

OUTGOING TELEGRAM Department of State

FN 16 BRAZ-JAPAN
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RIO 7914 FN 16 Brazil

- Recent signature Brazilian-Japanese tax treaty, impending change Brazil Administration, importance of securing early acceptance of the principle of investment credit by US Senate make it highly desirable for Embassy proceed toward signature tax treaty as soon as possible. ~~PERSONNEL CHANGES AND REASSIGNMENTS~~
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- Brazilian tendency postpone final decision until receipt data on royalties should be resisted by Embassy in view difficulty develop data on royalties comparable to data on interest. Letter Surrey to Tuthill dated February 3 states "possibility exists information will not be forthcoming or will be inadequate". Embassy should press for agreement on basis of interest data supplied in reftel since information on royalties cannot be isolated from tax returns because they are aggregated with other income and expenditures.
- Embassy may also point out to Brazilian authorities that they have signed tax treaty with Japan containing terms on investment income much more favorable to Japan than those in the draft treaty with the US. The Brazilian withholding tax in the Japanese treaty is limited to 10 percent on dividends, interest and royalties, but in the US draft the limits are 20, 15 and 15 percent

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Clearances: ARA/BR:Jack B. Kubisch, (in draft)

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respectively. In view of the limitation on Brazil tax in the Japanese treaty, Brazilians ought to agree promptly to the proposed 15 percent royalty rate in US agreement. It is extremely doubtful that the Japanese have been able to produce data to support the 10 percent rate, and if they have, then the data should suffice for the US rate of 15 percent.

4. The Brazilians might respond by saying that the Japanese grant a "tax sparing credit" to their investors in Brazil (it is not known here whether that is so), to which it might be replied that under the US-Brazilian draft an investment credit is given US investors in Brazil which may be more effective in promoting private investment in Brazil. In any event, if the Brazilians value tax-sparing credit more than investment credit, this is already reflected in the rate differentials between the Japanese and the US treaties, as indicated above. There is no justification for a greater differential. We would be hard pressed in the Senate to explain Brazilian treatment much less favorable to US than to Japanese investors. ~~XXXX~~ GP- 3

End

~~XXXX Unless Embassy perceives objection or XXXX believes US would have to exert considerable pressures to do so, Ambassador T. Hill hopes to sign treaty with present US soon after his return to Rio February 20. In this connection, XXXX does not foresee any problems with new Finance Minister or with Brazil tax Congressional ratification of signature takes place by XXXX March 15, 1963.~~

End

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