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Challenges to the growth of international roaming in Latin America: The role of taxation

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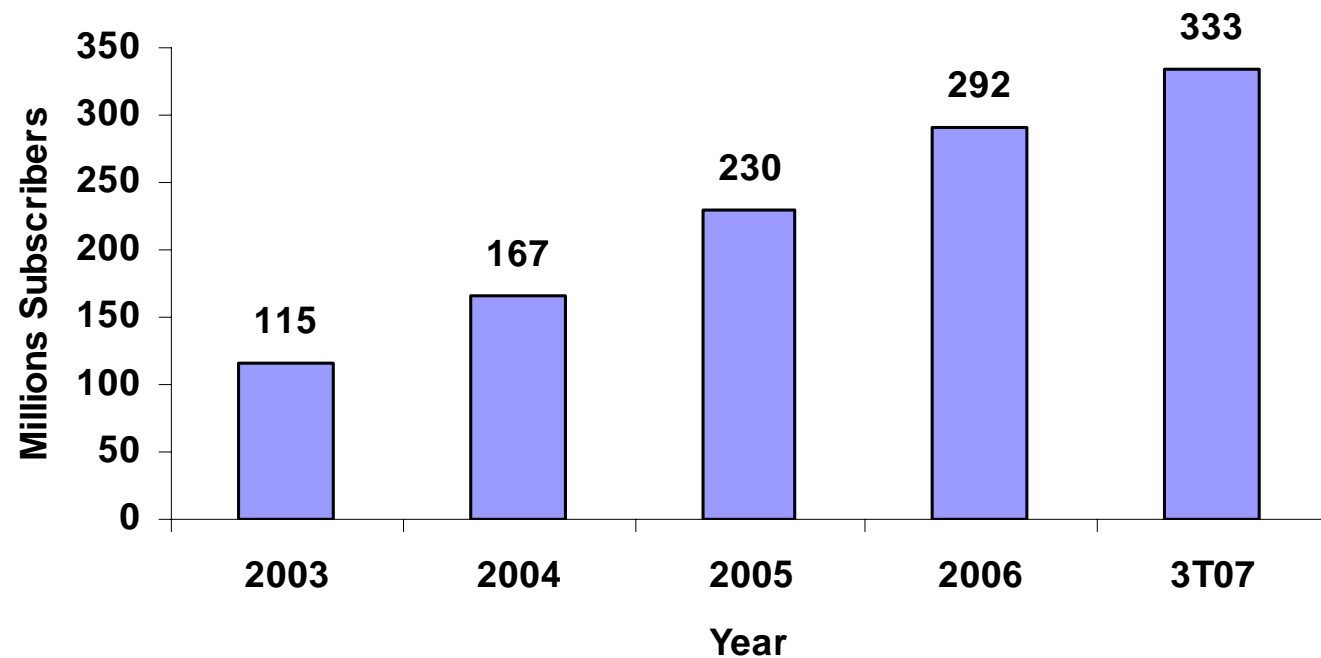
IIRSA/CITEL WORKSHOP
International Roaming Services for Mobile Telecommunications
03/11/2008

Agenda

- Evolution of Mobile Telephony in LA
- Positive Factors and Barriers to the Growth of International Roaming Services in LA
- Taxation of Telecommunication Services in Brazil
- International agreements against double taxation
- Questions to be addressed



Evolution of Mobile Telephony in LA



Source: TELECO



Evolution of Mobile Telephony in LA Major Markets and Penetration Rate

Country	2003	2004	2005	2006
Brazil	46.373	65.606	86.210	99.919
Mexico	30.098	38.450	47.129	57.017
Argentina	7.842	13.512	22.156	31.510
Colombia	6.186	10.401	21.850	29.763
Venezuela	7.015	8.421	12.496	18.789
Chile	7.268	9.555	11.270	13.062

Mobile/100 inhabitants	2003	2004	2005	2006
Brazil	25,77	35,95	46,58	53,24
Mexico	29,06	36,31	45,14	54,13
Argentina	20,71	35,35	57,41	80,86
Colombia	13,88	22,96	47,46	63,60
Venezuela	27,31	32,17	46,79	68,93
Chile	45,66	57,55	64,97	75,77

Source: TELECO



Positive Factors to the Growth of International Roaming Services in LA

□ Economical Aspects:

- Globalization
- Growth in the international trade
- Economic stability and growth
- Regional economic blocs and initiatives
- Growth in international leisure and business tourism



Positive Factors to the Growth of International Roaming Services in LA

□ Technological Aspects:

- Roaming technology is available and known
- Most LA countries have established their regulatory framework
- The standardization of the mobile technology platform (GSM)
- Consolidation of transnational telecommunications groups in LA



Barriers to the Growth of International Roaming Services in LA

❑ Cost of the international roaming service to the customer

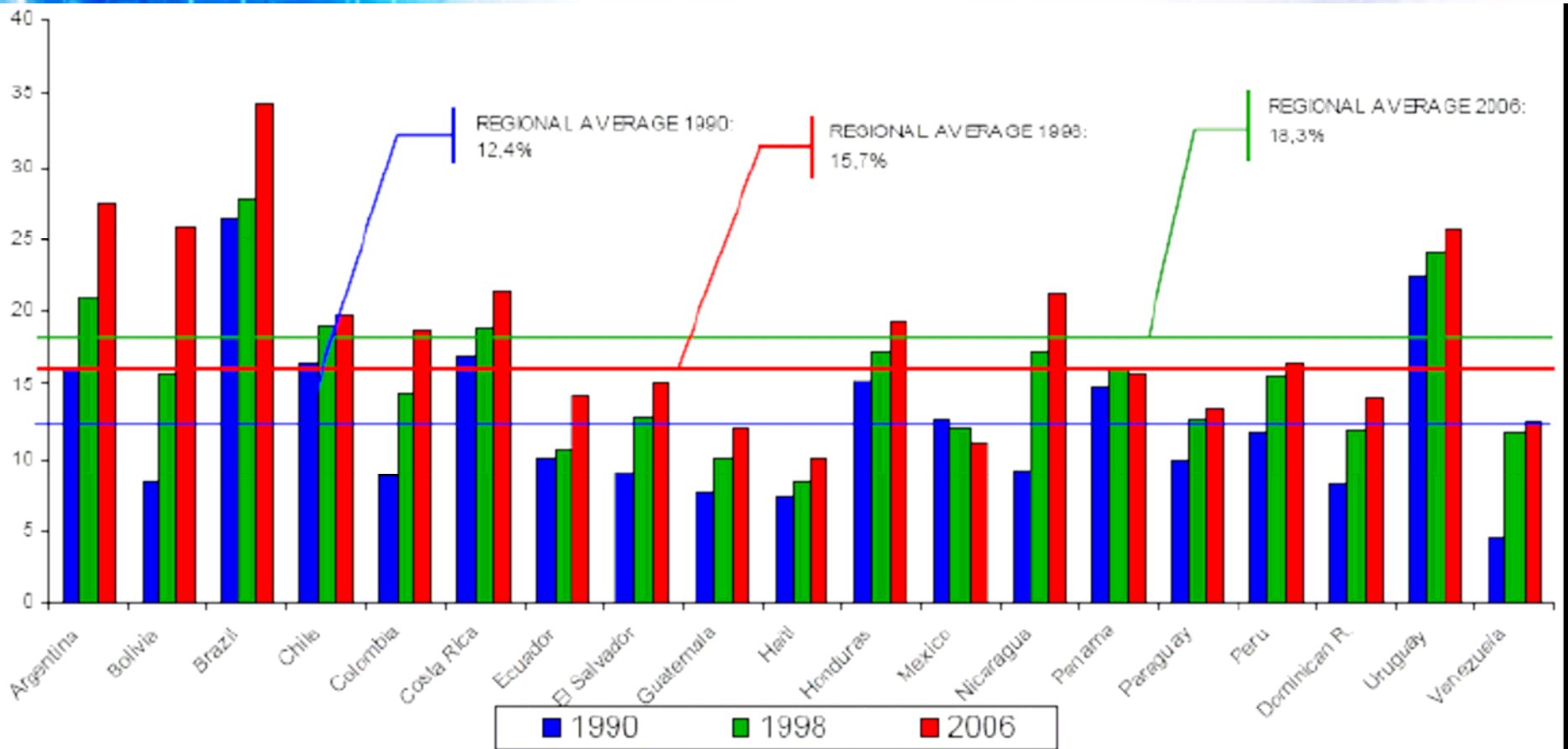
Average values (US\$ / min) of mobile tariffs in Latin America

Roamer from (Country)	Call			
	Roaming Internacional		Local	
	Received	Made	Pos paid	Prepaid
Argentina	0,36	0,81	0,34	NA
Brasil	6,05	2,21	0,3	0,81
Chile	1,7	1,1	0,32	0,48
México	2,63	1,32	0,16	NA
Peru	1,57	1,34	0,13	0,72

Source: prepared by the author based on a research through the Internet in February 2008



Tax Burden in LA Countries (percentages of GDP)



Source: ECLAC - Economic Commission for Latin America and the Caribbean

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Taxation of Telecommunication Services The Brazilian Case

□ Brasil

- Population: 180 millions
- Federative Republic
- Union, 26 States and Federal District
- 5,563 municipalities
- Tax Burden 2006: 34,23% of GDP



Taxation of Telecommunication Services The Brazilian Case

□ General Taxes applied to Telecommunications Services:

- ICMS – 25%
- PIS – 0,65%
- COFINS – 3%
- FUST – 1%
- FUNTTEL – 0,5%



Taxation of Telecommunication Services The Brazilian Case

High tax burden

- ICMS Tax rate varies from 25% to 30% depending on the State

Discussion on taxation by the ICMS related to the so-called VAS - value added services such as Internet access provision



General Problems on Taxation of Telecommunication Services

The Brazilian Case

- **Additional Taxes applied to International Roaming Services :**
 - Outbound Traffic (Brazilian traveling abroad)
 - IRRF – 25%
 - PIS (import type) – 1,65%
 - COFINS (import type) – 7,6%
 - FUST – 1%
 - FUNTTEL – 0,5%
 - Inbound Traffic (Foreign traveling in Brazil)
 - No taxes applied (export of services)



Main Problems of International Roaming Taxation The Brazilian Case

□ IRRF in Outbound Traffic

– When there is no possibility to compensate the tax withheld in Brazil.

- Service: US\$ 100.00
- Basis for IRRF: $\$ 100.00 / 0.75 = \text{US\$ } 133.33$
- IRRF Rate: 25%
- IRRF paid in Brazil: $25\% \times \$ 133.33 = \text{US\$ } 33.33$
- Amount received by the carrier abroad: $\text{US\$ } 133.33 - \text{US\$ } 33.33 = \text{US\$ } 100.00$



Main Problems of International Roaming Taxation The Brazilian Case

❑ PIS and COFINS in Outbound Traffic

- Cumulative taxation
 - Charged on the value received from the customer
 - Charged on the payment made to the foreign carrier

❑ FUST and FUNTTEL in Outbound Traffic

- Cumulative taxation
 - Charged on the value received from the customer
 - Charged on the payment made to the foreign carrier



Main Problems of International Roaming Taxation The Brazilian Case

- Discussion about the application of the 6.1.3 clause of Melbourne's ITR
 - “ When the national legislation of a country establishes the application of a tribute on the rate of perception, over the international telecommunications services, this tribute only applies to international telecommunications services charged to customers of this country, unless agreed otherwise, to meet special circumstances. ”



International agreements against double taxation

□ "The phenomenon of double international taxation can be defined, in a general way, as the result of the charge of similar taxes in two - or more - states, on the same taxpayer, the same subject and same period of time" (Fiscal Committee of the OECD, 1977)

□ There are few agreements between Latin American countries to avoid double taxation



Questions to be addressed

Tax Barriers

- Could taxation explain the high cost of international roaming in Latin America? Are there any other reasons?
- Will a reduction in the tax burden on telecommunication services lead to the loss of revenue for countries or on the contrary, will it increase revenue due to the consumption of services growth?
- Is VAT or a similar tax charged on international roaming in Latin American countries? Is this taxation on inbound or outbound traffic, or both ?
- What are the reasons that prevent the income tax charged by a country on the payments for international roaming services from not being accepted as compensation by another country?
- What are the reasons for the low number of agreements against double taxation between Latin American countries?
- Why the deliberations on telecommunication taxation included in the International Telecommunication Regulation of Melbourne are not enforced by all the signatories?



Questions to be addressed

Actions to change the scenario

- What of the following multilateral agreements could be possible in LA and which would be more necessary:
 - exempting the taxation of international roaming services ?
 - compensation of the income tax withheld on international roaming services?
- Would a proposal to amend the clause on taxation in the International Telecommunication Regulation of Melbourne to reach the operations of international roaming services be necessary?
- Might a multilateral agreement between Latin American countries in order to establish regulation on the maximum tariffs to be charged by mobile operators in Latin American in roaming services, similarly to what is happening in the European Union, be possible?

