Ireland is still concerned about the implications of shifting taxation to where consumption occurs, which transcends the debate on how to tax the digital economy, Donohoe said.

Le Maire had told France 24, a Paris-based international news network, in a clip posted online January 24 that France cannot wait for the OECD to come up with a long-term solution because of political pressure. France is set to introduce domestic legislation for its own digital services tax, which will be imposed at a rate of up to 5 percent on the turnover of large digital companies, in February.

However, Gurría said the OECD has a clear mandate from the G-20 to provide an update on the debate on long-term solutions in 2019 and to publish a final report in 2020. "We're not lagging behind — this is not late," Gurría said. "This is too important to be urgent." ■

WORLD ECONOMIC FORUM

Brazil Studying Dividend Tax To Pay for Corporate Cuts

by William Hoke

Brazil's new economy minister reportedly told business leaders that the government is studying a plan to slash corporate tax rates and make up for the revenue hit by taxing dividend and interest payouts.

São Paulo newspaper *Valor Economico* reported January 23 that Economy Minister Paulo Guedes told a closed gathering of business leaders at the World Economic Forum in Switzerland that the government plans to cut the corporate income tax rate from 34 percent to 20 percent. Dividends, which are currently exempt, would become taxable under Guedes's plan, as would interest payments on company equity.

Alexandre Siciliano, a tax lawyer with Lobo & de Rizzo Advogados, said that while such interest payments are subject to a 15 percent withholding tax, they are fully deductible against the 34 percent corporate income tax.

Alex Jorge, a tax lawyer with Campos Mello Advogados, said Guedes might have been suggesting that the tax benefit from the deduction for interest payments on company equity be eliminated as part of the proposal to reduce the corporate income tax (CIT) rate.

Siciliano said the tax moves would be beneficial from an economic standpoint because they would encourage the reinvestment of profits, which would be less expensive than distributing earnings as taxable dividends.

The switch in emphasis from taxing corporations to taxing shareholders would also be positive from a tax efficiency point of view, Siciliano said. "The calculation of the tax basis of companies can be a very complex task and . . . there can be certain room for tax planning, reducing the tax basis," he said. "Nowadays, when dividends are tax free, if a company reduces its tax basis, it pays less income tax and more tax-free dividends, leaving the government with no chance to tax those dividends again in the hands of the shareholder."

Siciliano said that because the determination of resident individuals' tax basis is far less complicated, it is easier for the government to collect the proper amount of tax. “For nonresident shareholders, the tax is even simpler, because the tax would be withheld; [there is] zero room for tax planning on that,” he said. “Therefore, reducing the tax burden of companies and increasing [it] on shareholders is good tax policy for the government because it would increase the control and effectiveness of taxation.”

Fabio Klein of Tendências Consultoria Integrada, an economics consultancy in São Paulo, said Brazil’s tax regime is notorious for its inefficiency. Guedes’s proposal “points to the correct direction in reducing the burden over companies and increasing the burden over individuals,” Klein said. “This would put Brazil more in line with the rest of the world, since most countries — the U.S., for example — have been reducing corporate taxes recently.”

Jorge said that until 1995, dividends were subject to withholding tax under a two-tier system. In 1996 the system was changed to a single tier in which the taxation occurs only at the company level, but at a higher rate with dividends exempt, he said. “Of course, a higher rate takes cash flow from companies [for reinvestment] and favors shareholders,” Jorge said in an email. “The proposal seems to go back to the pre-1996 system and follows what other countries are doing by reducing CIT rates (i.e., U.S).”

The question should be whether the government will increase other taxes, such as the the Program of Social Integration contribution (PIS) and the Contribution for the Financing of Social Security (COFINS) to offset the immediate revenue shortfall from reducing the CIT rate, Jorge said. “Usually in Brazil, any proposal to reduce taxes comes with another proposal to increase another, as seen when PIS and COFINS became noncumulative in the mid-2000s, but the rates more than doubled,” he said. “In my view, because a lot of companies do not pay CIT (due to losses), but pay a lot of indirect taxes such as PIS, COFINS, [the tax on manufactured products (IPI), and the state consumption tax (ICMS)], this proposal may not be perceived as being effective to them at the end of the day.”

Jorge said ICMS is the biggest cash drain for companies because of the complexities of the system and what he described as the impossibility of receiving refunds for overpayments over a short time frame.

Guedes took over as economy minister when Jair Bolsonaro, a right-wing populist, was sworn in as president of Brazil on January 1. Guedes, a proponent of free markets, has previously talked about lowering the country’s tax burden, simplifying the tax regime, reining in the pension system, and generally making the government less intrusive.

Siciliano said it’s difficult to predict whether the National Congress will approve legislation along the lines suggested by Guedes. “But a new president always has a lot of power because he has a lot of support of public opinion and the international community,” he said. “However, in order to increase the income tax burden, a bill has to be approved in one year to become effective in the next year. Therefore, [there are] no chances [of] increasing the tax burden in 2019.”

Jorge said the changes under consideration could face opposition in Congress because taxes collected by the federal government must be shared with the states and municipalities. “However, PIS and COFINS, which are social contributions, do not have this requirement of sharing,” he said. “This could represent more revenues to the federal government. In principle, the withholding income tax on dividends should be a way to offset the shortfall of the CIT, but probably Congress will [want] to see further analysis of the potential impact to the budget.” ■