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TAXATION

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LATIN AMERICAN TAX LAW REVIEW — FIRST HALF, 1975

This study reviews the tax developments in eighteen countries of Latin America during the first half of 1975, with emphasis on those changes which affect North American investors and corporations. Pertinent legislation and rulings, as well as important judicial decisions are highlighted so as to give maximum coverage in each of the areas listed below.

- Area No. 1 — Fiscal Policy
- Area No. 2 — Promotion of Economic Development
- Area No. 3 — Inflation Generated Measures
- Area No. 4 — Social Security Systems
- Area No. 5 — Tax Administration
- Area No. 6 — Special Situations

ARGENTINA

Under the Tax Policy Area, several tax laws have been revised by the law which establishes the national budget for 1975. One of the amendments fixes in .25% the tax imposed on bank loans to industrial enterprises. Another amendment extends the duty exemption on behalf of national producers from May 30, 1974 to December 31, 1975, and the tax

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The developments described in this article have been compiled with the assistance of Miss Carmela Savoca, A.A.S., BMC College, New York.

on imputed income from land throughout 1975. Also revised are: 1) the Income Tax Law with respect to the deduction from gross income of profits invested in forestation and with respect to certain exemptions; 2) the Excise Tax Law with respect to the exemption of syrups; and 3) the law granting credit for investment in qualified securities.¹

Another important development in Area No. 1 relates to withholding tax on dividends paid to nonresidents. On the ground that the Income Tax Bureau had no authority to establish the system for limiting tax exemptions on behalf of foreign investors in relation to the transfer of revenue to treasuries of foreign countries, the Treasury revoked a provision of a General Resolution relating to withholding of tax on dividends received by nonresidents. Furthermore, regulations passed later contain rules on the subject at variance with those of the Resolution. A month later, the Income Tax Bureau revised the rules for the withholding of income tax or dividends, in accordance with the provisions contained in the Income Tax Regulations.

The withholding rate on dividends from taxed profits paid to nonresidents is 29.50% plus, for dividends attributable to the 1974 taxable year, a 20% surcharge. Payers of dividends from exempt profits are required to withhold tax as required by the statute and the regulations, (at a 45% rate) where such dividends are paid to nonresidents.²

Exercising the authority granted it by the Tax Procedure Law, the Treasury has fixed at 2% per month the interest accrued on overdue taxes and at 3.5% per month the interest accrued on taxes and fines collected through judicial proceedings.³

Argentina has adopted the Brussels nomenclature for Goods, which, in turn has since been amended twice. Two decrees have revised the Argentine nomenclature so as to conform to such changes. The revised nomenclature is to be used for establishing the import and export duty tariffs.⁴

Under amendments to the decree which established a 10% gross receipts tax on radio licensees, the tax rate has been reduced from January 1, 1975, to .50% for radio stations and to 3.5% for television stations. The latter are declared to have been subject to the tax under the old decree.⁵

In Area No. 2, legislation granting exemption from income and sales taxes and import duties for certain domestic sales has been enacted. The benefit applies to sales of locally-manufactured goods to projects financed

by the Inter-American Development Bank, by international bidding. Such sales are treated as exports for purposes of excluding profits derived therefrom from the gross income of the seller, and purposes of import duty rebates. The Executive Branch is required to issue regulations providing rules for application of the new law to manufacturers already entitled to tax benefits for particular industries. The regulations must define also "international bidding projects" for qualification under the new law.⁶

Fishing companies, and investors in those fishing companies which had waived tax benefits, will be entitled to exemption from the gains tax and the tax on company capital or net worth. Such exemptions apply where the taxpayers had been granted exemption from the repealed income and substitute inheritance taxes by December 31, 1973, or thereafter if the petition was filed no later than that date. Sales tax exemptions granted prior to May 25, 1973 are maintained.⁷

One inflation generated measure, Area No. 3, has been the adjustment of personal income tax exemptions by a 40.10% factor. Complying with provisions of the Income Tax Law which became effective on January 1, 1974, the Income Tax Bureau has updated and fixed for the 1975 taxable year the amounts provided in such law for personal exemptions. The amounts adjusted are the following: the special deduction; nontaxable income; the exemption for dependents; insurance premiums, and funeral expenses.⁸

In the Social Security Area, it bears noting that employers have been required to absorb from April 1, 1975, a progressive 6-point increase in the employee contribution to the social security system, as well as specified increases of the wages subject to social security contributions. Arts. 1-6, Decree No. 796 of March 31, 1975 (B.O. No. 23142, April 23, 1975). The contribution increase is a reimbursement to the National Social Security Institute for benefits advanced by the Institute pursuant to an agreement entered into by the Confederation of Workers, the Confederation of Employers and the Ministries of Economy, Welfare and Labor on November 27, 1974.⁹

As for Tax Administration, Area No. 5, exercising the authority granted it by law, the Executive Branch has revised for the second time the list of items exempt from the added-value tax which became effective January 1, 1975. The changes apply from March 14, 1975, except if they are more favorable to the taxpayer in which case they apply from the effective date of the law, unless the tax has been passed on to the purchaser.¹⁰

BOLIVIA

Several changes have been introduced under the Fiscal Policy Area.

Superseding temporary withholding rules passed at the beginning of the taxable year 1974, a new Supreme Decree has determined under which income tax law is tax liability for 1974 to be finally ascertained. Earned income, interest and real property rentals derived by individuals are to be taxed according to the laws in force as of December 31, 1973. Interest and real property rentals and business profits derived by domestic legal entities are governed by the new income tax law. Income of nonresidents is also governed by the new income tax law, but taxes withheld during 1974 up to October 3, 1974 in accordance with the old law are regarded as final. Amounts withheld under earlier rules are regarded as payments on account of the final tax liability determined in accordance with the present statute.¹¹

Also, two decrees giving relief for mineral exports selling at depressed international prices have been issued. One decree revises the rules for applying taxes on exports of antimony ore and antimony/lead combinations. The other decree suspends temporarily the application of the tax on export value of copper and lead as long as international prices thereof are regarded as discouraging production. It also declares exempt from the export value tax any mineral containing metals whose international price is below the basic price set forth for purposes of the export royalty tax.¹²

With regard to exports, the export duty relief established for certain processed goods has been extended. Beginning April 4, 1975, all exports not expressly excluded by a new decree, are exempt from export duties. Among the goods excluded from the above benefit are those described in certain specified decrees and sugar, cotton, coffee, beef, cattle and alpaca wool. Other goods such as rice and processed goods containing gold and silver will be subject to a special duty system.¹³

Two decrees reducing import-duty tariffs have been issued. The import-duty tariff which entered into effect on December 1, 1973 has been reduced with respect to motor vehicles, textiles and certain household appliances. Pursuant to one decree, automobiles will be subject to duty ranging from 25 to 50% ad valorem. The duty is lower for trucks and commercial passenger vehicles. Pursuant to another, textile fibers and finished textiles are subject to duty ranging from 5% for synthetics to 100% for silk. The duty amounts to about 50% ad valorem for finished garments and home appliances.¹⁴

Under Area No. 2, national and foreign private investment and re-investment in enterprises rendering telephone, transportation, mining, mechanic, consulting, leasing and educational services will enjoy the tax benefits and foreign exchange guarantees contained in the Investment Promotion Law. New service enterprises which are declared entitled to the benefits of the law may enjoy up to 100% exemption from import duties and additional tax on imports, and from national and local taxes on construction. Interest on domestic or foreign loans, the proceeds of which are invested in approved enterprises, will be free from income tax. Special accelerated depreciation of fixed assets may also be granted. All enterprises are entitled to tax-free reinvestment of profits, and domestic consulting companies may deduct from taxable income, the profits applied to the purchasing of new shares issued by companies wholly or partially owned by foreign capital until the national equity reaches 51%.¹⁵

To encourage exportation of industrialized products at prices competitive in international markets, exporters will be granted tax rebates under new legislation. The benefit includes duties levied on imported raw materials, component parts and containers, and sales, production or consumption taxes levied on domestic materials, parts and containers. Such rebates will be represented by tax credit certificates which can only be utilized by the recipient for payment of customs duties or of the aforementioned taxes on domestic goods. In order to receive the credit for import duties paid, the goods imported must not be produced domestically in adequate quantities, prices and qualities. Exporters applying for the tax benefit created by the present Supreme Decree are required to surrender to the Bank of the State the Foreign exchange proceeds from their exports.¹⁶

Lastly, within the Special Situations Area, Bolivia has ratified by Decree Decisions 57 and 57(a) of the Cartagena Commission, dealing with products of the metal mechanical industry. Importation of such products will be subject to import duties as provided for in the same decree. Goods originating in member countries will be exempt from import duties, if listed in annex A to the present decree; otherwise they will be subject to import duty until December 31, 1980. Goods originating in non-member countries, which are not currently taxed, will be gradually taxed so as to be totally subject to the duties laid down in the Outer Common Tariff by December 31, 1985.¹⁷

Having approved Decision 24 of the Cartagena Commission, Bolivia now has approved its Annexes I and II and Decision 37 of the Cartagena Commission, whereby Decision 24 is revised.¹⁸

BRAZIL

In Area No. 1, taxation of income derived from foreign sources by individuals residing in Brazil and of distributions by noncommercial associations of professionals has been changed. Pursuant to a decree-law which became effective on December 24, 1974, resident individuals are required to report foreign source income under the appropriate schedule; resident aliens are relieved from taxation on their income from foreign sources, for the first five years of residence in Brazil. Members of professional "civil" associations (physicians, engineers, lawyers, accountants, painters, brokers, etc.) may elect to be taxed exclusively at the source on distributions from such associations, at a 32% rate. Domiciled Brazilians studying abroad may report income in foreign currency as non-taxable income for up to four years after their departure from Brazil.¹⁹

Real estate development by individuals is governed by new rules. Individuals buying and selling real estate as sole proprietorships will be treated as legal entities for income tax purposes if they meet the conditions set forth in a new statute. Taxpayers so treated must register in the General Taxpayers Registry, carry accounting books, for cash entries, keep supporting documents, and withhold income taxes as required by the law with respect to all legal entities. Distributions to the sole proprietor may be either taxed at the source only at a 25% rate, or included in the individual's tax return. The new rules became effective on January 1, 1975.²⁰

From January 1, 1975, income from salaried work has been subject to withholding of income tax at the source at the rates established in a new decree-law. Beginning July 1, 1975, the maximum bracket is 20% rather than 16%, if the monthly income exceeds 8,600 *cruzeiros*. Implementing the new withholding rates for salary income, tables have been released for the January 1, 1975 through June 30, 1975 period. The monthly deduction for each dependent has been increased from 289.20 *cruzeiros* to 375 *cruzeiros*.²¹

Pursuant to an amendment to the Income Tax Law, intercompany dividends and other company distributions are no longer subject to withholding of tax at the source. Construing this amendment, the Tax System Coordinator has declared that the company receiving the dividend is not required to include the dividends or profits in its gross income, regardless of whether such distributions are or are not exempt under general or special provisions.²²

Exemptions from the single tax on minerals have been expanded to include materials utilized for producing certain supplies for farming, and to benefit cooperatives for the promotion of agriculture and cattle raising.²³

Exercising the authority granted it by law, the Executive Branch has reduced by 4% the rates of the single tax on lubricants and gas and liquid fuels effective January 11, 1975.²⁴

Three tax policy developments took place with respect to import duty concessions. Important concessions have been granted to imports originating in certain LAFTA countries. The concessions apply to petrochemical products and to dyes and pigments.²⁵ Special concessions granted under the LAFTA Agreement to certain imports originating from Paraguay and Ecuador became operative on January 1, 1975. The preferential duty treatment is not extendable to other countries. Neither is it subject to the most favored nation clause of the General Agreement on Tariffs and Trade (GATT).²⁶ Tariff concessions under the General Agreement for Tariffs and Trade (GATT) have been revised, effective May 27, 1975. Certain concessions have been withdrawn, while a new list of concessions has replaced the list in effect since 1967. Among the items no longer entitled to import duty concessions are certain chemicals, photographic film, insecticides, steam turbines, aircraft engines, bulldozers and other industrial equipment and replacement parts.²⁷

The highlight in Area No. 2 is the overhauling of fiscal incentives administration. Beginning with the fiscal period 1975, (1974 taxable year), tax credits granted as fiscal incentive investments have been allowed, collected and applied pursuant to new rules. To this effect, three Funds have been created, which will be the actual investors in equity of promoted projects within their respective areas. The three new investment Funds are FINOR, for the Northeast, FINAM, for Amazonia, and Fiset for the other 3 sectors, tourism, afforestation and fishing. Legal entities may apply percentages of the tax payable by them, ranging from up to 1% for aircraft industry projects, to 50% for projects located in the Amazon or Northeast regions, but not in excess in the aggregate, of 50% of the tax liability. The maximum percentages are the following: 50% in Amazon and Northeast projects; 8% in tourism; 25% in fishing; 45% for 1974, down to 25% for 1978 and subsequent taxable years in afforestation; 33% in Espirito Santo State projects; 1% in aircraft industry stock, and 1% in education projects of MOBREAL Foundation. Upon selecting the area of investment, the taxpayer will receive a nontransfer-

able certificate from the Treasury indicating the Fund to which the monies collected under one single receipt have been applied. Such application certificates are to be exchanged for quotas of the respective Fund no later than one year from date of issuance. The quotas are transferable in the open market. Where the taxpayer individually or grouped with affiliated companies owns at least 51% of an enterprise engaged in a qualified project, the certificates will be exchanged for shares in such enterprise. These shares will be non-transferable for four years.

The reallocation of 30% and 20% of investments in certain areas for a National Integration Program and for development of agriculture in the North and Northeast has been maintained.²⁸

Of no less significance in Area No. 2 has been the encouragement of investment by nonresidents in the Brazilian stock market. Under a new Decree-Law, dividends and capital gains from the sale of shares of eligible investment companies, derived by nonresidents will be subject to withholding tax at the rate of 15% rather than 25%, and to a supplementary income tax on profits exceeding 12% of the registered investment in each fiscal year. The withholding tax rate is reduced in a sliding scale, to 8% for income from investments held over eight years. Neither this supplementary tax nor the existing supplementary tax apply to dividends and gains remitted after the completion of eight years from the registration of the original investment. Investment companies whose capital is shared by nonresidents will only enjoy exemption from income tax on profits, reserves and distributions, if they comply with the rules relating to foreign capital to be laid down by the National Monetary Council. The investment companies referred to in the present decree-law are those having as purpose either investment of capital in a diversified portfolio of securities or commercial paper, or the administration of funds held in common tenancy or belonging to third parties for their investment in such portfolio.²⁹

A new statute governs benefits to shipbuilding, superseding the system which was to prevail until December 31, 1975. Import duties and excise tax on industrialized products for materials to be used in building freighter ships in the period 1975-1979 are waived if the products are included in lists approved by the Council for Industrial Development.³⁰ Current tax benefits available to Brazilian enterprises treated as exporters for sales of domestic machinery and equipment in the local market have been expanded to include projects financed by the investor out of accumulated profits.³¹

The Treasury has implemented anew income tax breaks for manufacturers of exported industrialized products. Deductibility for payor's income tax purposes and total withholding tax exemption is granted for remittances abroad related to the promotion of such exports, except if the payee is affiliated with the payor. According to the present *Portaria*, expenses incurred abroad for which payments may be exempted include: advertising, market research, rent for locations at trade fairs, expositions and conventions, and maintenance expenses of offices, stores and warehouses. The following types of payments will not be granted exemptions nor allowed to be deducted: payments from subsidiaries in Brazil to foreign parent companies or to foreign affiliates of the foreign parent company; and payments to nonresident persons who directly or indirectly maintain controlling interests in the capital of the paying Brazilian company.³²

The income tax exemption granted in the case of formation or merger of insurance companies has been extended to December 31, 1979. The tax benefit applies retroactively to January 1, 1975.³³

Regulations under the new law on tax-free revaluation of assets in case of corporate consolidations and mergers, have been passed. Guidelines for determining whether a proposed reorganization is in the national economic interest have been set forth, as well as rules on depreciation allowances and monetary adjustment of revalued assets. Among the objectives regarded as being in the national economic interest are increased productivity and efficiency, conquering of foreign markets, installation or modernization of establishments for processing farm products, and installation or modernization of machinery and other capital assets.³⁴

In Area No. 3 it should be noted that Congress has eliminated, except for specifically stated situations, the application of minimum salaries as a basis for determining *cruzeiro* values. In its stead, the Executive Branch is to fix a special factor as provided for in the new statute. Among the exceptions to the new rule are: the family subsidy; the maximum salary subject to social security contributions; farm workers' benefits; maximum salary of domestics covered and certain other benefits.³⁵

The fiscal dollar average rate for the taxable year 1974 has been fixed at 6.651 *cruzeiros*.³⁶

A special development to be reported in Area No. 6 is the approval, promulgation and implementation of a Treaty with Denmark to avoid double taxation and prevent tax evasion.³⁷

CHILE

Several changes have been introduced under the Fiscal Policy Area.

A new Income Tax Law has been enacted by a Decree-Law, effective January 1, 1975. The new law reproduces most of the old law provisions, except that under the new system income includes ordinary income as well as gains. Nevertheless, it is still broken down into "categories": "first category", income from capital, business and gains, and "second category", income from labor. In addition to the normal tax levied on "category" income, resident individuals are subject to a complementary overall tax, and nonresident persons are subject to the "additional" tax, as they were under the old law. The rate on first category income is 15% (17% under prior law); in addition to this tax, domestic corporations pay a 40% tax on all income received, including "first category" income, except inter-company dividends, reducing it by the amount of the "first category" tax paid. The rate on "second category" income is progressive; so is the rate of the overall tax; they have not changed. Nonresident persons pay the additional tax on all income received or credited to them at a 40% rate, as under the old law. The new statute repealed the net worth tax, the special tax on foreign stockholders, and the single tax on income of transportation carriers. Among the new features of the present tax are an expanded monetary adjustment by cost-of-living index changes, of the book value of fixed assets, working capital, foreign loans, good will, portfolio holdings and amortizable expenses; the deductibility of foreign exchange losses; the amortization in 5 years of organization expenses, and the amortization in 3 years of advertising expenses.³⁸

Amendments have been added to the Income Tax Law. Pursuant to one of the amendments, a credit granted to nonresident taxpayers against the withholding tax on dividends will apply to remittances made from January 1, 1976 rather than from the taxable year 1977. Another amendment revokes all special provisions granting exemption from income tax on interests received, and, beginning January 1, 1975, all exemptions from income tax granted by law or by contract to medium-size copper mining enterprises.³⁹

A new sales and service tax has been passed effective March 1, 1975. The general rate is 20% of the selling price. The taxpayer is allowed a credit for sales tax shown in invoices as a separate item. Thus, the tax is levied on the value added by the taxpayer. A special tax is, in addition to the general rate, levied on the first sale of luxury items, soft beverages,

automobiles and services rendered by night clubs, bars, and the like. This tax is to be included in the selling price except for automobiles. The service tax applies at a 20% or 8% rate, depending upon the nature of the service rendered. It is to be charged as a separate item. Among the exemptions are products from extractive industries, basic foodstuffs, liquid gas, petroleum by-products and meals furnished to workers in the employer's premises.⁴⁰

Effective March 1, 1975 taxes levied on a score of certain products exported and services rendered have been repealed. Also repealed by that date are several taxes on payroll and profit-sharing, the 50% state share of copper sales, the 1.5 per thousand additional tax on foreign currency sales, the 10% tax on sales of foreign magazines, the special taxes on sales of benzine, and a tax on telephone services.

Among the taxes and surcharges repealed are those levied on iron ore exported, borax concessions, 30% surcharge on liquor licenses, 600% increase on certain municipal business licenses, certain transfers and traffic of cattle, sales of matches, sales of cigarette lighters, transportation of wood, certain passenger fares, telegrams remitted abroad, warehouse services, edible water supplied in certain cities, transformation of imported motor vehicles, pharmaceutical billings, sales of gasoline in certain provinces, etc.

Medium-size mining companies have been required to share with the government the excess of proceeds for sales of copper over an established base price.⁴¹

Substantial reforms on taxation of real property became effective retroactively to January 1, 1975.

Appraisal of non-farm land and urban property is to be adjusted by 300% or 400% depending upon the valuation as of December 31, 1974. Up to 100% exemption is granted to property which is used as a residence. The Executive Branch has been authorized to adjust appraisals and brackets of appraisal for exemptions purposes after July 1, 1975, in accordance with the changes in the cost-of-living index. The progressive tax imposed will apply to idle land in urban areas if the appraised value as of December 31, 1974 was equal to or greater than 500,000 *escudos*. Appraisals had last been adjusted from July 1, 1974, by applying a 100% factor⁴²

Also in the Tax Policy Area, a new law governs taxation of domestic and imported alcohols, alcoholic beverages and wines, from March 1,

1975. The rates are fixed as percentages of the "minimum monthly vital salary" in the province of Santiago, for alcohols, and as a percentage of the selling price for liquors, wines and beer, ranging from 40% to 15%. The rates are increased by 50% for imported products.

Alcohols for industrial use are exempt from the tax and alcoholic beverages originating in certain provinces are taxed at lower rates.⁴³

Tobacco growing and merchandising has been regulated as of March 1, 1975. The taxing provisions of the statute impose a 40% tax on cigars and a 57% tax on cigarettes, both computed on the selling price payable by the consumer of a pack or box. These rates are increased by 50% for imported tobacco. The Executive Branch is authorized to establish an additional surcharge of up to 4%.⁴⁴

An 11% tax is to be levied from March 1, 1975 on admission tickets to all kinds of paid public entertainment. However, the rate is 2% and .50% of a "minimum monthly vital salary" in the case of admissions to casinos and racetracks, respectively.

Among the events which are exempt of the tax are those for the benefit of the University of Chile, or of charitable organizations. Admissions to educational events are subject to 50% of the tax.⁴⁵

In addition to increasing the existing tax on sales of benzine, a new law has created new fix taxes to be applied on each litre or kilogram of benzine, kerosene and diesel oil sold by producers. The new taxes range from 5 *escudos* per litre of kerosene to 15 *escudos* per kilogram of fuel oil No. 6.⁴⁶

Four decrees reducing import duties for several products and equipment have been passed. The products benefited by the new decrees are metal scrap, certain chemicals, and equipment used by radio and television stations.⁴⁷

The concessions to LAFTA countries under the National List of Chile have been extended and revised effective from January 1, 1975. The concessions apply to petrochemical products imported from February 21, 1975, and to dyes and pigments imported from January 1, 1975. Certain products were eliminated from the National List and others were substituted. Changes affected likewise, the Special Lists for Bolivia, Ecuador, Paraguay and Uruguay.⁴⁸

Tax incentives granted heretofore to industries located in Chiloe and other Provinces and Departments have been drastically curtailed. All

import and export duty, income and property tax exemptions are gradually reduced until their complete elimination at the end of various periods. Thus, in certain regions the general import duty tariff will apply from January 1, 1978, and income tax will be payable at full rates by 1988. Investors covered by contract/laws may elect to remain governed by such contract/laws. Detailed regulations implementing the law on tax incentives to industries in Chiloe and other Provinces and Departments have been passed. They regulate shipment of goods into and out of the various regions described in the statute, specifically with regard to application of import duties. They also set forth detailed rules on application of income, property and added-value tax exemptions. All import duty benefits granted by prior laws to areas not listed, became void on February 21, 1975.⁴⁹

Exporters will be refunded in accordance with a new law, the import duties and excise taxes levied on raw materials which have been used in manufacturing exported goods. The refund is a percentage of up to 30% of the amounts derived from converting into *escudos* the proceeds from such exports. The percentage of the refund is limited to 10% of certain goods listed in the new statute, if they were shipped from January 1, 1975 through February 28, 1975. The refund may be effected through checks or through tax credit certificates at the election of the recipient. Exporters are required to submit a return each month, reporting the prior month's exports which originate their claim for sales tax refund.⁵⁰

Two free zones have been authorized by a new law. They are to be established in Iquique and Punta Arenas. Several in-bond warehouses have also been authorized.

Goods can be imported, processed and re-exported free from all duties and taxes but for a 3% ad valorem tax. Enterprises established in the free zones or in-bond warehouse areas shall be exempt from sales tax on their operations and from income tax on their profits. However, such enterprises are required to carry books of account in order to determine the dividends of and distributions to their owners or shareholders for purposes of the income tax payable by them.

The general labor and social security laws apply to workers in the free zones and in-bond warehouses.

The new law prescribes the duties of operators of the free zones. No banking or financial activities may be carried on therein.

Enterprises operating or using the new facilities may raise local currency for defraying salaries and other local costs by selling freely convertible foreign exchange in the free exchange banking system.

The new in-bond warehouses may not begin operations until December 31, 1978.⁵¹

Companies engaged in forestry exploitation will be entitled to a 50% reduction of the tax imposed on income derived by them. Investors and shareholders will be entitled to a 20% reduction of the tax levied on income distributed by such companies.

Another benefit contemplated by the new statute is a bonus equivalent to 75% of the cost of forestation and reforestation incurred into by individuals or legal entities in land declared to be apt for such exploitation. The tax benefits are not extended to the processing of lumber.⁵²

Referring to Area No. 3, and pursuant to two new decree-laws, all workers of the private sector earning up to 150,000 *escudos* have been entitled to a monthly bonus beginning March 1, 1975. The bonus is 20,000 *escudos*; it is subject to tax and social security contributions, and shall be adjusted in accordance with the cost-of-living index changes. In addition, employers had to pay to all workers, in April, 1975, a bonus in the amount of 20,000 *escudos*, which was not taxable nor subject to social security contributions.

Pursuant to one Decree-Law, the minimum monthly salary has been 106,400 *escudos* from March 1, 1975, the minimum pension, 74,300 *escudos*, the minimum salary of rural workers, 83,200 *escudos*, and that of domestics, 53,100 *escudos*.

Pursuant to the other, employers have been required to advance in May, the amount of the automatic salary adjustment which was to become due in June, 1975.⁵³

For all legal and tax purposes, the minimum monthly "vital salary" for 1974 to be applied in computing taxes due or accrued during the taxable year 1975 has been fixed at 20,000 *escudos*.⁵⁴

Pursuant to a new decree, the fixed rates contained in the Stamp Tax Law have been increased by 127% commencing July 1, 1975. Under the authority granted the Executive Branch the new decree was passed to update every sixth month the fixed rates contained in the Stamp Tax Law in accordance with increases in the cost-of-living index.⁵⁵

In the Social Security Area, three changes are worth noting. A 10% surcharge will be temporarily levied on income tax, and inheritance taxes. It applies on income derived or withheld between June 1, 1975 and December 31, 1976, and on inheritance tax paid or payable between June 1 and December 31, 1975. The 40% tax on cigars has been raised to 57%.

The Executive Branch has been authorized to establish a surtax of up to 10% on sales and excise taxes. Certain exemptions from sales tax have been revised. Exercising this authority, the Executive Branch has imposed as of May 16, 1975 a 6% surtax on sales of liquid gas, thus increasing the rate from 20 to 26%; surtaxes ranging from 4.2% to 10% for sales of luxury items; a 10% surtax on wines and liquors, and as of June 1, 1975, a 5% surtax on cigarettes.⁵⁶

“First category” taxpayers, that is, those deriving income from capital investments or business activities, will be entitled to accelerated depreciation of fixed assets acquired new between May 27, 1975 and May 31, 1977, or, in certain circumstances, May 31, 1980.

Assets whose useful life is, according to the Tax Bureau, shorter than five years do not qualify. Nor do investments which reduce the number of personnel employed as of March 31, 1975.

The acceleration consists in an increase of the annual allowance so as to reduce the depreciation period to one third, or in increasing by 300% the normal percentages allowed by the Tax Bureau. Rules for discontinuance of the accelerated depreciation are provided for in the new decree.⁵⁷

The Income Tax Law has been amended to exempt interest from bonds and debentures and bank deposits, except if the recipient of the interest is a financial institution.

Amendments to the Stamp Tax Law exempt from the tax documents showing financing for investments, and amendments to the Sales Tax Law exempt certain insurance premiums.⁵⁸

A new Tax Code entered into effect on January 1, 1975. It contains procedural, accounting and administrative rules. The Code defines “resident person” as an individual who is present in Chile more than six months in a calendar year or more than six months in the aggregate within two consecutive taxable years. Independently from the “vital salary” a “tax unit” is set forth, which is an amount of money fixed by the law

to be used as a standard for tax purposes, and is to be adjusted monthly in accordance with the cost-of-living index. From January 1, 1975 the "tax unit" has been fixed at 37,000 *escudos*.

Although accounting books are to be carried in national currency, where the capital has been contributed in foreign currency the Regional Director of the Internal Revenue Service may authorize the accounting in such currency.⁵⁹

In an attempt to curtail sales tax evasion, the Chilean Government has authorized the Internal Revenue Bureau to conduct monthly drawings among holders of receipts for payment of goods and services which are subject to the sales and service tax. Amendments to the Tax Code require purchasers of goods and services to demand invoices from sellers. Prizes are measured in "tax units" and are exempt from income tax. The prize receipt is exempt from stamp tax. Prizes are to be paid out of 1% of the revenue from the sales and service tax.⁶⁰

Finally, under the Special Situations Area, Paraguay and Chile have signed an investment and industrial development agreement on September 19, 1974, which has been approved by the latter. Decree-Law No. 954 of March 31, 1975 (D.O. No. 29124, April 10, 1975). In order to prevent double taxation of companies covered by the agreement, special conventions will be negotiated by both countries. Both governments will grant tariff benefits to promote marketing of the goods produced by enterprises covered by the agreement.

A mixed permanent Paraguayan, Chilean Commission shall determine the sectors of the economy to which complementary industrial projects are to be related. Contributions to the capital of enterprises executing such projects may be made in machinery, replacement parts, supplies, foreign currency and/or technology.⁶¹

COLOMBIA

Area No. 1 offers some interesting developments. For instance, the constitutionality of the income tax reform passed by the Executive Branch in the exercise of extraordinary powers under economic emergency has been challenged. The Supreme Court of Justice has held that the tax reform is consistent with such powers, except for certain provisions such as those dealing with tax administration which, thus, were declared to be unconstitutional. Provisions taxing income or gains previously exempt or

taxed at lower rates were found not to be in violation of the protection of vested rights afforded by the National Constitution. Likewise, the constitutionality of the sales tax reform also passed by the Executive Branch in the exercise of extraordinary powers under economic emergency has been challenged.

The Supreme Court of Justice, in a 15 to 10 decision, has held that the tax reform is consistent with such powers, except for certain provisions such as those levying the tax on workers' associations, and those delegating authority for adjusting intercompany prices.⁶²

Two decrees passed regulations under the income tax laws. The first decree has been applicable from and including the taxable year 1974. Among the provisions of special interest to nonresidents are rules for the appointment of an agent so that income tax need not be withheld, and rules on taxability of fees for technical assistance rendered abroad, and on deductibility of royalties paid to nonresidents.

Thus, agents may only be appointed when so required by the Commercial Code. Nevertheless, the existence of a duly appointed agent does not preclude withholding of income tax on dividends derived by non-resident legal entities. Technical assistance fees which comprise contracts for the transfer of technology are taxed even if the assistance is rendered abroad (Art. 16). The regulations incorporate the restrictions of Decision 24 of the Cartagena Commission with respect to disallowance of royalties to affiliated foreign companies, and registration of licensing contracts. Other provisions require the recognition of gain by shareholders or partners of companies under reorganization or merger to the extent of accumulated earnings. For depreciation purposes, useful life of assets is fixed at twenty, ten and five years for real property, personal property, and motor vehicles and aircraft, respectively. Mining and oil companies which are not entitled to depletion allowance may amortize certain investments over a 5-year period. Severance pay is taxed if the employee is rehired; otherwise only 70% thereof is taxed; employers may deduct bonuses not in excess of 10% of the salary earned during the year by each recipient. Several provisions deal with corporate reorganizations (Arts. 51-52), and depreciation (Arts. 70-71). Amortization of investments is allowed if oil or mining companies are not eligible for depletion allowance. By virtue of a second decree, several provisions of the income tax laws were implemented by new regulations. Such provisions deal with employee benefits, deduction of certain expenses incurred abroad, agent of nonresident taxpayers, and other matters.⁶³

Several provisions of such Income Tax Regulations have been found to be inconsistent with the statutory provisions which they purport to implement. Consequently, their application has been temporarily suspended. The suspended provisions deal with recognition of gains derived from accumulated profits, by shareholders, in the case of company reorganizations; deductibility of reserves for retirement pensions of employees, and limitations of deductions by self-employed taxpayers. Other provisions of the Income Tax Regulations dealing with the close of the taxable year upon liquidation of legal entities, and provisions purporting to define closely held corporations have been temporarily suspended by the Council of State. The Council of State has also suspended two provisions of the regulations setting limits to deductions allowed by the statute. One relates to the expenses that may be deducted by branches or agencies of foreign companies, and the other to the amount that may be deducted as bonus paid to employees. The Council has also confirmed an earlier decision suspending another provision of the regulations which treated accumulated profits of a corporation as income taxable to the shareholders upon the transformation of the corporation into a limited liability company.⁶⁴

Exercising the power granted it by the new Income Tax Law, the Foreign Exchange Office has released instructions for the collection of the remittance tax. Among the items taxable are fees for technical assistance services performed outside Colombia. The levy may be paid in pesos derived from the same source originating the remittable income, unless the Exchange Office or the Royalty Commission expressly have imposed the deduction of the amount of the tax from the amount to be remitted, as a condition for the approval of the contract.⁶⁵

Additional regulations under the sales tax law were issued by two decrees. One relates to the products and services the sale of which is taxable. Adopting the nomenclature for the import duty tariff, the regulations list all possible domestic or imported items indicating whether each one is excluded, exempt or taxed, showing the rate in the latter case. Certain services such as insurance, communications by cable or telephone, and repairs are taxed, as well as contractor's services. Under the new system, only the sale of processed goods is taxed. Thus, real property, intangibles and non-processed goods are excluded, while processed foodstuffs, pharmaceuticals, certain chemicals and motor vehicles for public transportation are exempt. The other decree relating to the exemption for heavy machinery for basic industries has been implemented by new regulations. Other

areas covered by the regulations relate to classification of products under earlier regulations, and exemptions granted to consuls and diplomatic persons.⁶⁶

The General Bureau of National Taxes has construed various provisions of the Sales Tax Law and regulations thereunder. Among those provisions are the definition of intermediary production services, of repairs and maintenance, and of deductible taxes. Special instructions and examples for the computation of deductions and credits are also furnished.⁶⁷

Superseding a decree passed twenty days earlier, the Executive Branch has issued new tables and rules for withholding of income tax at source on wages and dividends. From January 1, 1975, wages and dividends received by resident individuals have been subject to withholding according to tables contained in the new decree. Dividends and other income received by nonresident individuals and foreign legal entities are subject to withholding at the special rates established in the Income Tax Law. Intercompany dividends continue to be subject to 4% and 2% withholding, depending on whether the shareholder is a domestic corporation or a domestic limited liability company.⁶⁸

Exercising the authority granted it by the new Income Tax Law, the Treasury has established the percentage of payments to commission brokers abroad, which may be deducted by the payor without withholding income tax. Such percentage may not exceed 5% (10% if related to payor's exports of industrialized products) of the amount of the transaction in the taxable year 1974.⁶⁹

In compliance with commitments related to the admission of Venezuela to the Andean Pact, Colombia has revised both the Nomenclature for Goods and the Common Outside Minimum Tariff adopted by the Cartagena Commission. The amendments became effective on December 26, 1974 and January 1, 1975, respectively.⁷⁰ From January 1, 1975 imports originating in Chile, Peru and Venezuela will enjoy the lower tariffs set forth for a large number of items by a new Decree. In addition to the tariff prescribed in the new decree, all imports are subject to the 1% tax for legalization of consular invoices.⁷¹ Pursuant to Decisions 57 and 57(a) of the Cartagena Commission, dealing with products of the metal-mechanical industry, Colombia has fixed the import duties to be applied, retroactively to January 1, 1975, to such products originating from Bolivia, Chile, Ecuador and Peru.

Among the products listed in the present decree are pumps, compressors, farm machinery, knitting and sewing machines, valves, and instruments used in medicine, dentistry and veterinary medicine.⁷²

Pursuant to the authority granted by law, the duty levied on more than 300 items by the present tariff has been amended with a view to equalizing the tax payable by similar products. Among the items affected are certain chemicals, minerals and motor vehicles.⁷³

With respect to Area No. 2, implementing the Rules on Foreign Investments adopted by Colombia, the Executive Branch has issued three decrees reimposing Decision 24 rules on financial, marketing and tourist firms. According to such rules, a minimum percentage of National ownership is required. The percentage is 80% in marketing firms, 15% in tourist-related establishments, and 51% in banking or financial institutions. A commission has been appointed to negotiate the transformation of banks, on a case-by-case basis. The transformation of other firms is to be contracted with the National Department for Planning. Pursuant to Decree No. 169, all new marketing companies selling Colombian-origin products will have to be at least 80% locally owned. Existing companies which sell foreign-made goods will only have to fade down to 49% foreign ownership. New foreign investment in existing and new marketing firms is still allowed if exports account for at least 40% of total sales. Decree No. 169 reverses the liberal treatment provided for in Decree No. 2719 of December 28, 1973, for marketing firms as well as for banking and financial institutions. Existing banking and financial institutions, which had been further encouraged by Decree No. 387 of March 7, 1974 are now to strictly comply with Decision 24 restrictions. The Commission created by Decree No. 295 is charged with drafting laws and regulations governing direct foreign investments in such institutions.⁷⁴

Under Area No. 3, in compliance with the Law providing for the automatic adjustment of pensions every two years in accordance with the cost-of-living index, the Minister of Labor has fixed at 27% the increase applicable to pensions paid by employers of the private sector. The increase entered into effect retroactively on January 1, 1975.⁷⁵

In the Social Security Area, exercising the power vested in it by the statute which revamped the social security system, the Colombian Institute for Social Security has broadened the protection offered by the Institute, to include medical assistance for the worker's family. To finance this

benefit, contributions are increased by 5% of salaries, with employees paying 1.67% and employers paying 3.33%. The present decree approves Order No. 536 of May 20, 1974 issued by the Institute's Managing Council. Workers and employees already pay 7% of wages (2.33% and 4.66%, respectively) for illness and maternity insurance, and 6.75% (2.25% and 4.5%, respectively) for disability, old age and death.⁷⁶

An important measure highlighting Area No. 5—Tax Administration—was revamped. Congress granted the Executive Branch extraordinary powers to amend legislation on tax administration and procedure in the terms and manner stated in the granting statute.

Exercising such authority, the Executive Branch issued a decree providing, among other things, for the filing of tax returns by all taxpayers, including nonresidents receiving Colombian source income without a Colombian branch or establishment. Such tax returns are to be filed and the tax paid as prescribed by the Income Tax Bureau. Other provisions relate to assessment of the tax liability, remedies, penalties, accounting rules, and appraisal of assets in probation proceedings.⁷⁷

Broad amnesty has been granted for taxpayers who pay before July 1, 1975 income and inheritance taxes overdue as of December 31, 1974. The exemptions and rebates may not exceed certain amounts set in accordance with the time in which the liability for income and complementary taxes has been in existence. Amnesty provisions contained in the Income Tax Law have been superseded.⁷⁸

Taxpayers whose 1974 income originated in more than 75% thereof from sources which were not subject to withholding, are required to pay estimated tax pursuant to the method prescribed in a new decree which takes into account that pursuant to the new income tax system, occasional gains derived in 1975 are taxed, while they were excluded in 1974. Thus, it provides two formulae for individuals and another two for legal entities. Taxpayers may elect either one in computing estimated tax payments for 1975.⁷⁹

Complying with the mandate contained in Income Tax Laws, the Monetary Board has fixed at 16% the interest penalty assessable for late payment of taxes, and at 40% the maximum percentage of the total selling price which may be charged in the first installment in order to be eligible to defer income from installment sales.⁸⁰

COSTA RICA

Regarding the Tax Policy Area, changes in the sales tax have been enacted. The general sales tax rate has been upped from 5% to 8% starting December 28, 1974. New regulations have been issued effective January 1, 1975. They contain definitions, lists of exempt products, and rules for computing the tax base, and for applying credits against the final tax liability. Revenue from the rate increase is earmarked for a Fund for Social Development and Family Subsidies.⁸¹ Exercising the authority granted it by the Sales Tax Law, the Executive Branch has exempted petroleum and its by-products purchased as raw materials by domestic petroleum refineries. The exemption took effect on May 24, 1975.⁸² The Executive Branch has decreed that the exemption from sales tax for products made with stone, sand and cement does not apply if other ingredients are added.⁸³

Exercising the power vested in it by the Sales Tax Law, the Executive Branch has issued a new list of products subject to the selective consumption tax imposed by the Sales Tax Law, and has increased the rates. Under the new allocation of goods among the various new rates, substantial tax increases apply to most of the products, despite reductions and exemptions introduced by a later decree.⁸⁴

In order to give flexibility to a recently-created export duty, its rates have been structured to vary in accordance with international prices and production costs. The duty payable on coffee and beef has been reduced from 13% to 5% and 1% ad valorem, respectively; non-traditional products will be taxed 1% rather than 2%. Sugar remains taxed at 13% provided the FOB price is below \$35 per hundred weight; otherwise the rate is 18%. The new rates have applied to exports of coffee and sugar from the beginning of the 1974-1975 crop. For all other products, the new rates have applied from January 1, 1975.⁸⁵

Under Area No. 2, regulations under the Law for the Promotion of Tourism entered into effect January 30, 1975. Nationals of Costa Rica or resident aliens, and legal entities registered in the Mercantile Registry may be granted import duty, property and income tax exemptions if they build or expand hotels pursuant to the Regulations. The income tax exemption applies to profits reinvested in hotel improvements or in housing for employees. Up to 99% exemption from import duties for materials and equipment used in building new hotels having 50 or more rooms, and up to 90% exemption in the case of expansion of existing hotels having 50 or more

rooms may be granted if such imports are not produced domestically in adequate quantity and quality. Property tax exemption may be granted for 5 years.⁸⁶

Within the Social Security Systems Area, employers are required to pay a new payroll tax for financing a newly-created Fund for Social Development and Family Subsidies. The tax entered into effect on January 1, 1975 at a 2% rate; it is to increase 1% in each subsequent year and will be 5% from 1978 on. Employers whose payroll does not exceed 2,000 *colones* per month, or 3,000 *colones* if engaged in farming, are exempt from the new tax.⁸⁷ Also, regulations under the law imposing a payroll tax to finance family subsidy funds have been issued. They became effective on March 28, 1975. Pursuant to the regulations, employers who delay for more than one month payment of the appropriate contribution to the Fund for Social Development and Family Subsidies are regarded as delinquent and subject to heavy fines.⁸⁸

Finally, in Area No. 5, a new tax on unimproved land is contained in a bill on agrarian reform and rural development. The tax would apply at a progressive rate on tracts exceeding 100 hectares. The bill also provides for the issuance of tax-free agrarian bonds which could be used by the recipient to pay taxes. The rates of the proposed tax would range from .25% to 2% of the appraisal value of the land. Land reserved for certain uses listed in the bill would be exempt. Three classes of agrarian reform bonds would be issued, which yield interest at 6%, 5% or 3% and be redeemable over 10, 15 or 25 years, depending on the class. Such interest would be free from income tax.⁸⁹

DOMINICAN REPUBLIC

Two tax measures are worth noting within the Fiscal Policy Area. All cargo imported or exported through Dominican ports is taxed at the rate of RD\$0.05 per ton, payable by the steamship lines out of their profits. The tax may not be passed on so as to increase the cost of the goods. The levy became effective in April, 1974. Revenue from the new tax is earmarked for improving harbor services and will be collected by customs.⁹⁰

Within Area No. 2, a new Industrial Free Zone has been created in Santiago Province. It will be operated by a non-profit corporation which has been exempted from all taxes, including income tax and import duties. Manufacturing enterprises established within the Free Zone are entitled

to tax exemptions pursuant to the Industrial Promotion Law, but are subject to business license tax for sales made to national territory under the jurisdiction of Customs, and to certain foreign exchange controls. The contract entered between the Dominican Government and the corporation, one of whose shareholders is the same Dominican Government, has been approved. Profits derived from operating the free zone, if any, may not be distributed to the corporation's shareholders, and losses, if any, will be covered through a state subsidy.⁹²

Concerning the Special Situations Area, Congress has regulated exporting. The Dominican Center for the Promotion of Exports has been charged with the promotion and control of all exports except those of sugar, coffee and free-zone products. A new Commission has been charged with the issuance and administration of Exporter's Licenses. The new Commission is comprised of a representative of the Customs Bureau, a representative of the Dominican Association of Exporters and a representative of the Dominican Center for the Promotion of Exports.⁹³ The Monetary Board has been authorized to grant, suspend and cancel exporter's licenses. Failure to make any exportation in a 12-month period is sufficient cause to cancel such license.⁹⁴

ECUADOR

No significant changes have been made under Area No. 1.

Two decrees amending the import duty tariff have been passed. The changes are designed to facilitate importation of raw materials by manufacturers.⁹⁵

A new local capital gains tax has been issued. Gains from the sale of real property located in the Balzar Canton will be taxed at progressive rates ranging from 14% to 42%. In computing the taxable gain, the selling price is to be reduced by the value of improvements, purchasing expenses and a deduction equivalent to 5% of the difference between the selling price and the first two aforementioned deductions, for each year the property was held beyond the first two years.⁹⁶

Within Area No. 2, tax exemptions for mining enterprises have been revised, effective April 23, 1975. Under amendments to the Mining Promotion Law, the formation of mining companies, their capital increases, loans taken by them, and contracts for the performance of mining-related activities are exempt from all taxes, including the stamp tax and the tax on

working capital. The Mining-related activities described in the new text of Art. 92 are prospecting, exploration, exploitation, purification, beneficiation, smelting and refinement of minerals.⁹⁷

With respect to Area No. 3, only one significant measure was taken regarding the new bonus for workers. In addition to existing bonus and the "thirteenth" and "fourteenth" salaries, all workers receive a fifteenth salary payable in ten monthly installments. In no case such bonus may exceed 6,000 *suces*. The bonus is not includable in taxable income nor in computing social security contributions or labor law indemnities. The new bonus operates on a sliding scale, so that workers earning from 5,000 *suces* to 6,000 will receive 5,000 *suces*, while those on the 6,000-up level will receive 6,000 *suces*.⁹⁸

Concerning Area No. 4, Social Security Systems, new less stringent rules apply to compulsory retirement of employees who have contributed for forty years to the Ecuadorian Institute of Social Security. Pursuant to a new decree, the charge imposed on workers who engaged in remunerated work after retirement, has been eliminated. Such workers are still required to return to the Institute the remuneration received, although without the 50% additional charge.⁹⁹

Employers of rural workers must deposit with the Social Security Institute amounts prescribed by the Labor Code as a reserve for the protection of workers. Such deposit had been required by the old Agrarian Reform Law. No similar provision appears in the new Agrarian Reform Law. The reserve is to be maintained until such time as the compulsory Social Security System is extended to rural workers.¹⁰⁰

Special Situations — Area No. 6 — features restrictions on foreign investments. Five resolutions of the Superior Council for Foreign Trade have barred as of January 13, 1975, new foreign investment in banking, construction, domestic retailing, and branches for permanent activities, and the reinvestment of profits not remittable abroad. Additions to existing investments in the excluded activities will be allowed if the recipient of the investment retains its characterization as a national company. The establishment of new branches will be allowed only where the activities to be carried on are temporary and involve a specific project which requires that the contractor be domiciled within the country.¹⁰¹

Foreign investments and foreign loans which have not been registered according to the Rules on Foreign Investments issued by the Cartagena Commission and adopted by Ecuador on June 30, 1971, will be subject

to a 1% fine and, eventually, liquidation of the company utilizing such funds. Despite the mandate whereby the Rules issued by Decision 24 of the Cartagena Commission were declared operative in Ecuador, numerous investments and loans have been made without complying with such mandate. The Superintendencies of Companies and of Banks are ordered to proceed to the liquidation of companies and banks or financial institutions which have not complied with the registration of foreign capital by May 23, 1976.¹⁰²

Ecuador has ratified by Decree and declared operative, Decision No. 46, as amended by Decision No. 70 of the Cartagena Commission, dealing with a uniform system for multinational enterprises.¹⁰³

Under a new law regulating radio and television broadcasting, aliens and foreign legal entities are not allowed to exploit radio or television stations. Such persons must divest themselves of their present ownership rights no later than April 18, 1977. Other provisions require that radio and television stations employ nationals and use commercials made by nationals, in certain minimum percentages.¹⁰⁴

EL SALVADOR

The only significant change made within the Tax Policy Area has been the revision of the consumption tax. Effective from May 15, 1975, the 20% consumption tax levied on luxury items does not apply to chocolate products originating in the Central American area, according to amendments introduced by a new statute. Popular foodstuffs based on chocolate are primarily made within the Central American area, according to Congress.¹⁰⁵

Three changes have occurred within Area No. 2.

Subject to the terms and conditions to be prescribed by joint resolution of the Ministries of Economy and the Treasury, and until January 16, 1977, national manufacturers may import duty-free from any country, raw materials not adequately produced in Central American countries. In order to obtain full or partial exemption from duties and other customs taxes, importing enterprises must be previously qualified by the Ministry of Economy.¹⁰⁶

In order to encourage production of certain grains, Congress has extended the exemption from income tax for profits derived by growers of corn and beans. The exemption will apply to profits derived by such

growers and by growers of rice, between January 1, and December 31, 1975. In order to claim the exemption granted by the statute, farmers are required to enroll in the "Registry of Grain Producers," and to comply with other controls to be established by the Ministries of the Treasury and Agriculture and Cattle-raising.¹⁰⁷

Under amendments to the Law on Tax Incentives for Retired Immigrants, nationals returning to the country after ten years of absence will be entitled to the benefits of the law in conditions similar to those imposed on aliens. Pursuant to the amendment, such income is 750 *colones* minimum for both aliens and nationals.¹⁰⁸

Within Area No. 4, the Social Security regulations have been amended with respect to eligibility for various benefits and with respect to the system for payment of contributions. The amendments entered into effect on January 21, 1975. Employers are required to submit monthly statements in forms prescribed by the Social Security Institute. They may elect to either submit the form and pay the contributions during the first eight days of the month following the period covered by the form, or submit the form by the fifth day of the following month and pay the contributions before the end of that following month.¹⁰⁹

Area No. 5 features the extension of filing with the Commercial Register. The deadline fixed by the Commercial Code for companies to file documents with the new Commercial Register has been extended until June 30, 1976. Only tax clearance certificates for income tax, tax on capital and municipal taxes will have to be produced for such filing. Prior to the Commercial Code's deadline, companies had two years from the beginning of operations of the Register created by the Code, to file certain documents. Thus, the 2-year period was to expire by June 30, 1975.¹¹⁰

As of March 29, 1975, the rules governing in-bond warehouses have been extended to firms engaged in importation and distribution of raw materials used by manufacturers.¹¹¹

Finally, in Area No. 6 — Special Situations — it is to be observed that the Legislative Assembly has ratified the extension to the Second Protocol to the Central American Agreement on Tax Incentives to Industrial Development to December 31, 1977. Legislative Decree No. 283 of June 2, 1975 (247 *Diario Oficial* No. 110, June 16, 1975). The Second Protocol was to apply to enterprises whose tax benefits were to expire

by March 31, 1975. The extension has been signed by representatives of Guatemala, El Salvador, Nicaragua and Costa Rica in Guatemala City, Guatemala, on May 12, 1975.¹¹²

GUATEMALA

The most significant occurrence within Area No. 1 has been the creation of a shipping tax. All cargo imported or exported through Guatemalan ports is taxed at the rate of .05 *quetzales* per ton. The levy became effective June 14, 1975. Revenue from the new tax is earmarked for improving harbor services and will be collected by the port authorities. Products exempt under prior agreements are not affected by the new levy.¹¹³

The recent changes in the stamp tax and tax on the first sale of automobiles have been implemented by regulations. Detailed rules govern payment of the stamp tax and of the 10% tax on automobiles since January 1, 1975.¹¹⁴

Within Area No. 6, it may be observed that a Free Trade Treaty has been subscribed by Panama and Guatemala on June 20, 1974, and approved by the latter. Ratification Instruments were exchanged in Panama City, Panama, on April 26, 1975, whereupon the Treaty entered into effect. The treaty incorporates by reference lists of products which may be imported or exported duty-free, and appoints a Mixed Permanent Commission, charged with drafting additional lists. It also provides for national treatment of products originating in each signatory country with respect to taxes on production, sales, circulation or consumption. With regard to treatment of third-country products, the Treaty provides that the benefits granted under the Treaty are not to be extended to third countries under the "most favored nation" clause. It also provides that if a tax is levied on products originating from the other signatory, similar products originating in third countries must be taxed at least as much.¹¹⁵

Congress has approved the extension to the Second Protocol to the Central American Agreement on Tax Incentives to Industrial Development to December 31, 1977. The Second Protocol was to apply to enterprises whose tax benefits were to expire by March 31, 1975. The extension has been signed by representatives of Guatemala, El Salvador, Nicaragua and Costa Rica in Guatemala City, Guatemala, on May 12, 1975.¹¹⁶

HONDURAS

Within the Fiscal Policy Area, a provision of the Income Tax Regulations dealing with capital gains and losses has been amended to exclude taxpayers engaged in securities trading. The provision requires all taxpayers to include net capital gains in gross income, while it forbids the deduction from ordinary income of any net capital loss. The Income Tax Bureau is charged with fixing appropriate holding periods for determining whether a securities holder is engaged in trade or business.¹¹⁷

Contracts entered into by the Government with private persons, whether national or foreign, are not subject to stamp tax if the formalities prescribed by a new statute are met. A contract is to be executed whenever technical assistance is to be furnished to any governmental agency.¹¹⁸

In order to promote the construction of housing, a governmental agency has been created to provide financing. Interest from bonds, mortgage notes and other debt securities issued by the agency will be exempt from income tax. The National Financial Institution for Housing, as the new agency is designated, will be exempt from all national and local taxes, and obligations issued by it are guaranteed by the State. The new law entered into effect on March 25, 1975. It orders that the institution commence operations within four months from that date.¹¹⁹

Area No. 2 has two changes worth mentioning.

The regulations under the Industrial Promotion Law have been amended to include the assembly industry. A list of the products which may be assembled to be eligible for the tax benefits contained in the regulations include, among others, light and semi-heavy industrial equipment, machine tools, tractors, bicycles, motorcycles, engines, certain vehicles, office equipment, home appliances, railroad equipment and machinery for the construction industry.¹²⁰

Lastly, within the Special Situations Area, a new Agrarian Reform Law has been enacted, effective January 14, 1975. Contracts, proceedings, expropriation gains and obligations related to the application of such law are exempt from stamp tax and from any other kind of levy. Lands in excess of certain dimensions and undeveloped or idle farmland are subject to expropriation.¹²¹

MEXICO

New tariffs were made in the Tax Policy Area with respect to imported and exported goods.

Under the General Importation Law, a new Tariff has been enacted, effective January 1, 1975. The majority of the duties range from 10% to 25%, reaching up to 75% for certain processed foodstuffs and manufactured products. Several products are exempt when originating in countries signatory to the Latin American Free Trade Association.¹²²

A new export tariff has been established by the General Exportation Law. It became effective on January 1, 1975. Prices for computing ad valorem duties are to be fixed by the Secretariat of the Treasury and Public Credit. Under the new tariff, the majority of the products listed are exempt from export duties. Where duties are imposed, they range, with exceptions, from 5% to 50%, being most of them 15% to 25%.¹²³

According to the current Income Tax Law, as construed by the Undersecretary of Revenue, construction companies may elect to pay the income tax for 1975 at the rate of 3% of gross receipts for material and labor, if they meet the qualifications required by the law. Companies receiving fees for technical assistance rendered to foreign entities, dividends, interest and other profits are excluded. All persons making payments to these enterprises for labor and material are required to withhold and pay to the Treasury 3% of the amount paid. Under the system in force for the taxable year 1974 the rate of tax was 2.5% and no provisional payments were required.¹²⁴

A 15% tax computed on the official price is levied since November 19, 1974 on the first sale of gold and silver, including gold and silver contained in zinc concentrates. Exercising the authority vested in it by the Federation Expenditure Law, the Secretary of the Treasury has granted a 33% subsidy against such tax, for sales made during the period November 19, 1974 through December 31, 1975.¹²⁵

New rules have been released for determining the basic quota system upon which income tax of transportation carriers is levied for the taxable year 1975. The basic quota for buses, both urban and suburban, ranges from 20 to 110 pesos per seat; the basic quota for trucks ranges from 210 to 4,400 pesos per unit, depending on the truck tonnage. Taxpayers who do not elect the quota system or are denied authorization to use the system, must pay income tax in accordance with the general income tax law.¹²⁶

Pertaining to Area No. 2, numerous products have been excluded from free zone import duty privileges by an Order of the Secretary of the Treasury and Public Credit. The Order became effective on June 12, 1975 and affects imports into free zones of the States of Baja California and Sonora. Among the products now subject to import duty are oils, cement, tires, greases, radio and television sets, calculators, and various chemicals.¹²⁷

Finally with regard to the Tax Administration Area, individuals independently engaged in the plastic arts may elect to pay in kind with sculptures made by them, the tax on income derived from such activities. A commission comprised by various Secretariats will select and evaluate the works tendered by the artist. Excess payments may be carried over to subsequent taxable years but may not be refunded except in the event of death of the artist. An artist applying for payment in kind must submit to the Commission by October of the taxable year, a petition accompanied by a description, evaluation and photograph of the works offered in payment of the tax eventually due. Transfer of the works to the commission must take place before April of the following year, when the tax return for the previous year is to be filed by the artist, attaching proof of payment by delivery of the works. If the artist does not accept the commission's appraisal, he or she may withdraw the application and pay the tax in cash.¹²⁸

The employee participation in profits has been 8% of an entity's taxable income, from October 14, 1974. For the enforcement of such profit-sharing, a new Agency has been created within the Income Tax Bureau, vested with broad powers. It is intended that in order to assure the proper distribution of profits, workers will cooperate with the authorities in curbing employer's tax evasion. Under the new formula for computing profit-sharing, which is not a deductible business expense, the effective income tax rate is raised to 50%. However, it vastly simplifies the calculation of the profit-sharing contribution.¹²⁹

NICARAGUA

Within the Fiscal Policy Area changes occurred with the introduction of a new income tax law. A new Income Tax Law entered into effect on January 1, 1975. Most of the changes affect income of nonresidents, which is to be ascertained as a percentage of gross income to be fixed by the Income Tax Bureau. All income taxable in Nicaragua is subject

to progressive rates ranging from 6% to 50% (4% to 30% under the old law). Interest from foreign loans applied to qualified projects will be exempt provided that such interest is not subject to tax by the lender's country. If taxed, and a credit is allowed for the Nicaraguan tax, the exemption does not apply. A new feature is a deduction of up to 50% of taxable income for certain promoted investments made by any taxpayer, and of up to 20% for investments in common stocks made by individuals. The old law has been repealed, except its provisions dealing with tax administration and procedure. Carryover of losses has been increased from two to five subsequent years. Individuals are entitled to a personal exemption equivalent to 30,000 *córdobas* (20,000 c. under the old law). No provision is made for family and dependents allowance. All payors of income derived by nonresidents are required to withhold the tax at the progressive rates which in no event may effectively exceed 40% of the taxable income.¹³⁰

Regulations implementing the new Income Tax Law have also been issued. Taxable income of nonresidents is determined by applying to gross income the following percentages: 70% of improved real property rentals; 80% of unimproved real property rentals; 95% of royalties; 20% of service fees derived by legal entities; 30% of motion picture rentals; 75% of interest derived by lenders other than financial institutions; 10% of gross receipts of sea and land transportation carriers; 5% of air transportation carriers and communication carriers; 2% to 10% of insurance premiums, depending on the risk insured, and 80% of fees received for artistic or sports performances, with certain exceptions. Financial institutions pay tax at a 10% rate. The regulations set forth depreciation rates, methods for valuation of inventories, and rules for claiming the new deduction for investments in common stocks and promoted projects, among other matters. Depreciation rates are 5% to 20% for buildings, 12.5% to 20% for vehicles, 10% to 20% for machinery and equipment, 20% for office fixtures, 20% for communication equipment and 10% for elevators and air conditioners. Assets not listed in the regulations are to be depreciated at a 20% rate.¹³¹

The rate of the stamp tax payable in administrative proceedings and in judicial proceedings involving commercial, civil and mining matters has been raised effective March 31, 1975. Under the present amendments, each sheet of the file is subject to a tax of one *córdoba*.¹³² In addition and effective May 15, the stamped paper required for the issuance of public deed and trademark certifications has been increased to one *córdoba* per folio.¹³³

Within Area No. 2, exemptions from local taxes granted to manufacturing enterprises under the Industrial Promotion Law and extended until the Central American Uniform Law of Fiscal Incentives for Industry were declared operative have been terminated by virtue of such declaration by the Ministry of the Economy, Industry and Commerce. By decree, tax benefits by then granted to manufacturing enterprises, which had already expired or were to expire prior to the effective date of the Central American Uniform Law, were automatically extended until such date as the Ministry of Economy declared the Uniform Law effective. The Uniform Law originates in Protocols to the Central American Agreement on Tax Incentives for Industrial Development.¹³⁴

Pertaining to the Special Situations Area and Subject to Congressional approval, the Executive Branch has approved the extension of the Second Protocol to the Central American Agreement on Tax Incentives to Industrial Development to December 31, 1977. The Second Protocol was to apply to enterprises whose tax benefits were to expire by March 31, 1975. The extension has been signed by representatives of Guatemala, El Salvador, Nicaragua and Costa Rica in Guatemala City, Guatemala, on May 12, 1975.¹³⁵

PANAMA

Among the measures enacted in Area No. 1, a new law has been issued in order to promote increased productivity of enterprises engaged in manufacturing, farming or the rendition of services. Fixed assets acquired during 1975 will be depreciable at twice the normal rates; 25% of amounts reinvested are deductible in computing taxable income, but not in excess of 30% of the total income tax otherwise due. Investors in farming and manufacturing enterprises which do not claim the 25% deduction may reinvest their accumulated undistributed profits free from the tax on dividends. Manufacturing and farming enterprises which do not avail themselves of the preceding benefits during 1975, are entitled to deduct in subsequent years a percentage of the amount of the payroll increase resulting from the creation of new jobs. Several conditions must be met in order to receive any of the new benefits. One of them is that the new assets may not substitute labor; another is that the jobs created may not be remunerated over 150% of the minimum salary. Manufacturing and farming enterprises qualify for the accelerated depreciation rate even if the assets are purchased through financing rather than out of the profits.¹³⁶

Interest of loans made to government agencies by banks and financial institutions is exempt from income tax.¹³⁷

Effective December 30, 1974, and superseding a previous law, sellers of real estate have been subject to a real property transfer tax equivalent to 2% of the selling price. The tax is creditable against the income tax applicable to gains from sales of real estate made during the same year. New rules apply for the computation of such gains. Real property transferred by reason of inheritance, donation or expropriation, and new houses for the purchaser's own use are exempt.¹³⁸

The 6% additional import duty levied on the FOB price of most imports including those from the Canal Zone has been raised to 7%, effective December 30, 1974.¹³⁹

Effective January 15, 1975, winnings from national lotteries and horse races have been subject to a 5% tax. The tax is to be withheld upon payment of the prize and paid to the Treasury in the manner to be established by the General Comptroller's Office of the Republic.¹⁴⁰

Important tariff changes have been enacted effective January 7, 1975. Among the goods affected by the new tariff are bed linens, male and female apparel and underwear.¹⁴¹

In order to encourage exportation of industrialized products, exporters will be entitled to tax credit certificates equivalent to 20% of the value added by them to the raw material processed. The certificates are not transferrable, are exempt from all taxes, and may be used for three years beginning twelve months after their issuance, to pay income tax and import duties owed by the exporter. In order to be eligible, an exporter must have added at least 20% of value to the material processed, and at least 20% of such material must be domestic. These minimum percentages are reduced to 10% if the enterprise is located outside the metropolitan area. The above requirements do not apply if an enterprise exports at least 150% of the amount attributable to domestic sales. In computing the 20% of value added, the amount represented by the following items is to be added: raw materials, domestic labor, taxes, rentals, fees for services, charges by public utilities, interest, depreciation allowances, and net profits before taxes up to 12% of the invested capital.¹⁴²

Important changes in taxation of individuals and legal entities established in the Colon Free Zone became effective May 1, 1975. Foreign source income is taxed at a progressive rate which runs from 2.5% to

8.5% on the excess over 100,000 *balboas* of taxable income. Special reductions are granted in accordance with the number of employees hired during the respective taxable year. Investors in such enterprises are not taxed on their dividends generated by foreign source income. This exemption is now granted without reference to the availability of a foreign tax credit in the investor's home country. Individuals or legal entities which become established in the Colon Free Zone on or after January 1, 1976 will enjoy for 5 years a 95% reduction of their income tax if 80% of their profits are from foreign sources and if they have hired in the respective taxable year at least 30 employees.¹⁴³

Private hospitals and clinics meeting the requirements set forth in a new law will be entitled to import free from duties, machinery, equipment and construction materials designed exclusively for hospitals. In order to enjoy the exemption, hospitals must be able to accommodate at least twenty patients simultaneously, and must have at all times 10% of their beds at the disposal of the Ministry of Health, which may use them free of charge.¹⁴⁴

Area No. 4 features substantial amendments to the Social Security System, effective April 1, 1975. Contributions to the System are required from insured employees at the rate of 6.75% of salaries, from employers at the rate of 8.75% of salaries, and from retired employees at the rate of 6.75% of their pensions.

Old age and disability pensions in effect as of December 31, 1974 are increased by 30 *balboas*. The minimum pension shall be 90 *balboas* per month, and the maximum 1,000 *balboas*. Survivors pensions are increased by 30%, or 30 *balboas*, whichever is the lesser.¹⁴⁵

Concerning Tax Administration and pursuant to amendments to the Fiscal Code, delayed payment of taxes will be subject to higher interest and to a 10% surcharge. Special rules apply to inheritance tax and import duties. A 1% per month interest beginning in 1975 is imposed. Also, import duties are subject to 10% surcharge if not paid within three days from their determination by customs authorities; this surcharge is 20% if payment is not made within the following five days (eight days from such determination).¹⁴⁶

Within Area No. 6 — Special Situations — it is to be noted that a free Trade Treaty has been subscribed by Guatemala and Panama on September 9, 1974 and approved by the latter. The Treaty incorporates by reference lists of products which may be imported or exported duty-

free. It also provides for national treatment of products originating in each signatory country with respect to taxes on production, sales, circulation. With regard to treatment of third-country products, the Treaty provides that the benefits granted under the Treaty are not to be extended to third countries under the "most favored nation" clause. It also provides that if a tax is levied on products originating from the other signatory, similar products originating in third countries must be taxed at least as much.¹⁴⁷

Panama has also approved the Regulations under the Free Trade Treaty between Panama and Nicaragua. The Regulations have been issued by the Permanent Mixed Commission in Managua on July 25, 1974. Among the matters covered by the Regulations are rules of procedure, definitions, origin of goods, unfair competition and powers of the Permanent Mixed Commission.¹⁴⁸

PARAGUAY

Significant changes have taken place within the Fiscal Policy Area.

Regulations under the Income Tax Law as last revised in 1972 have been issued, consolidating rules contained in earlier regulations. Among other things, the regulations deal extensively with income derived and withholding of tax payable by nonresidents. The following percentages of gross income are regarded as net income for withholding purposes: 10% of insurance premiums; 10% of charges by communication and transportation carriers; 15% of charges by international news agencies; 60% of motion picture and video tape rentals; 90% of royalties; 75% of rentals for the leasing of personal or real property; 85% of fees and commissions, and 100% of interest, dividends, participations and any income item not listed above. Other provisions deal with taxation of gains from the occasional sale of real estate, and withholding of 25% of the imputed income derived by exporters; such income is 6% of the value of the goods for export duty purposes.¹⁴⁹

Rural real property has been appraised in accordance with basic values per hectare for each location within the various Departments into which the country is divided. Real property taxes are to be computed for 1975 on 90% of such official appraisal, and for 1976 (and presumably subsequent years), on 100% thereof. The new values range, with two exceptions, from some 200 *guaraníes* in some tracts located in the Western Region, to 3,600 *guaraníes* per hectare in San Bernardino and Caacupú

in the Mountain Range Department, and in several localities of the Central Department, all in the Eastern Region. The exceptions are Luque and San Lorenzo, in the Central Department, where the basic value is 9,000 *guaranies* per hectare.¹⁵⁰

Exercising the authority granted it by law, the Executive Branch has set forth detailed rules for the pricing of imports according to their fair market value. The regulations deal at length with the value attributable to the use of a foreign patent or trademark, and with transactions between affiliated companies and agents. The procedure and guidelines set forth in the new regulations are directed to determining the duties payable in all cases on the basis of the price for which any purchaser could acquire the imported goods in a freely competitive market at the port of entry.¹⁵¹

The import duty tariff which entered into effect on January 1, 1974 has been amended so as to maintain certain exemptions granted under the old tariff. Exemptions are granted to products re-imported, goods intended for use by school or museums, samples, and household goods brought in by tourists and immigrants for their personal use. Among the products treated as re-imported are returns of goods sold or of goods which could not be sold abroad, containers, articles sent abroad to be repaired and domestic goods which had been sent to foreign exhibitions.¹⁵²

Also within the Tax Policy Area, the law governing the 1975-1976 sugar crop has granted total exemption from any duty or tax on the exportation of sugar. It also provides that the selling prices for exported sugar will be no less than those fixed by the Central Bank on the date of exportation.¹⁵³

The national list of Paraguay for goods from LAFTA countries entitled to tariff reductions and exemptions has been released. The list is the result of negotiations between Paraguay and the other members of the Latin American Free Trade Association (LAFTA) held in Montevideo, Uruguay, in December of 1974. The concessions do not include consular fees and stamp tax, both of which will continue to apply to all imports.¹⁵⁴

Regulations under the law for the promotion of forestry have been issued, setting forth requirements to be met by investments in order to enjoy tax benefits. Such requirements relate to the location, extension, species and growth of planted areas. Pursuant to the law, investors in forests are entitled to real property and income tax exemptions, as well as

to duty exemptions for related imports. According to the regulations, the National Forest Service is to fix the location, the species and the extension for each project submitted to its approval.¹⁵⁵

Lists of "necessary" and "convenient" investments have been released by the Technical Secretariat for Planning of Economic and Social Development in accordance with the Investment Promotion Law. The list of "necessary" investments include thirty-three items headed by the minor cattle, poultry and dairy industries and by-products thereof. The list of "convenient" investments contains eight items.¹⁵⁶

The special tax system applied to the cattle-raising industry for the 1974 herd has been extended unchanged to the 1975 herd. Under the system established for the 1974 herd, cattle-raising is subject to various taxes in lieu of income tax, while cattle products exported are free from various taxes, included income tax on profits therefrom.¹⁵⁷

Exports of craftsmanship goods will be exempt from export duties and foreign exchange surcharges, according to a new law. The exemption applies only to goods exported through the Craftmanship Promotion Service created by the same statute. Craftmen will also receive financial, marketing and technical assistance.¹⁵⁸

With respect to Area No. 5, Property tax administration is to be improved with the aid of a loan from the Agency for International Development (A.I.D.), which has been approved by Congress. The proceeds of the loan are to be applied to the identification and appraisal of urban and rural properties in fourteen Departments of Eastern Paraguay, except the Asuncion Department, and to the organization of a system for the collection and administration of the property tax.¹⁵⁹

Regarding Area No. 6 — Special Situations — it is to be observed that Congress has approved and ratified the "Agreement on Investment and Industrial Development between Paraguay and Chile" signed in Santiago by both countries on September 19, 1974. The text provides for the granting of tariff benefits by each signatory country, to promote marketing of the goods produced by enterprises covered by the agreement.¹⁶⁰

Also, Congress has approved and ratified the Agreement Constituting a Financial Fund for the Development of the La Plata River Basin. The proceeds are to be applied to feasibility studies and design of projects and programs for the economic development of the area.¹⁶¹

PERU

Within the Fiscal Policy Area, several changes are to be noted concerning the added-value tax. Effective May 1, 1975, the 15% general rate and the 25% and 3% rates of the added-value tax have been raised to 17%, 27% and 5%, respectively. Domestic sales of sugar, imported crude oil and sales made by small merchants are exempt. The 25% (upped to 27%) rate applies to liquors, cloth and jewelry. The 3% (upped to 5%) rate applies to exports and construction.¹⁶² In addition, regulations under the added-value tax law have been issued by Ministerial Resolution. They contain definitions, rules for computing the credit for tax paid on raw materials, lists of services which are taxed and of those excluded, and rules on returns, payment and other procedural matters. The tax does not accrue in the event of corporate reorganizations. Exported goods are exempt. Among excluded services are domestic transportation, banking transactions and re-insurance. Automotive firms, companies established outside the Lima-Callao area, and entities contracting with the government enjoy tax reductions in the manner prescribed in the statute.¹⁶³

The rates of the excise tax on alcoholic beverages, liquors and wines, and those of the tax on beer have been revised. Domestic products are subject to rates ranging from 1.50 *soles* per litre for certain wines, to 30 *soles* for certain alcohols. Imported alcohols and liquors pay 100 *soles* per litre, and wines 30 *soles*. The tax on beer is governed by special legislation. Thus, the tax is levied at the rate of 3.60 *soles* per litre and 20 *soles* per litre for domestic and foreign beers, respectively.¹⁶⁴

The 10% levy on the excess of the price of traditional exports over the reference price has been extended so long as worldwide inflation prevails. Shipments made on or after January 1, 1975 are to be subject to the tax, which is payable within two months following the promulgation of the new statute. Shipments made on or after April 23, 1975 are subject to the tax upon exportation.¹⁶⁵

According to the purposes of a trip abroad, the tax on foreign exchange granted to a traveller will be taxed at either 10, 15 or 20% rather than at a flat 10%. Any expenses in excess of US\$40 per day of stay abroad is subject to 50% tax, rather than the 10, 15 or 20% rate. These rates apply to trips for international contests, tourism and business, respectively. Traveling for health reasons or to pursue studies, remains exempt.¹⁶⁶

Payment of the single tax on salaries is governed by new statutory rules, which entered into effect on July 1, 1975. Employers are required to file tax returns within the first fifteen working days of each month. The return is due even if extension for payment is applied for.¹⁶⁷

Winnings from sweepstakes are subject to a new tax to be withheld upon payment of the prize. The rate is 10%. The new tax applies on the gross amount of the prize, irrespective of whether the sports event on which the betting was based took place within or without Peru. Winnings from lotteries and horse racings are taxed under earlier laws.¹⁶⁸

In Area No. 2, the statute granting added-value exemptions in the area known as the Jungle Region has been repealed and a new law enacted in its stead. Sales of products listed in the new statute are exempt from the added-value tax. Goods similar to those produced in the region do not enjoy benefits. Services rendered within the region are subject to tax at the normal rates reduced by 50%. The new law entered into effect on May 1, 1975. Manufacturers, importers and wholesalers, whether individuals or companies, should be domiciled within the region in order to enjoy the tax benefits.¹⁶⁹

Referring to Area No. 3 an inflation-generated measure has been taken.

To minimize the impact of the high cost of living, from July 1, 1974, all workers in non-governmental activities are receiving a fixed monthly bonus equivalent to 400 *soles*. The bonus is not to be treated as basic salary in computing seniority allowances or similar benefits. Nor is it to be included in computing contributions to social security funds. Hiring of new workers has been restricted to 840,000 *soles* per year. Salaries paid over that amount will be treated as profits rather than as cost, and will be included in computing workers' share of profits. Collective bargaining for contracts beginning January 1 through December 31, 1975 is to allow a minimum general increase of 450 *soles* per month and a maximum increase of 1,620 *soles* per month. The latter may go as high as 2,100 *soles* per month if the financial situation of the employer warrants it. The law makes no reference to the income tax treatment of the new bonus.¹⁷⁰

The Income Tax Law provides that personal exemptions and deductions are to be measured in terms of the annual "minimum vital salary" fixed for industry workers of Lima Province prevailing at the end of the taxable year, and that the resulting amounts are to be rounded off in

hundreds of *soles*. Such salary has been fixed at 3,540 *soles* per month or 42,480 *soles* (42,500 *soles* rounded off) per year, on June 1, 1975. The Treasury has released the *sol* values applicable from January 1 to December 31, 1975.¹⁷¹

In the Social Security Area, a recent Supreme Decree which laid down a table and guidelines for computing the amount of wages subject to a single contribution to the Social Security Fund has been suspended. Effective January 1, 1975, contributions are to be paid in accordance with prior law.¹⁷²

Lastly, in the Special Situations Area, it is to be observed that under new legislation regulating forestry and hunting activities, workers of private enterprises engaged in the extraction or marketing of products therefrom are to receive at least 33% of the net profits of such enterprises. In order to encourage forestry in the jungle region, agrarian reform bonds will be accepted at face value by government banks if the holder will use the proceeds to finance a forestry enterprise in the jungle region. The maximum bond-financing percentage allowed is 70%, the investor being required to contribute in cash at least 30% of the value of the proposed enterprise.¹⁷³

URUGUAY

Within the Tax Policy Area, regulations under the new income tax law have been passed. Emphasis is put on valuation of real property, fixed assets, inventory, income or distributions in kind, transactions in foreign currency, and pricing in transactions with foreign affiliated companies. The regulations also contain rules for setting up a reserve for tax-free reinvestments, and for investing profits tax-free in shares of manufacturing enterprises eligible under the Industrial Promotion Law. Income and net worth taxes and the tax on financial activities may be deducted, at the taxpayer's option in the year accrued or in the year paid.¹⁷⁴

The Income Tax Bureau has laid down the procedure for non-residents to show that a 14% deduction allowed for presumed expenses incurred abroad in developing know-how and intangibles wherefrom fees and royalties are paid to them from Uruguay, does actually benefit them. Under the new rules, the deduction is inoperative if the tax on the same income levied by the home country is applied at a higher rate than the Uruguayan tax and a credit for the Uruguayan tax is allowed.¹⁷⁵

The Income Tax Regulations have been amended with respect to withholding of tax on nonresident's income. It is now provided that 34% is to be withheld on royalties and technical assistance fees, as well as on any net income derived by non-residents, other than dividends, branch profits and partner's distributive share, which remain taxed at 20%. Where such net income cannot be ascertained, it is presumed to be 30% of gross.¹⁷⁶

In computing taxable income for fiscal years beginning in 1974, taxpayers engaged in commerce and industry may deduct an amount equal to 15% of the book value of their inventory at the beginning of the fiscal year. The deduction may not exceed 10% of the inventory at the close of the fiscal year. The amount deducted must be capitalized, and the excess over taxable profits may not be carried over to other years. Prior to capitalization, the amounts deducted are to be entered to an account entitled Reserve for Maintenance of Working Capital.¹⁷⁷

Exercising the authority granted it by law, the Executive Branch has raised the rates of the excise tax on fuel, gasoline and other combustibles, up to 80% of the selling price. The new rates apply from February 8, 1975 to December 31, 1975. The tax is computed on the selling price, excluded the tax, and may be passed on to the buyer.¹⁷⁸

The values applicable in computing the tax on imputed minimum income from farmland for the period October 1, 1973 through September 30, 1974 have been revised. The average basic production per hectare is 24,305 Uruguayan pesos. The brackets of imputed taxable income have been up-dated, ranging from up to U\$13,500,000 taxed at a 28% rate to over U\$108,000,000 taxed at a 56% rate. The new Decree fixes the maximum amount of reinvestment allowed by Art. 10 of the law, at 30% of U\$19,331,660, that is, U\$5,799,498.¹⁷⁹

New import and export duty tariffs have been in force from May 11, 1975. Importation of goods covered by the General Agreement on Tariffs and Trade remains governed by the Nomenclature, Notes and General Notes which are incorporated in the Table of Concessions granted to Uruguay under the aforementioned international agreement.¹⁸⁰

Main features in Area No. 2 are the additional aid to exporters.

Under regulations recently passed implementing laws for the promotion of industrialized exports, exporters will enjoy additional benefits. Replacement parts may be imported over one half of any calendar year, starting

July 1, 1975, in an amount equivalent to up to 3% of the aggregate value of the exports made in the preceding 6-month period, starting January 1, 1975. The exemption of export profits from income tax is applicable to "indirect exporters" who are defined in the regulations as manufacturers selling to exporting trading companies.¹⁸¹ Exporters of industrialized products have been enjoying tax rebates commensurate with the increase of the volume of exports over that of the preceding year. Such rebates have been reduced by 10% and will terminate by June 30, 1976. Rebates first granted on or after July 1, 1975 will have a two-year duration.¹⁸²

Under a new law regulatory of the tourist industry, the Executive Branch has been authorized to declare tourist activities as being of national interest and entitled to the incentives provided for in the Industrial Promotion Law. The Industrial Promotion Law provides for import duty and social security contribution exemption, and for exemption from income tax on operating profits of, and on investment income related to eligible enterprises.¹⁸³

The exemption from import duties, consular fees, surcharges and other levies on imports granted to machinery imported by rice producers has been extended for one year, commencing January 1, 1975. When the exemption was first granted, rice producers had been enjoying import duty exemption on capital assets year after year by one-year extensions of the original decree. The last extension expired on December 31, 1974.¹⁸⁴

In Area No. 3 one inflation-generated measure was the revaluation of fixed assets. The Executive Branch has established the coefficients or factors to be used in revaluing fixed assets. The maximum and minimum coefficients thus established will apply to fiscal years begun on or after January 1, 1975. The minimum and maximum coefficients for assets acquired in 1954 or preceding years are 1,357.8 and 1,110.9, respectively. If real property is subject to a lease, the coefficients are reduced by 50%.¹⁸⁵

Two changes are to be noted under Area No. 4. Effective January 1, 1975, social security contributions by rural workers and their employers have been increased by 39.20%. This increase is commensurate with a 16% and a 20% increase in wages or rural workers which became effective June 1 and November 1, 1974, respectively.¹⁸⁶

New basis for fixing imputed salaries of owners and partners covered by the Social Welfare Fund have been established. Under the new law, such salaries are to be based on the national minimum salary, with

certain exceptions in the case of small business owners. Imputed salaries are to be adjusted each time that the national minimum salary is changed. The new law applies from May, 1975. Nevertheless, such owners may elect to apply the new imputed salary to the five preceding years, paying the additional contribution in cash or in thirty-six monthly installments.¹⁸⁷

Within the Tax Administration Area, all taxes except customs and local taxes, are to be administered pursuant to a Code which entered into effect on January 1, 1975. The new Tax Code covers general tax law rules, substantive and procedural rules and assessment of tax and penalties. It provides for the issuance of advance rulings, to which the Tax Bureau shall be bound. Under the new code, tax evasion is subject to fines and imprisonment. Fixed fines and penalties are to be adjusted annually by the Executive Branch in accordance with change in the cost-of-living index.¹⁸⁸

Exercising the authority granted it by law and decree implementing the law, the Income Tax Bureau has consolidated the text of all the tax laws administered by the Bureau. The new text has been approved by the Executive Branch, and its provisions will be cited by Title and article number followed by the phrase "of the Text Ordained Year 1975" or "of the T.O. 1975." The laws thus consolidated relate to income, net worth and other taxes collected by the Income Tax Office; to property, sales and other taxes collected by the Direct Taxes Office, and to excise taxes collected by the Indirect Taxes Office. The compilation is supplemented with a general table of contents, and alphabetic listing of subjects, and a classification of taxes on the basis of the type of tax base. The tax on income from capital investments or business carried out within the country is contained in the 30 articles comprising Title II.¹⁸⁹

VENEZUELA

Concerning the Tax Policy Area, there were important changes in taxation of oil companies. Under an amendment to the Income Tax Law, the 63.5% rate of the income tax payable by companies and individuals engaged in the exploitation, refinery and transportation of hydrocarbons and related industries has been increased to 72%. Other oil related income remains taxed at 60%. The same statute grants a credit against such tax for investments made during 1975 in programs approved by the Ministry of Mines and Hydrocarbons. The amendment was made pursuant to the extraordinary powers granted by Congress and became effective January 27, 1975.¹⁹⁰

Pursuant to regulations, investments in fixed assets previously owned by another oil company operating within Venezuela do not qualify.

The purchases of each month, reduced by the book value of retired equipment, and depreciation allowances, are to be credited against the estimated tax installment due the following month. Carryovers to subsequent months are permitted and any excess investment during 1975 may be credited against the final tax due for that year.¹⁹¹

The recent decree providing tables for the withholding of income tax at the source on salaried income, fees, pensions and others labor-related remuneration has been repealed. Effective March 1, 1975, tax is to be withheld by applying progressive tax rates if the annual income exceeds 24,000 *bolivares*. Withholding agents are required to issue monthly and annual statements to recipients of such income.¹⁹²

Income tax exemption has been decreed for interest from mortgage bonds which does not exceed 8% per year. The exemption applies to interest received during fiscal years not closed by May 28, 1975.¹⁹³

Within Area No. 2, the Executive Branch has been authorized to extend the tax benefits granted to exporters of industrialized products, to sales made to free zones, free ports and other areas of the country under special customs system. Exporters of industrialized products are entitled to tax credit certificates pursuant to a law of September 26, 1973. In extending such benefits to sales to free zones, the Executive Branch is to take into consideration the nature of the products sold and the geographical location of the manufacturer.¹⁹⁴

The basic Law regulating the securities market has been superseded by a new statute. The Executive Branch has been charged with fixing in accordance with the Income Tax Law, the tax incentives applicable to companies which open their capital to the public in the manner set forth in the new statute.

“Open capital” companies are defined as those whose capital is at least 50% held by several shareholders, none of which holds more than a percentage to be fixed by regulations. The old Securities Market Law enacted January 31, 1973 has been repealed.¹⁹⁵

Commencing April 1, 1975, Nueva Esparta State, in Margarita Island, has been declared a free port. Goods may enter and leave the island without paying customs duties.¹⁹⁶

One measure is to be observed in Area No. 4. The Venezuelan

Institute for Social Security has been ordered to extend application of social security protection nationwide to all workers, no later than October 22, 1975. At present, the Social Security System is in force only in certain states and regions and for certain workers. The governments' objective is to procure social security coverage for all workers with no discrimination whatsoever. The benefits so extended are cash grants for total or partial disability, old age, death and wedding.¹⁹⁷

In the Tax Administration Area, the regulations governing the payment of estimated tax by legal entities engaged in mining, oil and related activities have been revised increasing from 90% to 96% of the estimated tax liability, the amount payable in the current taxable year.

Pursuant to Art. 84 of the Income Tax Law (text re-enacted on July 6, 1974), the Executive Branch may require certain taxpayers to file estimated tax returns and make advance payments of the tax. The estimated tax is payable in twelve equal monthly installments.¹⁹⁸

Resolutions issued by the Treasury and its Offices are to be numbered consecutively from one year to the next, beginning January, 1975. Accordingly, resolutions already published have been re-numbered. The new system is designed to facilitate research and identification of resolutions. The list of resolutions which will bear a new number, includes a Joint Resolution of the Treasury and the Ministry of Mines and Hydrocarbons setting the price of oil imports, and a resolution releasing tables for withholding of tax on salaries.¹⁹⁹

To close this tax review for the first half of 1975, an important event under Area No. 6 is to be noted.

Exercising extraordinary powers granted it by Congress, The Executive Branch has laid down terms and clauses applicable to contracts for the importation of technology. Existing contracts which were duly recorded by December 30, 1974 must be revised so as to eliminate now forbidden clauses, no later than December 31, 1975. Unrecorded existing contracts had to be revised and recorded by May 11, 1975. Among the clauses now disallowed is the requirement that licensee bear the tax levied on licensor. New contracts including those which became effective after January 1, 1974, must be submitted to the Superintendency of Foreign Investments for approval and registration. The Superintendency is required to pass on the application within 60 working days from the filing date. Existing contracts were to be recorded by December 30, 1974, in-

cluding those which entered into effect prior to April 29, 1974. The present decree is silent as to contracts which became effective after January 1, 1974 but prior to April 29, 1974.²⁰⁰

NOTES

¹Law 20954 (1974).

²Ministerial Resolution 156 (1975) and General Resolution 1692 (1975).

³Decree 512 (1975).

⁴Decree 1115 (1974), as amended by Decree 1602 (1974).

⁵Decree 961 (1975).

⁶Law 20852 (1974).

⁷Decree 1501 (1975).

⁸General Resolution 1672 (1975).

⁹Decree 796 (1975).

¹⁰Resolution 97 (1975).

¹¹Decree Law 11855 (1974).

¹²Supreme Decrees 12240 and 12241 (1975).

¹³Supreme Decree 12344 (1975).

¹⁴Supreme Decrees 12192 and 12193 (1975).

¹⁵Supreme Decree 12509 (1975).

¹⁶Supreme Decree 12191 (1975).

¹⁷Supreme Decree 12252 (1975).

¹⁸Supreme Decree 12342 (1975).

¹⁹Decree Law 1380 (1974).

²⁰Decree Law 1381 (1974).

²¹Decree Law 1371 (1974), and Ruling Instruction 047 (1974).

²²Declaratory Act 5 (1974).

²³Decree Law 1402 (1975).

²⁴Decree 75201 (1975).

²⁵Decrees 75389, 75390 and 75391 (1975).

²⁶Decree 75385 (1975).

²⁷Decree 75772 (1975).

²⁸Decree Law 1376 (1974).

²⁹Decree Law 1401 (1975).

³⁰Decree Law 1403 and Regulations, Decree 75752 (1975).

- ³¹Decree Law 1398 (1975).
- ³²Treasury *Portaria* 183 (1975).
- ³³Decree Law 1391 (1975).
- ³⁴Decree 75247 (1975).
- ³⁵Law 6205 (1975).
- ³⁶Declaratory Act 94 (1974).
- ³⁷Legislative Decree 90 (1974), Decree 75106 (1974), and Treasury *Portaria* 68 (1975).
- ³⁸Decree-Law 824 (1974).
- ³⁹Decree-Law 910 (1975).
- ⁴⁰Decree-Law 825 (1974).
- ⁴¹Decree-Law 829 (1974).
- ⁴²Decree-Law 935 (1975).
- ⁴³Decree-Law 826 (1974).
- ⁴⁴Decree-Law 828 (1974).
- ⁴⁵Decree-Law 827 (1974).
- ⁴⁶Decree-Law 905 (1975).
- ⁴⁷Decrees 233, 234, 235 and 236 (1975).
- ⁴⁸Decrees 343, 344 and 345 (1975).
- ⁴⁹Decree-Law 889 (1975), and Decree-Law 274 (1975).
- ⁵⁰Decree-Law 925 (1975), and Decree-Law 348 (1975).
- ⁵¹Decree-Law 1055 (1975).
- ⁵²Decree-Law 701 (1974), as amended by Decree-Law 945 (1975).
- ⁵³Decree-Law 958 (1975), and Decree-Law 999 (1975).
- ⁵⁴Decree-Law 823 (1974).
- ⁵⁵Decree 703 (1975).
- ⁵⁶Decree-Law 1024 (1975), and Decree 592 (1975), as amended by Decree 604 (1975).
- ⁵⁷Decree-Law 1029 (1975).
- ⁵⁸Decree-Law 1076 (1975).
- ⁵⁹Decree-Law 830 (1974).
- ⁶⁰Decree-Law 1014 (1975), Regulations, Decree 636 (1975), and Decree-Law 1024 (1975).
- ⁶¹Decree-Law 954 (1975).
- ⁶²Decisions of October 31, and 23, 1974, Supreme Court of Justice.
- ⁶³Decree 187 (1975) and Decree 400 (1975).

⁶⁴Decisions of March 6, 7, and 31, 1975, and of April 3, and 17, 1975, Council of State.

⁶⁵Circular 82 (1974), Exchange Office.

⁶⁶Decrees 2810 (1974), and 584 (1975).

⁶⁷Circular 020 (1975).

⁶⁸Decrees 2847 (1974).

⁶⁹Resolution 01413 (1975).

⁷⁰Decrees 2845 and 2846 (1974).

⁷¹Decree 2850 (1974).

⁷²Decree 370 (1975).

⁷³Decree 771 (1975).

⁷⁴Decrees 169 (1975), 295 (1975) and 477 (1975).

⁷⁵Resolution 00480 (1975).

⁷⁶Decree 770 (1975).

⁷⁷Law 23 (1974) and Decree 2821 (1974).

⁷⁸Law 19 (1974).

⁷⁹Decree 065 (1975).

⁸⁰Resolutions 14 and 15 (1975).

⁸¹Law 5662 (1974) and Decree 4381-H (1974).

⁸²Decree 4843-H (1975).

⁸³Decree 4909-H (1975).

⁸⁴Decree 4432-H (1974), as amended by Executive Decree 4534-H (1975).

⁸⁵Decree 4431-H (1974).

⁸⁶Executive Decree 4442-MEIC (1975).

⁸⁷Law 5662 (1975).

⁸⁸Executive Decree 4674-TSS (1975).

⁸⁹Bill 7067 (1975).

⁹⁰Law 644 (1974).

⁹¹Law 69 (1974).

⁹²Decree 3615 (1973), as implemented by Decree 4545 (1974) and Congressional Resolution 684 (1974).

⁹³Laws 48 and 49 (1974).

⁹⁴Law 82 (1974).

⁹⁵Supreme Decrees 153 and 154 (1975).

⁹⁶Ordinance 15 (1974).

⁹⁷Decree 284 (1975).

- ⁹⁸Decree 387 (1975).
- ⁹⁹Supreme Decree 68 (1975).
- ¹⁰⁰Supreme Decree 28 (1975).
- ¹⁰¹Resolutions 01, 02, 03, 04 and 05, (1975).
- ¹⁰²*Supra*, note 98.
- ¹⁰³Decree 457 (1975).
- ¹⁰⁴Decree 256-A (1975).
- ¹⁰⁵Legislative Decree 250 (1975).
- ¹⁰⁶Legislative Decree 139 (1974).
- ¹⁰⁷Legislative Decree 218 (1975).
- ¹⁰⁸Legislative Decree 278 (1975).
- ¹⁰⁹Executive Decree 110 (1974).
- ¹¹⁰Legislative Decree 301 (1975).
- ¹¹¹Executive Decree 22 (1975).
- ¹¹²Legislative Decree 283 (1975).
- ¹¹³Executive Order of June 6, 1975.
- ¹¹⁴Executive Order 26-74 (1974).
- ¹¹⁵Legislative Decree 11-75 (1975), Executive Decree of March 18, 1975, and Release, Ministry of Foreign Affairs of April 25, 1975.
- ¹¹⁶Legislative Decree 47-75 (1975).
- ¹¹⁷Executive Order 640 (1975).
- ¹¹⁸Decree-Law 172 (1974).
- ¹¹⁹Decree-Law 208 (1975).
- ¹²⁰Executive Order 126 (1975).
- ¹²¹Decree-Law 170 (1974).
- ¹²²Legislative Decree of December, 1974.
- ¹²³Legislative Decree of December 17, 1974.
- ¹²⁴Official Circular 102-681 (1975).
- ¹²⁵Orders 102-B-901 and 102-B-902 (1974), and Orders 102-B-193 and 102-B-194 (1975).
- ¹²⁶Official Circular 311-I-70580 (1975), Income Tax Bureau.
- ¹²⁷Order 101-542 (1975).
- ¹²⁸Executive Decree of February 25, 1975 and Regulations, Instruction 102-746 (1975), Undersecretary of Revenue.
- ¹²⁹Order of February 14, 1975, Secretary of the Treasury and Public Credit.
- ¹³⁰Legislative Decree 662 (1974).

- 131Decree 26 (1975).
- 132Legislative Decree 14 (1975).
- 133Legislative Decree 22 (1975).
- 134Executive Decree 139-MEIC (1975).
- 135Executive Decree 10 (1975).
- 136Law 109 (1974).
- 137Law 6 (1975).
- 138Law 106 (1974).
- 139Law 105 (1974).
- 140Law 104 (1974) and Law 22 (1975).
- 141Law 87 (1974).
- 142Law 108 (1974), as implemented by Executive Decree 46 (1975)
- 143Law 24 (1975).
- 144Law 9 (1975).
- 145Law 15 (1975).
- 146Law 107 (1974).
- 147Law 2 (1974).
- 148Decree 13 (1975).
- 149Decree 14968 (1975).
- 150Decree 11359 (1974).
- 151Decree 12317 (1975).
- 152Decree 14969 (1975).
- 153Decree 14811 (1975).
- 154Decree 14928 (1975).
- 155Decree 11681 (1975).
- 156Release of March, 1975.
- 157Decree-Law 6 (1975).
- 158Decree-Law 10 (1975).
- 159Law 459 (1974).
- 160Law 482 (1974).
- 161Law 492 (1974).
- 162Decree 21070 (1975), and Decree 21122 (1975).
- 163Ministerial Resolution 283-75-EF/74 (1975), and Decree-Law 21129 (1975).
- 164Decree-Law 21062 (1975), and Decree-Law 21082 (1975).
- 165Decree-Law 21135 (1975).

- 166Decree-Law 21061 (1975).
- 167Decree-Law 21194 (1975).
- 168Decree-Law 21160 (1975).
- 169Decree-Law 21128 (1975).
- 170Decree-Law 21202 (1975).
- 171Supreme Resolution 047-75-TR (1975), and Treasury Release of July, 1975.
- 172Supreme Decree 001-75-TR (1975).
- 173Decree-Law 21147 (1975).
- 174Decree 52 (1975), as amended by Decree 249 (1975).
- 175Resolution 199 (1975), Income Tax Office.
- 176Decree 339 (1975).
- 177Decree 235 (1975).
- 178Decree 204 (1975).
- 179Decree 361 (1975).
- 180Decree 248 (1975).
- 181Decree 67 (1975).
- 182Decree 469 (1975).
- 183Law 14335 (1974).
- 184Decree 18 (1975).
- 185Decree 233 (1975).
- 186Decree 1058 (1974).
- 187Law 14342 (1975).
- 188Law 14306 (1974).
- 189Decree 114 (1975).
- 190Decree 712 (1975).
- 191Decree 775 (1975).
- 192Decree 700 (1975).
- 193Decree 947 (1975).
- 194Decree 881 (1975).
- 195Decree 882 (1975).
- 196Decree 691 (1975).
- 197Decree 878 (1975).
- 198Decree 745 (1975).
- 199Resolution 10 (1975), and Resolution 325 (1975).
- 200Decree 746 (1975).