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Convention to Standardize Tax Treatment in the Pacific Alliance

In a press release issued by the Ministry of Finance and Public Credit, the Framework Agreement of the Pacific Alliance was announced on July 5 of this year. The agreement stated that the "Convention to Standardize Tax Treatment provided for in the Agreements to Avoid Double Taxation" (the "Convention") would come into effect starting on July 2, 2023.

According to the press release, the provisions of the Convention will apply from January 1, 2024. This implies that the involved parties will have a specified period to prepare and adapt to the changes and requirements arising from this initiative, allowing for an orderly and effective transition to the new fiscal framework.

This aligns with the principles and objectives established in the Framework Agreement of the Pacific Alliance, dated June 6, 2012. The agreement was subsequently signed on October 14, 2017, during the Convention held in Washington D.C. by Chile, Colombia, Mexico, and Peru. It was not until June 22, 2018, that the "Decree approving the Convention to Standardize Tax Treatment" was published in the Official Gazette of the Federation.

The Convention makes modifications to the bilateral agreements to avoid double taxation between the member states of the Pacific Alliance. The main objective is to grant pension funds resident status, enabling them to receive the tax benefits provided for in these agreements. Similarly, it is established that recognized pension funds will be considered as beneficial owners of the income they receive.

On the other hand, the Convention limits the tax levied in the source country on income derived from interests, setting a maximum rate of 10%. However, it is important to clarify that if the Bilateral Agreement already establishes a lower rate, that lower rate will prevail and be applied instead of the maximum limit of 10%.

The Convention also specifies that the definition of interest includes not only the income generated by interests themselves but also the gains obtained from the sale of debt securities issued by a resident of a state that is part of the Convention. In other words, gains from the sale of such securities, as long as the issuer is a resident of one of the member states of the Convention, are considered within the interest category. This broadens the scope of the tax treatment concerning interest income, encompassing both interest generated and gains from the sale of certain debt securities.

Furthermore, the Convention establishes a standardized and more favorable tax treatment for capital gains resulting from the sale of shares on the stock exchanges of the Integrated Latin American Market (MILA). The intention is to encourage institutional investors' participation in the capital markets of the Pacific Alliance member countries.

The central purpose of this Agreement is to enhance cooperation, growth, and economic integration among the member countries. This will translate into benefits for pension fund affiliates, as they will gain access to more investment opportunities and improved profitability options.

Additionally, it aims to strengthen and consolidate the relevance of the Pacific Alliance and MILA, with the goal of promoting economic development and competitiveness in the region.

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