standard</i> deduction of 30% is admitted. The remaining 70% is taxed at a <i>flat</i> rate of 35%. The actual and final withholding is then of 24.5%.</p>	<p><i>Non residents:</i> Are taxed on their Brazilian source income at a tax rate of 25%.</p>
Tax credit	<p>Tax credit is admitted for taxes paid abroad on income from foreign sources.</p>	

Note: (1) As from 1/1/03 the amounts were increased to \$4,800, \$2,400, \$1,200, \$1,200, \$18,000 and \$6,000, respectively.

TABLE F
GENERAL TAXES ON EQUITY CAPITAL OR ON ASSETS

Concept	Argentina	Brazil	Paraguay	Uruguay
(a) Of individuals	Tax on Personal Assets.	No	No	Yes
Items taxed	Real estate, automobiles, works of art, furniture and fixtures, shares, securities, deposits in financial institutions, etc., without considering debts.	---	---	Banking assets less liabilities. Only debts with local banks are deductible, taxed through the IMABA.
Proportional or progressive	Progressive	---	---	Progressive
Aliquots	General: .5%. However, if the total value of taxable assets exceeds \$ 200,000, the applicable tax rate is of .75%. In certain cases:1.5%.	---	---	0,7% to 3%
Minimum exempt	\$ 102,300	---	---	US\$ 70,000
Jurisdictional principle	Residents: assets in Argentina and abroad are taxed. Non residents: assets in Argentina are taxed. If a company created abroad is the holder of shares of Argentine companies, it will be treated as resident and will be subject to tax at a rate of 1.5%. The aforementioned is not applicable if: (i) the foreign holders are located in countries where there is a registry of shares, or (ii) if the foreign holders are insurance companies, mutual or pension funds or banks.	---	---	Only taxes local assets.
(b) Of companies or legal persons	Presumptive taxation. (1)	No	No	Yes
Items taxed	- General: assets in Argentina and abroad. - Reduced: (i) banks, financial entities, <i>leasing companies</i> and insurance companies calculate 20% of their assets; (ii) certain consignees of agricultural products calculate 40% of their assets in the taxable base.	---	---	Net equity: difference between taxed assets (only local assets) and deductible debts. Deductible debts: (i) debts with banks which are subject to the <i>Impuesto a los Activos Bancarios</i> – Tax on Bank Assets - (IMABA), averaged at end of each month; (ii) debts with international loan agencies of which Uruguay is a member; (iii) debts with suppliers; (iv) taxes not falling due within the current tax period; (v) debentures. Only those debts that exceed the sum of the fiscal value of the assets abroad plus the value of exempt assets, are effectively deductible.
Proportional or progressive	Proportional	---	---	Proportional

TABLE F (continued)

Aliquot(s)	1% on the value of taxable assets that exceeds \$ 200,000 (tax exempt minimum).	---	---	<ul style="list-style-type: none"> - general: 1.5% - banks and other financial institutions: 2.8%. - withholding on foreign individuals and companies on loans granted to taxpayers:: 2% - withholdings on unidentified bank deposits: 3.5%
Jurisdictional principle	It levies assets in the country and abroad.	---	---	It only taxes assets located in the country.
Tax credit	Income tax paid is valid as tax credit against the Presumptive Taxation within the same fiscal year. If there were no payments for Income Tax, a carry forward of the Presumptive Taxation as tax credit against Income Tax for the next 10 years is allowed.			
Exemptions	<ul style="list-style-type: none"> - The cost of assets subject to depreciation (except for automobiles), in the fiscal year in which they were acquired. - The cost of construction of civil works, in the fiscal year of their construction and in the following year. 			

Note: (1) It can be considered more as a Minimum Tax on Income than as a tax on Equity Capital or Assets.

TABLE G
PARTIAL TAXES ON EQUITY CAPITAL

Concept	Argentina	Brazil	Paraguay	Uruguay
(a) On certain acts or transactions				
Transfer of real estate	Yes. 1,5%. Applies to individuals. Legal persons are taxed on capital gains through Income Tax.	Yes. - Transfer by donation or inheritance: ITCMD, state tax; tax rate 4%. - Transfer by purchase-sale: ITBI, municipal tax; variable tax rates depending on the municipalities (Sao Paulo 2%).	No	Yes. <i>Impuesto a las Transmisiones Patrimoniales</i> – Tax on Equity Capital Transfer. Rate: 4%.
Inheritances	No	Yes. ITCMD, state tax; tax rate 4%.	No	No
Transfer of securities	No	Yes. <i>Impuesto sobre Operaciones Financieras</i> - Tax on Financial Transactions (IOF). Base for calculation: redemption, assignment or re-stipulation of value, limited to the yield of the transaction, based on the time period. Rates: 0% to 1.5% (per day).	No	No
Constitution and capital stock increase of a Stock Company (Corporation).	No	No.	Yes. 30% if it is not the as a consequence of capitalization of profits.	Yes. <i>Impuesto de Control de las Sociedades Anónimas</i> – Stock Companies (Corporations) Control Tax. Upon creation: 1.5% on the minimum contractual capital stock in force for corporations. At each fiscal year closing: .75% on the same taxable base. Agricultural and livestock fiscal year end closings are tax exempt.
Banking debits / credits	Yes. Please refer to "Tax on Checks"	Yes. "Tax on Checks" (CPMF). Rate: .38%.	No.	No.
(b) On certain assets				
Banking assets	No	No.	No	Yes. - <i>Impuesto a los Activos Bancarios</i> - Tax on Banking Assets (IMABA). Rates: (i) general 2% per annum; (ii) assets for operations between intermediary financial institutions: .01%; (iii) credits for pre-financing of exports: .01%; (iv) credits granted for the purchase of new housing at 10 or more years terms: .10%. - <i>Impuesto de Control del Sistema Financiero</i> - Financial System Control Tax (ICOSIFI). It levies with a tax rate of .36% per annum all credits that can be computed for the liquidation and filing of the IMABA. The <i>Impuesto a la Renta</i> – Income Tax (IRIC) paid may be deducted from ICOSIFI up to coinciding with the latter.

TABLE G (continued)

Banking credits	Yes. Please refer to "Tax on Checks"	Yes. <i>Impuesto Operaciones Financieras</i> – Tax on Financial Transactions (IOF). - Base: credits between financial institutions and cash loans between non financial companies or between non financial companies and individuals. A high number of exemptions and operations taxed at a rate of 0%. - Tax rates: from 0% to 1.5%. Example: if the borrower is an individual or a company: .0041.	No	No
Real estate	Please refer to Tax on Personal Assets.	Yes. - <i>Impuesto Patrimonial Rural</i> – Rural Property Tax (ITR): federal, levied on rural real estate. Progressive: rates vary from .03% to 20% depending on the size of the estate and the use of the land. - <i>Impuesto Patrimonial Urbano</i> – Urban Property Tax (IPTU): municipal, levied on urban real estates. It can be progressive. Rates: of .8% and 1,6%. In Sao Paulo, the rate is of 1% on the market value of the estate.	Yes. Municipal. 1% on the fiscal valuation of the real estates.	Yes. Municipal.
Automobiles	Please refer to Tax on Personal Assets.	Yes. IPVA. State tax. The rates vary according to the State.	No	Yes. Municipal.

TABLE H
"TAX ON CHECKS"

Concept	Argentina	Brazil	Paraguay	Uruguay
Name	<i>Impuesto sobre los Débitos y Créditos en Cuenta Corriente Bancaria.</i> – Tax on Debits and Credits in Bank Checking Accounts. Article 1, Ley de Competitividad N° 25.413 – Competitiveness Law; in force as from April 2001.	<i>Contribucao Provisoria sobre Movimentacao Financiera</i> – Provisional Contribution on Financial Transactions. CPMF		
Base	Debits and credits in current accounts in financial institutions.	Debits in current accounts and savings accounts, term deposits, loans, bonds in financial institutions; transfers without transit through current accounts; contracts in futures' markets.		
Aliquots	.6% on debits and .6% on credits (a total of 1.2%).	.38% up to 16 June 2002, date on which it was repealed.		
Exemptions	Government accounts, diplomatic delegations, institutions that are exempt from Income Tax, cancelled transactions, transactions of financial institutions with the Central Bank, direct salary deposits in current accounts, transfers between accounts of a same owner, insurance premiums, payments for cable TV services, savings programs, transactions between operators or brokers of financial markets, foreign trade operations, purchases of mutual funds, payment of electronic services, pension funds.	Government transactions, corrections of transactions, debits of own taxes, withdrawals of social funds, FGTS and PIS/PASEP, unemployment benefits, charity, individual retirement accounts, transfers between accounts of the same owner, deposits of financial institutions and operators, investment funds, repayment margins in futures contracts.		
Tax credit against other taxes or refunds	No.	No.		
Absorption by the bank	Admitted, but taxed. If the bank decides not to pass on the tax to the client, the tax rate increases.	Admitted but taxed. If the bank decides not to pass on the tax to the client, the tax rate increases.		
Closed pension funds	Taxed.	Taxed.		
Endorsements	Two endorsements admitted.	Only one endorsement is admitted.		
Withholding agent	Financial institutions.	Financial institutions.		
Payment	Third working day after withholding.	Weekly.		
Co-sharing	No.	Not Explicitly.		

Table I
SIMPLIFIED REGIMES FOR SMALL TAXPAYERS

Concept	Argentina	Brazil	Paraguay	Uruguay
Tax	Yes. <i>Monotributo</i> – Single Tax (Optional Simplified Regime).	Yes. SIMPLES.	Yes. Single Tax.	Yes. <i>Impuesto a las Pequeñas Empresas</i> - Tax on Small Enterprises (IPEQUE).
Taxes it substitutes	Replaces VAT, Income Tax and Social Security contributions.	Replaces the following taxes and federal contributions: (1) Income of Legal Persons (2) <i>Contribución Social sobre Lucro Líquido</i> – Social Contribution on Net Profit (3) COFINS (4) <i>Impuesto sobre Productos Industrializados</i> – Tax on Industrialized Products (5) PIS / PASEP (6) Employer's Contributions to Social Security	Replaces VAT and Income Tax for companies.	Replaces VAT and Income Tax for companies.
Qualified taxpayers	Taxpayers with annual gross revenues of up to \$ 144,000 may opt for this regime; (in the case of professionals, those with gross revenues under \$36,000).	Taxpayers with yearly gross revenues of up to 1,200,000 reales can choose this regime.	Taxpayers with annual gross revenues of up to US\$ 12,500 (year 2000) can choose this regime. Neither professionals nor State suppliers may opt for this regime.	Taxpayers with annual gross revenues of up to US\$ 25,000 can choose this regime.
Settlement	Classifies small taxpayers into 8 categories, on the basis of gross revenues and other specific indicators (area of the store, power consumption, number of employees, maximum sales price of products). Tax to be paid on a monthly basis ranges from \$ 88 to \$ 519 depending on the category.	It is settled based on percentages applied on billings in accordance with a progressive scale that ranges from 3% for taxpayers with annual gross revenues up to 60,000 reales to 7% for taxpayers with annual revenues of up to 1,200,000 reales.	Tax payable is 4% on gross revenues or on other specific indicators (whichever is higher).	Tax payable, which is determined on an annual basis, is the same, regardless of the sales amount.

TABLE J
TAX ON OPERATIONS WITH FOREIGN CURRENCY AND SECURITIES

Concept	Argentina	Brazil	Paraguay	Uruguay
Tax	No	Yes. <i>Impuesto Operaciones Financieras</i> – Tax on Financial Operations (IOF). Tax on currency exchange and insurance operations, and on transactions with gold. (Moreover, it taxes transactions with securities and loans. Please refer to Partial Taxes on Equity Capital).	No	<i>Impuesto a la Compra de Moneda Extranjera</i> - Tax on purchases of foreign currency (ICOME).
Taxable Transactions	---	<ul style="list-style-type: none"> - <i>Currency exchange operations</i>. e.g. : transactions to remit abroad payments for services (technical assistance, royalties, etc.). There is a large number of exemptions and transactions taxed at a zero tax rate. Rates: examples: (i) transactions made by credit card administrators to cover expenses incurred abroad by their clients: 2% ; (ii) loans with foreign countries for periods of less than 90 days: 5%. - <i>Insurance operations</i>. On premiums of life insurance, occupational accidents insurance, property insurance and others not specified. Rates: ranging from 0% to 7% (life insurance: 2%). - <i>Transactions with gold</i>. 1% on the first transaction made by a financial institution. - <i>Transactions with securities</i>. Up to 1.5% per day on the amount of the transaction with <i>securities</i>. 	---	Purchase of foreign currency made by public (State) companies. (Its repeal is currently under study since it discretionally affects only public companies).
Aliquots	---	Between 0% and 25%.	---	2%

**TABLE K
STAMP TAX ON ACTS AND DOCUMENTS**

Concept	Argentina	Brazil	Paraguay	Uruguay
Tax	Provincial stamp tax. In the Federal Capital it only applies to sale of real estate, with progressive aliquots that go from .75% to 2.5%.	No	Tax on acts and documents.	No
Taxable transactions	Acts legalized through public documents, contracts for setting up of firms or corporations, lease contracts, mortgages, real estate title deeds, insurance policies, registration in Public Registries, promissory notes and bills of exchange, monetary operations that accrue interests, etc.	---	Acts of financial intermediation (loans, bills of exchange, checks' clearing from one market to another, transfer abroad of foreign currency), and exportation of fresh agricultural and livestock products.	---
Aliquots	Generally 1%. Differential rates for real estate operations (.75% to 2.5% depending on the amounts). Other: .5% on certain contracts.	---	For certain operations, fixed amounts in guaraníes; for other operations, rates that range from 1% to 2%, although exports of agricultural and livestock products pay a 12% rate.	---
Item taxed	Value assigned to the operation, amount of the title deeds or contracts, value of the document, amounts of insurance premiums, etc.	---	Value appearing in the documentation: - Financial intermediation: Amount involved in the operation. - Exportation of Agricultural and Livestock Products: Value of the export invoice.	---