

## Tax Alert

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*Tax information*



### VAT on digital economy initiative launched by Guatemala Tax Authority and the Inter-American Center of Tax Administrations –CIAT-

On June 24th, 2021 The Inter-American Center of Tax Administrations –CIAT- and Guatemala Superintendence for Tax Administration –SAT- offered a joint press conference presenting CIAT initiative on Digital Economy and Indirect Taxes.

CIAT referred to the fact that with very few exceptions, Latin America countries are not collecting Value Added Tax –VAT- on Digital Economy / Electronically Supplied Services implying, in their view, unfair competition in respect to locally supplied services and erosion of VAT basis for the respective countries. This presentation was based on the “VAT Digital Toolkit for Latin America and the Caribbean” document prepared and published by CIAT, IDB, OECD and World Bank Group. CIAT recognized that local tax authorities and law makers, when changes in law are required, are the ones to decide their action plan to expand indirect tax base on digital economy: do nothing, implement VAT withholding mechanism through credit card, debit card and other payment facilities, reverse charge mechanism not effective for business to customer -B2C- and / or registration of nonresident suppliers as VAT agents.

With the voluntary registration of nonresident suppliers as VAT agents as the recommended initial way to go for the local tax authorities, the main topic in the press conference was the presentation of the Digital Economy Compliance System –DEC System-, which is a software platform developed with the financial support of Norwegian Agency for Development Cooperation –NORAD- and made available to Latin America countries tax authorities, especially those with limited financial resources, enabling them for the implementation of the indirect taxation (VAT) on activities carried out within digital economy with no physical presence in those countries.

CIAT base their recommendations on destination principle having the country where the consumer / user is located to impose VAT and made reference to streaming service providers, cloud services providers, software as a service providers, digital goods and services providers, services provided out from digital platforms, and online advertising among others as the targeted VAT agents obligated to collect and remit VAT of the country where customers are located. The DEC System allows local tax authority to interact with nonresident suppliers along their registration as VAT agents and their local VAT compliance.

On its part, Guatemala SAT indicated to be of the criteria that no change in law is required to impose Guatemala VAT on digital services and

digital goods provided from abroad to local customers and consequently informed that the voluntary registration and compliance of the nonresident suppliers is to be launched upfront facilitated by the DEC System as made available by CIAT. SAT also indicated to be of the criteria that a change in law is needed to put a VAT withholding mechanism in place and that the Ministry of Finance is commencing the preparation of a proposed bill to be submitted to Congress. The withholding mechanism is being viewed as a backup plan in case the voluntary registration and compliance turn out not being effective. SAT also indicated that this VAT voluntary compliance is to be applied prospectively and no objections, assessments, or sanctions are planned for past digital economy activities.

Other Latin America jurisdictions following CIAT initiatives could end up implementing DEC System and the voluntary compliance phase shortly.

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