



Comitê de Cooperação Econômica

**BRASIL-JAPÃO**

**Brazil Japan Double Taxation Agreement  
Renegotiation**

**Business Environment and Opportunities**

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Policy & Action



Confederação Nacional da Indústria

CNI. A FORÇA DO BRASIL INDÚSTRIA



## **Revising Brazil's Japan Double Taxation Agreement (DTA)**

- 1. Importance of DTAs**
- 2. Brazil Japan data**
- 3. Brazil's DTA policy**
- 4. Opportunity and priorities to renegotiate**



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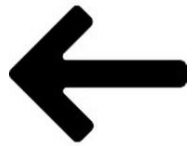
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# 1. Importance of DTA

# DTA's benefit define competence to tax



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**Competence to tax** (OECD model)



**Residence  
country**



**Profits**



**Royalties**

**Shared**



**Dividends**



**Interests**

**Source  
country**



**Establish.**



**Others**



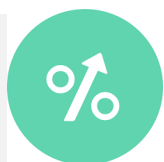
**Services**

# DTA's benefit reduction of tax burden



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Ex 1: Operation of **loan**  
from Japan to Brazil



Scenario 1 (No DTA) = **50,5%** of Tax



38%

+



12,5%

Scenario 2 (DTA) = **35,5%** of Tax



23%

+



12,5%

Ex 2: Operation of **royalties**  
from Argentina to Brazil



Scenario 1 (No DTA) = **50%** of Tax



15%

+



35%

Scenario 2 (DTA) = **35%** of Tax



15%

+



20%

# DTA's benefits



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- ✓ Increase Brazil's investment abroad competitiveness
- ✓ Avoid discrimination between local and foreign investors
- ✓ Avoid double taxation and base erosions
- ✓ Increase legal certainty
- ✓ Stimulate bilateral investments
- ✓ Reduce income tax in operations related to FDI



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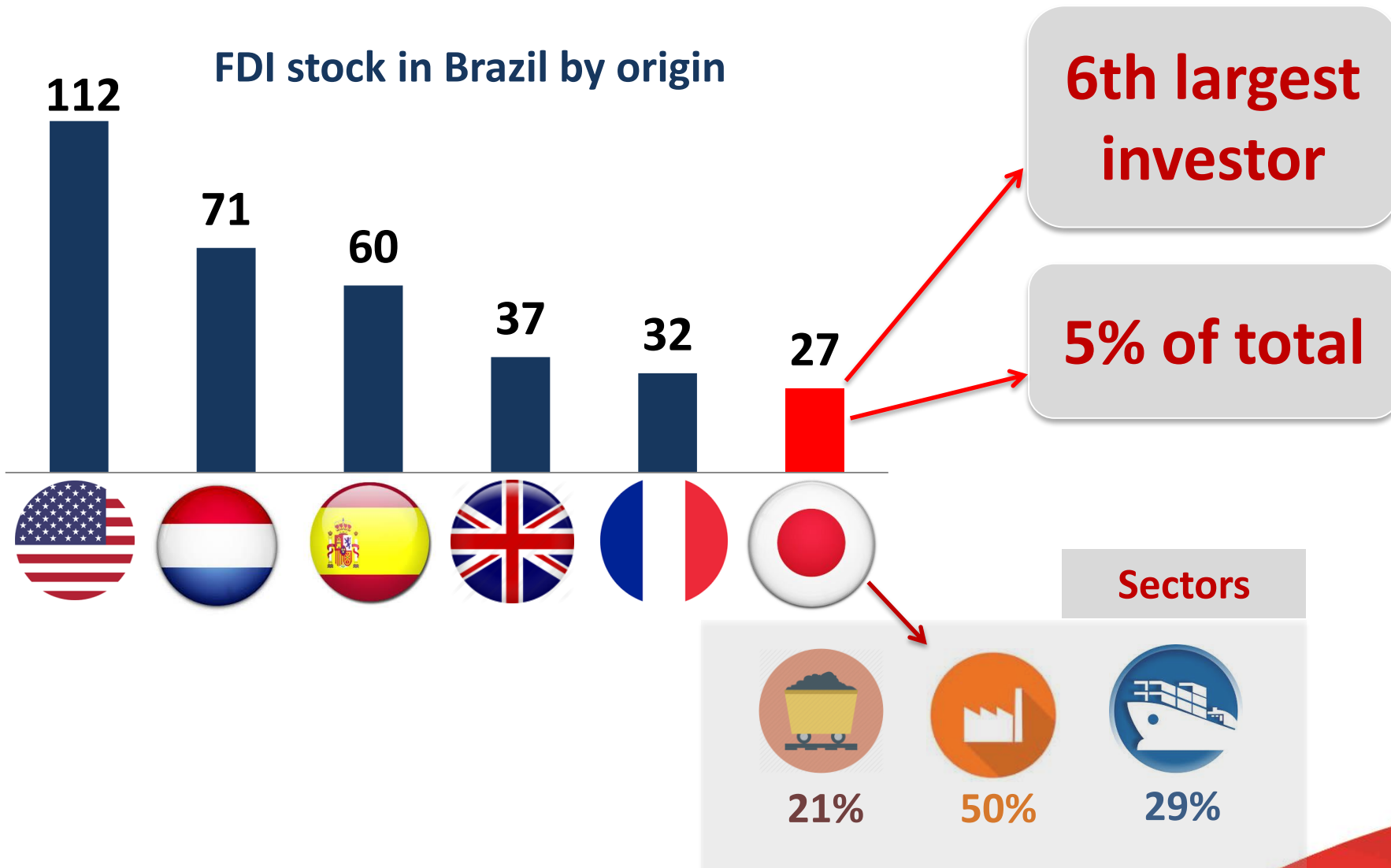
## 2. Brazil Japan FDI data

# Japan's FDI in Brazil



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FDI stock in Brazil by origin





# Revenues Brazil Japan



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## Brazil Japan bilateral revenues (US\$ billion) in 2016

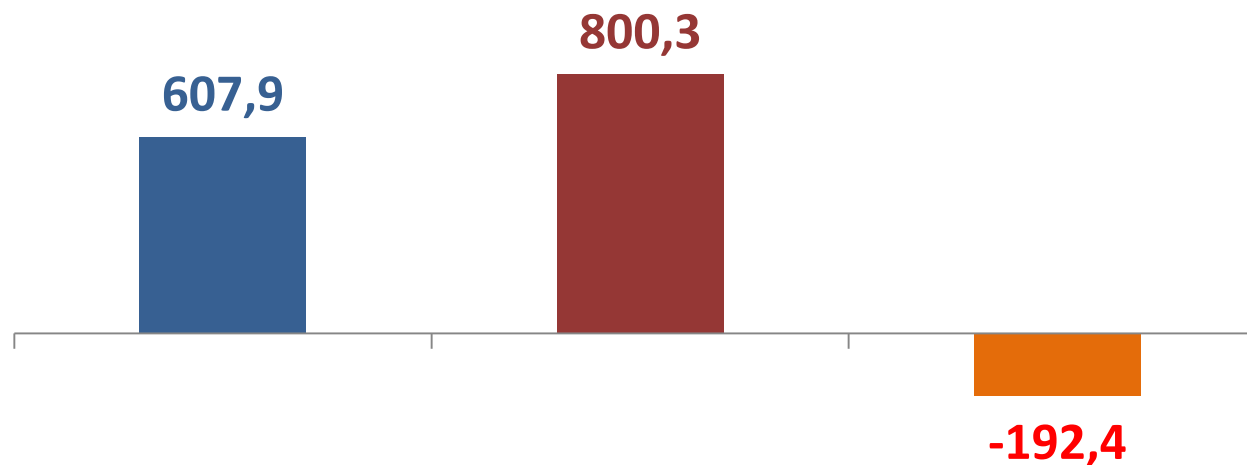


# Brazil Japan Trade in Services



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BR JP services trade flow in 2016 (US\$ million)



Exp Brazil

Imp Brazil

Balance

Business: US\$ 171



Financial: US\$ 84



IP: US\$ 330 million



Transport: US\$ 143 million



Financial: US\$ 121 million



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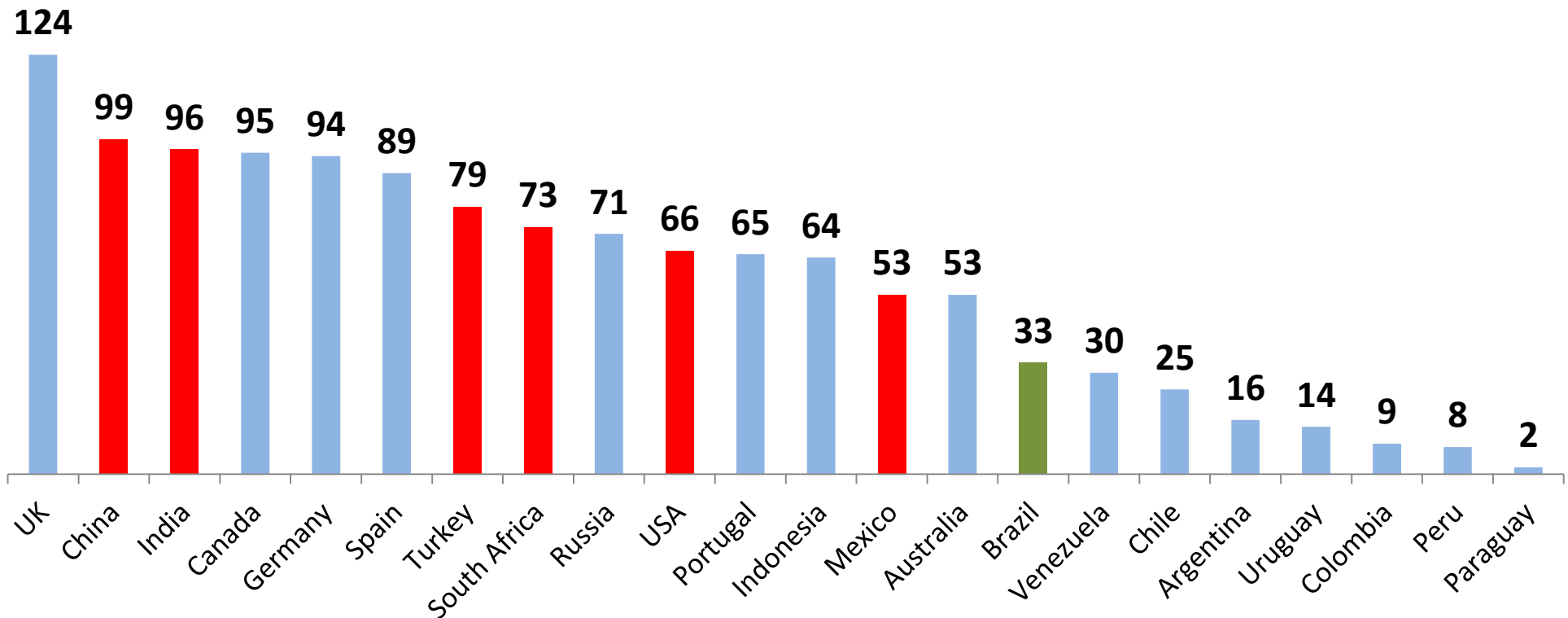
# 3. Brazil's DTA Policy

# DTAs International Comparison



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## Number of DTAs by country

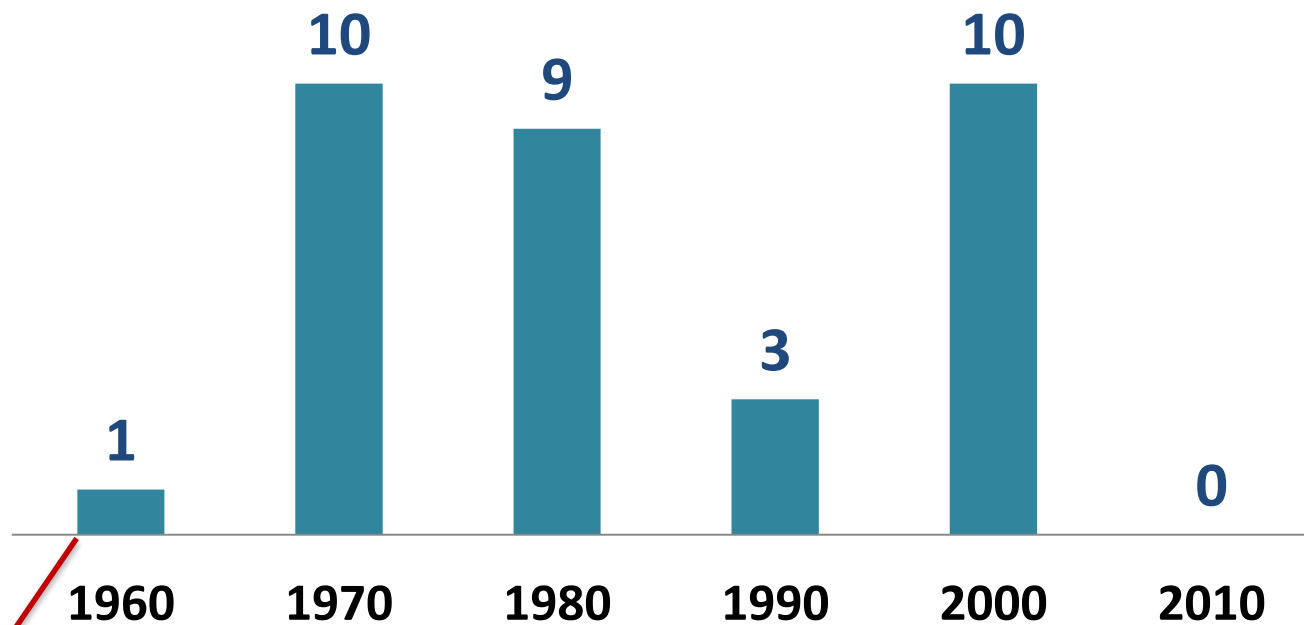


# DTAs by decade



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Number of DTAs celebrated by Brazil



**No agreements  
with USA,  
Germany, UK  
and Colombia.**



1967

# OCDE and Brazil

## How far?



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### Comparison between Brazil's and OECD DTA model

Income	Brazil	X	OCDE	Impacts	
<b>1. Dividends</b>	0% withholding (prevision DTAs)		5%-15% withholding	Less tax collection in Brazil	Low leverage in new negotiations
<b>2. Interests</b>	15% withholding (like domestically)		10% withholding	High income tax that becomes cost	Costs are transferred to Brazilian buyer
<b>3. Royalties</b>	15% withholding (like domestically)		0% withholding (only residence)	High income tax that becomes cost	Low leverage in new negotiations
<b>4. Technical services</b>	15% withholding (like domestically)		0% withholding (only residence)	High income tax that becomes cost	Low leverage in new negotiations and cost
<b>5. Matching credit</b>	15% to 30%		Condemned by OECD	Few companies use	Low leverage in new negotiations



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## **4. Opportunity and priorities to renegotiate**

# Proposal

## Main changes



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### Interests

- Tax interests operations only in residence country; or limit income tax from 12.5% to 10% (OECD);



### Royalties

- Tax royalties operations only on residence country (OECD) or limit income tax from 12.5% to 5% at source country;



### Dividends

- Tax dividends only on residence country or limit income tax from 12.5% to 5%;



### Services

- Maintain services not equivalent to royalties as it is.



### CIDE

- Include “CIDE Remessas” as a tax subject to DTAs.



# Final considerations



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- ✓ DTAs are related to competitiveness to attract and to invest abroad
- ✓ DTAs determines the competitiveness of operations that are closely related to technology and technology transfer (royalties and services)
- ✓ Brazil renegotiated its DTA with Argentina and may renegotiate with China. Brazil and Japan have a window of opportunity to modernize its DTA. Private sectors should work on that
- ✓ Brazil's accession to the OECD is also an opportunity to adequate its DTAs disciplines an Transfer Price law. Japan can support that within OECD