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Peru

Grain and Feed

Corn taxes

2003

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Report Highlights:

Peru drops the 19 percent value added tax for both imported and locally produced corn

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Lima [PE1]
[PE]

On November 7, the Peruvian government announced they will immediately drop the 19 percent value added tax (VAT) for both imported and locally produced corn. This measure will cost the government around \$22 million in annual tariff revenues. It is aimed at reducing informal corn production and encouraging livestock producers, especially poultry, to purchase local corn.

Though this tax reduction seems to benefit corn imports, in reality it is discouraging it. Most domestic corn producers in Peru operate in the informal economy. That is, do not pay taxes, including the VAT, and they do not issue receipts to purchasers. On the other hand, companies that import corn, mainly poultry producers, operate in the formal economy and do pay taxes, including VAT.

While the domestic corn producers were not paying VAT, they were still selling their corn at the same price as imported corn. Since payments of VAT is tax deductible imported corn was more appealing, companies paying the same price as domestic corn could deduct the VAT from their taxes. By eliminating the VAT, the government is eliminating an advantage imported corn had.

Peru produces has around 291,000 Hectares of corn with a production of about 900,000 MT. Corn imports in 2002 were 820,000 MT, mainly from Argentina.

Peruvian producers are requesting the GOP to raise import tariffs for imported corn. In a recent meeting with a senior advisor to the president, Post learned that the government will not raise or lower import duties for corn. This measure was a "creative" alternative to satisfy producers.