

PROVISIONAL

CPF/SR.9

11 December 1962

ORIGINAL: ENGLISH/SPANISH

JOINT TAX PROGRAM OAS-IDB-ECLA

CONFERENCE ON FISCAL POLICY

Santiago, Chile, 5-14 December 1962

PROVISIONAL SUMMARY RECORD OF THE NINTH MEETING

held at Santiago, Chile  
on Tuesday, 11 December 1962, at 9.50 a.m.

Chairman: Mr. MAGAÑA

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NOTE: Participants wishing to make corrections in the provisional summary record of their statements, for inclusion in the final printed report, should submit them in writing to the Editorial Section, either through the Conference Officer (Miss Eyzaguirre) during the Conference, or subsequently, by post, before 31 December, addressed to The Editorial Section, ECLA, Avenida Providencia 871, Santiago, Chile.



TAX ON NET WEALTH, INHERITANCES AND GIFTS (continued)

Mr. JARACH, replying to the comments on his paper, thanked the participants, and particularly Mr. Casas and Mr. Porras, for their friendly judgements, though none of the very pertinent comments made had led him to change his views. He had never believed that the tax on net wealth played an outstanding role in relation to income tax, but at the same time he could not regard it as performing a secondary function. He believed that the two taxes complemented each other. He was also of the opinion that the tax on the net wealth of physical persons was a more perfect instrument even than schedular taxes and, certainly than the unitary income tax. It not only supplemented them, but it could facilitate the administration of income tax inasmuch as it enabled the latter to be based on the declaration of total wealth.

Nor did he agree with the view that great importance should be assigned to the tax on net wealth only in the case of a demonetized economy, since it had not a substitution function. It was precisely its complementary function that made it inevitably more important in those countries where income tax was in full development.

Actually, taxes on property were merely rather incomplete substitutes for the tax on net wealth, as was evident from the case of corporations. In Argentina a tax on aggregate estate was being introduced, as being a form of net wealth.

It was not for him to give his opinion on Mr. Pinto's interesting idea regarding the integration of tax systems, although it was certainly intriguing.

With regard to the tax on inheritances and gifts, he referred to the comments made by Mr. Desai and Mr. Cosciani during the course of the debate. He defended the global inheritance tax as a form of posthumous tax on net wealth which would relieve the heirs' tax burden and make the progressivity of the tax more effective. As for the individual inheritance tax, it should be graduated according to the net wealth of each heir.

As Mr. Vidal Cárdenas had observed, the problem posed by bearer securities in connexion with the taxes on net wealth, and on inheritances  
/and gifts,

and gifts, was not without some importance. However, such problems were peculiar not so much to those taxes as to that type of securities; his paper suggested solutions for such problems.

With reference to the issue raised by Mr. Herschel, as to the jurisdictional level at which the tax on net wealth should be levied, he felt that it would only be advisable to establish such a tax at the national level, to avoid fragmentation.

In conclusion, he summed up his views by saying that whatever technical or administrative difficulties the tax on net wealth might raise, they should not be magnified to the point of discarding such taxes and replacing them by others which might distort the whole tax system.

CORPORATE INCOME TAXATION IN LATIN AMERICA (CPF-DB-1, CPF-DB-./Add.1, CPF-DB-./Add.2)

Mr. PREST introduced his paper on corporate income taxation in Latin America (CPF-DB-1), and said that he had attempted to steer a middle course between attempting a textbook exposition of general principles, and entering into the details of corporate income taxation in Latin America, by indicating the main principles involved that provided scope for thought and possibly action. Section I dealt with the general arguments for a corporation tax, including the need to catch undistributed profits, the comparative administrative simplicity of taxing corporations, the fact that corporations had no votes, and the possibility that the tax would be at the expense of foreign government revenue. Where a corporation income tax already existed, the inequity of allowing some to make windfall gains argued against removing it. The arguments against the tax included the possibility that it might retard the development of the corporate sector, the danger of hampering development by reducing saving and the need not to discourage the inflow of foreign capital. The reconciliation of the tax with personal taxation raised the question of differential treatment of distributed and undistributed profits, which involved both economic effects and equity issues.

/Section II

Section II was a factual summary. Tables I and II gave data on income and wealth taxation in Latin America, and although full data were not available for all countries, the tables showed that there was a wide variation in the ratio of income from corporate taxation to total government revenue. Table III, which summarized characteristics of Latin American corporate income taxation, had been compiled from a large number of sources, since the information concerned was not available in standard reference books, and he hoped that any errors that had crept in would be corrected by participants from the countries concerned. The table showed some of the principal ways in which corporate income taxation could vary from country to country, with respect to separation from personal income, withholding of dividends paid out, taxation of dividends received, additional taxes imposed such as excess profits tax, and discrimination against foreigners (with respect to foreign and national resident shareholders or dividends paid abroad or in the country). It was clear that there was a great diversity in the arrangements for corporate income taxation in the various countries.

Section III considered the concept of income, the need for simplicity, the rate structure, the integration of corporate and personal income taxes, intended and unintended discrimination in present tax arrangements, and special concessions. Referring to the discussion at the seventh meeting, he said that the income basis chosen could be income originating, income received, or a world-wide concept, of which the first and third were relevant to the present discussion. The difficulty of measuring income originating included arm's length pricing, and the overlapping of tax jurisdictions with respect to subsidiaries of foreign companies; he had not touched on those points, but they were covered in the paper on the income tax treatment of foreign investment (CPF-DS-6T). A number of factors influenced the effect of corporate income taxation on the flow of international capital, including the income basis, i.e. whether originating or world-wide, the relative sizes of gross yields and tax rates in different countries, whether or not tax credits were allowed on income derived from other countries, and the relative treatment of resident and non-resident enterprises.

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The great complexity of arrangements for corporate income taxation in Latin America seemed hard to justify. Corporations might be subject to more than one tax on income, to taxes on excess profits or business assets as well as on income, there were distinctions between resident and non-resident enterprises, rates of withholding tax depended on the types of recipient, and so forth. From the standpoint of administration and the preventions of evasion, such complexity was a serious disadvantage.

The rates of the tax should not be high enough to retard the growth of the corporate sector, or low enough to make unnecessary presents to companies or foreign governments. A progressive corporate income tax did not appear justified on equity grounds, since a small corporation might have rich shareholders, and a large one comparatively poor shareholders; in addition a progressive tax would serve as a disincentive to growth, and would encourage the splitting of corporations into small units, resulting in the need for preventive measures to enforce aggregation, which would be an unnecessary complication. As for bearer shares, unless some way was found of identifying the ultimate recipient, the only method was to subject dividends on such shares to a high rate of withholding tax.

Integration of personal and corporate income taxes could be achieved by making a tax credit to the individual shareholders in respect of his dividend, or by affording relief at the corporation level on dividends paid out, so that the corporate income tax became a tax on undistributed profits. The same effect as that due to the latter course could be achieved by the withholding method, whereby dividends paid out were grossed up so as to allow for corporate tax paid, and taxed as personal income but with a credit for the corporate tax. Clearly the rate of tax on retained profits should be not less than that paid by the average shareholder if profits were distributed. The optimum balance between distributed and undistributed profits was a difficult question; retention of profits favoured corporation savings, but it might be important to force out savings through the capital market, and there was always a danger that existing corporations would build up an entrenched monopoly position. Larger retained profits would be more likely to result in capital gains, which raised the question about the adequacy and comprehensiveness of the capital gains tax.

/With respect

With respect to unintended discrimination, he pointed out that excess profits taxes were only justifiable for short periods or emergencies, and as a long-term measure were likely to impede growth. Discrimination between large and small corporations would be likely to hamper growth, although unincorporated enterprises might be encouraged to become incorporated. There was much scope for further study of the relative tax rates applying to unincorporated businesses and small corporations, which varied widely from country to country. There might also be differentiation between the rates of taxation, applied to non-resident and resident subsidiaries of foreign companies, and to oil and mining companies compared with companies engaged in other activities.

With respect to special concessions to encourage development and investment, a distinction might be made between net investment and the replacement of capital goods but that was very difficult. It was not easy to determine how far tax relief for investment purposes was merely a gift to those who would invest in any case, and thus simply represented a net reduction in the total tax revenue. It would be advisable for the countries concerned to take a common line on concessions to foreign corporations, otherwise the result might be free gifts to foreign Governments or corporations. He concluded his review of the document by stressing the need for good accounting standards, with respect to corporation balance sheets and profit and loss accounts and for clear and firm legislation and administration.

The value added tax, and the possibility of using it to replace a corporate income tax, constituted a third form of taxation, the first two being taxation of the income stream in the form of wages and profits, and taxation on expenditure, in the form of excise and sales taxes on consumer or possibly capital goods. If the value added tax were substituted and the graduated personal income tax retained, the result would be a much more favourable treatment of undistributed than distributed profits, with no incentive to distribute. Moreover, rich shareholders would escape liability. Tax on capital gains resulting from retained profits was not satisfactory because it was not easy to operate and tax was only collected

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sometimes after the profit retention took place. The precise effect of substituting a value added tax for a corporate income tax would depend on whether the existing corporate tax favoured distributed or undistributed profits. The effect of combining a value added tax with the personal income tax might or might not be desirable, but it should be recognized as not being neutral.

Mr. JATAR DOTTI, introducing his comments, (CPF-DB-1/Add.2) on Mr. Prest's paper, said that the concept of the income tax was relatively new in Latin America, having been introduced in most cases in the third decade of the present century. As far as the scope of the tax was concerned, both the principle of origin and of residence was applied. In that connexion, one of the features of capital-importing countries was that their gross national product was greater than their national income, while the opposite was true of capital-exporting countries. That feature had to be taken into consideration in determining which of the two concepts of tax applicability - income originating or income received - should be adopted for developing countries, where only a small minority received income from abroad. For the reasons outlined in his paper, he preferred the concept of income originating.

One of the problems related to the above two concepts was that of international double taxation. It could be solved either through unilateral action, in which a Government granted relief from taxation in respect of income already taxed in another country, or through agreements between the Governments concerned.

On the question of multiple and unitary taxes, he observed that in many Latin American countries the income tax consisted of a series of schedular taxes at different fixed or proportional rates and of a progressive global or complementary tax. While the undue diversity of income taxes in some countries was to be deplored, it was unavoidable in some cases where schedular and complementary taxes were imposed on all types of activities, as was done in Venezuela. While a unitary tax structure would be desirable, it should only be achieved through a combining of schedular and complementary taxes and must not result in the same tax /rate being

rate being applied to individuals and corporations. Unfortunately, in many Latin American countries no distinction between individuals and corporations was made for income tax purposes. Venezuela had done so by creating a new progressive tax on corporations at a somewhat higher rate than the personal income tax and by reducing the number of taxable categories, the complementary tax on personal income being left at its previous rates. The new system had produced increased revenue from the tax on corporate income.

On the question of the taxation of corporate profits and dividends, and the need to avoid the double taxation which might result, he felt that the best method of granting the necessary relief would be the withholding tax approach, the merits of which were outlined in his paper.

With respect to incentives to savings, he supported the view that could best be done through provisions for loss carry-overs but he would limit such carry-overs to a period not exceeding three years.

With regard to incentives to capital formation, the income tax was a useful instrument in creating such incentives. In Venezuela, for instance, the income tax laws had been amended to allow a taxpayer who made net investments in the country to claim a partial rebate of the complementary tax. The new provision applied both to individuals and corporations.

In concluding, he referred to some of the difficulties which Latin American countries faced in collecting income taxes and to the prospects for a successful taxation of income in those countries, details of which were set out in sections 9 and 10 of his paper.

Mr. LESSA said that high profits had been related to efficiency by some speakers, and asked whether that concept was really in line with high social productivity of enterprises in the framework of economic development. Mr. Prest had seemed to imply the same view. But it was very doubtful whether in Latin America high profits were due to efficiency, in view of the various privileges and exemptions that were granted by Governments. In the absence of organized capital markets in Latin America,

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the large financial resources called for by modern technology precluded the free entry of competitors to the market required by classical economic theory, hence there was more monopoly and less competition than in more developed countries. Moreover high corporation profits were largely due to production functions that did not lead to the proper use of economic resources; the high capital intensity characteristic of industrialized countries was not well suited to an area where labour was plentiful and wages low. Consequently he thought the tax on corporate income should be progressive.

With respect to the stimulation of investment at the enterprise level through the treatment of distributed and non-distributed profits in corporate taxation schemes, he believed that it was not defensible to allow exemptions solely to the enterprises, and that the discrimination against personal income would accelerate the process of the concentration of wealth. If there were a progressive tax on corporation profits, they could either be distributed to shareholders, or alternatively they could be added to capital by the distribution of bonus shares, but should be taxed in both cases. It was more appropriate in the Latin American context to provide investment incentives at the shareholder level than at the enterprise level.

Mr. KALDOR felt that the incidence of taxation on corporate profits had not been given sufficient attention in Mr. Prest's paper. That was a complicated question and to some extent depended on specific tax provisions, such as the relative treatment of distributed and undistributed profits. He felt that the incidence of the tax had substantially shifted. The concept of the tax should therefore be clearly defined in order to determine whether it was a substitute for other taxes or was in addition to the total revenue which would have been obtained otherwise. The distribution of income between profits and wages was not very different from what it would have been if the same revenue had been obtained from indirect taxation. The shift in the incidence of taxation on corporate profits was a macro-economic process which did not leave the distribution

/of net

of net profits unaffected. If it was agreed that the role of the tax had shifted, it was a convenient revenue-yielding device. If the view was that it had not shifted, then it had an important role in the equity of the tax system.

With respect to Mr. Prest's comments on the value added tax, he agreed that if it was Mr. Prest's view that the incidence of the tax on corporate profits had not shifted, it was correct to say that the value added tax should not be regarded as an alternative to the tax on corporate profits but as an alternative to a general tax on sales. Some European countries had considered the substitution of a value added tax for some parts of the corporate profits tax.

He agreed with Mr. Lessa on the relationship between the efficiency of a corporation and its profits. However, in comparing different branches of industry, the level of profits was not an indication of efficiency. If a comparison was made between enterprises engaged in the same branch of industry, the difference in profits would reflect their degree of efficiency.

Mr. Lessa had rightly observed that competition in industry occurred far less in developing countries than in the more industrialized States. There was nevertheless some competition and a heavy tax on corporate profits would militate against more efficient firms which showed higher profits. He supported Mr. Lessa's suggestion that corporations might be required to issue bonus shares in respect of their undistributed profits and that such shares should form part of the income of shareholders. That was a most valuable recommendation but unfortunately it had been rejected constantly by tax commissions and administrations because it would make the raising of capital by joint stock enterprises more difficult. In connexion with bonus shares, it should be borne in mind that undistributed income was not quite the same as distributed income. The shareholder did not derive the same advantage from bonus shares and the market value of such shares would undoubtedly be lower. They should therefore be taxed on their market value rather than on their nominal value. A possible alternative would be to tax income received in the form of bonus shares, and not as cash, at a lower rate than income received as cash.

/Mr. DESAI

Mr. DESAI, referring to the treatment of domestic and foreign capital, said that there was some justification for a higher tax on income sent abroad. It was a matter of establishing equity between such income and investment income remaining in the country.

Mr. GOODE, on the question of the shifting of the incidence of the tax on corporate income, agreed with Mr. Kaldor that little statistical data was available. Not much weight should be given to statistics on the subject in the United States, which were suggestive rather than conclusive. His own view was that the greater part of the tax rested on the profits received by corporations.

With regard to the jurisdiction of the corporate income tax, or the place where the income was taxed, a country might take the position that in measuring the taxable capacity of its nationals or residents, total worldwide income would be the appropriate measure. In his opinion, that would not be an unreasonable standard for measuring taxable capacity. It was true that if every country adopted that standard, double taxation might well result. However, relief could be granted through unilateral action by the Government concerned or through bilateral or international agreements. The unilateral method was applied in the United States and the United Kingdom, which recognized the priority of the country of origin. However, even if a country did not wish to grant relief from double taxation to corporate income, the financial implications were not likely to be very serious. It might discourage movement of capital to the more developed countries, which was not in fact an undesirable effect. Moreover, the flow of capital from developing countries was not primarily due to the tax system but rather to other reasons.

Mr. RIOFRIO said that the dual personality of corporations was an invention of jurists applied by financial theorists for tax purposes through the taxation, on the one hand, of the profits of the corporations themselves and, on the other, of the income received by shareholders. Income was thus taxed twice. He also referred to the omissions in Mr. Prest's paper to which the author himself had referred, and pointed

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out that there were others as well. After describing the background and case history used in support of corporate income tax, he concluded that in spite of the reasons of equity which could have been adduced against that form of double taxation, the only arguments advanced had been based purely on expediency.

Mr. DARDON said that, in his opinion, the great merit of Mr. Prest's paper lay in the fact that he suggested alternative methods for taxing corporate enterprises; that principle should be part of the general findings of the present Conference in respect of all the topics. It was not possible to establish an over-all tax reform pattern which would be valid for all the Latin American countries, since each one had its own peculiar characteristics insofar as the historical background of its particular tax system was concerned, so that any reform would have to be firmly and harmoniously adapted to the particular economic development needs of each country. Nevertheless, the concentration of wealth, property and income in the hands of a small percentage of the population was a common occurrence. That fact pointed to the advisability of a global progressive tax on personal income and on the income of corporate and non-corporate enterprises, as well as a tax on wealth or, specifically, property.

In the case of corporations, a curious phenomenon had taken place in Guatemala, where enterprises organized as partnerships made up of two or three partners, generally with various integrated activities and domestic capital of a family type, had been turned into two or three companies for the purpose of evading tax. The original partnership, with its assets compact and subject to a progressive tax on its profits, would undoubtedly have had to pay more tax.

The same thing had happened with the organization of corporations in which all or most of the shares were in the hands of a single person. In other words, the transformation or establishment of joint stock companies had been due to motives far removed from the channelling of savings.

He therefore considered that the alternatives proposed by Mr. Prest were valuable criteria for each Government to use in accordance with the particular conditions prevailing in the country concerned.

/Mr. HARBERGER

Mr. HARBERGER said that corporate income taxation must be regarded as a global, not a partial tax, applying to one part of the income, the income received as a production factor in the form of a net return on capital. One possibility was the transferring of the tax so that the net return on capital was no less, on the same lines as with an indirect tax, and the other was the reduction of the net return by the extent of the tax. With a weakening capital market capital would not support the whole burden of the tax, and it would be transferred to the labour sector. The bearing of the whole burden by capital must be regarded as an intermediate possibility; for further explanation he referred to his article in the Journal of Political Economy for July 1962. As regards incentive to invest, the exemption of corporations might direct investment to a number of different ends, and could effect changes in the distribution of investment, but he was doubtful of the value of tax incentives as a stimulus to total investment. Savings and investment were equivalent, and the problem was how to increase savings in order to increase the volume of investment. He believed that the over-all effect of exemptions was a loss of revenue rather than an increase in total investment.

Mr. NAHARRO said that the corporate tax benefited reinvestment in that it encouraged savings in the form of undistributed profits. The same effect could perhaps be obtained through indirect procedures. The corporate tax also favoured distinctions among undistributed profits for the purpose of directing reinvestment into channels most suitable to economic development. With respect to the progressivity of the corporate tax, while it had to be graduated from the quantitative standpoint it could also be graduated in terms of the type of yield of the corporation itself. He wondered, in that connexion, whether that formula could not be used for Latin American corporations.

Mr. ABINADER, referring to Mr. Prest's comments on the income tax established in the Dominican Republic in May 1962, described the structure of the tax and mentioned the additional advantages enjoyed by corporation executives. Those advantages fully justified the tax criterion adopted. The new income tax was expected to yield an amount equal to 25 per cent of the country's budget. The revenue would fill the gap left by the indirect taxes which had been abolished, since they had contributed another 25 per cent of the public sector's income.

/Mr. JARACH,

Mr. JARACH, referring to the relationship between the corporate tax and the personal income tax, recognized that the subject was controversial and that economists and tax experts were divided in their opinions. He suggested that dividends paid to shareholders and the value of the bonus shares distributed to them should not be included in corporate income tax.

Mr. MATUS said he was in general agreement with the views expressed in Mr. Prest's paper, but would like to refer to certain omissions therein. ECLA was concerned about the problems posed by tax manipulation as a method of changing the normal behaviour of economic units with a view of bringing it into line with the behaviour stipulated in development plans; the problem had not been mentioned by the author nor by the Conference, which appeared to discuss tax problems in a manner entirely divorced from planning objectives.

In that connexion he posed two problems: (a) the possible use of taxation on foreign enterprises to mitigate in part the impact of foreign trade fluctuations, and (b) the use of taxation on corporations as a method of guiding the investment rate and structure along the lines of a development plan.

With regard to (a), it was a well-known fact that the Latin American countries were suffering the consequences of export fluctuations, although in some countries the effects tended to be the exact opposite of those felt in developed countries. In industrialized countries a decline in exports produced a depressive effect on the economy, whereas in certain countries of Latin America, the same decline had an expanding effect. The reason for that lay in the fact that export fluctuations had a fundamental effect on remittances of profits abroad, the availability of foreign exchange, and fiscal revenues because there were strong political pressures to maintain the employment of labour and, consequently, to reduce the effect on the volume of production. He believed that taxing of foreign enterprises in the countries that produced a very high percentage of total exports might be used to help to stabilize import capacity and fiscal revenue. If instead of taxing real profits a system of taxing minimum average profits were established - in the sense of the profits determined on the basis of average prices and volume of production over the past few years - the effect of fluctuations would be greatly mitigated.

When export prices declined, import capacity and fiscal revenues would decline to a much lesser degree, and when prices rose, foreign enterprises would be taxed on real profits but would not be permitted to deduct the excess tax paid previously because of the effect of the average.

He recognized that such a system might discourage foreign investments; however, it could be graduated, since the stabilizing effect depended on the number of years covered by the average values. If the system of calculating the average covered a number of years in a full cycle it would completely stabilize import capacity and fiscal revenue, thus transferring the fluctuations 100 per cent to the large foreign enterprises. Averages below the cycle, on the other hand, implied sharing the effects of fluctuations between enterprises and the public sector.

Such a system would only be useful in countries where exports were in the hands of foreign enterprises.

He went on to refer to the orientation of private enterprises by taxing their profits. Non-Latin American economists seemingly had more faith in market forces and in sound business returns as a sign of efficiency than Latin Americans, as mentioned in a previous meeting of the Conference. Mr. Kaldor's opinion was not the only exception, he did not believe there could be any doubts in that respect. The very unsatisfactory distribution of income in Latin America was more than sufficient argument for such scepticism, because it determined the structure of investments and of production. Just as in politics nobody would respect an election where a privileged few were entitled to ten votes while the rest of the population had only one, he saw no reason to respect an investment and sound business structure under which certain minorities had twenty or more votes because their incomes were twenty or more times as large as those of the majority. Moreover, it was an indisputable fact that there was a very high degree of monopoly in Latin America and distortion of price systems, etc.

Therefore, there was reason for concern not about the neutral nature of the tax, but rather about the way of using the corporate tax to penalize certain activities and promote others. A development plan might contemplate very high rates of production growth and investment in sectors with low commercial returns, and vice versa. That posed an interesting

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problem of tax manipulation. The growth of certain enterprises had to be checked and the growth of others promoted. By penalizing the reinvestment of profits in certain sectors it was possible to encourage the distribution of profits. In other cases, it was advisable to withhold profits at the expense of reserves for depreciation, without increasing total corporate savings. Therefore he would ask Mr. Prest what was the available experience in the matter, or what ideas he had for making the transfer of savings from the sectors he wished to penalize to those he wished to promote a sound proposition. Thought might perhaps be given to putting a premium on the purchase of securities issued by enterprises included in the latter group or the purchase of government development securities.

Mrs. de NAVARRETE observed that a progressive tax on corporate income had among its other advantages that of reducing the difficulties arising from the difference in the size of corporations. With respect to the incidence of the tax, it would not have a direct effect on the profits received by shareholders. She supported both her arguments by giving examples based on actual legislative and administrative experience in Mexico.

Mr. COSCIANI, referring to the total or partial substitution of the profits tax by the value added tax, as suggested during the debate, observed that the two taxes belonged to different tax groups. The value added tax, in the final analysis, taxed prices, which meant that it was levied on consumption. That might create major dislocations in the market. He therefore advised careful study before any conclusion was reached in the matter.

Mr. PIEDRABUENA observed that many Latin American corporations contributed to the economic development of their countries. In general, however, intangible property was viewed with suspicion in Latin America and an attempt should therefore be made to strengthen the structure of corporations. One way to do that was to grant them some measure of relief from double taxation and to tax them on their undistributed profits. While action to ease the tax burden of corporations might have an adverse short-term effect on economic development, it would be most

/useful to

useful to encourage small investors to contribute to that development and that could only be done by ensuring a fair return on their dividends. Moreover, an unduly high rate of taxation on the distributed profits of corporations would cause corporations to refrain from distributing such profits. The best solution in his view, and one referred to by Mr. Prest in his paper, would be to have the corporate tax take the form of a tax on undistributed profits.

Mr. URQUIDI hoped that Mr. Prest would give his views on the question of the revaluation of assets, a particularly important problem in countries with inflation problems or where the currency was devaluated.

With regard to the rate structure of corporate income taxes, he felt that a progressive tax, particularly in countries with inflation problems, would ensure elasticity in the collection of revenue.

Mr. VIDAL said that while he would like to stress the importance and thoroughness of Mr. Prest's paper he must call attention to one or two errors into which the author had fallen in referring to the income tax in Peru. The excess profits tax had not existed since 1958. Neither was corporate capital taxed in Peru, nor the dividends of corporations registered in Peru, except when they were payable to foreign firms. Furthermore, accelerated depreciation was recognized in Peru.

Apart from the above reservations, he would only add, with regard to double taxation on the corporation and the shareholder - a matter appropriately pointed out by Mr. Riofrío - that it was mitigated by two provisions, i.e. incentives for investment, whereby it was possible to deduct from the tax base up to 40 per cent of profits provided they were invested for improving production, and reduction of the tax on capitalization of earnings to one third of the maximum rate. Neither of those measures prevented a shareholder from obtaining dividends should he choose to sell the shares appreciated by investment or capitalization; and there again the profit was not taxed in Peru.

Mr. GNAZZO said that his country, Uruguay, favoured a single tax on corporate profits and had established a tax on the undistributed profits of corporations. He wondered whether Mr. Prest would express his views on the Uruguayan solution.

The meeting rose at 1.35 p.m.