DO CFC REGULATIONS ACCLIMATIZE IN LATIN AMERICA?:

A CASE STUDY OF MEXICO, ARGENTINA, VENEZUELA, AND BRAZIL

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ABSTRACT

This paper investigates the impact that anti-deferral tax policy has had in four Latin American countries. It is based on empirical evidence from a case study of the domestic laws and regulations, selected interviews with local experts on the subject, and a survey of over one hundred tax practitioners from these countries. The results show that the perception about the general level of enforcement of the policy is low across the board, with high but varied levels of evasion and avoidance. However, the results also suggest that certain features of the policy implemented may improve or damage this outcome, providing clues to policymakers interested in adopting or revising this policy.

1. INTRODUCTION

Controlled Foreign Corporation (CFC) regulations are a sophisticated tax policy that plays a key, though often problematic, role in the international tax laws of most capital-exporting developed countries. Originally designed over thirty years ago by the U.S. to unilaterally prevent abusive deferral within an international trade context, globalization and the surge of tax havens have placed CFC rules on the frontlines of an international campaign designed to curb *harmful* tax competition. This campaign has effectively encouraged many developing countries to adopt these rules.

Policymakers in developing countries, upon enacting their domestic CFC regulations, had as a reference the legislation of developed countries with CFC rules, as well as literature and studies on the effect that those rules had within such countries. However, hardly any of these materials focus on the issues at stake from the perspective of a capital-importing developing country. In fact, most of the literature implicitly assumes, to varying degrees, a dichotomy where undeveloped tax havens face high-tax developed jurisdictions, as if there were no high-tax developing countries.