PULSO

ECONOMY & MONEY

United States pushes the world into a tax war

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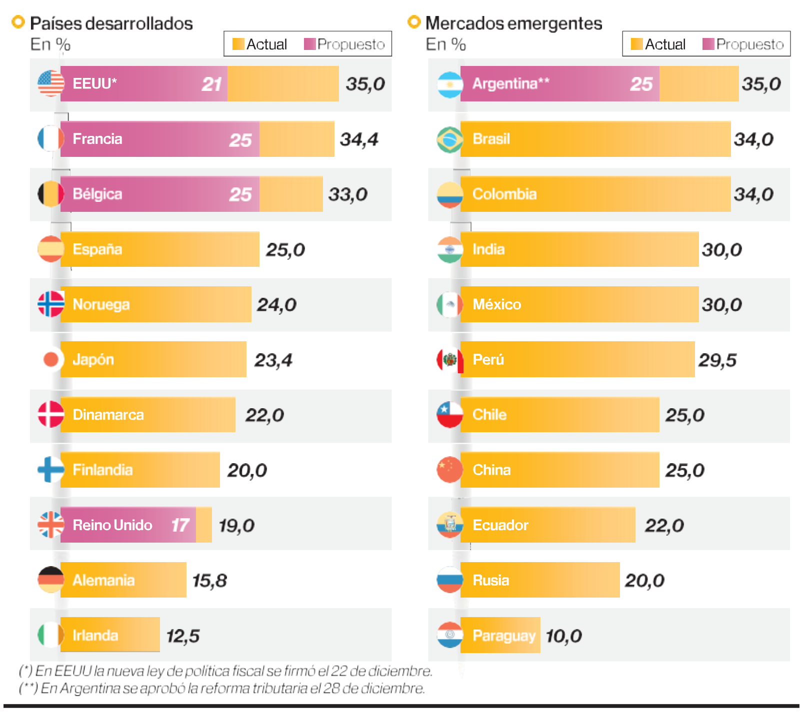
Gaining greater competitiveness to attract investment has become one of the main objectives of the nations in the race to cut taxes, where the US reform marks a trend.

Becoming the most attractive option for investors was the goal pursued by Donald Trump with the massive tax reduction he signed before Christmas. Their ambition is shared by various countries, which have embarked on a career that translates into tax reforms held by companies around the world, opting to risk, in the short term, a decrease in fiscal resources as long as they are not left out. of investment flows. And is that the pressure exerted by the first world economy is not less. It went from having a 39% tax for corporations, the highest of the OECD members, to one of 21%, falling below the average of 25% of the same body.

"There is a tax cutting war going on. Governments around the world - from the EU to China and Russia, among others - are poised to enter into in tax reduction competition, and this is in response to the 2017 changes in the US corporate tax policy that went into effect this year," said Harry G. Broadman, regular columnist for Forbes and CEO of Proa Global Partners, who explained that "governments see tax cuts as a strategy to attract investors from other jurisdictions."

In fact, that was Trump's argument to defend his proposal. "I have a fundamental goal, I want jobs and wealth to stay in the US," said the now-president when he was still competing against Hillary Clinton for the White House. Once the project was approved, even the Fed considered it to improve its growth prospects for the country.



"Hay una guerra de reducción de impuestos en curso. Los gobiernos (...) están preparados para participar en un concurso competitivo de reducción de impuestos".

HARRY G. BROADMAN
Columnista de Forbes y CEO de Proa Global Partner.

"Justamente Argentina salió a pelear la competitividad con esa baja de tasa corporativa".

CÉSAR LITVIN
Experto tributario y socio del estudio Litvin, Lisicki y Asociados.

"Los países en desarrollo y los mercados emergentes son los más afectados por la competencia fiscal. Deben mantenerse fuertes y mantener abiertos los canales de comunicación".

BRIGITTE ALEPIN
Coautora de Winning the Tax Wars.

Cuts in Europe

And although Trump is far from being a popular character abroad, his vision in the matter has been replicated in other leaders who seek to boost their domestic economies, including Emmanuel Macron, who in his government program included the proposal to lower the Corporate taxes of France from 34.4% up to 25%.

Although up to now the cut has not materialized in a project, the French President included in the 2018 budget tax reductions to companies and individuals by 7,000 million euros through fiscal measures.

In Belgium they did the task almost at the same time as in the US and on January 3 they enacted the law that lowers the corporate rate from the current 33% to 29% in 2018 and 25% in 2020.

The United Kingdom was ahead of everyone and has been cutting since the last decade from a rate of 30% to 19% and by the end of the decade should be at 17%.

Denmark also seeks to become more attractive to investors in this way. The largest parties in the country agreed to reduce the tax on capital investments to encourage more companies to trade in Copenhagen, copying a Swedish and Norwegian model.

The region adds

The Argentina of Mauricio Macri is the clear example of this global trend reached Latin America. On December 28, the parliament of that country approved a tax reform whose central pillar contemplates a gradual lowering of the tax on businesses from 35% to 25%. Of course, the cut only applies to companies that reinvest their profits.

"Argentina just went out to fight competitiveness with that low corporate rate and still has a lot to do," says tax expert César Litvin, Litvin study partner, Lisicki y Asociados and adds that "what they are pursuing in Peru, Mexico and A bit Brazil with the labor reform, is to be reasonable in the collection of taxes because the investments go to the places that best treat them ".

In contrast, Chile gradually raised the corporate tax to 27%, and if there were no changes in this matter, such as the one announced by President-elect Sebastián Piñera to simplify the system and return the rate to 25%, our country will have a tax greater than that of the trans-Andean country.

In spite of the above, according to Litvin Chile it is an example of low fiscal pressure because it enjoys great competitiveness in what it calls the fiscal wedge, that is, the cost of social security plus the income tax that an employer has with respect to who pays the employee (the difference between gross and net wages).

As for Brazil, which has one of the most complex systems in the region, has an average corporate tax rate of 34%, it is still in the stage of preliminary discussions on this trend. "If this issue advances, I do not think the probability is high, it will be necessary to increase other taxes," says Mauricio Oreng de Rabobank. According to the expert, it is difficult for the discussion to have any feasibility: "There is simply no fiscal space for that in Brazil."

Anyway, for Oreng an important discussion should be that of tax complexity, where there are already two projects so that it can be simplified.

Peru is another one that remained stuck in the promise of the cut, during his campaign Pedro Pablo Kuczynski had pointed out the idea of reducing from 29.5% to 17.5%, but none of that came to light, nor did the idea of lowering the VAT by three percentage points.

Worth it?

If the objective is to stimulate growth, this is the correct path according to Litvin, who emphasizes that "for example in Argentina with this tax reform the intention is to attract investment, to create jobs and to generate greater economic growth."

However, not everyone agrees. "This is a foolish race to the bottom. These are policies that use scarce fiscal resources. In addition, lower corporate taxes, in and of themselves, do little to attract investment flows to a commercial opportunity that is not attractive, " Broadman said.

For her part, Brigitte Alepin, co-author of Winning the Tax Wars, highlights that "developing countries and emerging markets are the most affected by tax competition. They must stay strong and keep communication channels open. "