

The Language of Taxation

Session 4

Silvana Debonis (asilvanadebonis@gmail.com)

In the case of dividends, interest and royalties paid to nonresidents, domestic law usually provides for flat-rate (a)_____ withholding tax on the gross amount if they are (b)_____ in the country and not attributable to a permanent establishment. The withholding rate is typically set at 20-30 percent in developing and transition countries and then is often reduced to 10-20 percent in tax treaties. The rates are set at this level in domestic law to leave (c) _____ in the tax treaty process. In tax treaty negotiations, developing and transition countries will come under considerable pressure (d)_____ to reduce withholding tax rates on interest and royalties to zero. The argument is that the (e) _____ often wipes out the entire profit, with the result that the price charged to the resident or permanent establishment in the country is increased (i.e. the tax is (f) _____ the payer) with adverse consequences for the import of capital and technology.

While (g) _____ for withholding tax purposes undoubtedly occurs and is (h)_____ developing and transition countries, reduction of tax rates to zero or near zero (i) _____ produces problems and the appropriate course to take is matter of judgment.

1. **negotiating room**
2. **is detrimental to**
3. **final –**
4. **gross tax –**
5. **likewise –**
6. **sourced in –**
7. **gross up –**
8. **from industrial countries –**
9. **is passed back to**

How do final tax withholdings work in Argentina? Use the following words to help you explain it.

INTEREST

DIVIDENDS

ROYALTIES

MANAGEMENT OR OTHER FEES

PAYER

FINAL TAX
WITHHOLDING

FOREIGN RECIPIENT

DTC
REDUCTIONS?

WITHHOLDING
RATE

GROSSING
UPS?

NOTIONAL
AMOUNTS OR
ACTUAL
AMOUNTS?

Differences between TDS and TCS

	TDS	TCS
	The idea of TDS was introduced to collect tax from the very source of income. According to this idea, a person (deductor) who is required to make a payment of a specific nature to another person (deductee) must withhold tax at source and remit it into the Central Government's account.	<u>A seller of certain goods may collect tax from the buyer in addition to the sale price and remit it to the government on their behalf through Tax Collection at Source (TCS).</u>
	Interest, Wages, Brokerage, Professional Fees, Commissions, Purchases of Goods, Rent, and other items are all subject to TDS.	Timber, Scrap Metal, Minerals, Alcoholic Beverages, Tendu Leaves, Forested Goods, Automobiles, and Toll Tickets are all subject to TCS.
	When a payer (deductor) makes a defined payment to another person (deductee), the tax is deducted at the source and returned to the Central Government. Additionally, TDS exemption can be obtained by submitting Form 26AS (TDS certificate).	The seller is only required to collect TCS from the buyer and remit it to the Central Government.
	TDS is levied on purchases of goods that exceed ₹50 lakhs, according to Section 194Q.	TCS is levied on the sale of goods if the amount exceeds ₹50 lakhs, according to Section 206C (1H).
	TDS is taken out whenever a payment is made, regardless of when it becomes due.	On the other hand, TCS is collected at the time of sale by the seller.

- Tax deduction or collection period
- Coverage
- Threshold
- Responsibility for tax collection or deduction
- Purpose

Now it is your turn....

1- What is the difference between tax withholdings and tax collections at source in income tax?

Use the table for India as a guide to explain the differences in Argentina.

2- How are withholding agents and collection at source agents chosen?

3- How are they penalized for failing to withhold/collect or failing to send the money off to the Revenue Authority?