Latin American Tax Newsalert

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Latin American government debt issuances and tax treaty update

This newsalert summarizes relevant local country tax considerations for US multinational corporations ("MNCs") and other investors engaging in transactions with recently-issued Brazilian and Colombian government debt. In addition, the alert additionally provides an update on the expanding Latin American tax treaty network.

Recent Latin American government debt issuances

During the initial days of 2012, the governments of Brazil and Colombia issued significant amounts of sovereign debt in foreign markets.

Brazil

Taking advantage of its robust economic expansion, the Brazilian government recently sold $825 million of "Global 2021" bonds in the US, European and Asian markets at a record-low yield. These "Global 2021" bonds are ten-year benchmark dollar-denominated bonds issued by the Brazilian federal government. Interest payments will be made semi-annually, while the principal amount will be repaid upon maturity. The 3.449% yield is the lowest historical rate for Brazilian government debt in the US dollar market.

From a tax standpoint, as a general rule, interest payments on government bonds should be evaluated according to the specific terms of the issuance. In fact, income arisen from this bonds solely will be exempt from Brazilian income taxation if there is a specific Law or normative in this regard. In any other event, interest payments are subject to a 15% withholding tax. When the recipient is resident in a blacklisted tax

haven jurisdiction, applicable rates may range from 15% to 25% withholding tax. Additionally, currency outflows associated with interest and principal payments should not be subject to the Brazilian Financial Transactions Tax ("IOF").

Colombia

The Colombian government also placed $1.5 billion of "2041 Bonds" in foreign markets. The "2041 Bonds" are dollar-denominated bonds the proceeds of which primarily will be used to buy back Colombian government debt maturing between 2013 and 2027. Interest payments on "2041 Bonds" will be made semi-annually, while the principal amount will be repaid upon maturity. Interest payments on the "2041 Bonds" should be exempt from Colombian income taxation.

Update on the region's tax treaty network

The Latin American tax treaty network expanded significantly in 2011. Here are some relevant highlights:

- In December 2011, France ratified its tax treaty with Panama. Since Panama already ratified the treaty, it is only pending the mutual notification before it can become effective.
- In December, Mexico ratified its recently-signed income tax treaty with Peru. At this time, Peruvian ratification is still pending.
- The following new tax treaties are effective as of January 1, 2012:
    - Germany/ Uruguay;
    - Luxembourg/Panama;
    - The Netherlands/ Panama; and
    - Singapore/Panama.

Note that two Latin American countries with territorial systems of taxation have been material players in this expansion: Panama and Uruguay. In this regard, these new treaty provisions may potentially benefit MNCs with transactions/operations in these jurisdictions.

For more information, please do not hesitate to contact:

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