

Chile; Colombia; Mexico; Peru

Pacific Alliance Convention – Details

7 August 2023

Report from our correspondent Maria Bocachica

The [Chile - Colombia - Mexico - Peru Pacific Alliance Convention \(2017\)](#) (the convention) entered into force on 2 July 2023 and is applicable from 1 January 2024. The convention was signed in the Spanish language. The relevant details of the convention are as follows:

- the convention modifies the bilateral tax treaties, including their protocols, signed by the member countries of the Pacific Alliance, in order to recognize pension funds as residents of a contracting state and allow them to apply the tax treaty benefits provided for interest and capital gains;
- the tax treaties covered by the convention are:
 - [Chile - Colombia Income and Capital Tax Treaty \(2007\)](#);
 - [Chile - Mexico Income and Capital Tax Treaty \(1998\)](#);
 - [Chile - Peru Income and Capital Tax Treaty \(2001\)](#);
 - [Colombia - Mexico Income and Capital Tax Treaty \(2009\)](#); and
 - [Mexico - Peru Income Tax Treaty \(2011\)](#);
- the convention grants a more favourable tax treatment to interest obtained by recognised pension funds as they may be taxed in the source country (the contracting state where the interest arises) up to 10% of the gross amount of the interest. In addition, if the interest is subject to a tax of less than 10% or is exempt from tax in the source country under a covered tax treaty considering the legal nature of the debtor, the tax treatment shall be that established in article 11 of the covered tax treaties (i.e. [Chile - Colombia Income and Capital Tax Treaty \(2007\)](#), [Mexico - Peru Income Tax Treaty \(2011\)](#), [Colombia - Mexico Income and Capital Tax Treaty \(2009\)](#), and in the [Colombia - Peru Protocol](#) as introduced by the convention);
- the term "interest" includes income derived from the alienation of debt instruments;
- in the case of covered tax treaties that include the application of a most favoured nation (MFN) clause with respect to interest, such clause will continue to be applicable, as provided by the relevant tax treaties (i.e. [Mexico - Peru Income Tax Treaty \(2011\)](#) and [Chile - Mexico Income and Capital Tax Treaty \(1998\)](#));
- the convention also grants a more favourable tax treatment to capital gains obtained by recognised pension funds from the alienation of shares through the stock exchange that is part of the Latin American Integrated Market (MILA), as they are taxable only in the contracting state where the pension fund has been recognised; and
- considering that Colombia and Peru do not have a bilateral tax treaty in force, the protocol to the convention introduces a series of tax provisions regarding taxes covered, definitions, interpretation rules, residence, interest, capital gains, beneficial owner, elimination of double taxation, and mutual agreement procedure.

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