



Doing Business in Latin America 2024 - 2025

Investment Guide

October 2024



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with confidence

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Welcome to our “Doing Business in Latin America” investment guide. This guide has been created in partnership with EY offices across various countries, aiming to deliver crucial information to investors interested in exploring opportunities in the region. We hope this guide will support them in making better, and more informed decisions.

Latin America boasts several dynamic emerging economies, a predominantly young and skilled labor force along with a rapidly expanding middle class. The region’s appeal for business investors is further enhanced by its abundant natural resources, dominant industries, diversified services, and an emphasis on renewable energy, among other elements.

Furthermore, numerous Latin American countries are renowned for their global openness and efforts to stimulate international trade and investments. Multiple trade agreements facilitate the entry and expansion of foreign companies into these markets. A favorable geographical location positions this region as an advantageous link between Asian, European, and North American markets, at a safe distance from the primary geopolitical conflicts of today.

Although recent years have presented global challenges, we have borne witness to the resilience of these economies. Leveraging their potential and deploying fiscal strategies have enabled them to contain inflation and return to more sustainable growth.



At EY, our purpose is building a better working world. To this end, we've harnessed our global resources and the expertise of our local offices across the continent to encourage economic growth and social development in the region. Simultaneously, we aspire to assist our clients in seizing the opportunities the region offers and ensuring their Latin American investment experience is a success.

This guide is divided into two sections. The first provides an overall view of the Latin American economy, while the second delves into eleven of its most significant markets, encompassing an extensive analysis of their main economic indicators, regulatory regimes, tax considerations, labor factors, and financial information requirements for companies wishing to establish or expand their operations.

We are delighted to share this invaluable document with you, and trust that it will assist in your investment decisions. Our dedicated team of over 24,000 professionals in the region stands ready to help you discover the vast investment opportunities that Latin America offers.

We eagerly await the opportunity to meet you.

Manuel Solano

Regional Managing
Partner, EY Latin
America





An overview of Latin America



Overview

Latin America is a diverse and dynamic region that offers significant potential for growth and profitability, with an abundance of natural resources ranging from minerals to agricultural products.

Some countries also boast a strong manufacturing industry, positioning itself as an excellent alternative for nearshoring, thanks to its geographical positioning and educated workforce.

With over 600 million people, mostly young, and a growing middle class, it presents a skilled workforce and a massive and growing internal market for various products and services.

The region has great appeal, including opportunities for a low-carbon economy, given that a significant portion of the minerals necessary for the energy transition are concentrated in its territories.



Population¹

664,155,299 representing 8.3% of the world's population

Urban²: 81.9%

Rural: 18.1% (2023)



Extension³

20,523,017 km² representing 14.6% of the world's surface area



Main languages⁴

The main languages are Spanish and Portuguese, although some countries also speak English and French. There are several indigenous languages spoken in different regions, such as aymara, quechua, nahuatl and guarani.



Systems of governments⁴

Mostly democratic and presidential republics



Climates

Latin America boasts a diverse range of climates due to its expansive size, elevation changes, and differing coastlines. The tropical region, which includes the Amazon Basin and the Caribbean, generally experiences high temperatures and significant rainfall year-round. The subtropical zone, such as central parts of Argentina and Paraguay, has a warmer climate with wet summers and dry winters. Meanwhile, the western side, characterized by the Andes mountain range, has cooler temperatures with varying precipitation levels depending on the altitude. The southernmost parts of the continent, including Patagonia, are known for their colder climates, comparable to a tundra, with strong winds and harsh winters. Coastal regions often enjoy milder climates thanks to the effect of the ocean. Therefore, the climate in Latin America widely varies from tropical and subtropical to alpine and desert.





Time Zones

There are different time zones in the region, ranging from GMT-2 to GMT-8



GDP current prices⁵

USD \$6,564.4 Bn. (2023) representing 6.3% of the world's GDP



GDP per capita (PPP)⁵

USD \$20,920.5 (2023)



Currency

More than 30 currencies. Some of the most important are: Argentine peso (Argentina), Bolivianos (Bolivia), Brazilian Real (Brazil), Chilean peso (Chile), Colombian Peso (Colombia), US Dollar (Ecuador), Mexican Peso (México), Guaraní (Paraguay), Peruvian Nuevo Sol (Perú), Uruguayan Peso (Uruguay), Bolívar (Venezuela)



Key sectors

Latin America's key sectors are diverse, representing the wide range of economic activities in the region. Firstly, the agribusiness sector is significant, as many countries have abundant fertile land and suitable climates for crops like soybeans, coffee, fruits and vegetables, fishing and meat.

The region's mineral wealth also supports a strong mining and extraction sector, characterized by commodities like copper, lithium, gold, and oil. Manufacturing is another essential sector, with industries such as automotive, food processing, and textile.

Services, particularly tourism, is a crucial sector, given the region's rich cultural heritage and natural attractions. In the past few years, the technological sector has seen substantial growth, driven by increasing digitalization and a growing tech-savvy population. Financial services, telecommunications, and consumer goods are other significant sectors in Latin America.

Why invest in Latin America?

The region has abundant natural resources, including minerals, agricultural lands and oil.

It has multiple trade agreements within the region and with various world economic powers and several free trade zones, which facilitate international business opportunities.

Latin America possesses a large, young and increasingly skilled workforce, offering a rich source for talent, labor, and a growing internal market.

Latin America has a strategically advantageous geo-positioning for international trade and for nearshoring.

Many Latin American countries have implemented pro-business reforms and policies aimed at encouraging foreign investment.

Latin America has been experiencing steady economic growth. The middle class is growing rapidly, potentially creating new opportunities for companies and investors.

Latin America and the Caribbean are strategically positioned to lead the low-carbon economy due to its key resources and the regions international commitment to energy transition.

Latin America is one of the most biologically diverse regions on the planet. It is home to 40% of the world's biodiversity and has 12% of the total arable land ⁶.

1. World Economic Outlook (October 2024), IMF - Population

2. Urban population (% of total) - Latin America and the Caribbean (2023), World Bank

3. Extension (square kilometers) - Latin America and the Caribbean (2021), World Bank

4. Main languages Latin America and the Caribbean, system of government and weather, DatosMundial.com

5. World Economic Outlook, October 2024, IMF

6. Banco de Desarrollo de America Latina y el Caribe, CAF



General context

Latin America is a diverse and dynamic region that offers significant potential for growth and profitability, with an abundance of natural resources ranging from minerals to agricultural products, and a mostly younger population. Some countries also have strong manufacturing industries that are attractive for foreign investors.

With over 600 million people and a growing middle class, the area has a highly-trained labor force and an increasingly massive internal market for a variety of products and services.

The region boasts a number of significant attractions, including opportunities for a low-carbon economy,

thanks to the concentration in its territories of a substantial portion of the minerals necessary for the energy transition, such as lithium, nickel, copper, graphite, etc. Additionally, several countries have fairly green energy matrices, and 15 of them have committed through the Renewables in Latin America and the Caribbean (RELAC) initiative to achieve a share of at least 70% renewable energy in the regional electricity grid by 2030.

Latin America’s geography is strategically positioned for international exchanges, situated between North America, Europe, and Asia, and benefiting from its good trade relations with other regions, numerous free trade zones, and multiple bilateral treaties.

In fact, many Latin American countries have made significant economic reforms to open up to foreign investment and promote economic growth. Moreover, they offer tax incentives and other benefits to attract foreign investment.

Economic outlook

Latin America and the Caribbean

	2022	2023	2024 Projections	2025 Projections
GDP Growth (% change) ¹	4.2	2.2	2.1	2.5
Consumer Prices (Annual percent change) ¹	14.9	17.2	13.2	6.9
Current Account Balance (Percent of GDP, Annual percent change) ¹	-2.2	-1.1	-0.9	-1.1
Real per Capita Output (Annual percentage change; in constant 2017 international dollars at purchasing power parity) ¹	3.5	1.5	1.2	1.8
Market Exchange Rate Weights (% change) ²	3.9	2.2	1.9	2.4

1. World Economic Outlook, October 2024, IMF
2. World Economic Outlook, January 2024, IMF

After a post-pandemic recovery, economic growth in Latin America has been slowing down, due to stricter monetary policies to control inflation and a weaker international scenario. This is in addition to the increasing geopolitical tensions and the high interest rates in developed countries, which make financing more expensive for emerging economies.

The region saw a rapid response from its central banks to the increase in prices resulting from the imbalances of the health crisis. These measures have managed to control inflation, which has trended downwards

in most of the countries. Many central banks have started to lower their interest rates. However, as the year progresses, inflation has rebounded in some areas, leading to a pause in the reduction of rates in certain cases.

In its October 2024 World Economic Outlook Update, the International Monetary Fund (IMF) projects 2.1% growth in Latin America and the Caribbean during 2024, down from 2.2% in 2023. However, it is expected to return to 2.5% in 2025.

Summary of the main economic indicators

Country	GDP current prices USD Bn. (2023) ¹	GDP growth, constant prices % change (2023) ¹	Gross domestic product per capita, current prices (PPP), international dollars (2023) ¹	Inflation, year- end consumer prices % change (2023) ¹
Argentina	645.5	-1.6	29,335.9	211.4
Bolivia	45.5	3.1	11,028.1	2.1
Brazil	2,173.7	2.9	21,052.0	4.6
Chile	335.6	0.2	32,204.2	3.9
Colombia	363.6	0.6	20,787.6	9.3
Ecuador	118.8	2.4	16,192.9	1.4
Mexico	1,788.8	3.2	24,248.7	4.7
Paraguay	43.0	4.7	15,869.1	3.7
Peru	266.9	-0.6	17,024.7	3.2
Uruguay	77.2	0.4	32,704.0	5.1
Venezuela	99.2	4.0	7,943.3	190.0
Central America	482.2	4.1	17,527.3	2.7
The Caribbean	124.4	7.5	11,239.2	8.9
Latin America and the Caribbean	6,564.4	2.2	20,920.5	17.2

1. World Economic Outlook, October 2024, IMF

Annual gross domestic product (GDP) by economic activity at current prices in dollars² (2022)



2. Latin America and the Caribbean: projected variation of trade in goods in price, November 2023, Repositorio Cepal

Latin America's economy is well diversified. The public sector, retail, financial services, and manufacturing industries play leading roles, each contributing a comparable share to the region's GDP. This balanced structure supports economic stability and resilience.

Following these primary sectors are other key industries such as agriculture, mining, and various service-oriented activities, which also make substantial contributions and highlight the region's diverse economic landscape. This variety provides Latin America with robust opportunities for sustainable growth and development across multiple fronts.

International trade of goods 2023 - Value and annual value growth (in current USD billion)¹

Country	Exports		Imports	
	Value	Growth	Value	Growth
Argentina	69.5	-22	71.1	-7%
Bolivia	11.2	-17	10.5	-12%
Brazil	350.4	3	265.9	-10%
Chile	96	-3	80.7	-15%
Colombia	51.7	-14	57.5	-20%
Ecuador	31.3	-6	27.6	-9%
Mexico	587.2	2	601.9	-1%
Paraguay	15.6	21	14.7	1%
Peru	58	-12	47.1	-16%
Uruguay	13.7	-20	13	-5%
Venezuela	15	-24%	11.6	6%
Central America	60.5	2	103.7	-3%
The Caribbean	50.7	-6	61.5	-10%
Latin America & The Carib.	1,410.60	-2	1,366.90	-6%

1. Latin America and the Caribbean: projected variation of trade in goods in price,,November 2023, Repositorio Cepal

In terms of trade, the region has seen a decline consistent with global trends.

According to the 2023 International Trade Outlook for Latin America and the Caribbean by ECLAC, the deceleration reflects the lower global growth in 2023, influenced by contractionary monetary policies at the international level, the real estate crisis in China, and the links between trade and geopolitics.

The commission expects global trade to recover a bit of its dynamism in 2024, driving regional growth.

In fact, the first three months of 2024 have seen a rebound to 1.3% (YoY) in the region's trade, according to the "Trade Trend Estimates, Latin America and the Caribbean, 2024 Edition" report by the Inter-American Development Bank, which notes an improvement in the outlook compared to last year.

Foreign direct investment, net inflows (current USD billions)^{1, 2}

Country	2017	2018	2019	2020	2021	2022	2023
Argentina	11,517	11,717	6,649	4,884	6,658	15,201	23,866
Bolivia	712	302	(217)	(1,129)	584	6	294
Brazil	68,885	78,184	69,174	38,270	46,441	74,606	64,227
Chile	5,237	7,943	13,579	11,447	15,177	18,237	21,738
Colombia	13,701	11,299	13,989	7,459	9,561	17,183	17,147
Ecuador	631	1,389	979	1,095	649	880	380
Mexico	33,114	37,857	29,946	31,524	35,405	39,108	30,196
Paraguay	587	227	409	198	306	672	241
Peru	7,413	5,873	4,775	663	7,142	11,201	3,918
Uruguay	2,687	1,727	1,470	528	3,448	8,526	(436)
Venezuela	(317)	844	(1,367)	1,504	964	1,651	688
Central America	10,897	12,526	10,233	1,556	10,813	10,396	11,642
The Caribbean	6,445	5,979	7,264	7,569	9,149	9,946	11,090
Latin America & The Carib.	203,072	209,513	196,975	151,609	183,044	238,594	255,018

1. Latin America and the Caribbean: projected variation of trade in goods in price, volume and value, 2023 (Percentages); Figures available as of November 2023, Repositorio Cepal

2. Foreign Direct Investment in Latin America and the Caribbean (cepal.org) p. 28 (Central America; The Caribbean)

After the post-pandemic recovery, Latin America and the Caribbean saw a record year in terms of the influx of foreign funds in. In 2023, the trend in Foreign Direct Investment (FDI) remained positive showing steady growth.

However, this growing trend does not seem to have been sustained in 2023, estimating that foreign investment in the region remained stable, according to the 46th World Investment Trends Monitor by the United Nations Conference on Trade and Development (UNCTAD).



Latin American debt rating - As of July 2024¹

Country	Moody's	S&P	Fitch
Chile	A2	A	A-
Uruguay	Baa1	BBB+	BBB-
Peru	Baa1	BBB-	BBB
Mexico	Baa2	BBB	BBB-
Colombia	Baa2	BB+	BB+
Paraguay	Ba1	BB+	BB+
Brazil	Ba2	BB	BB-
Ecuador	Caa3	B-	B-
Venezuela	C	B-	WD
Bolivia	Caa3	CCC+	B-
Argentina	Ca	CCC	C

1. Latin American debt rating - As of July 2024 | Datosmacro.com

The average credit rating in Latin America has recovered pre-pandemic levels, and in general, expectations have remained stable for the long-term ratings of most sovereign governments.

2024 Index of Economic Freedom²

Position	Country	Score
21	Chile	71.4
27	Uruguay	69.8
49	Peru	64.8
68	Mexico	62
80	Paraguay	60.1
84	Colombia	59.2
115	Ecuador	55
124	Brazil	53.2
145	Argentina	49.9
165	Bolivia	43.5
174	Venezuela	28.1

2. Index of Economic Freedom | The Heritage Foundation

World Competitiveness Ranking 2024 Overall Results (International Institute for Management Development)³

Ranking - 2024	Score - 2024	Country	Ranking 2023	Var.
44	59.7	Chile	44	=
56	49.9	Mexico	56	=
57	47.4	Colombia	58	+1
62	43.8	Brazil	60	-2
63	43.4	Peru	55	-8
66	35.9	Argentina	63	-3
67	28.9	Venezuela	64	-3

3. World Competitiveness Ranking 2024 Overall Results, IMD 2024

During recent decades, the countries of Latin America have waged to improve their international competitiveness indexes, despite the fact that the last few years have been highly challenging for the region.

Latin America is positioned as an extremely attractive emerging market thanks to its diversity of natural resources, many of which are key to the energy transition, a younger, highly-trained, and ambitious population, its strategic location, and the growing commitment of many countries to promote a favorable business scenario for foreign investment.



Information by country



Argentina

Message from EY Argentina's Country Managing Partner

Argentina has opened a new chapter and is experiencing a great transformation in the right direction.

The new recently elected administration is pushing an agenda towards increased free market, free international commerce, free capital flow, and a significant role of international and domestic private capital and entrepreneurship. Pro-capitalism measures and strong deregulation are at the core of this agenda.

Relevant investors are already showing concrete interest in Argentina's new chapter, and unlocking value seems to be a key shift in the business landscape as new opportunities are developed and beginning to emerge across several diverse sectors and industries.

This new chapter has gathered strong social support despite the efforts it entails, showing a society that understands the immense potential waiting to be awakened.

The new administration has shown determination when driving its reforms, helping change the overall state of mind, and bringing about an aura of hope to what is happening.

They have faith in the economy, and it is changing for the better.

I invite you to explore the information in this guide, and I look forward to discussing with our teams the new opportunities our country is offering to the world.

Now is the best time.

Kind regards,

Fernando Paci

Country Managing
Partner
EY Argentina





Overview

Argentina stretches from the Andes Mountains to the plains of the Pampas and the Atlantic coast. Buenos Aires is the capital and main city, followed by Córdoba, known for its history and universities, and Rosario, a key industrial center. The population, with strong European influence, celebrates tango, soccer, food and drink (barbecues and yerba mate), and festivals such as Carnival and the Grape Harvest. The country has abundant natural resources, including fertile agricultural land, minerals, and energy, driving the key sectors of agriculture (soybeans, corn, wheat, meat), automotives, food, mining (copper, lithium), and energy (hydrocarbons, renewables). Despite economic challenges like inflation and devaluation, Argentina is seeking innovation and economic diversification, participating in trade agreements to drive sustainable growth.



Population¹ 46,654,581

Urban²: 92.5%

Rural: 7.5% (2023)



Main language³

Spanish



Extension⁴

2,780,400 km²



System of government³

Presidential Republic

President: Javier Milei

Next elections: 2027





Climate³

The north has hot and humid summers; the central Pampa, a temperate climate; the Andes, a cool mountain climate and snowfall; while the southern Patagonia has a subpolar climate¹¹



International Time⁵

GMT-3 (All of Argentina)



GDP current prices⁶

USD \$654.9 Bn. (2023)



GDP per capita (PPP)⁷

USD \$26,765.7 (2023)



Currency⁸

Argentine Peso

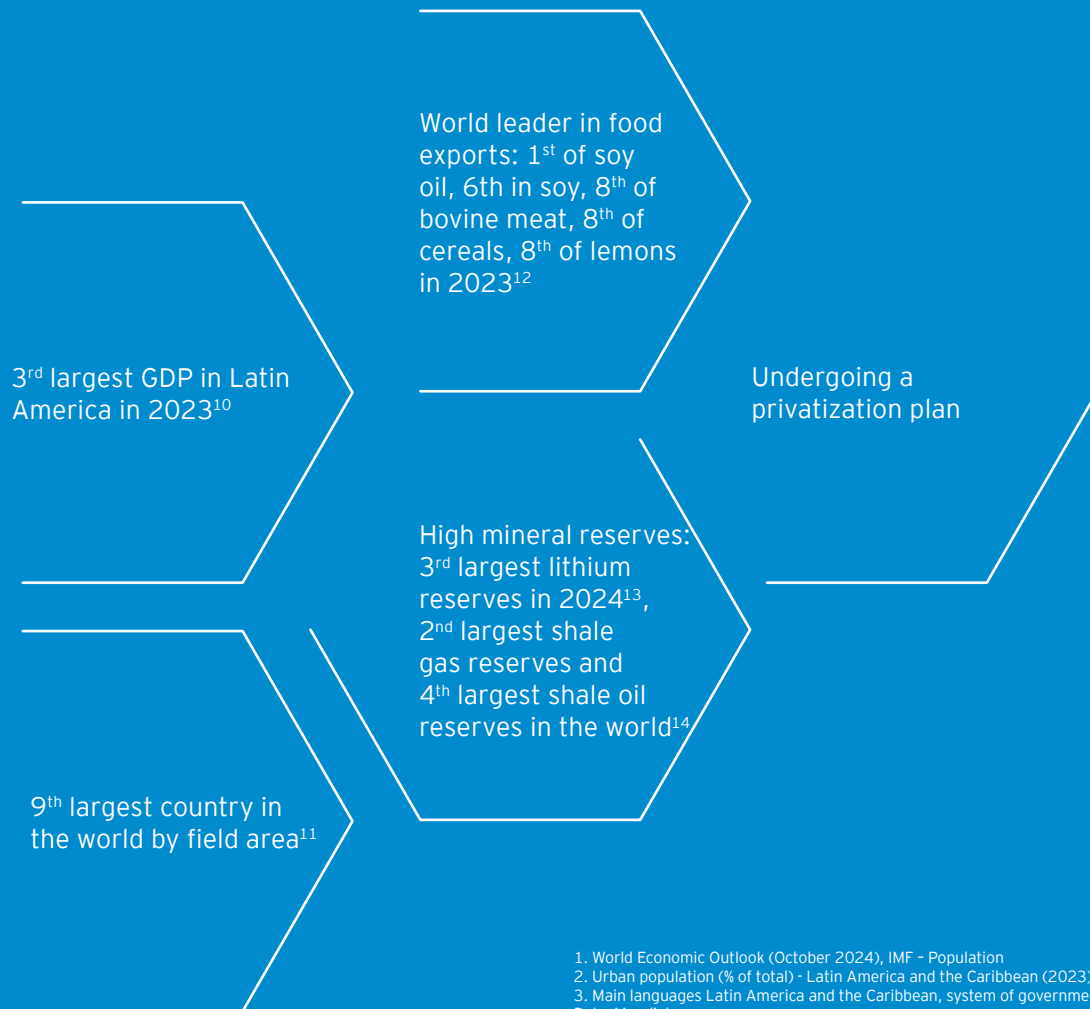
US\$1 = ARS 969.8 (Sep 30, 2024)



Key sectors⁹

Argentina thrives across different sectors, ranging from agriculture (soy, corn, beef, fishing, dairy, wine, food processing, etc.), forestry, minerals (iron and steel mining, refineries, oil and gas), automotives, and electronics.

Why invest in Argentina?



1. World Economic Outlook (October 2024), IMF - Population
2. Urban population (% of total) - Latin America and the Caribbean (2023), World Bank
3. Main languages Latin America and the Caribbean, system of government and weather, DatosMundial.com
4. Extension (square kilometers) - Latin America and the Caribbean (2021), World Bank
5. International Time in Argentina, 24timezones.com
6. World Economic Outlook (October 2024) - GDP, current prices, IMF
7. World Economic Outlook (October 2024) - GDP per capita, current prices, IMF
8. Exchange rate, S&P
9. Encyclopedia Britannica
10. World Economic Outlook, October 2024, IMF
11. The World Fact Book, CIA
12. UN Comtrade
13. U.S. Geological Survey, Mineral Commodity Summaries, January 2024
14. U.S. Energy Information Administration



Country's economic outlook

Argentina is the third largest economy in Latin America, behind Brazil and Mexico. While its economy has faced several challenges in recent years, it still has significant potential, mainly due to its wealth of natural resources and human capital.

With the post-pandemic rebound, the Argentinean economy grew by 10.4% in 2021 and 5.3% in 2022. However, in 2023, it contracted by 1.6%, due to monetary tensions, high inflation, and a severe drought that exacerbated existing macroeconomic imbalances.

Inflation is expected to decrease to 139.7% in 2024, after reaching 211.4% in 2023, its highest level in the last 6 years. Former levels were 94.7% in 2022 and 47.1% in the previous 5 years.

During the first 9 months of 2024, a disinflationary process has already been observed, and the last 5 monthly variations have been of less than 5%. The government has also announced that it expects levels of under 20% for 2025.

High inflation also affected the exchange rate, reaching 808.5 at the end of 2023, from 177.1 in the end of 2022. As inflation, the local currency has shown significant improvement in 2024, closing September at 969.8

For 2024, negative growth is expected again as the government of Javier Milei continues to take significant measures to restore macroeconomic stability. The new administration took office on December 10th and one of Milei's first measures was the devaluation of the Argentine peso. On December 2023, the currency fell by about 50 percent. He also lifted price controls, but encouraged an agreement among retail businesses to limit the price increase on basic goods for two months.

In its latest technical visit of June 2024, the International Monetary Fund (IMF) enabled a "disbursement of around US\$800 million to support the authorities' efforts to entrench the disinflation process, rebuild fiscal and external buffers, and

underpin the recovery". It also assessed the program to be firmly on track, with all quantitative performance criteria through end-March 2024 met with margins.

However, FMI warned that certain macroeconomic disparities and obstacles to expansion persist, and a challenging path of adjustment still awaits.

The country has a diversified economy. It is recognized globally for its agricultural production, ranking among the largest producers of soy, corn, beef, and wheat derivative products, among others. It is also rich in energy resources, with a large potential in terms of raw materials.

It has the fourth largest shale oil reserve, the second largest shale gas reserve, and the fourth largest lithium reserve in the world. The latter has taken on an increasingly vital role due to its contribution to the development of electric transportation and the storage of energy generated from renewable sources.

Additionally, it is used in industrial development for cars, pharmaceuticals, chemicals, petrochemicals, and biotechnology.

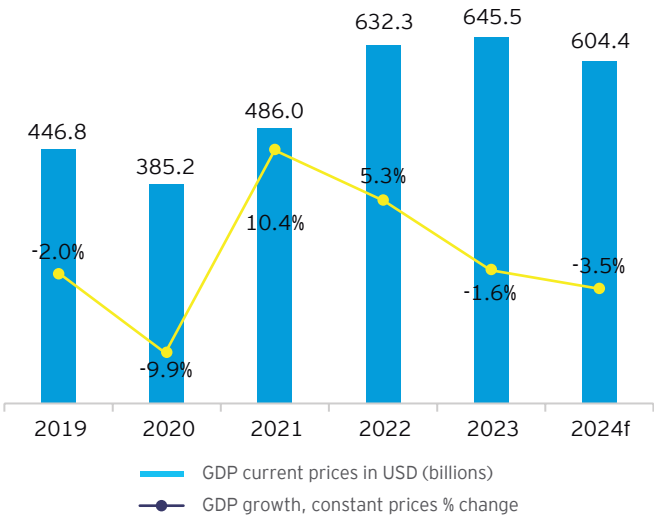
Table 1:

Index	Argentina
GDP current prices USD bn. (2023) ¹	\$645.5
GDP growth, constant prices % change (2023) ¹	-1.6%
Gross domestic product per capita, current prices USD (PPP) (2023) ¹	\$29,335.9
Inflation, year-end consumer prices (2023) ¹	211.4%
Fiscal balance (net lending (+) or net borrowing (-) of general government; % of GDP) (2023) ¹	-5.4%
Public debt (General government gross debt, % of GDP) (2023) ¹	155.4%
Current account (% of GDP) (2023) ¹	-3.2%
Investment (% of GDP) (2023) ¹	18.8%
Poverty headcount ratio at \$6.85 a day (2017 PPP) (% of population) (2022) ²	10.9%

1. World Economic Outlook October 2023, IMF

2. Poverty headcount ratio at \$6.85 a day (2017 PPP) (% of population), World bank 2023

Figure 2:
Gross Domestic Product, Levels and Growth¹



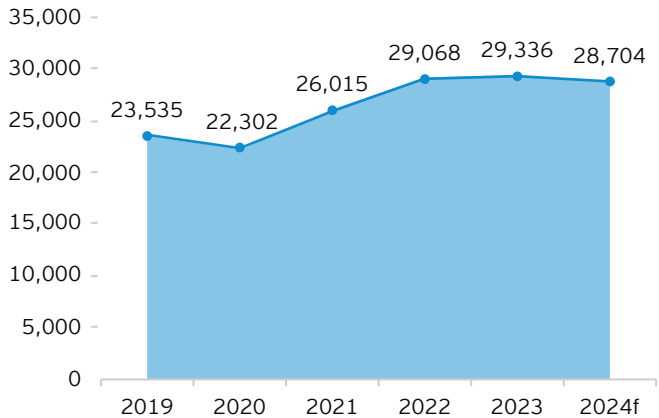
1. World Economic Outlook, October 2024

After the significant rebound experienced by the Argentine economy following the pandemic, its performance once again stagnated, continuing the trend seen over most of the last decade.

In addition to the country’s deep macroeconomic imbalances, it was hit by a devastating drought, which impacted not only agriculture but the entire economy as a whole.

In October, the IMF stated that Argentina’s economy is expected to contract by 3.5 –0.7 percentage points lower than the agency’s April estimate– amid significant economic policy adjustments by the new government. However, it is anticipated that these measures will start to produce results, and the economy will regain momentum, with a projected medium-term growth of 5%.

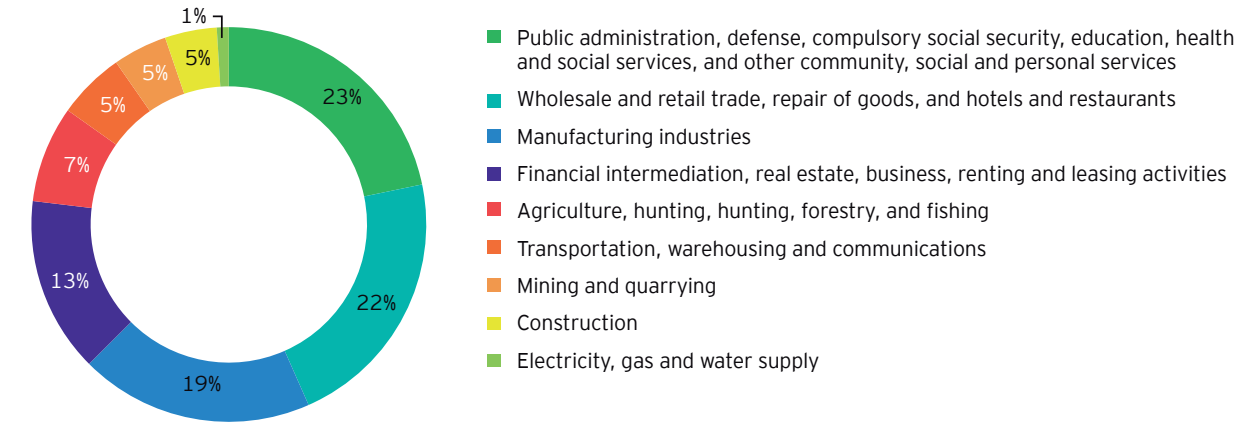
Figure 3:
Gross domestic product per capita, current prices (in USD, PPP)²



2. World Economic Outlook, October 2024

In 2023, its GDP reached USD 654.5 billion, but it is expected to decrease to USD 604.4 billion in 2024 (IMF October outlook). The GDP per capita, in terms of purchasing power parity (PPP), was USD 29.068 in 2023 and is projected to decline to USD 28.704 in 2024, due to necessary economic adjustments being implemented by the government.

Figure 4:
Annual gross domestic product (GDP) by economic activity at current prices in dollars³ (2023)

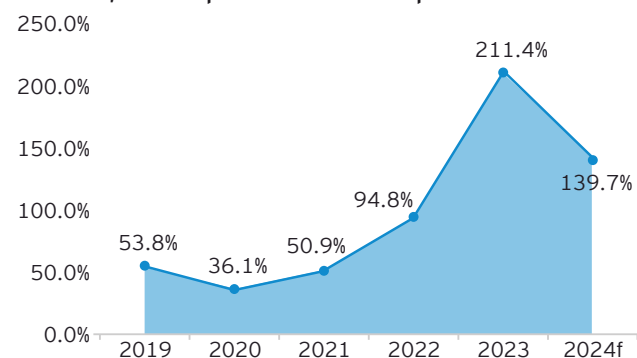


3. Annual gross domestic product (GDP) by economic activity at current prices in dollars (2023), ECLAC

The public and personal services sector, along with retail trade, hotels, and restaurants, contribute the most to the GDP. The country also has a mature manufacturing sector, accounting for 19% of its GDP. Other sectors relevant to the economy include finance and agriculture.

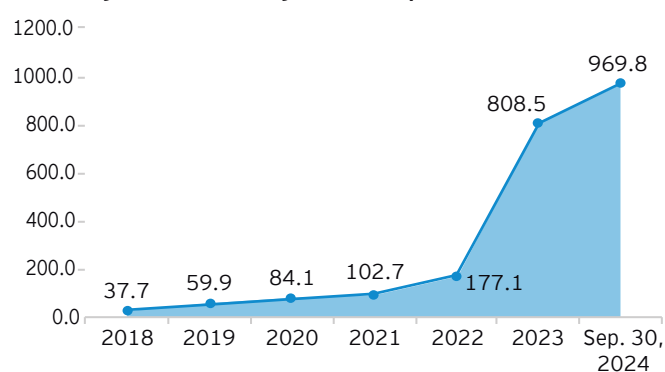
Figures 5 and 6:

Inflation, end of period consumer prices¹



1. World Economic Outlook, October 2024, IMF

Exchange rate of foreign currency (USD/ARS)²



2. Exchange rates of foreign currencies, S&P

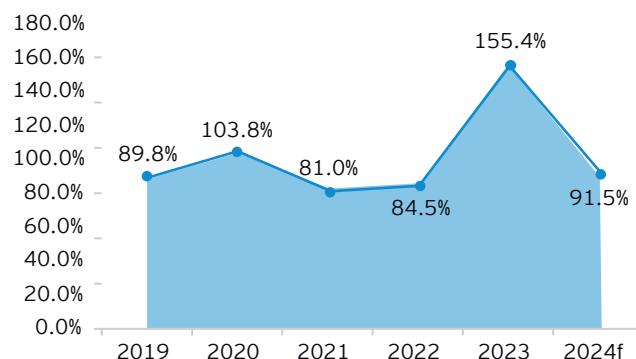
According to official figures from the National Institute of Statistics and Census (INDEC), inflation closed at 211.4% in 2023, the highest in three decades. It is expected that 2024 will continue to be a year of high inflation in Argentina.

The Argentine peso has experienced significant volatility for years, and in addition to the official exchange rate, several alternative exchange rates have appeared in the foreign exchange market.

Among the first measures taken by the government of Javier Milei shortly after taking office was the devaluation of the peso by more than 50%, resulting in the currency closing at 808.5 per dollar in 2023, approaching informal exchange rates.

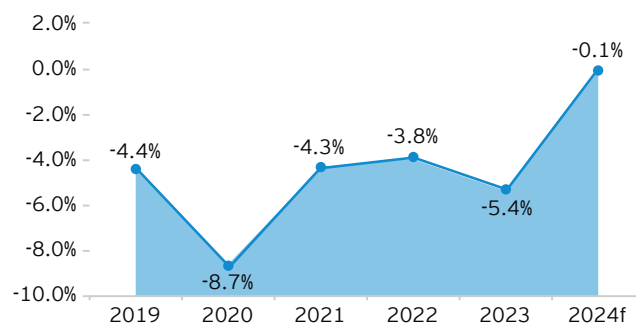
Figures 7 and 8:

Public debt (General government gross debt, % of GDP)³



3. World Economic Outlook, October 2024, IMF

Fiscal balance (net lending (+) or net borrowing (-) of general government; % of GDP)⁴

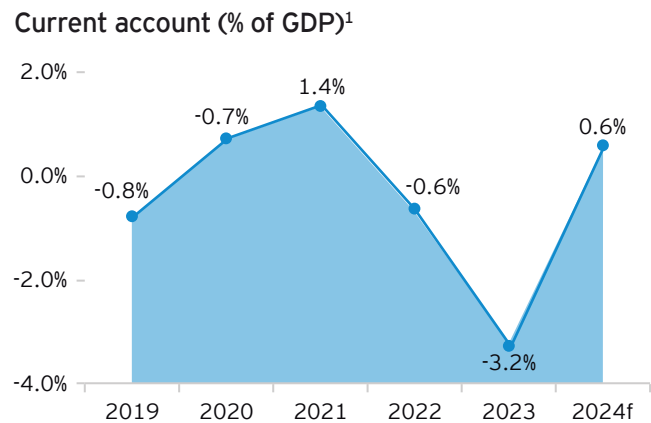


4. World Economic Outlook, October 2024, IMF

According to the June visit by technical staff from the International Monetary Fund, Argentina is facing important challenges: “sustaining progress requires improving the quality of fiscal adjustment, taking initial steps towards an enhanced monetary and FX policy framework, and implementing reforms to unlock growth, formal employment, and investment”.

The current administration is focusing its efforts on a macroeconomic stabilization plan. The country has shown surpluses in its public finances during the first six months of the year, something that had not occurred for years, however, there are several factors that put upward pressure on spending.

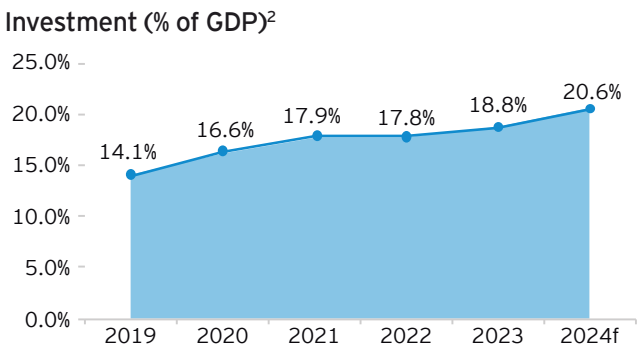
Figure 9:



1. World Economic Outlook, October 2024, IMF

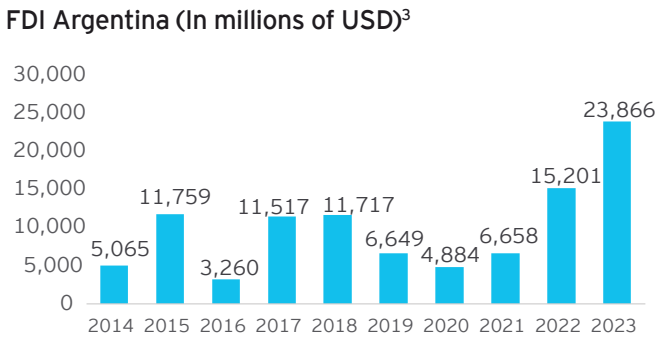
In 2024, a surplus of Argentina’s current account as a percentage of GDP is expected, reaching 0.6% according to the IMF. Meanwhile, INDEC announced that during the first quarter of 2024, the current account showed a surplus of US 240 million.

Figure 10:



2. World Economic Outlook, October 2024, IMF

Figure 11:




3. Foreign direct investment, net inflows (BoP, current US\$) - Latin America & Caribbean | Data (worldbank.org)

Total investment in Argentina as a percentage of GDP is expected to climb to 20.6% in 2024.

Foreign direct investment (FDI) flows began to recover, and in 2022 they surpassed pre-pandemic levels. In 2023, Argentina recorded its highest FDI inflows since 1999, amounting to US\$ 23,866 billion.

Argentina offers a unique combination of opportunities and growth potential.

With a diversified economy rich in natural resources, the country boasts a highly skilled workforce and a strategic location in the heart of South America, making it a bridge to other markets in the region.



Establishing a business in the country

1. Investment Regulation and Promotion Agencies

General framework: Companies must be registered in the Public Registry of Commerce of the related jurisdictions in order to be able to operate in the country.

Activities with specific regulations and incentives (among others):

► Financial activities (Banks, etc.):

Financial activities are governed by Law 21,526 and require registration with the Central Bank.

► Insurance activities:

These activities are governed by Law 12,988 and require registration with the Argentine Superintendence of Insurances.

► Capital markets regulations:

The Argentine capital market is governed by Law 26,831. The regulatory framework also includes rules issued by the CNV (Argentine Securities and Exchange Commission).

► Oil & gas:

Exploration and production activities are regulated by Law No. 17,319 (also known as the “Hydrocarbons’ Law”), supplemented by subsequent federal and provincial decrees and resolutions. Hydrocarbon exploration, development and production require an exploration permit or a production concession. Law No. 13,660 provides the basic framework for downstream activities and must comply with provincial and municipal regulations regarding technical, safety and quality standards.

► Mining:

This activity is governed by the Mining Code. Local and foreign parties can be granted a concession to explore and develop minerals in a specific area. Depending on the jurisdiction where the mine is located, royalties must be paid. A specific tax incentive regime applies.

► Energy and natural resources:

The electricity sector underwent reform and privatization in 1992. At the federal level, Law No. 24,065 and its related rules form the legal framework. It created four vertical divisions within the electricity sector: generation, transmission, distribution, and demand. Additionally, Laws 26,190 and 27,191 govern the generation, co-generation and auto-generation of electricity through renewable sources of energy. The regulatory framework grants certain tax benefits to the parties undertaking qualified projects.

► Incentive regime for large investments “RIGI”

Law No. 27,742 enacted the new incentive regime for large investments (“RIGI” or “Régimen de Incentivo para Grandes Inversiones”).

The purpose of the RIGI is to give those who commit to executing large investments, within a certain period of time, predictability, stability, legal certainty, and protection of acquired rights in tax, customs, and foreign exchange matters.

The RIGI applies on investments destined to the following sectors:

- Forestry and associated industries (“forestindustrias” in Spanish)
- Tourism
- Infrastructure
- Mining
- Technology
- Steel industry
- Energy
- Oil and gas

The RIGI will be available for two years from the date it was published in the Official Gazette (i.e., will be open until July 8th, 2026).

The RIGI will apply to “Sole Purpose Vehicles” or “SPV” (“Vehículos de Proyecto Unico”, or “VPU” in Spanish) owners of projects that qualify as “Large Investments” under the terms of the regime.

The minimum amount for qualify as “Large Investment” must be USD 200 million (except for oil and gas that must be at least USD 300 or USD 600 million, depending on the type of project), and must be invested within a specific period of time since the project is approved by the Application Authorities.

The SPVs will benefit from a reduced 25% Income tax rate, an accelerated amortization mechanism for certain investments, and the possibility of adjusting for inflation and carryforward the NOLs indefinitely and even to transfer them to other parties; besides, the SPVs will benefit from a reduced 3.5% WHT tax on dividends as from year 8^o of the project, and to pay VAT to suppliers with Tax Credit Certificates. Other customs and foreign exchange incentives are applicable. Finally, the SPVs that adhere to the RIGI will benefit from a 30-year stability period with respect to their projects, in tax, customs and foreign exchange matters.

There are also special conditions with more convenient benefits for investments that qualify as “Long Term Strategic Export Investment Projects” that involve investments for at least USD 2,000 million.

2. Main Types of business

The main types of business entities used to operate in Argentina are stock corporations (“sociedad anónima”), sole-owner stock corporations (“sociedad anónima unipersonal”), simplified stock corporations (“sociedad por acciones simplificada”), limited liability companies (“sociedad de responsabilidad limitada”) and branches (“sucursales”).

The main descriptions of each type of entity are:

a) Stock Corporations (Sociedad Anónima, acronym “S.A.”)

Stock Corporations (known by the Spanish acronym “S.A.”) are comprised of capital that is represented by shares of stock (both registered and non-endorseable). The transfer of these shares is generally unrestricted, although the bylaws may include certain restrictions. These corporations come into existence through a public instrument. With more than one shareholder, their liability is limited to the amount of capital they have contributed. Foreign entities wishing to become shareholders must first register with the Public Registry of Commerce. A minimum of one annual shareholder meeting is required. The majority of directors must be residents of Argentina. Stock corporations that are subjected to ongoing state supervision are required to have an internal supervisory body.

b) Single-Owner Corporation (Sociedad Anónima Unipersonal, acronym “SAU”)

Single-Owner Corporation (known by the Spanish acronym “SAU”) is a specific type of stock corporation with only one owner. Despite being a unique type of company, they must adhere to the regulations governing stock corporations. They are subject to permanent state supervision and are required to have an internal supervisory body.

c) Simplified stock corporation (Sociedad por acciones simplificada, acronym “SAS”):

Simplified Stock Corporations, known by the Spanish acronym “SAS”, limit their shareholders’ liability to the par value of the shares they agree to subscribe to. They can have one or more shareholders, including foreign individuals or entities. Their regulations are similar to those of a typical stock corporation with regard to members’ and managers’ liability. Members and board meetings can be conducted remotely with corporate and accounting books kept digitally. However, they are not allowed to make public offerings of their shares and there may be limitations on certain activities.

d) Limited liability corporations (Sociedad de Responsabilidad Limitada, acronym “SRL”)

In Limited liability corporations, partners limit their liability to the par value of the subscribed membership interests. The transfer of membership interests shall be registered with the Public Registry. These entities may be incorporated through either a public or private instrument with certified signatures. An SRL requires between 2 and 50 partners. Management is entrusted to either an individual

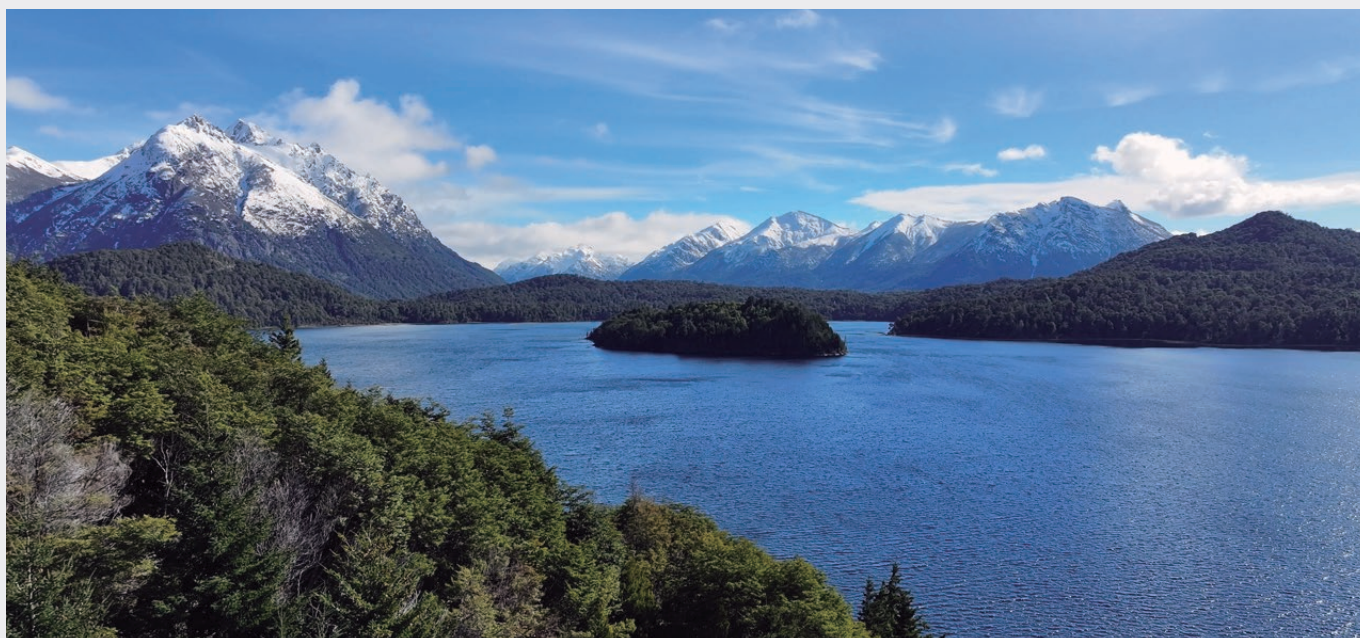
or a collective body. The rules applicable to the liability of governance and management bodies are similar to those of stock corporations.

e) Branch of a foreign company

A branch of a foreign company must be duly organized under the laws of its country of origin and provide proof of the existence of its main offices abroad. It is required to register the articles of association or bylaws with the Registry of Public Commerce, and to appoint and register a legal representative. Branches are required to maintain separate bookkeeping from their head offices for operations carried out in Argentina, and to submit their financial statements to the Public Registry. In principle, it is not necessary to allocate capital from the foreign company to the Argentine branch, except when required by certain regulations (for example, insurers or reinsurers).

3. International taxation and taxes on entities not domiciled in the Country

The tax system applicable to subsidiaries of foreign entities bears a substantial similarity to the one applied to Argentine resident entities. There aren’t any significant differences.





Tax Regime

1. General Overview

- 1.1** Corporate Income Tax Rate (%): progressive scale ranging from 25% to 35%.
- 1.2** Capital Gains Tax Rate (%): capital gains earned by corporate taxpayers are taxed at the same rate (25% to 35%) as ordinary income. Capital gains earned by foreign residents are also subject to tax, with income resulting from the sale of shares by non-residents subject to a 15% capital gains tax (exemptions apply).
- 1.3** Branch Tax Rate (%): progressive scale ranging from 25% to 35%.
- 1.4** Withholding Tax
 - ▶ Dividends: 7%.
 - ▶ Interest: The general rate is 35%, although a reduced rate of 15.05% may apply under certain circumstances, for instance, when a lender is a foreign bank meeting certain requirements; when the financing of depreciable movable assets is provided by the supplier; when the borrower is an Argentine bank, among others.
 - ▶ Royalties from Patents, Trademarks, Formulas and Similar Items: Either 28% or 31.5%, depending on type of income, contract registration, etc.
 - ▶ Technical Services: payments for technical assistance rendered from abroad are subject to withholding tax at rates of 21%, 28% or 31.5%. If services do not involve technical assistance (such as advise, opinion, etc.) then no withholding applies to services rendered from abroad.

- ▶ Other Fees and Compensation for Services Rendered Abroad: 17.5% for services involving transmission of images/sounds; 24.5% for artists and professionals acting in the country.
- ▶ Branch Remittance Tax: 7%.
- ▶ Net Operating Losses (Years)
 - Carryback: Not allowed.
 - Carryforward: Allowed for 5 years.

2. Tax on rent and corporate income

2.1 Corporate income tax

- ▶ Determination of the net taxable income (Trading Income).
- ▶ General: Net income is derived from gross income, less the necessary expenses required to generate it. Typically, it requires starting with accounting income and making the necessary book-to-tax adjustments to calculate taxable income.
- ▶ Monetary correction: Inflationary adjustment for accounting purposes are not allowed and must be reversed. Subsequently, the historical income is subjected to a specific tax inflationary adjustment mechanism that consists of a "static" component (adjusting the previous year's balance of monetary assets and liabilities) and a "dynamic" component (adjustments to monetary assets and liabilities position throughout the year).
- ▶ Depreciation: This is generally deductible under the straight-line method over the lifespan of the assets. In general, buildings depreciate at a rate of 2% annually.
- ▶ R&D incentives: There are no universal specific incentives, except for certain industries (such as the knowledge-based economy, etc.).

- ▶ Relief for losses: Losses can be carried forward for up to 5 years.

2.2 Corporate Tax Rates: These are progressive (25%, 30%, 35%) and are adjusted for inflation annually.

2.3 Dividends: Dividends received by corporate taxpayers are not subject to tax. Dividend distributions to local individuals or to foreign individuals/entities generally subject to 7% withholding (for dividends originating from income obtained from 2018 onwards).

2.4 Mining tax/Industry specific taxes (list)

The mining regime comes with special tax benefits (tax stability, double deduction of exploration costs, accelerated depreciation, VAT reimbursement). Other industries (such as the knowledge-based economy) may have special incentives and grants available.

2.5 Capital gains (direct and indirect)

Capital gains derived by resident companies are incorporated into taxable income and taxed at the regular corporate tax scale. Capital gains derived by foreign residents from the sale of unlisted shares are subject to a 15% tax (indirect sales are included if Argentina represents more than 30% of the market value and over 10% is sold; group relief is available for intra-group transfers). This tax may be calculated based on actual net income or on 90% presumed income, resulting in an effective 13.5% tax on the sale price. Capital gains derived by foreign residents from the transfer of listed shares are exempt, provided that the investor is not a resident in, and the funds do not originate from, "non-cooperating" jurisdictions.

2.6 Administration

A company's tax year is its accounting year. Companies are required to make 10 advance payments of corporate income tax. The first payment equals 25% of the preceding year's tax, and the other payments each equal 8.33% of such tax. These payments are due on a monthly basis starting in the sixth month after the end of the accounting year. Due dates depend on the company's taxpayer registration number. Companies must file their tax returns and pay any balance due by a specified date in the fifth month following their accounting year.

3. International Tax

3.1 Foreign tax relief

Companies resident in Argentina may receive a tax credit for foreign income taxes paid, which can be used against their Argentine tax liability. This credit is up to the amount of the liability increase resulting from the inclusion of foreign-sourced income in the tax base. Foreign tax credits are also available for taxes paid by foreign entities in which the Argentine shareholder has invested. For direct ownership, a minimum 25% stake is required, while for indirect ownership, a stake of at least 15% is needed.

3.2 Foreign-exchange controls

Certain obligations and restrictions apply to the inflow and outflow of funds, which should be closely monitored due to frequent changes, particularly after December 2023.

Exporters must repatriate to Argentina cash derived from the exports of goods and services, among other items, within a specified timeframe; benefits may be granted through specific exchange rate conversions. Funds originating from loans received from abroad must be processed through the Argentine foreign-exchange market to enable repayment through the same mechanism. Debt payments to foreign entities can be processed through

the foreign-exchange market, provided certain requirements are met. Payments for imports of goods and services initiated as of December 13, 2023, can be channelled through the foreign-exchange market after specific time periods. The payment of dividends requires the approval of the Central Bank of Argentina. Prior approval from the Central Bank of Argentina is also necessary to access the foreign-exchange market for overseas investments.

3.3 Transfer pricing

Argentine law includes transfer pricing rules that typically apply to transactions between related parties. However, transactions between unrelated parties might also be subject to these regulations. Transactions involving entities and individuals located in “non-cooperating” or “low- or no-tax” jurisdictions are considered not to be at arm’s length. Additionally, Argentine legislation establishes rules for analyzing transactions involving the import or export of goods in which a foreign intermediary, who is not the actual importer at the destination or exporter at the source, is involved, provided at least one of the foreign parties (i.e., intermediary, importer, or exporter) is a related party.

The law specifies certain transfer pricing methods and introduces a unique mechanism for exporting goods with predetermined prices, involving an intermediary that is related or located in “non-cooperating” or “low- or no-tax” jurisdictions.

- 3.4** Debt-to-equity rules: Not applicable. However, the interest deduction in related party loans may be limited to 30% of EBITDA under certain conditions.
- 3.5.** Controlled foreign corporations (CFC): When specific conditions are met, including control over the CFC, a lack of substance, and a low tax rate, CFC income must be immediately taxed in Argentina.

- 3.6** Preferential tax jurisdictions: Special rules apply for “non cooperating” and “low-or no-tax” jurisdictions.

4. Value-added tax

21% (special rates of 10.5% and 27% apply).

5. Other considerations

- 5.1.** Customs duties: import duties range from 0% to 35%. Export duties also apply.
- 5.2.** Tax on personal assets: 0.5% on net equity at 12/31 owned by foreign residents (and Argentine individuals).
- 5.3.** Provincial taxes: Businesses are subject to a turnover tax on gross revenues, which typically ranges from 3% to 5%. Additionally, a stamp tax, averaging 1%, is applied to the economic value of agreements.
- 5.4.** Other taxes: tax on credits and debits in bank accounts amount to 0.6% on each debit and 0.6% on each credit.
- 5.5.** GAAR: The “economic reality principle” applies.





Labor Regime

1. Labor Law

Employment rights stem from the Argentine Constitution, international treaties approved by the National Congress, several federal statutes and acts passed by the National Congress, as well as collective bargaining agreements and individual agreements.

1.1 Classification of employment contracts based on their duration nature

The general practice is for contracts to be executed for an indefinite period of time. Nevertheless, in special and extraordinary circumstances, an employer can hire employees for a definite term. Among other examples, we can refer to fixed-term contracts (the expiration date can be foreseen) and contingent contracts (the expiration date cannot be foreseen).

1.2 Working hours and breaks

Working time is the period during which the employee is at the employer's disposal to work. The common legal working time is 8 hours per day and 48 hours per week. However, the employer may impose a schedule with an unequal distribution of the 48-hour cap under certain circumstances. In addition, there are some exemptions to those caps.

Employers must grant a daily rest period of at least 12 hours between the end of one working day and the start of the next. Employees are entitled to a weekly rest period of 35 hours, generally from 1 pm on Saturday until midnight on Sunday.

1.3 Laws on remote work, telework and international labor

Since April 2021, Law 27,555 regulates teleworking, covering new topics such as: i) concept; ii) term; iii) right to disconnect from digital sources; iv) working tools; v) expense compensation; vi) occupational safety. Regarding international teleworking arrangements, the Law has only established which is the applicable law, but no other specifications.

1.4 Principles governing employment

Salaries shall not be discriminatory and the rule "equal pay for equal work" is applicable. As of October 2024, the minimum mandatory monthly salary for all employees is of ARS 271,571 (equal to USD 271). However, CBAs apply mandatory minimum wage scales greater to those established by the National Government, which may vary between activities.

- ▶ Our National Constitution establishes that employees shall earn a percentage of the profits generated by the employer. However, this provision is not considered nor claimed by any party. Its application has been limited only to certain economic activities (e.g., banking).
- ▶ Employees are entitled to annual paid leave, the term of which varies based on the employee's seniority. The amount paid for vacation days is calculated in such a way that it is slightly higher than the remuneration for a normal working day. This is referred as "Plus Vacacional".

- ▶ Employers must bear the cost of sick leave due to illness or non-work related accidents. The term of such leave can range from 3 to 12 months based on the employee's seniority and family obligations. Employees who are unable to return to work after their leave expires are entitled to an additional 12 months' unpaid leave. If the individual cannot return to work, different alternatives are considered.
- ▶ In the case of pregnancy, the employee shall not work in the 45 days prior to and following the expected date of birth. However, they may choose to modify these periods under certain conditions, up to 10 days prior to expected date of birth and 80 days following that date. During leave, the employee does not receive remuneration but rather a social security benefit.

1.5 Expiration or termination of the employment relationship

There are several causes of termination of an employment relationship, such as: mutual consent; expiration of a fixed-term contract; death, retirement or total disability; or by decision of one of the parties.

When an employee resigns or is dismissed for just cause, the employer is only required to pay certain accruals (working days in the month of termination; accrued vacations; and accrued 13th salary). When termination occurs without just cause or there is a claim for constructive dismissal, they are entitled to the aforementioned items, plus legal severance. There are exemptions in all scenarios.

The Law 27.742 established the possibility that, through collective agreement between unions and business chambers, the compensatory regime may be replaced by a fund or job termination system at the employer's expense, with a monthly contribution of up to EIGHT PERCENT (8%) of the remuneration. However, to date, this fund is only implemented for employees under the construction regime.

1.6 Protection and rights of the worker

In order to balance the assumption made by the Argentine legislation of an uneven relationship between an employer and employee, Argentina's labor laws favor employees and have been designed to safeguard their rights by instituting minimum standards governing working conditions. These standards are public order provisions and thus cannot be dismissed or waived.

1.7 Labor unions

- ▶ Incorporation requirements and operations

Workers are free to form industry or branch-, craft-, or company-level unions. Any trade union is granted the right to represent their individual members. However, for a union to be granted collective representation rights it is indispensable that it be certified as a trade union with Union Personality, upon fulfilment of certain requirements.

- ▶ Collective bargaining

It may be held at different territory or activity levels. Common negotiating parties are the employer's representative and a trade union with Union Personality. CBAs may provide for the establishment of Joint Committees in charge of interpreting the CBA's scope, intervening in individual or collective disputes, classifying employment positions, and defining salary increases.



2. Considerations for foreign workers

2.1. Legal considerations regarding foreign workers

There are no limitations for hiring foreign workers, except in certain economic activities (e.g., fishing and mining activities) that require companies to ensure a certain percentage of local workers in their workforce.

2.2. Immigration regulations.

Under Law 25,871, the following are the three categories of entry:

i) transitory residence; ii) temporary residence; and iii) permanent residence.

► Transitory residence

- **Technical visa:** it applies to foreigners who will perform technical or professional activities for a short period of time. It is obtained at the Argentine consulate in the country of residence of the expatriate and is granted for 30 calendar days, which can be extended twice for the same period of time in Argentina before the immigration office.
- **Business visa:** It is a visa that applies to those who must enter on their own to perform business activities, conduct market research or hold a business meeting. This type of visa can be obtained only at the Argentine consulate in the country of residence and is for business purposes only and can be extended once in Argentina for the same period of time before the immigration office.

- **Transitory Work Authorization:** it is a short-term, single-entry work permit valid for a period of up to 90 calendar days. It allows assignees to reside legally in Argentina and perform paid or unpaid activities for a local entity in Argentina. The assignee can apply for this benefit twice in a 365-day period beginning on the date of the first application. To apply for a second TWA, the assignee must leave and re-enter the country.
- **Electronic Authorization (TIE):** it is a short-term, multiple-entry authorization valid for a period of up to 30 calendar days, renewable twice for the same period of time in Argentina before the immigration office. The process is electronically with the approval of the Argentinian consulate in the home country of the applicant. Only those nationalities that do not have restrictions on entry as tourists will be able to obtain this benefit.
- **Bilateral and Multi agreements :** Intended for nationals who carry passports from countries that are part of bilateral or multi-party agreements with which Argentina has entry benefits and who have no nationality restrictions to do so. It will depend on the agreement, the period of stay, who can apply and the type of activities to be carried out by those authorized.

► Temporary residence

The most common types of residence for foreigners and their dependents coming to work to Argentina are as follows:

- **Employment contract residence:** applies to foreigners who are employed by a local company for an extended period of time. It is valid for one year and may be extended indefinitely.
- **Intracompany transfer residence:** applies to employees who are transferred from a company in their home country to an Argentine company for an extended period of time. It is valid for one year and may be extended indefinitely.
- **Family reunification with temporary resident relative:** applies to foreigners who have a relative with temporary residence in Argentina. This type of residence is valid for the period of the temporary residence of the relative and may be extended indefinitely.
- **Study residence:** it applies to foreigners entering the country with the intention of carrying out studies at officially recognized private or state-run institutions. This type of residence is valid for up to one year and may be extended for the period of the course of study.
- **MERCOSUR temporary residence:** applies to foreigners from MERCOSUR countries (Bolivia, Brazil, Chile, Colombia, Ecuador, Guyana, Paraguay, Peru, Suriname, Uruguay and Venezuela) who will work for an extended period of time. This type of residence is valid for two years and may be extended indefinitely.

National Identity Card (Documento Nacional de Identidad, or DNI): this document is issued to foreigners with any type of temporary residence.

Registration of local companies: the National Registry of Foreign Personnel Requestors (Registro Nacional Único de Requerientes de Extranjeros, or RENURE) is the national registry in which all the local entities requiring foreign staff must be registered. The requesting person (private or public, physical or legal) must be registered at RENURE to sponsor transitory residence and temporary residence (except for temporary MERCOSUR residence).

► **Permanent residence**

Any foreigner with 2 or 3 years depending on the nationality of continued temporary residence may apply for permanent residence. Direct relatives of Argentinian citizens may also be eligible for a permanent residence visa.

3. Taxes levied on wages

3.1. Employment income tax

Taxable income from employment includes all salaries, regardless of the taxpayer's nationality or the place where the compensation is paid or the contract is concluded.

Employees shall deduct from their monthly taxable income the pension fund contributions and general deductions provided for in the Income Tax Law (donations, domestic service, mortgage interest, education expenses for their dependents, medical assistance fees, home rental, among others), the personal allowance, dependents and special deduction. Shall apply a progressive tax rate ranging from 5% to 35%. Both the personal allowance and progressive tax rate are updated twice a year (in January and July of each year).

3.2. Social Security Contributions:

▶ Employee Contributions

Are withheld from the monthly salary at a rate of 17%, which is applied to a maximum taxable base, the cap being ARS 2,674,292.72 as of October 2024 (updated Monthly). Therefore, compensation in excess of such limit shall not generate additional Employee Social Security Contributions.

▶ Employer Contributions

Are calculated at a rate of 24% or 26.40%, depending on the specific situation of the employer (e.g., registered activity, invoicing level), and they are not subject to the above-mentioned maximum taxable amount or cap.

▶ Saving alternatives

Employee-Director options, Social Security Agreements, Totalization Agreement and Special Social Security Exemption under Argentine law.

3.3. Withholding System

The company serves as withholding agent for purposes of income tax and employee social security contributions.

4. Other aspects to consider

Foreign nationals coming to Argentina for duly attested labor reasons are deemed as non-residents for income tax purposes during the first 5 years, liable only for Argentinian-source income (from work performed in Argentina and/or assets located in Argentina). Employees in a dependent relationship are required to file either an Informative Income Tax Return or a Determinative Income Tax Return.



Financial Reporting

The following are the main requirements and regulations for the preparation and presentation of financial information:

1. Publicly traded companies

The application of IFRS, as issued by the IASB, is mandatory in the financial statements of entities included in the Public Offering Regime. However, entities authorized by the National Securities Commission (CNV) to apply accounting methodologies from other regulatory agencies, such as financial entities, insurance companies, cooperatives, and civil associations, are exempt from this application. In the case of economic groups, the mandatory application extends to the consolidated financial statements, and to the financial statements of the controlling company.

All companies that publicly offer their negotiable securities ("issuers") must present annual financial statements in Argentine pesos with an audit report within 70 days of the end of the fiscal year, and at the end of each quarter.

2. Special cases

The Argentine Federation of Professional Councils of Economic Sciences (FACPCE) has established in its Technical Resolution N° 26, that entities that are not subject to the mandatory application of IFRS, may apply full IFRS or IFRS for small and medium-sized enterprises (SMEs), as approved by the IASB, as an option in relation to the application of Argentine Professional Accounting Standards (NCPA) issued by the FACPCE.

Despite the possibility of presenting financial statements in accordance with IFRS, in practice, the vast majority of entities subject to oversight by the IGJ CABA, or the remaining provincial Inspections, opt to apply the NCPA issued by the FACPCE.

Likewise, the FACPCE has established a regulatory hierarchy to resolve issues whose accounting

treatment is not provided for in the NCPA, which includes developing accounting policies using IFRS as a supplementary source.

Notwithstanding that established by the FACPCE, the possibility of optional application of full IFRS or IFRS for SMEs must be approved by the corporate control agency corresponding to each entity. These agencies are government entities that have been delegated special legislative powers and issue resolutions through which they establish the accounting standards that must be applied by the entities under their control when preparing their financial statements.

3. Other considerations

Pursuant to the General Corporate Law and the General Inspection of Justice (IGJ) regulations, stock companies, and limited liability companies with share capital equal to or greater than ARS 2,000 million, must deliver to the IGJ their annual financial statements audited by an independent auditor, which include the statement of financial position, the income statement, the statement of changes in equity and the cash flow statement. In addition, controlling companies are required to present consolidated financial statements as supplementary information to the individual financial statements. The local audit standards to be applied are those set by the FACPCE in its Technical Resolution N° 37 and by certain control mechanisms.

Likewise, certain oversight bodies, such as the Central Bank of the Argentine Republic or the Superintendency of Insurance of the Nation, issue audit and review standards that must be adopted by the auditor in addition to the provisions of RT 37. These standards include, for example, a list of the minimum audit procedures applicable to the examination of the annual and quarterly financial statements of the entities under their control.

According to Article 66 of the General Corporate Law, the administrators of stock companies and limited liability companies must prepare a report on the date of issuance of the financial statements in which they report on the status of the Company in the various activities in which it has operated and explain the results and projections of the company.





Bolivia

Message from EY Bolivia's Country Managing Partner

Bolivia has undergone a remarkable economic transformation in the last decade, showing sustained growth that has positioned the country as one of the most promising emerging markets in South America.

Its economy is among those that have seen the most expansion at the regional level in recent years. For 2023, international organizations expect a growth of 1.8%, with the government anticipating even higher numbers. Meanwhile, the country maintains price stability despite adverse global conditions, with inflation reaching 2.1% in 2023.

Bolivia's economic growth is largely due to a high level of public investment in infrastructure, energy, and gas production, among others. The country has been investing in energy projects to promote the development of alternative energies. Bolivia also aims to develop projects in lithium, iron, natural gas, renewable energies, etc.

Furthermore, successive Bolivian governments have given a clear signal to the international community of their willingness to provide a transparent and secure legal framework for respecting investor rights.

Therefore, we are deeply convinced that investing in Bolivia will not only contribute to the development of our economy but will also generate significant growth and profitability for your company. Our dedicated team stands ready to assist you in taking advantage of the abundant opportunities our country offers.

Kind regards,

Javier Iriarte

Country Managing
Partner
EY Bolivia



Overview

Bolivia, located in South America, extends from the Andes Mountains to the Amazon basin. It is known for its cultural and natural diversity. La Paz is its administrative capital; Santa Cruz de la Sierra, its economic center; and Cochabamba and Sucre (official capital) are its main cities. The diverse population includes Quechua and Aymara communities, as well as mestizos, reflecting their cultural richness in music, dance, and festivals. Its resources, such as tin, lithium and the Amazonian biodiversity, drive the mining, agriculture, and tourism industries. Bolivia seeks sustainable innovation in the exploitation of resources and has promoted policies to diversify its economy and reduce its dependence on raw material exports.



Population¹
12,224,110
Urban²: 71%
Rural: 29% (2022)



Official language³
Spanish



Area⁴
1,098,580 km²



**System of government³**

Democratic and unitary republic

President: Luis Arce

Next elections: 2025

**Climate³**

Tropical in the lowlands and temperate in the highlands, with marked seasonal variations

**International Time⁵**

GMT-4 (All Bolivia)

**GDP current prices⁶**

USD \$45.5 Bn. (2023)

**GDP per capita (PPP)⁷**

USD \$11,028.1 (2023)

**Currency⁸**

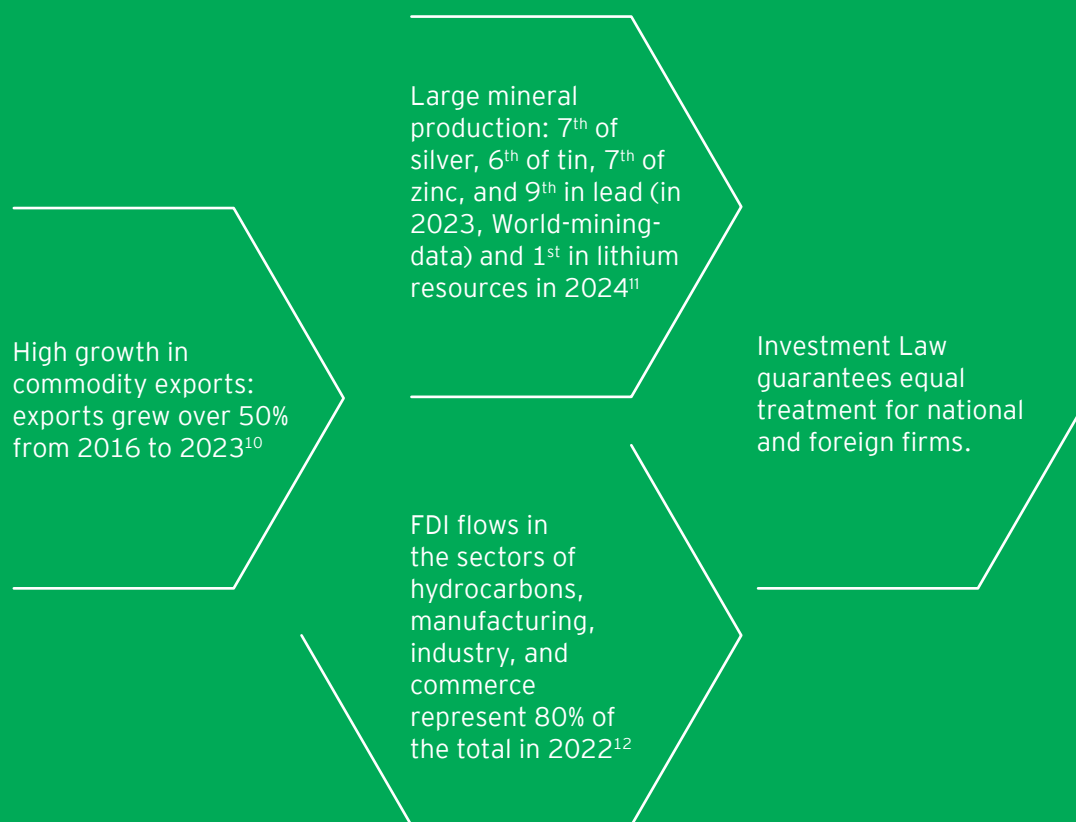
Bolivianos

US\$1 = BOB 6.93 (Sep. 30, 2024)

**Key sectors⁹**

Bolivia's key sectors include mining, smelting, oil, food and beverage, tobacco, handicrafts, and clothing. The main agricultural products are soybeans, coffee, coca, cotton, corn, sugar cane, rice, potatoes, and timber

Why invest in Bolivia?



1. World Economic Outlook (October 2024), IMF - Population
2. Urban population (% of total) - Latin America and the Caribbean (2023), World Bank
3. Main languages Latin America and the Caribbean, system of government and weather, DatosMundial.com
4. Extension (square kilometers) - Latin America and the Caribbean (2021), World Bank
5. International Time, 24timezones.com
6. World Economic Outlook (October 2024) - GDP, current prices, IMF
7. World Economic Outlook (October 2024) - GDP per capita, current prices, IMF
8. Exchange rate, S&P
9. Encyclopedia Britannica
10. UN Comtrade
11. World Mining Data (2021)
12. U.S. Geological Survey, Mineral Commodity Summaries, January 2024



Country’s economic outlook

Bolivia’s economy presents a unique tapestry of opportunities woven from its diverse natural resources, strategic location, and ongoing efforts towards economic stabilization and growth.

Bolivia has natural gas and oil fields, a varied climate conducive to agricultural and livestock areas, and reserves of tin, zinc, and gold; it has the largest lithium resources and large iron reserves. The country’s vast lithium reserves, located in the Salar de Uyuni, the world’s largest salt flat, offer significant investment potential as the demand for this lightweight metal continues to surge.

In addition to its mineral wealth, Bolivia has made strides in diversifying its economy through the development of its agricultural sector. It has capitalized on its fertile lands to become a major exporter of soybeans, quinoa, and other crops that are gaining popularity on the international market.

Bolivia’s strategic location in the heart of South America also serves as a gateway for regional trade. The country is actively improving its transportation infrastructure to facilitate better connectivity with neighboring countries.

Following the pandemic, Bolivia witnessed a notable economic rebound and a decrease in poverty levels, fueled by an improved global context, which included increased international prices for its main export commodities.

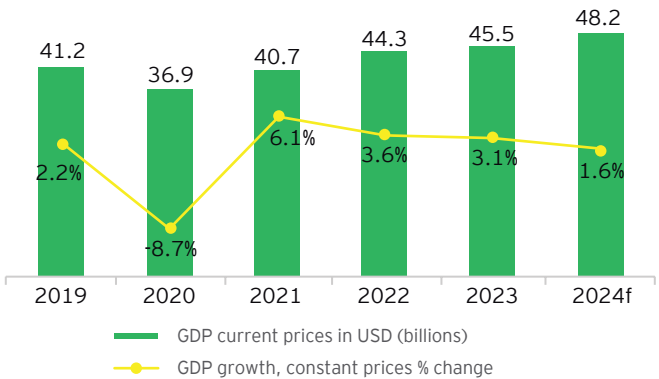
Nonetheless, challenges such as elevated government debt, a reduction in natural gas output, and limited foreign reserves have hindered the government’s ability to stimulate growth. These issues have also resulted in tensions within the currency market.

Table 1:

Index	Bolivia
GDP current prices USD bn. (2023) ¹	\$45.5
GDP growth, constant prices % change (2023) ¹	3.1%
Gross domestic product per capita, current prices USD (PPP) (2023) ¹	\$11,028.1
Inflation, year-end consumer prices (2023) ¹	2.1%
Fiscal balance (net lending (+) or net borrowing (-) of general government; % of GDP) (2023) ¹	-10.9%
Public debt (General government gross debt, % of GDP) (2023) ¹	88.4%
Current account (% of GDP) (2023) ¹	-2.6%
Investment (% of GDP) (2023) ¹	17.6%
Poverty headcount ratio at \$6.85 a day (2017 PPP) (% of population) (2021) ²	15.2%

1. World Economic Outlook (October 2024), IMF
2. Poverty headcount ratio at \$6.85 a day (2017 PPP) (% of population), World bank 2021

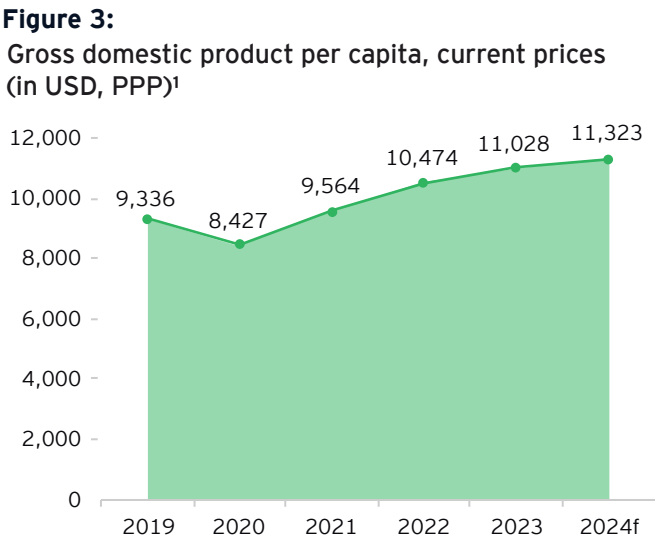
Figure 2:
Gross Domestic Product, Levels and Growth³



3. World Economic Outlook (October 2024), IMF

The economic resurgence in Bolivia from the downturn caused by the pandemic surpassed expectations. After experiencing a significant contraction of 8.7 percent in 2020, the Bolivian economy showed a robust recovery, achieving a growth rate of 6.1% in 2021. This positive momentum continued with a growth of 3.6% in 2022, followed by a steady 3.1% increase in 2023.

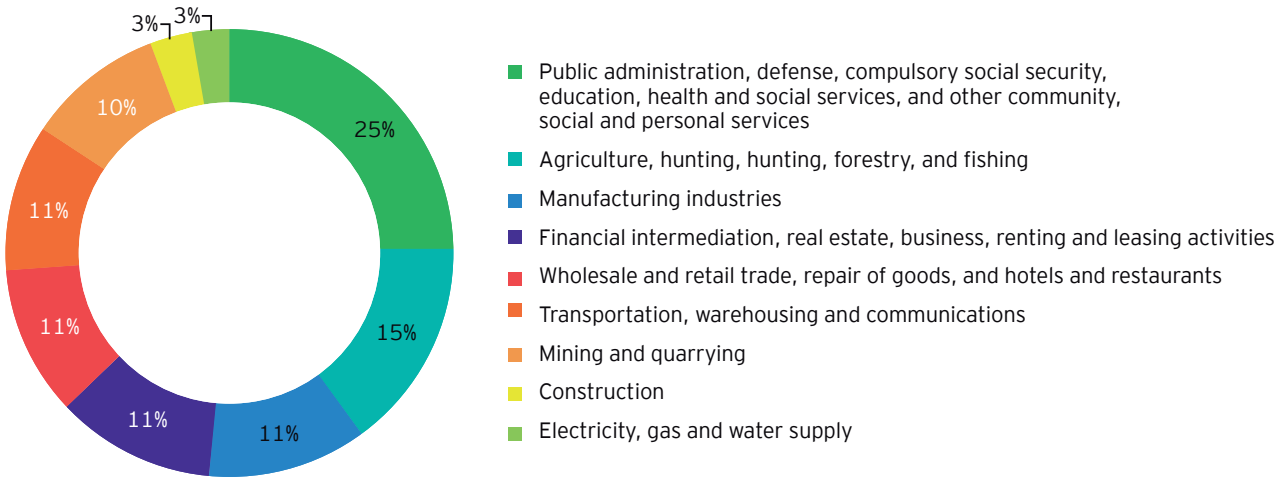
However, due to fiscal, monetary, exchange rate, and financial imbalances, the country is projected to grow only by 1.6% in 2024, according to the IMF.



1. World Economic Outlook (October 2024), IMF

Following the decline recorded during the pandemic, Bolivia’s per capita GDP has recovered and continued to grow. It is expected to reach USD 11,323 in 2024.

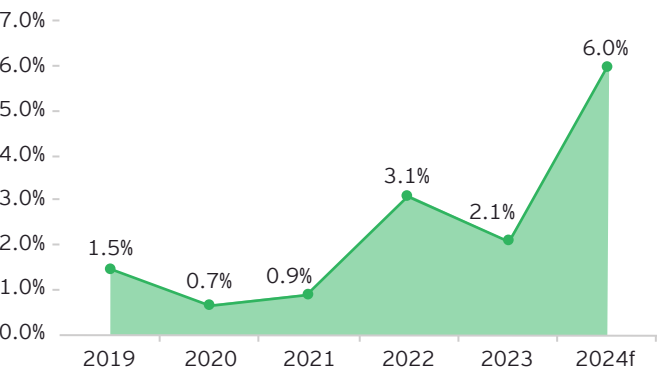
Figure 4:
Annual gross domestic product (GDP) by economic activity at current prices in dollars (2023)²



2- Annual gross domestic product (GDP) by economic activity at current prices in dollars, ECLAC

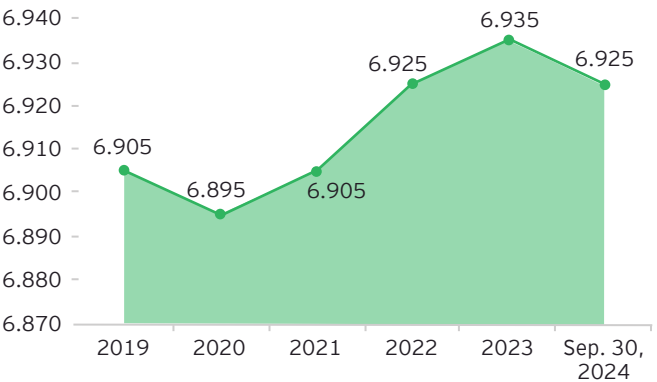
The most significant sector in Bolivia is the public and personal services sector, followed by agriculture. Other sectors as manufacturing, financial, retail, mining and transportation contribute a similar share in terms of GDP percentage.

Figures 5 and 6:
Inflation, end of period consumer prices¹



1. World Economic Outlook (October 2024), IMF

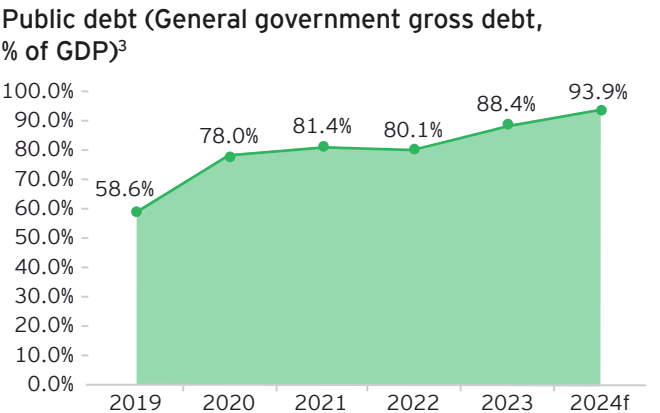
Exchange rate of foreign currency (USD/BOD)²



2. Exchange rate, S&P

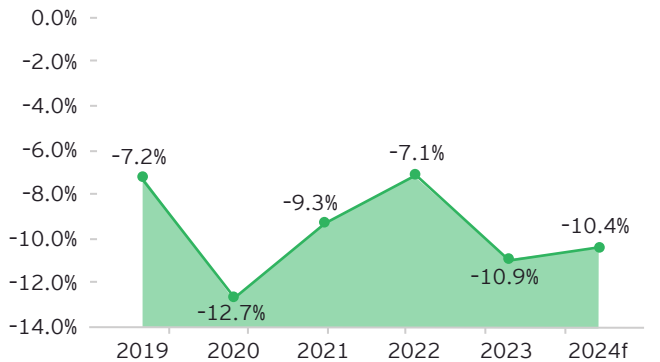
Figures 7 and 8:
The inflation rate in Bolivia has been one of the lowest in the region, in large part a result of price controls and increased subsidies for food and energy, according to the IMF 2022 Article IV Consultation.

By 2024, inflation is expected to climb to 6.0% by the end of the year. Meanwhile, the country is experiencing a shortage of U.S. dollars, which, along with rising costs and an informal exchange rate, is weakening the Bolivian peso against the dollar.



3. World Economic Outlook (October 2024), IMF

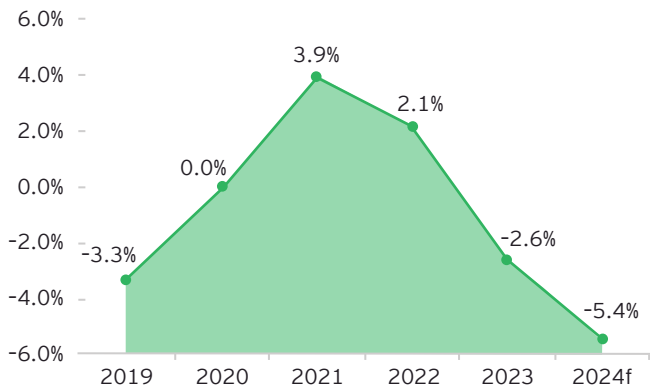
Fiscal balance (net lending (+) or net borrowing (-) of general government; % of GDP)⁴



4. World Economic Outlook (October 2024), IMF

Bolivia’s public debt reached 88.4% in 2023 and is expected to continue growing in 2024. Most of this debt is financed through domestic sources. The fiscal deficit improved from -12.7% in 2021 to -7.1% in 2022. But it dropped in 2023 closing at -10.9% and is expected to close 2024 at -10.4%.

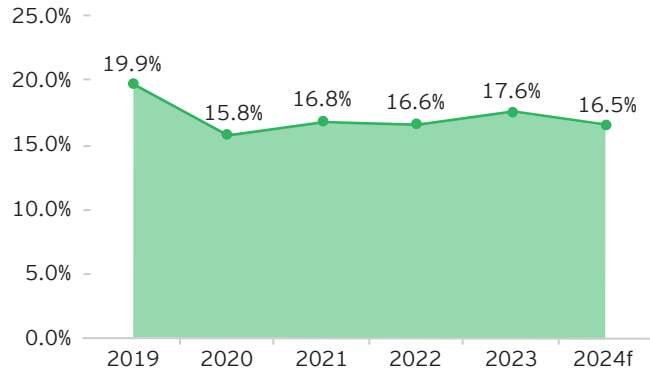
Figure 9:
Current account (% of GDP) ¹



1. World Economic Outlook (October 2024), IMF

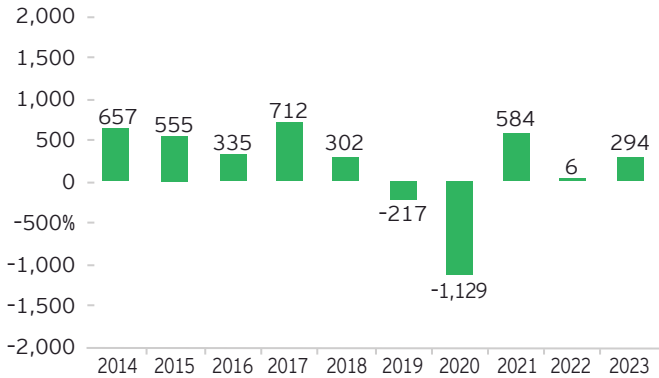
The current account recorded a surplus of 3.9% GDP in 2021 but began to decline in 2022. In 2024 is expected to reach - 5,4%.

Figures 10 and 11:
Investment (% of GDP) ²



2. World Economic Outlook (October 2024), IMF

FDI Bolivia (In millions of USD)³




3. Foreign direct investment, net inflows (BoP, current US\$) - Latin America & Caribbean | Data (worldbank.org)

The Net Direct Investment received recorded positive flows for the third consecutive year, amounting to 294 million dollars for 2023, which is 287 million dollars higher compared to 2022.

Bolivia is an emerging market in Latin America, offering significant investment opportunities due to its abundant natural resources, including key minerals like lithium, vast fertile fields and a strategic geographic position for trade.

The country is improving infrastructure and streamlining business processes to attract foreign investment. With a growing middle class, there is an increasing demand for goods and services.



Establishing a business in the country

1. Investment Regulation and Promotion Agencies

Currently, the Bolivian government prioritizes Bolivian investment over foreign investment as a mechanism to strengthen the national productive apparatus and the supply of goods and services.

Private investment in Bolivia suffered a decrease, due to the drop in raw material prices and their high cost, since it is the largest sector in which foreign investments are made, associated with the Bolivian government.

The Central Bank of Bolivia (BCB) will oversee registering foreign investment and will issue a certificate of entry of contributions for investment in Bolivia, which will accredit the entry of foreign resources into the country.

Bolivia promotes the Mixed Investment modality, which is an investment modality made up of productive state investment on one hand, and national and/or foreign private investment on the other, in which the State maintains control and direction of productive economic activity.

Considering the gradual decrease in reserves, Public Private Partnerships will be encouraged in the coming years, to finance part of the public investment in the different sectors of the economy.

2. Main Types of business

There are various corporate types that can be used by investors to start a business in Bolivia. The most used forms are:

a. Corporations

A minimum of three shareholders is required to establish a public limited company. Those non-domiciled shareholders must designate a legal representative in Bolivia to sign the public deed of incorporation on their behalf.

The initial share capital, whether in national or foreign currency, must be deposited in a local financial institution. The capital of a public limited company is represented by shares with a value in multiples of 100 and are registered or bearer shares.

Characteristics:

- ▶ **Name:** It must include the indication “Sociedad Anónima” or the initials “S.A.”
- ▶ **Limited liability:** The liability of shareholders is limited to the amount of shares they have subscribed. Shareholders are not personally liable for corporate debts. The guarantee that the company's creditors have is its assets.
- ▶ **Administration:** The General Meeting of Shareholders, the Board of Directors and Management.
- ▶ **Legal reserve:** Minimum of 5% of the distributable profit of each year, deducting Income Tax, until it reaches an amount equal to 50% of the share capital.
- ▶ **Transfer of shares:** The transfer of shares is free, provided that the contrary is not stipulated in the company's bylaws.

b. Limited Liability Company

The Limited Liability Company is organized with a minimum of 2 and a maximum of 25 partners. The requirements for its incorporation are the same as those required for other types of companies. Its capital is divided into capital installments of equal value.

Characteristics:

- ▶ **Name:** It must include the indication “Sociedad de Responsabilidad Limitada”, the acronym “S.R.L.”, “Limitada” or “Ltda.”
- ▶ **Limited liability:** Partners are not personally liable for corporate obligations.
- ▶ **Administration:** The Assembly of Partners and Management.
- ▶ **Legal Reserve:** There is no obligation to make a legal reserve.



Tax Regime

1. General Overview

1.1 Corporate Income Tax Rate (CIT): 25%

1.2 Capital Gains Tax Rate: capital gains earned by corporate taxpayers are taxed at the same rate (25%) as ordinary income. Capital gains earned by foreign residents are also subject to tax, with income resulting from the sale of shares by non-residents subject to a withholding of 12.5%.

1.3 Branch Tax Rate: Same as CIT - 25%.

1.4 Withholding Tax

- ▶ Dividends: 12.5%
- ▶ Interest: 12.5%
- ▶ Royalties and Technical Services: 12.5%
- ▶ Branch profits: 12.5%
- ▶ Other Fees and Compensation for Services Rendered Abroad: 12.5%

Net Operating Losses (Years)

- ▶ Carryback: Not allowed.
- ▶ Carryforward: Allowed for 3 years, except for some productive industries such as mining and oil and gas which are allowed for 5 years. Furthermore, the first-year losses can be offset for up to 5 years in new investments which capital is equal or higher than BOB 1 million.

2. Tax on rent and corporate income

2.1 Corporate income tax

Determination of the net taxable income:

General: Net income is derived from gross income, less the necessary expenses required to generate it. Typically, it requires starting with accounting income and making the necessary book-to-tax adjustments to calculate taxable income.

Monetary correction: Inflationary adjustment is required for CIT determination purposes.

Depreciation: This is generally deductible under the straight-line method.

R&D incentives: There are no specific incentives.

2.2 Corporate Tax Rates: 25%.

2.3 Dividends: Dividends received from other taxpayers are not subject to tax.

Dividend distributions to local individuals are exempt of taxes and subject to 12.5% withholding for foreign owners.

2.4 Mining tax/Industry specific taxes

- ▶ General exports exemptions apply.
- ▶ In addition to CIT a 12.5% rate applies on additional taxable profits resulting from favorable price conditions for minerals and metals (when quotations are equal or higher than the base quotations established by law). To encourage transformation of raw material in Bolivia, companies producing metal or nonmetal minerals with added value pay only 60% of the said additional tax.

2.5 Capital gains (direct and indirect)

For resident companies, capital gains are treated as ordinary income and are subject to standard CIT rate of 25%. For nonresident companies and individuals, capital gains are taxed with a withholding of 12.5%

2.6 Administration

The fiscal year depends on the category that the company belong to (Commercial, Mining, Industrial, Agricultural). In general, companies must file returns in 120 days after the closing of the fiscal year.

2.7 Compensation with other taxes. Once CIT is paid, it can be used as an advanced payment of the Transaction Tax of the next fiscal year.

3. International Tax

3.1 Foreign tax relief

Foreign tax credits are not available in Bolivia.

3.2 Foreign-exchange controls

No foreign exchange controls by Bolivian Central Bank.

3.3 Transfer pricing

Bolivian law includes transfer pricing rules that typically apply to transactions between related parties.

Under the TP regime, the following formalities will apply, depending on the amounts of yearly transactions:

- a) Greater than BOB15 million (USD2,155,172), a transfer-pricing study and Informative Tax Form must be filed.
- b) Between BOB7,500,000 (USD1,077,586) and BOB15 million (USD2,155,172), only informative Tax Form must be filed.
- c) Less than BOB7,500,000 (USD1,077,586), count with information requested by Bolivian Tax Authority.

The following should be considered on Bolivia's TP regime:

- a) Applies only over international transactions (i.e., it is not applicable for domestic related parties).

b) Defines a special formula to define the market price range, which is different to the interquartile range (IQ range).

3.4 Debt-to-equity rules: Not applicable; however, the interest deduction with owners is limited to 30% of interest paid to third parties.

3.5. Controlled foreign corporations (CFC): No CFC rules in Bolivia.

3.6 Preferential tax jurisdictions: Special rules apply for “low-or no-tax” jurisdictions.

4. Value-added tax

Value Added Tax (VAT) is levied on the sale of goods, the delivery and use of services and the import of goods in Bolivia at an 13% tax rate. VAT uses the input/output system, under which the VAT paid on sales is offset against the VAT paid on purchases. Any VAT that is not used as credit in a particular month may be applied in the following months until it is extinguished. This credit is not subject to term or the running of statutes.

Complementary Regime of VAT is levied on the income from capital investments or salaries of individuals at a 13% tax rate.

5. Other

5.1. Green taxes: Not applicable in Bolivia.

5.2. Customs duties. Import duties range from 0% to 40%, in addition to 14,94% VAT on the CIF value.

5.3. Excise tax. Is levied on the domestic sale of goods and imports of cigarettes, soft drinks, alcoholic beverages and motor vehicles at specific and percentual rates.

5.4. Stamp Duties: Not applicable in Bolivia.

5.5. Other taxes:

- ▶ **Transaction Tax** is levied on gross sales at 3% tax rate. It can be offset by the CIT effective payment made of the previous fiscal year.
- ▶ **Wealth tax** is levied on individuals with Bolivian residency if their net wealth is higher than BOB30,000,000 (approx. USD 4,300,000). The applicable rates range from 1.4% to 2.4%. A wealth tax return must be filed annually.

▶ Municipal Taxes

- **Property Tax:** is an annual municipal tax that is levied over the value of real state (land, buildings, and fixed and permanent facilities) and motor vehicles. The tax rate varies between 0.35% to 1.5% for real state and 1.5 to 5% for motor vehicles, depending on the value of the asset and the municipality.
- **Property Transfer Tax:** is levied on the transfer of urban or rural property and motor vehicles. The tax rate is 3%, to be paid by the buyer.

5.6. GAAR The “economic reality principle” applies.





Labor Regime

1. Labor law

1.1. Classification of employment contracts based on their nature.

- ▶ **Indefinite contracts.** Contracts that do not have a defined term. Such employment agreements fully extend all labor rights and benefits to the workers as per Bolivian law.
- ▶ **Fixed term or Modal Contracts.** This category of contracts requires an objective cause justifying the temporary nature of the contract term, aligning with the type of contract deployed. The contract's validity is guided by its adherence to the regulations stipulated in the prevailing legislation.

Considerations for all types of contracts: All the above contracts include a probationary period of 90 days.

1.2. Working hours and breaks

In Bolivia, the maximum working time is set at 48 hours per week for men and 40 hours per week for women.

1.3. Law on remote work, telework and international labor

No specific regulation on this matter in Bolivia.

1.4. Types of remuneration and minimum monthly income

Bolivia's Minimum Living Wage is set at BOB2,500 (approximately USD 360). Salaries are determined mutually between the employer and the employee.

Salary can take various forms: it can be fixed (known as the basic salary or wage), variable (subject to the fulfillment of certain conditions, such as commissions or piecework), or mixed (a combination of fixed and variable components).

1.5. Distribution of profits

If the company had profits, the employer must pay a bonus up to the less between one month of salary or 25% of net income to all employees who have worked in the year or pro rata to the time worked.

This item is subject to Complementary Regime of VAT.

1.6. Absences: holidays, vacations, pregnancy

This includes mandated weekly rest, holidays, and 15 to 30-day paid annual leave for each year of service, depending on the labor seniority.

Bolivian regulations uphold the right of worker to enjoy paid leave on statutory holidays recognized by law.

On the other hand, maternity leave represents one of the most consequential benefits afforded to employees. It grants the employee a span of 90 days of leave, distributed into prenatal and postnatal periods, each consisting of 45 days.

Also, a year-end bonus (Christmas bonus) equivalent to one month salary.

Finally, there is an extra bonus when the yearly GDP growth is higher than 4.5%.

1.7. Social Security Contributions:

Employee Contributions. Are withheld from the monthly salary at a rate of 12.72%, which is applied to the total salary with some limits. Also, there are solidarity contributions with rates that vary between 1%, 5% and 10%.

Employer Contributions. Are calculated at a rate of 16.71%, which comprises health, household, and professional risks.

1.8. Severance payment

Employees are entitled to a severance payment consisting of one month of salary for every year of service (and pro rata for fractions thereof).

1.9. Trade unions and collective bargaining

The prerequisites for forming a trade union include:

- ▶ Affiliating more than 20 workers, in the case of corporate unions.
- ▶ Holding an assembly where the union's regulations are approved, and the board of directors is elected.
- ▶ Registering the trade union with the Ministry of Labor.

Trade union organizations present the interests of all workers within their scope, both in conflicts and during collective labor negotiations. The result of collective bargaining is a collective agreement, ratified by the employer and the union or workers' representatives. This agreement governs compensation, working conditions, productivity measures, and other labor-related clauses.

2. Considerations for foreign workers

2.1. Legal considerations regarding foreign workers

In Bolivia, legal provisions specify that the number of foreign personnel engaged by either a local or foreign company may not exceed 15% of the total workforce. This limit is applicable for headcount and salaries.

Employment agreements with foreign workers must be in writing.

Expatriates must pay social security contributions in Bolivia. Contributions can be transferred to the home country of the expatriate if the following conditions are satisfied:

- ▶ The expatriate ends his or her employment relationship and definitively leaves the country.
- ▶ The expatriate has not accessed his or her pensions in Bolivia.
- ▶ A bilateral or multilateral social security agreement is in effect with the destination country.

Bolivia has signed the Ibero-American Multilateral Agreement on Social Security. Countries that have effectively implemented this agreement are Argentina, Bolivia, Brazil, Chile, Ecuador, El Salvador, Spain, Paraguay, Perú, Portugal and Uruguay.

2.2. Immigration regulations

Expatriates who want to engage in remunerated activities in Bolivia must apply for a visa or residence permit that entitles him or her to work. These permits may be obtained after the expatriate has entered the country. Individuals may also obtain the documents before their arrival through a Bolivian consulate abroad.



Financial Reporting

1. Publicly traded companies

Listed companies, except for certain entities operating in the financial services sector, are required to publish quarterly and annual financial information in accordance with the Generally Accepted Accounting Standards in Bolivia issued by the National Technical Council of Audit and Accounting (CTNAC).

2. Public and regulated companies

Other entities regulated by the competent authority, depending on the industry to which they correspond, except for certain entities that operate in financial services, are also required to publish financial information in accordance with the Generally Accepted Accounting Standards in Bolivia issued by the National Technical Council of Audit and Accounting (CTNAC).

3. Special cases

For certain banking, securities and insurance entities in Bolivia, the Generally Accepted Accounting Standards in Bolivia issued by the National Technical Audit and Accounting Council (CTNAC) are not applied, but rather the regulation of the Supervisory Authority of the Financial System (ASFI) or the regulation of the Supervision and Control Authority of Pensions and Insurance (APS), respectively, for the preparation of financial information.

4. Other country-specific aspects

In the absence of a specific local technical accounting pronouncement, the current International Financial Reporting Standards (IFRS) are substantially adopted.





Brazil

Message from EY Brazil's Country Managing Partner

Brazil has always been a place of many opportunities for foreign investment and new business, and the continuous improvement of our economic indicators, combined with an unparalleled potential for renewable resources, and a diversified consumer market, makes Brazil a place to be considered by those who wish to contribute their financial resources.

Its 2.9% Gross Domestic Product (GDP) growth in 2023 put Brazil back on the list of the world's 10 largest economies, according to a recent announcement from the International Monetary Fund (IMF), which corroborates Brazil's potential. Brazil also stands out as a global destination for foreign direct investment (FDI), and added 85 billion dollars in FDI in 2022, which made the country the third largest global destination for FDI, according to a report from the United Nations Conference on Trade and Development (UNCTAD).

The transactions and acquisitions agenda remains dynamic and attractive. According to data from the October 2023 EY CEO Outlook Pulse Survey, 90% of Brazilian executives interviewed intend to perform a transaction in the next 12 months. More than half expect to see growth in revenues, and 70% believe that profitability will improve. At the same time, there is also expectation for an increase in Doing Business costs.

Brazil's indirect tax legislative framework, which is known to be a complex tax system, will undergo major changes as the Tax Reform was enacted at the end of 2023. Although one of the aims of the new regulations is to simplify the Brazilian tax system, businesses need to be prepared for the wide-ranging and complex set of changes that will come, with different industries and a significant impact on processes, systems, and people.

Widespread use of Artificial Intelligence in companies' services is also on the market's radar and is another of the countless opportunities that can be seized. More than 70% of Brazilian CEOs stated that they intend to adopt AI for efficiency gains and performance improvements. On the other hand, there is growing concern about the ethical use of the technology and its security risks.

At EY Brazil, we have noticed a growing interest from our clients in services related to sustainability, not least because the latest ESG Trend Indices developed by EY, showed that 87% of the leaders interviewed believe that sustainability and ESG issues are essential for business, and are decisive for long-term success.

The fact that COP30 will be held in Brazil brings a closer look at sustainability issues locally, especially regarding the Amazon. In this sense, we will see a strengthening in business initiatives in the region and we will need to invest heavily in technologies that leverage the full potential of Brazil's energy transition.

Faced with this complex scenario of economic, technological, consumer and environmental transformations, it is essential to understand all the changes accurately. I invite you to read the Doing Business LATAM guide, which will help strengthen Brazil's ties with the world and be a starting point for anyone interested in investing in our country.

Have a good reading, and we look forward to hearing from you!

Luiz Sérgio Vieira

Country Managing
Partner
EY Brazil





Overview

Brazil is the largest country in South America and stretches from the Amazon to the Atlantic. Brasilia is its capital, other major cities include São Paulo, a financial and cultural center; Rio de Janeiro, famous for its beauty; and Salvador, recognized for its cultural heritage. The diverse population reflects indigenous, African and European influences. Rich in natural resources such as the Amazon, its economy is centered on agriculture, automotive, mining, energy and manufacturing. Brazil seeks openness in trade agreements, with a focus on innovation and diversification for sustainable growth, maintaining a leading economy in Latin America.



Population¹ 215,313,000

Urban²: 88%

Rural: 12% (2022)



Official language³

Portuguese



Area⁴

8,515,770 km²





System of government³

Presidential Republic

President: Luiz Inácio Lula da Silva

Next elections: 2026



Climate³

Tropical with stable temperatures throughout the year.
In the south, winters are colder and rainy



International Time⁵

GMT-3 (Brasilia Time)

GMT-2 (Fernando de Noronha Time)

GMT-4 (Amazon Time)

GMT-5 (Acre Time)



GDP current prices⁶

USD \$2,173.7 Bn. (2023)



GDP per capita (PPP)⁷

USD \$21,052.0 (2023)



Currency⁸

Brazilian Real

US\$1 = BRL 5.45 (Sep. 30, 2024)



Key sectors⁹

Brazil is a major global player in sectors such as paper, pulp, steel, mining, aeronautics, oil, natural gas, petrochemicals, bioethanol, meat, agriculture, and others.

Why invest in Brazil?

9th largest GDP
in the world and
largest in Latin
America in 2023¹⁰

6th largest country
in the world by
field area¹¹

6th recipient of foreign
direct investment in
2022¹²

World leader in food
exports: 1st largest
exporter of soy,
meats (includes all
categories), sugars
and coffee, 2nd in
corn and other
categories in 2023¹³

World leader in
mineral production:
2nd largest exporter
of iron, 3rd in
magnesite, 4th in
bauxite, 7th in tin, 5th
in lithium and 9th in
petroleum in 2023¹⁴

World leader in other
exports: 1st of raw
tobacco, 2nd of pulp
and cellulose and ores,
slag and ash among
others in 2023¹³

1. World Economic Outlook (October 2024), IMF - Population
2. Urban population (% of total) - Latin America and the Caribbean (2023), World Bank
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8. Exchange rate, S&P
9. Encyclopedia Britannica
10. World Economic Outlook, October 2024, IMF
11. The World Fact Book, CIA
12. Foreign direct investment, net inflows, World Bank
13. UN Comtrade
14. World mining data



Country’s economic outlook

Brazil is the largest country in Latin America, fifth largest in the world in terms of area, and the sixth largest in population.

At the economic level, Brazil rose in the rankings to become the ninth-largest economy in the world in 2023, after achieving a growth rate of 3.08%, thereby surpassing Canada’s GDP. The IMF expects it to rise to the eighth position in 2024.

Following the pandemic, growth rebounded to 4.8% in 2021 and 3.0% in 2022, while remaining strong throughout 2023 and closing at 2,9%, according to the Brazilian Institute of Geography and Statistics (IBGE).

Additionally, inflation decreased significantly, closing at 4.62% in 2023. This has allowed the Central Bank to begin a process of easing its monetary policy, which should continue to boost activity.

On the fiscal policy front, the government has continued its efforts to achieve consolidation and reach its goal of a primary surplus of 1% of GDP required by the new fiscal framework. This was promoted by the government of Luis Ignacio “Lula” da Silva and passed into law last August 2023, looking to strengthen the country’s public finances.

Brazil has a diverse and sophisticated economy with a wide range of industries, from automotive, steel, and petrochemicals to computers, aircraft, and consumer

durables. With a growing emphasis on exports, agriculture continues to be a significant component of Brazil’s GDP, especially when considering related sectors such as food processing, transportation, and retail.

The sector that contributes the most to the GDP is the services sector, which includes real estate, financial services, IT services, and numerous small businesses.

The country is also rich in natural resources. It is one of the top global producers of iron, soy, coffee, corn, sugar, and beef. It has substantial oil reserves and is one of the largest producers of hydropower in the world.

Table 1:

Index	Brazil
GDP current prices USD bn. (2023) ¹	\$2,173.7
GDP growth, constant prices % change (2023) ¹	2.9%
Gross domestic product per capita, current prices USD (PPP) (2023) ¹	\$21,052.0
Inflation, year-end consumer prices (2023) ¹	4.6%
Fiscal balance (net lending (+) or net borrowing (-) of general government; % of GDP) (2023) ¹	-7.6%
Public debt (General government gross debt, % of GDP) (2023) ¹	84.7%
Current account (% of GDP) (2023) ¹	-1.0%
Investment (% of GDP) (2023) ¹	16.1%
Poverty headcount ratio at \$6.85 a day (2017 PPP) (% of population) (2022) ²	23.5%

1. World Economic Outlook, October 2024, IMF
2. Poverty headcount ratio at \$6.85 a day (2017 PPP) (% of population) - Argentina, Brazil, Chile, Colombia, Mexico, Peru

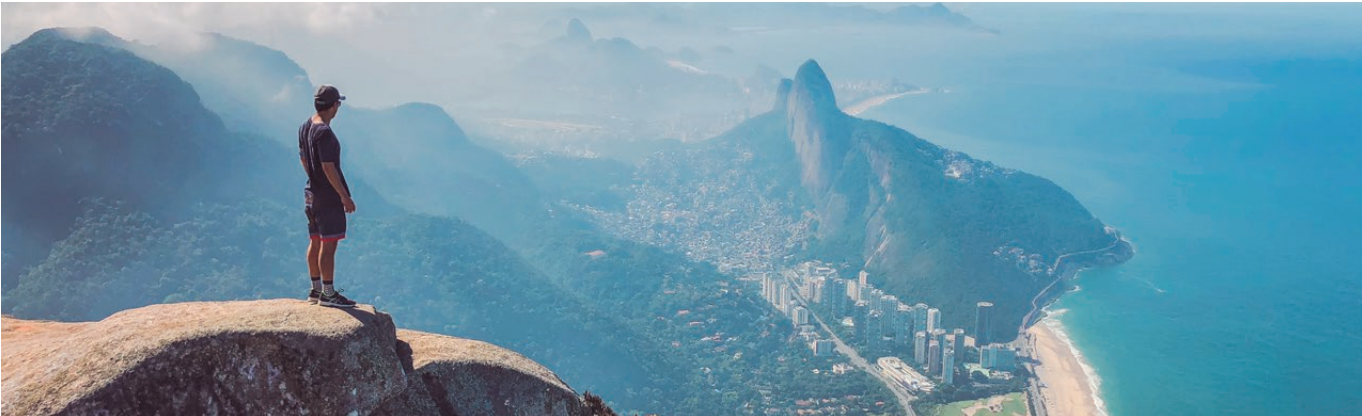
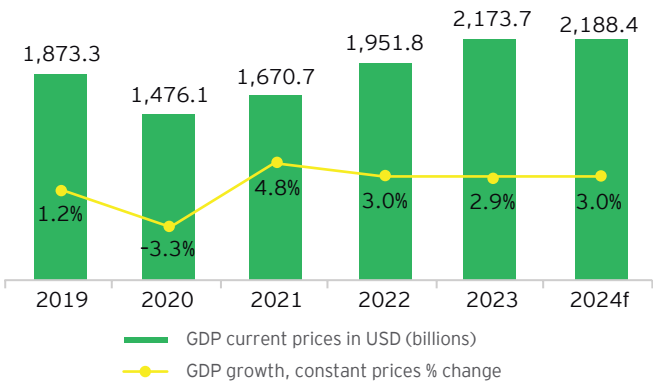


Figure 2:
Gross Domestic Product, Levels and Growth¹

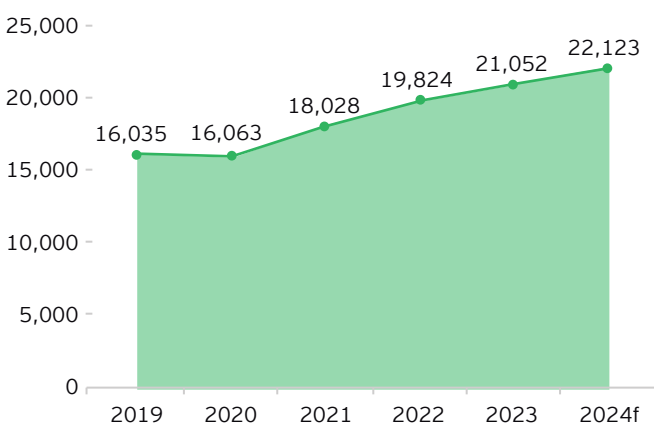


1. World Economic Outlook, October 2024, IMF

Brazil's economy has shown resilience in recent years, in 2023 its GDP is increased by 2.9%.

In October, IFM raised its growth forecast for 2024 to 3.0%, 0.9 percent points, due to better-than-expected results in the first half of the year. For 2025, it expects growth of 2.4%.

Figure 3:
Gross domestic product per capita, current prices (in USD, PPP)²



2. World Economic Outlook, October 2024, IMF

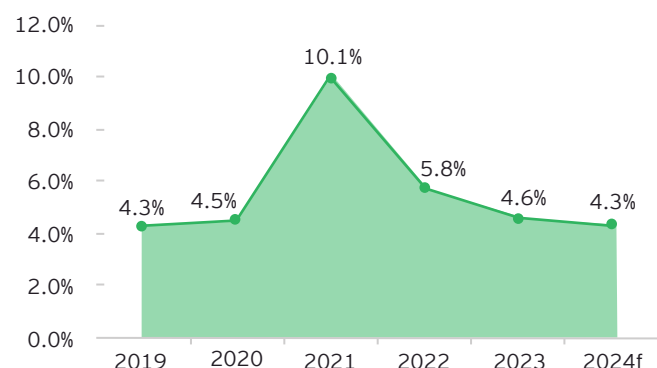
The GDP per capita in terms of purchasing power parity has continued to increase, greatly exceeding pre-pandemic numbers reaching USD 21,052 in 2023.

Figure 4:
Annual gross domestic product (GDP) by economic activity at current prices in dollars (2022)³

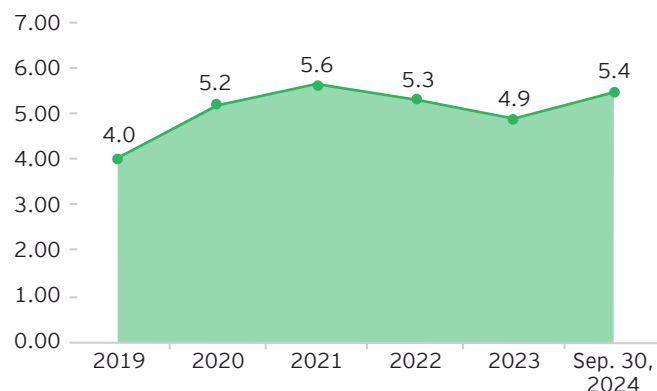


3- Annual gross domestic product (GDP) by economic activity at current prices in dollars (2022), ECLAC

The Brazilian economy is highly diversified. The top sectors that contribute to the GDP are financial intermediation, real estate and renting activities, and the public and personal services sector. These are followed by manufacturing, retail and agriculture.

Figures 5 and 6:**Inflation, end of period consumer prices¹**

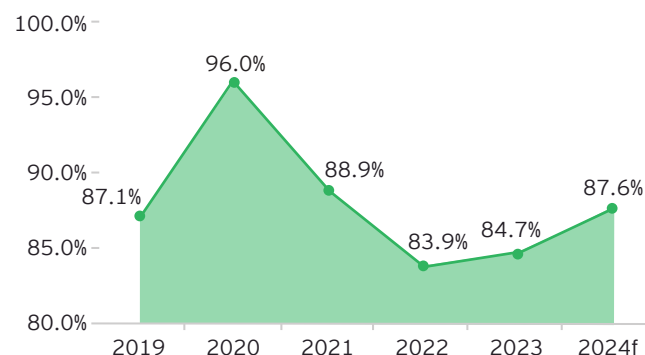
1. World Economic Outlook, October 2024, IMF

Exchange rate of foreign currency (USD/BRL)²

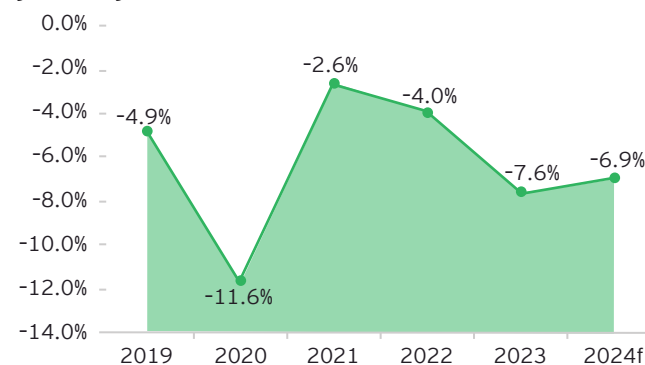
2. Exchange rate, S&P

Inflation in Brazil closed 2023 within the target set by the Central Bank, returning to pre-2021 levels. The Broad Consumer Price Index (IPCA), published by the Brazilian Institute of Geography and Statistics (IBGE), showed a variation of 4.6% in 2023. For 2024, IMF estimates 4.3%.

This has allowed for a continuous drop in the monetary policy rate until September. The decrease began in August 2023, after spending a year at a record high of 13.75%. In August 2024, the Central Bank held the rate at 10.5%, but later, in September, raised it 0.25 points to 10.75%.

Figures 7 and 8:**Public debt (General government gross debt, % of GDP)³**

3. World Economic Outlook, October 2024, IMF

Fiscal balance (net lending (+) or net borrowing (-) of general government; % of GDP)⁴

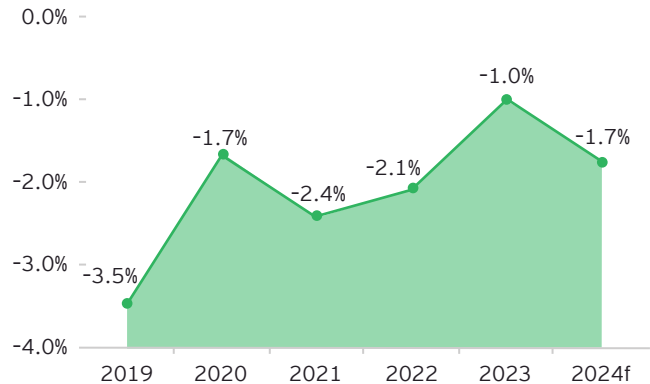
4. World Economic Outlook, October 2024, IMF

Public debt is estimated to continue growing in 2024, reaching 87.6%, while the fiscal deficit is expected to show a slight recovery compared to 2023.

In August 2023, Brazil approved a new fiscal framework aimed at limiting the increase in debt and achieving a target primary surplus of 1% of the GDP in 2026.

Figure 9:

Current account (% of GDP)¹

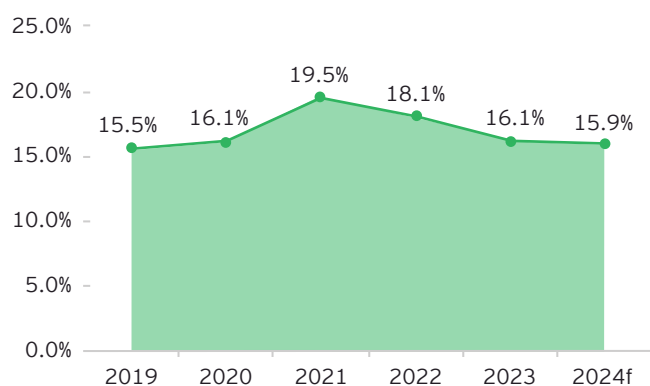


1. World Economic Outlook, October 2024, IMF

Brazil's current account has improved from 2021 to 2023 but remains negative. A deficit amounting to 1.7% of its GDP is expected for 2024.

Figure 10:

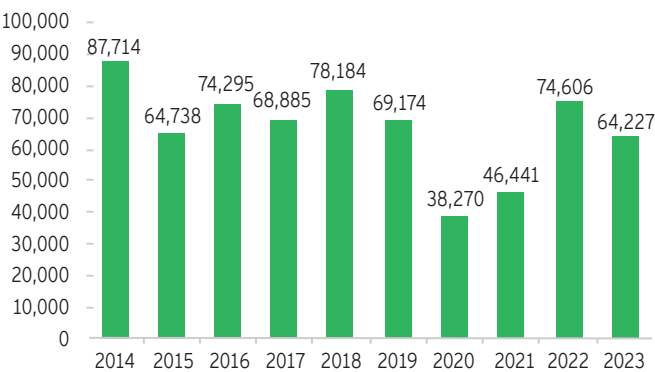
Investment (% of GDP) ²



2. World Economic Outlook, October 2024

Figure 11:

FDI Brazil (In millions of USD)³



3. Foreign direct investment, net inflows (BoP, current US\$) - Latin America & Caribbean | Data (worldbank.org)

Investment as a percentage of GDP reached 16.1% in 2023 according to the IMF and is expected to drop to 15.9% in 2024.

Following the pandemic, FDI began to recover; however, in 2023, it experienced a significant decline of 13.9%. Despite this, Brazil remained the fifth-largest recipient of FDI globally, ranking just behind the United States, China, Singapore and Hong Kong.

Brazil's results demonstrate the potential of its economy, which as the largest in Latin America and one of the top economies in the world, offers a wide range of investment opportunities across several industries, ranging from agriculture and mining to technology and financial services.

Additionally, the country has a vast domestic market, with a population of over 200 million people and a growing middle class, providing a solid boost for companies looking to expand into one of the world's most important emerging markets.



Establishing a business in the country

Brazil has regional incentives focused on both corporate income tax (CIT) and indirect taxes. The most relevant income tax incentive is focused on the development of the North and Northeastern regions of Brazil. State VAT incentives are also available for new

investments, but they tend to become less relevant as the indirect tax Reform moves forward.

Specific incentives also exist for certain types of industries, such as payroll incentives for some labor-intensive industries, as well as R&D benefits.

The most common corporate types of entities in Brazil are the Corporations (called “Sociedade Anônima” or “S.A.”) and the Limited Liability Company (called “Limitada” or “Ltda.”). Based on that, please find below a comparative chart between those two corporate types:

	Corporation	Limited Liability Company
Ownership	<p>A minimum of 2 shareholders is required*, whether individuals or legal entities, Brazilian or foreign. There are two main types of corporations:</p> <p>a) A publicly-held corporation has its shares traded on the stock or over-the-counter market. In addition to complying with Brazilian Corporate Law, it must follow rules set by the Securities and Exchange Commission of Brazil (CVM).</p> <p>b) A closely-held corporation conducts all share transactions privately, and the sale of such shares must follow rules stated in the company’s bylaws as well as Brazilian Corporate Law.</p> <p>* Exception: “Subsidiária Integral” - wholly-owned subsidiary.</p>	<p>May be incorporated by 1 or more partners, individuals, or legal entities, whether Brazilian or foreign.</p> <p>Transfer of shares: in the absence of a contractual provision, a partner may transfer their share, in whole or in part, to someone who is already a partner, without the need to consult the others, or to a third party, provided there is no opposition from holders of more than one-quarter of the company’s corporate capital.</p>
Liability	<p>The shareholders have their liability limited to the value of the shares they have subscribed to or acquired. Disregard of corporate entity: in case of wrongful conduct or fault actions of the shareholder, in any sphere of competence, the shareholder could be personally responsible.</p>	<p>In a limited liability company, the responsibility of each partner is limited to the value of their shares, but all are jointly and severally liable for the capitalization of the corporate capital. Disregard of corporate entity: in case of wrongful conduct or fault actions of the shareholder, in any sphere of competence, the shareholder could be personally responsible.</p>
Meetings	<p>Annual Shareholders’ Meetings shall be taken within the first four months after the fiscal year-end in order to review the accounts of the administrators, examine, discuss, and vote on the financial statements; decide on the allocation of the net profit for the year and the distribution of dividends; and elect the administrators and the members of the fiscal council, where applicable. Special Shareholders’ Meetings shall be taken whenever called generally by shareholders or board member, according to the Corporate Law.</p>	<p>Annual Partners’ Meetings shall be taken within the first four months after the fiscal year-end in order to review the accounts of the administrators, examine, discuss, and vote on the financial statements; decide on the allocation of the net profit for the year and the distribution of dividends; and elect the administrators and the members of the fiscal council, where applicable. Other Partners’ Meeting shall be taken whenever called generally by partners or board member, according to the Brazilian Civil Code.</p>

	Corporation	Limited Liability Company
Management	<p>The management of a corporation shall be performed by its Executive Board (called “Diretoria”) and its Board of Directors (called “Conselho de Administração”), or only by its Executive Board. For publicly-held corporations and companies with authorized capital it is mandatory to maintain a Board of Directors.</p> <p>Executive Board (“Diretoria”): One or more officers, residents in Brazil or not, shall be appointed to manage the company. The Executive Board is responsible to manage and represent the S.A. The powers of the officers can be restricted on the Corporation’s Bylaws, being usual, for example, to condition decisions that involve certain amounts to the shareholder’s approval and/or require that at least two members of the Executive Board decide certain matters or sign specific documents.</p> <p>If the member of the executive board resides abroad, it will be necessary to nominate a representative residing in Brazil by means of a power of attorney with a validity period of at least 3 (three) years after the end of the Officer’s term of office.</p> <p>Board of Directors (called “Conselho de Administração”): Three or more councilmembers, residents in Brazil or not, could be appointed to establish the general strategy for the corporation’s business.</p> <p>If the member of the Board of Directors resides abroad, it will be necessary to nominate a representative residing in Brazil by means of a power of attorney with a validity period of at least 3 (three) years after the end of the Director’s term of office.</p>	<p>The management is performed by one or more persons, residents in Brazil or not, called “administrator” or “director”.</p> <p>Administrator: The administrator is the responsible to manage and represent the Limited Liability Company. The powers of the administrator can be restricted on the Ltda’s Articles of Association, being usual, for example, to condition some decisions that involve certain amounts to the partners’ approval.</p> <p>If the Administrator resides abroad, it will be necessary to nominate a representative residing in Brazil by means of a power of attorney with a validity period of at least 3 (three) years after the end of the Administrator’s term of office.</p> <p>Board of Directors: Despite the fact that this body is not regulated in the Brazilian Civil Code, it is possible for a Limited Liability Company to establish a Board of Directors through its Articles of Association (but it is uncommon to have this type of Board in a Limited Liability Company.)</p> <p>If the member of the Board of Directors resides abroad, it will be necessary to nominate a representative residing in Brazil by means of a power of attorney with a validity period of at least 3 (three) years after the end of the Director’s term of office.</p>

	Corporation	Limited Liability Company
Profit Distribution and Reserves	<p>The Corporate Law requires an annual payment of dividends with reference to the minimum portion established in the Bylaws, except for closely held companies with total annual revenue of up to BRL 78,000,000.00 in which such minimum dividend may be established at any time.</p> <p>Payment of dividends must be in proportion to the shareholders' equity interest, but disproportional dividend distribution can be performed by different types of shares (i.e., via preferred shares).</p> <p>Should the Bylaws be silent, the amount to be distributed as mandatory dividends shall be 50% of the adjusted net profit. Also, after the proper allocation of values in the reserves (see details below) the remaining profits shall be paid to the shareholders as extra dividends.</p> <p>According to the Corporate Law it is mandatory the constitution of a legal reserve equivalent to 5% of the fiscal year's net profit (observed the total limited of this reserve in 20% of the share capital). Other reserves can be constituted and regulated in the Bylaws or on the Shareholders' Meeting.</p>	<p>Considering that there is no mandatory minimum dividend defined in the legislation for Limited Liability Companies, the distribution will be deliberated by the partners, based on what is established in the Articles of Association.</p> <p>Brazilian Civil Code expressly mentions that a Limited Liability Companies may provide, based in the Articles of Incorporation, distribution of dividends in disproportion to the equity ownership of the partners in the corporate capital.</p> <p>Constitution of any reserves is not mandatory. However, a Limited Liability Company can constitute reserves by dispositions of the Articles of Association.</p>





Tax Regime

1. General Overview

1.1 Corporate Income Tax Rate: 34% combined rate.

1.2 Capital Gains Tax Rate: For resident companies, capital gains are treated as ordinary income (CIT combined rates up to 34%).

For nonresident companies and individuals, progressive rates apply ranging from 15% to 22.5%. A 25% rate applies to nonresidents located in a low-taxed jurisdiction (LTJ, list of LTJs provided by the Brazilian Tax Authorities).

1.3 Branch Tax Rate: Same as CIT combined rate up to 34%.

1.4 Withholding Tax (%)

- ▶ **Dividends:** Exempt.
- ▶ **Interest:** General 15% to non-residents, and 25% to non residents located in LTJ.
- ▶ **Royalties from Patents, Trademarks, Formulas and Similar Items:** general 15%, and 25% to nonresidents located in an LTJ.

Other indirect/transaction taxes should be considered. Including Municipal service tax (ISS) should also apply to certain listed transactions via withholding at rates of 2-5%.

Also, a 10% Contribution for Intervention in the Economic Domain (Contribuição de Intervenção no Domínio Econômico, or CIDE) is imposed on royalties and on technical and administrative service payments (which is not a withholding tax), as well as financial tax on remittances (IOF), currently at the rate of 0.38%.

▶ **Technical Services:** same as item “Royalties from Patents, Trademarks, Formulas and Similar Items” above. In addition, the withholding tax rate for technical services should be subject to a 15% rate while increased to 25% for non-residents in LTJs.

▶ **Other Fees and Compensation for Services Rendered Abroad:** 15% is the general income WHT rate on non-resident income, increased to 25% for LTJ. Services that do not fall within the definition of technical services should be subject to domestic rate of 25%.

▶ **Branch Remittance Tax:** 0%.

1.5. Net Operating Losses (Years)

- ▶ **Carryback:** Not allowed.
- ▶ **Carryforward:** Indefinitely but can only offset up to 30% of the company's taxable income for a tax period (see subitem “Relief for losses” under “2.1.” below).

2. Tax on rent and corporate income

2.1. Corporate income tax

- ▶ **Calculation of the net taxable income (trading income)**
 - **General:** Brazilian resident companies are subject to CIT combined rate on their worldwide income. Companies resident in Brazil are those incorporated under the Brazilian laws and managed in Brazil. Foreign branches, agencies or representative offices of Brazilian companies are also subject to Brazilian tax on their income earned abroad. In general, foreign-source losses may not be offset against Brazilian source income. Foreign tax credits are available.
 - **Monetary correction:** Monetary correction of financial statements are generally not allowed.

- **Depreciation:** Fixed assets may be depreciated using the straight-line method at rates provided by the Brazilian tax authorities. The legislation provides for opportunities to adopt different useful lives as well as accelerated depreciation in certain circumstances.
- **R&D incentives:** Tax benefits for investments in infrastructure and research and development (R&D) are available (e.g., super deduction; accelerated depreciation on qualifying R&D assets; exemption of patent withholding tax).
- **Relief for losses:** Tax losses may be carried forward indefinitely but can only offset up to 30% of the company's taxable income for a tax period. In general, carried forward non-operating tax losses can be offset only against non-operating gains if certain conditions are met. Tax losses may be jeopardized if a company experiences a change in business activity and ownership control between the period in which losses were generated and the period in which losses would otherwise be used to offset taxable income. In a corporate restructuring involving a merger, the tax losses of the merged company must be forgone. Similarly, in the case of spin-offs, a portion of the carried forward tax losses may be lost.

2.2. Corporate tax rates: 34% CIT combined rate, which includes a 15% general IRPJ (*Imposto de renda de pessoa jurídica*) rate, plus a 10% surtax on annual taxable income exceeding BRL 240,000, and a 9% CSLL (*Contribuição Social sobre o Lucro Líquido*). In view of the IRPJ and the CSLL, the CIT rate in Brazil is generally considered to be 34%.

2.3. Dividends: tax exempt.

2.4. Mining tax/ specific taxes per industry (list):

- ▶ General exports exemptions apply;
- ▶ General tax incentives to entities located in the area of the Agency for the Development of the Northeastern States (SUDENE) and the Agency for the Development of the Amazon (SUDAM);
- ▶ Various deductions aimed at mining companies (e.g., accelerated depreciation, amortization, exhaustion, incentivized mineral exhaustion, and financial expenses and contract costs);
- ▶ Oil and Gas special customs regimes (e.g., Special bonded warehouse for oil and gas platforms, Temporary admission, different types of drawbacks, REPETRO, REPENEC, and RECAP);
- ▶ Automotive R&D Incentive (Rota 2030);
- ▶ General R&D incentives (see subitem "R&D incentives" under "2.1." above).

2.5. Capital gains (direct and indirect)

For resident companies, capital gains are treated as ordinary income and are subject to standard CIT combined combined rates up to 34%. For nonresident companies and individuals, capital gains on shares and other assets located in Brazil are taxed at progressive rates ranging from 15% to 22.5%. A 25% rate applies to nonresidents located in a LTJ. Brazilian law does not contain provisions for the assessment of capital gains tax with respect to indirect transfers of Brazilian companies. However, Brazilian tax authorities may disregard indirect transfers, based on the argument that the transaction was a simulation/sham aimed exclusively at avoiding Brazilian capital gains tax (e.g., fictitious transactions). In such cases, same comments on nonresident capital gain tax above are applicable.

2.6. Branch Tax Rate: Same as CIT combined rate up to 34%.

2.7. Administration

The fiscal year is the calendar year. In general, companies must file returns called Escrituração Contábil Fiscal (ECF) in an electronic format by the last working day of July of the following year. Extensions for filing returns are generally not available.

Companies may elect to pay IRPJ and CSLL on an annual or quarterly basis. In general, this election may not be changed during the calendar year.

Companies that elect the annual option must make advance monthly payments of IRPJ and CSLL. The advance payments are equal to the income tax applicable to either the company's actual taxable income or the company's estimated income calculated using a specific methodology, whichever is lower.

3. International Tax

3.1. Foreign tax relief

Foreign tax credits are generally available to Brazilian companies for income taxes paid abroad. In general, the foreign tax credit is limited to the amount of Brazilian IRPJ and CSLL on the foreign-source income. Compliance with certain formalities is required to support the foreign tax credit.

3.2. Foreign-exchange controls

The Brazilian Central Bank (BACEN) is responsible for regulating foreign exchange controls. The potential application of a tax on foreign exchange (IOF-FX) should be considered on cross-border movements of currency.

3.3. Transfer pricing

New transfer pricing rules came into effect (optional for FY 2023 and mandatory for FY 2024), with the following key changes: introduced the arm's-length principle according to international principles issued by the OECD with application to all cross-border intercompany transactions (including royalties) based on the OECD methods standards.

3.4. Debt-to-equity / thin capitalization rules

Brazilian thin capitalization rules apply to interest expenses paid by Brazilian entities to foreign related parties, foreign parties located in a LTJ or subject to privileged tax regimes (PTRs) or whenever the debt is guaranteed by such foreign parties. Generally speaking the debt-to-equity ratio should not exceed 2:1 although reduces to 0.3:1 where the party is in a LTJ/PTR. Specific care should be taken with shareholder debt.

3.5. Preferential tax jurisdictions

The LTJ and PTR lists are contained in regulations issued by the Brazilian tax authorities and are updated periodically.

4. Value-added tax

4.1. The following types of value-added taxes (VAT) are current in effect:

- ▶ **State VAT (ICMS):** ICMS rates vary among Brazil's 27 states. For supplies made to a customer located in the same Brazilian state as the supplier, rates typically range from 18 to 20%. The ICMS rate on a supply of goods or services made to a taxable person resident in a different Brazilian state from the state where the supplier is resident depends on the type of product and where the customer is located, and may vary between 4%, 7% or 12%.
- ▶ **Federal VAT (IPI):** 0% to 300% (depending on the IPI tariff table classification for the goods)

- ▶ **Municipal service tax (ISS):** 0% to 5% (depending on municipality and nature of service)
- ▶ **Gross receipt contributions (PIS-PASEP and COFINS):** PIS rates are 0.65% (for taxpayers taxed under the deemed corporate income tax method of calculation, under the cumulative system) or 1.65% (for taxpayers taxed under the annual actual income tax method, under the noncumulative system). COFINS rates are 3% (for taxpayers taxed under the deemed corporate income tax method of calculation, under the cumulative system) or 7.6% (for taxpayers taxed under the annual actual income tax method, under the noncumulative system).

4.2. Tax reform

A major tax reform on indirect taxes was recently approved, which will result in a simplification of the value-added tax (VAT) system. The five existing indirect taxes will be replaced by two main taxes (IBS, state and municipal, and CBS, federal), plus an excise tax and a possible state contribution applied upon primary and semi-finished products. In addition to significantly simplifying the current tax system, the proposal would generate a wide range of changes in markets and relative product prices, considering that the taxes currently applicable affects the price of products and services and business investment allocation between Brazilian states (e.g., in Brazil, manufacturing plants and distribution centers are usually located in states that grant ICMS incentives, rather than in states where the consumers are located). In this sense, the tax reform might also reduce the “weight” of tax factors in allocation decisions for productive and commercial investments, affecting not only the tax department,

but also other areas within the companies (procurement, finance, marketing, strategy, supply chain, systems, etc.).

The change will now depend on supplementary laws regulating the new rules in more in detail, and will require considerable transition time (8 years).

5. Other Considerations

5.1. Green taxes: N/A

5.2. Customs duties

In addition to the current indirect taxation, imports of goods are also subject to Import Tax.

5.3. Stamp Duties: N/A

5.4. Other taxes: N/A

5.5. GAAR

Brazilian tax law includes a GAAR provision, however it requires additional regulation in order to be effective. It is important to note that Brazilian tax authorities have challenged transactions under broader anti-simulation/sham provisions where transactions lack substance or are considered to have been aimed at avoiding tax.





Labor Regime

1. Labor Law

1.1. Employment contract

In Brazil, there are different types of employment contracts.

- ▶ **Indefinite term contract**

There is no pre-determined end date for the Employment relationship. In the event of termination, the employer is subject to the payment of specific severance payments. Types of severance payment Will depend on the circumstance of the termination.

- ▶ **Definite term contract**

Employment contract signed with a pre-determined termination date. In case of early termination, specific payments are due as a general rule.

- ▶ **Intermittent contract**

The employer may ask the employee to work based on demand.

- ▶ **Apprentice**

Specific type of contract applicable to workers from 14 to 24 years old, Companies in Brazil are subject to apprentice in number equivalent to at least 5% of the total positions that require technical education. The maximum term of this type of contract is two years, as a general rule.

- ▶ **Intern**

Specific type of contract agreed among the employer, the education institution and a third-party institution intermediating the contract. Such type of contract does not configure Employment relationship and specific rules apply, for example, maximum of 6 hours per day.

1.2. Work shift

As a general rule, the work shift is limited to 8 hours per day and 44 hours per week. There are some exceptions based either on the Law or Collective Bargaining Agreement. For example, call center workers have a work shift of up to 6 hours per day. On the other hand, workers in certain areas are allowed to work, for example, 12 hours with 36 hours' rest.

1.3. Compensation

In Brazil there is a Federal minimum wage of BRL 1,412 (approx. USD 285). However, employers must observe the minimum wages applicable to specific activities, based on the provisions of each Collective Labor Agreement. Compensation may be calculated per hour, per task, per month or based on commission.

There are types of variable compensation that may be adopted by the employer in addition to the base Salary. Variable compensation may include bonuses, premiums, and employee profit sharing. There are specifications and requirements for each type of payment, and payroll taxation varies according to the payment nature.

It is also common to consider benefits in kind as part of the employees total compensation, such as vehicles, medical plan, private pension plan, among others. It is important to note that some of the benefits must be considered for payroll taxation purposes, depending on their nature/the applicable rule.

1.4. Unions

Companies in Brazil are subject to the agreements arising from negotiations between employers and worker unions through Collective Bargaining Agreements, which, in general, establish labor rights more beneficial than those determined by Law, such as: higher overtime and/or night shift additional, specific benefits, among other obligations that must be taken into account. An employer may also negotiate an agreement directly with the Union relating, for example, to the Employee Profit Sharing Plan.

The Collective Agreements are determined considering the main activity of the company (exceptions apply to specific workers' categories) and the region where the services are provided. In this sense, the applicability of the Collective Agreements may vary, considering these aspects.

1.5. Work contract termination

Depending on the type of contract and the circumstances of termination, different severance payments may be applicable. In general, the payments due by the employer may include vacation and 13th Salary balance, severance fund deposit (including a penalty of 40% on the total balance in some cases), prior notice, among others.

1.6. Payroll Taxes

In Brazil, employee compensation is subject to several contributions. It is important to evaluate each Payroll wage type and its nature in order to conclude whether each contribution or tax due.

Contributions and taxes that form part of Payroll, in general, are as follows:

- ▶ Social security contribution
 - **Employer contribution:**
 - Twenty percent paid monthly, except in specific cases in which this contribution may be replaced by a percentage due on gross income.

- Occupational accident insurance: variable from 0.5% to 6%. It has a component related to the company's main activity which may be 1%, 2% or 3% and a factor that multiplies the main rate, calculated according to each company's occupational accident information (varies from 0.5 to 2.0). In case of employees eligible for special retirement (shorter work period required), there is an additional contribution of 6%, 9% or 12%.
- Contribution due to third parties that may reach 5.8%/6%.

- **Employee contribution**

Progressive rates variable according to the monthly compensation

▶ Employee's Severance Fund - FGTS

Mandatory deposit due by the employer in a bank account, equivalent to 8% of the monthly compensation.

▶ Withholding Income Tax

Monthly withholding due on the total income received by the employee, which varies from exempt to 27.5%, according to the total income received.

1.7. Foreign workers

- ▶ Immigration aspects
 - A foreign individual may only enter Brazil and be engaged into professional activities under certain types of entrance visas and Residence Permits.
 - It is important to take into consideration the type of professional activity to be performed and the expected length of physical presence in the country to apply for the most suitable visa and Residence Permit.

- The immigrant who is interested in temporarily establishing in the country must apply for a Residence Permit - abroad (visa collection abroad) or locally (with the Federal Police). If the locally option is chosen, it is necessary to present: non-criminal record certificate from the country where the immigrant resided during the last five years; document including affiliation duly apostilled and declaration under oath of absence of criminal records.
 - Applying for a Resident Permit abroad upon the entrance in Brazil with the appropriate visa, the professional will be required to register before the Brazilian Federal Police within 90 days of their arrival and request the issuance of a CRNM (National Migration Registration Card). If the process is applied in Brazil this period is 30 days, instead of 90 days.
- Labor, Social Security and Payroll Aspects
- Generally, professionals who enter the country with a Resident Permit/ Temporary Visa to be engaged in employment-related activities shall be included in the local Company payroll, have an employment contract with the local entity, while split salary arrangements are a common market practice.
 - The worker's local compensation should be defined based on the local entity's salary structure, since professionals performing similar activities and subject to similar responsibilities are entitled to receive similar salaries and have a remuneration aligned with the amounts informed on the visa request (when applicable).
 - Inbound regular employees are entitled to all the labor and social security rights provided by the Brazilian Law Consolidation of Labor Laws - CLT (please refer to the previous comments on Payroll Tax).
 - The incidence of social security and labor charges over the amounts paid abroad is not completely clear under Brazilian legislation, since there is no specific law that clearly establishes which procedures should be adopted in this regard.
 - However, local authorities have been issuing assessments related to the lack of such contributions on a global basis with the argument that both Companies (Brazilian and foreign) are part of the same economic group, and the social security authorities are following the same procedure.
 - A common market practice to mitigate the risk exposure in relation to the aforementioned scenario is the adoption of a "Shadow Payroll" procedure (although there is no legal basis for the shadow, it is a strong market practice). Shadow payroll must be aligned between both Companies, i.e., home and host, as to avoid incorrect collection of taxes and charges, as well as incorrect reporting.
 - Considering all the above-mentioned labor payments associated with employment-related income received by the individual, it is common for the final costs for the company to exceed the expected costs, mainly due to unfamiliarity with Brazilian rules. Therefore, it is essential to become familiar with all the local payments and costs involved in an assignment to Brazil, in order to include such amounts in the overall assignment package / costs.

- The FGTS payment (due by the employer at a flat rate of 8% on the gross remuneration of the assignee) is one of the costs that are usually not considered by the Company prior to the assignment and that ends up raising the assignment costs and amounts received by the assignee.
- Individual Income Tax Aspects
 - The establishment of tax residence for inbound professionals depends on their Resident Permit / visa held in Brazil.
 - Individuals who enter Brazil holding a Temporary Visa with a local labor contract, Residence Permits with an employment relationship, or being legal representatives of a company in Brazil, become tax residents in Brazil as of the date of physical entrance in the country. As a tax resident, the professional will be subject to income tax on their worldwide income, at progressive tax rates of up to 27.5%.
 - Under a split payment arrangement, the portion of the professional remuneration paid through foreign payroll will be considered as foreign sourced income, subjected to income tax through the “Carnê-Leão” system (i.e., individual obligation), while the portion of remuneration paid through Brazilian payroll will be considered as local sourced income, subject to income tax withholdings at source (i.e., local entity obligation).
- As a tax resident, the individual will be liable to the following additional obligations in Brazil: (i) Annual Income Tax Return; (ii) Central Bank Return - BACEN; and (iii) Monthly income tax calculations (“Carnê-Leão”).
- Brazil has signed several treaties for avoiding double taxation between countries. In an inbound scenario in which the individual will enter Brazil to carry out work activities in the country and for a Brazilian entity, in general the right to tax income earned from such activities will belong to Brazil (based on a general understanding of the Treaties). However, the applicability of Tax Treaty provisions shall be in a case-by-case basis.
- Taxation of Foreign Investment Income of Individuals According to Law 14,754/2023 (enacted on 12/12/2023), as of 1 January 2024, investments held abroad by individuals who are tax residents in Brazil, such as financial investments in a broad concept, controlled companies, trusts and closed-end funds, will undergo changes in their form of taxation in Brazil. Below is a comparative table of the changes in the law, including the main impacts:

Topic description	Up to December 31, 2023	Law 14,754/2023 (starting January 1, 2024)
Tax on income received abroad (dividends, interest, bonds, proceeds from the sale of an asset, etc.)	Monthly Income Tax Payment calculated using a progressive rate from 0% to 27.5% (income tax) or a progressive rate from 15% to 22.5% (capital gain tax), depending on the nature of the foreign sourced income.	The taxable event for income tax purposes continues to be the moment of effective receipt/availability of the income, which is why the calculation of the tax payable must be performed on a monthly basis. However, income tax is now calculated at a fixed rate of 15% and payment must be made annually in the Individual Income Tax Return. The new Law also provides for the offsetting of losses against profit earned, especially in financial investment transactions.
Capital gain on the sale of assets and rights abroad acquired during the period of non-tax residence in Brazil	Exempt from capital gains tax.	Capital Gain subject to taxation. Observe the nature of the asset to adopt the applicable rules.
Trust	<p>No legal provision in the Brazilian legal system, even though holding is not prohibited.</p> <p>The reporting of trusts in the Brazilian Income Tax Return is mandatory, either indicating the amounts contributed, or the underlying assets of the trust (as if the trust were "transparent").</p> <p>Rules about how and when taxation occurs is not standardized, with only a few guidelines disclosed through consultation solutions issued by the Brazilian Federal Revenue Service.</p>	<p>The assets and rights of the trust will be considered to be owned, as a rule, by the settlor and the income received will be subject to taxation at a rate of 15%.</p> <p>The transfer of assets and rights to the beneficiary (change of ownership) will be considered a donation, if it occurred during the life of the settlor, or causa mortis transmission, in the case of the settlor's death, being subject to ITCMD (Gift and Inheritance Tax).</p> <p>It is worth mentioning that there is a period of 180 days, counted from the date of publication of the law, for the amendment of the deed of the trust or letter of intent, in order to include specific wording that requires the responsible party (trustee) to comply with the provisions established by law.</p>
Disposal of financial investments abroad originally contracted in national currency (BRL)	Taxation according to the progressive table - Capital Gain (15% to 22.5%), with the capital gain determined by the difference between the sale value (in BRL) and the acquisition cost (in BRL). In short, any exchange difference perceived in the transaction is also subject to taxation. No possibility of offsetting losses.	The capital gain, including the foreign exchange rate gain, earned on the sale is subject to a fixed rate of 15%, and the tax payable is collected annually through the Income Tax Return.
Disposal of financial investments abroad originally contracted in foreign currency	Taxation according to the progressive table - Capital Gain (15% to 22.5%), with the capital gain determined by the difference between the sale value (in USD) and the acquisition cost (in USD). In short, any exchange difference between the Brazilian currency (BRL) and the foreign currency (USD) perceived in the transaction was not subject to taxation. No possibility of offsetting losses.	

Topic description	Up to December 31, 2023	Law 14,754/2023 (starting January 1, 2024)
Controlled entities (offshore companies)	<p>Deferral of taxation until the moment the resources are effectively made available to the individual residing in Brazil.</p> <p>Once the individual has access to the resources, whether through the distribution of dividends or through capital reduction, the progressive table would be applied (0%-27.5% for dividends received and 15%-22.5% for capital reduction).</p>	<p>End of deferral, with provision for taxation of profits and dividends distributed or not to individuals residing in Brazil on December 31 of each year at a rate of 15%.</p> <p>There is a legal provision for the optional treatment of assets and rights held by the controlled entity, as if they were held directly by the individual and taxed as if they were so (tax resident individuals could opt to declare the assets/rights related to entity they own abroad, as they were held directly by the individuals themselves in their annual Tax Returns). This reporting option (understood as a “transparent” entity) must be adopted in the Brazilian Income Tax Return and can only be applied once for each asset (there is no possibility of changing back to an “opaque” report, that is, to report the participation in the company, and not as held directly by the individual).</p>

Other important changes arising from the new legislation are:

- **Offshore Controlled Entities - Transparent vs. Opaque**

The law provides for the possibility of reporting entities controlled abroad in a “transparent” manner, i.e., separating each underlying asset in the Individual Income Tax Return and equating them, from a tax perspective, to assets directly held by the individual or in an “opaque” manner, following the reporting standard used until then, that is, including the structure as a single asset in the Income Tax Return, regardless of the number and amount of the assets that compose the structure and, subjecting it to annual taxation based on accounting profit. It is important to emphasize that the decision-making process regarding the model to be adopted is irrevocable and irreversible. In this way, once the individual chooses the reporting model to be adopted, there will be no possibility of change.

- **Step-up of Assets**

The new Law provides the option for individuals residing in Brazil to restate the value of assets and rights abroad, regularly reported in the Individual Income Tax Return (fiscal year 2022), to market value as at December 31, 2023, taxing the difference against the acquisition cost at 8%. The election to restate the assets and rights must be carried out by means of a specific filing, in the form and deadlines to be disclosed by the Brazilian Federal Revenue Service (RFB), and the corresponding tax payment must be made by May 31, 2024. It is important to note that assets acquired during the 2023 calendar year cannot be restated.

- **Closed-end funds in Brazil**

Among the various changes brought by the Law, it is important to highlight that closed-end funds in Brazil are now subject to a semi-annual taxation regime known as “come-quotas”, which will require a minimum withholding income tax on unrealized gains to be collected in the months of May and November of each year, as it already occurs in open-ended investment funds.



Financial Reporting

Requirements and regulations for the preparation and presentation of financial information

1. Publicly traded companies

Publicly traded companies in Brazil are required to present quarterly and annual consolidated and individual financial statements prepared in accordance with both IFRS and Brazilian GAAP. The filing is due 90 days after year-end for annual financial statements or 45 days after the end of quarter for quarterly financial information.

2. Public and regulated entities

Certain regulated entities may need to present additional financial information based on specific requirements issued by regulators. Entities subject to Brazilian Central Bank regulations are required to present semi-annual financial statements prepared in accordance with Brazilian Central Bank accounting pronouncements.

3. Other country-specific aspects

Private companies that meet certain revenue (annual gross revenue exceeding R\$300 million) or assets (total assets exceeding R\$240 million) thresholds are required to prepare financial statements in accordance with Brazilian GAAP.

Requirements and regulations for the preparation and presentation of ESG information

On June 26, 2023, the International Sustainability Standards Board (ISSB) issued its first sustainability disclosure standards.

IFRS S1: General requirements for disclosure of sustainability-related financial data and IFRS S2: Climate-related disclosures ISSB's first topic-based standard, it requires an entity to report its exposure to climate-related risks and opportunities.

In October 2023, the CVM published the Resolution 193, which provides for the preparation and disclosure of the report on financial information related to sustainability, based on the international standard issued by the International Sustainability Standards Board - ISSB.

By 2027, listed companies in Brazil must comply with IFRS S1 and IFRS S2 requirements and that information should audit by independent auditors. CVM was the first security exchange commission to adopt the IFRS sustainability rules, which signals to the market how much local regulators are attentive to the sustainability of the companies that operate in the country, given similar regulations by the Central Bank in past years.





Chile

Message from EY Chile's Country Managing Partner

Chile is one of the most stable, open, and competitive economies in Latin America. The country stands out for its strong tradition of political and economic stability, creating an environment conducive to investment and business development.

Our economy, characterized by its strength and resilience, is internationally recognized for its openness to global trade and favorable business climate. Chile boasts one of the most extensive networks of free trade agreements in the world, facilitating access to key international markets. It possesses modern and well-developed infrastructure, including ports, airports, roads, and telecommunications. Additionally, we have a highly educated and skilled workforce across various fields.

Furthermore, Chile's wealth of natural resources, especially in mining, agriculture, and renewable energy, makes the country an attractive destination for business investment, offering opportunities for growth and profitability in diverse sectors of the economy.

We invite you to explore the different investment opportunities in Chile's vibrant market. In our team, you will find a reliable partner to assist you at every step as your business takes advantage of the opportunities our country has to offer.

Kind regards,

Macarena Navarrate P.

Country Managing
Partner
EY Chile





Overview

Chile is wedged between the western coast of South America and the Andes Mountains. Santiago is the capital and largest city, followed by Valparaíso, known for its cultural heritage, and Concepción, an important industrial and university hub. Its population has European and Amerindian roots, influencing its music, dance, festivals, and gastronomy. Rich in resources like copper, lithium, fish, fruit, and wine, its main industries are mining (mainly copper and lithium), agriculture (grapes, apples, salmon), forestry, and fishing. Chile has numerous trade agreements, seeking openness to global trade and leading economic development in Latin America with an emphasis on stability, innovation, and diversification. It has historically attracted foreign investment and promoted technological innovation.



Population¹ 19,604,000

Urban²: 88%

Rural: 12% (2022)



Official language³

Spanish



Area⁴

756,700 km²





System of government³

Presidential Republic
President: Gabriel Boric
Next elections: October 2025



Climate³

Mediterranean climate in the central zone, desert in the north, and oceanic in the south



International Time⁵

GMT-3 (Magallanes region)
Daylight saving time (summer):
‣ GMT-3 (mainland Chile)
‣ GMT-5 (Island Territory)
Standard time (winter):
‣ GMT-4 (mainland Chile)
‣ GMT-6 (Island Territory)



GDP current prices⁶

USD \$335.6 Bn. (2023)



GDP per capita (PPP)⁷

USD \$32,204.2 (2023)



Currency⁸

Chilean peso
US\$1 = CLP 897.4 (Sep. 30, 2024)



Key sectors⁹

Chile stands out in the mining industry, with copper, lithium, and iodine. Agricultural and livestock production, as well as the export of fruits, vegetables, forestry products, fish, and seafood has experienced significant growth with the opening of markets in Asia and Europe.

Why invest in Chile?

5th highest GDP in Latin America and 3rd highest GDP per capita in South America (in PPP, in current prices) in 2023¹⁰

World leader in mineral production: 1st in copper, 6th in silver among others in 2023¹⁴, 19% of copper reserves and 33% of lithium reserves in 2024¹⁵. World's largest exporter of lithium carbonate and lithium sulfate, accounting for 79% and 40% of total global exports by 2023, respectively¹⁶

World leader in food and forestry exports: 4th exporter of wines, 5th of fruit and nuts, 5th of avocados, 1st of grapes, 1st of apricots, 3rd of peaches, 1st of plums and sloes, 3rd of cranberries, 5th of kiwi, 6th of pulp and cellulose, 3rd of fish & seafood, 3rd of ores, slag and ash, among others in 2023¹⁷

1st in Human capital index in the region in 2020¹²

1st in Renewable energy country attractiveness in the region and 3rd in the world normalized ranking¹³

25 international trade agreements and double taxation treaties signed with 65 countries in 2023¹¹

Developed infrastructure: Ranking 1st in Latin America¹⁸

1. World Economic Outlook (October 2023), IMF - Population
2. Urban population (% of total) - Latin America and the Caribbean (2023), World Bank
3. Main languages Latin America and the Caribbean, system of government and weather, DatosMundial.com
4. Extension (square kilometers) - Latin America and the Caribbean (2021), World Bank
5. International Time in Argentina, 24timezones.com
6. World Economic Outlook (October 2023) - GDP, current prices, IMF
7. World Economic Outlook (October 2023) - GDP per capita, current prices, IMF
8. Exchange rate, S&P
9. Encyclopedia Britannica
10. World Economic Outlook, October 2024
11. Chile Trade Agreements, InvestChile
12. Human Capital Index, 2020, World Bank
13. RECAI 63
14. World mining data
15. US Geological Survey, 2024
16. Undersecretariat of International Economic Relations of Chile, 2024
17. UN Comtrade
18. Worldpopulationreview.com, Country Rankings



Country’s economic outlook

Chile is the fifth largest economy in Latin America and one of the most stable and prosperous in the region, leading the region’s debt rating according to the three leading credit rating agencies. The country has maintained prudent economic policies that have contributed to its macroeconomic stability, including a solid fiscal framework and responsible monetary policy.

According to International Monetary Fund (IMF) estimates, the country closed 2023 with a GDP per capita in current dollars at purchasing power parity of USD 32,204 surpassing the USD 31,000 mark in 2024, a goal achieved by only one in every 3 countries around the world.

In 2023, the economy continued to stabilize after the economic imbalances caused by the pandemic. The country’s growth closed at 0.2% in 2023, according to the Central Bank’s National Accounts. The same entity expects an expansion in 2024 and 2025 of around 2.25%- 2.75% and 1.5%- 2.5%, respectively.

Inflation closed out last year at 3.9%, is expected to reach 4.5% in 2024 and hit its target of 3% in 2026.

According to the conclusions of the 2023 Article IV consultation with the Republic of Chile by the International Monetary Fund (IMF), Chile’s public debt is relatively low and is considered to be sustainable.

Chile has a market economy oriented around exports with a prominent level of foreign trade. It traditionally leads the region in business and competitiveness rankings. Additionally, it is the country with the most trade agreements worldwide, providing access to 86.3% of the world’s GDP under privileged tariff conditions.

Chile has a significant mining tradition, being the largest copper producer in the world and contributing 24% of global production in 2023, according to the Mining Council. Moreover, it is the second-largest global producer of lithium and holds 36% of the world’s reserves. On the other hand, the country has abundant renewable energy resources and is at the forefront of policies and incentives for their development, giving it a privileged position to take advantage in the years to come.

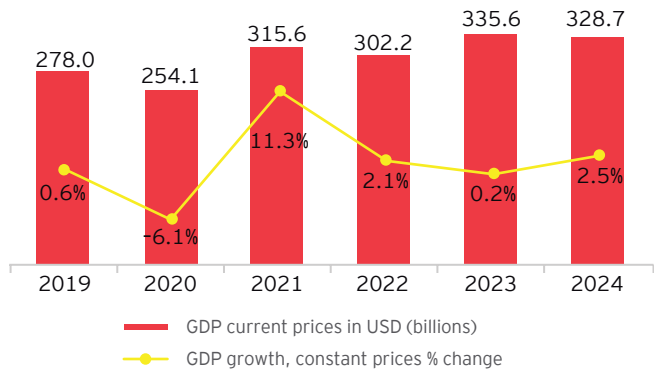
In addition to mining, the country is one of the 15 largest agricultural exporters in the world, according to the Foreign Investment Promotion Agency (InvestChile), and it is a global leader in the export of blueberries, cherries, grapes, prunes, dried apples, salmon, mussels, etc. The financial, personal services and retail sectors, are also among the highest contributors to its GDP.

Table 1:

Index	Chile
GDP current prices USD bn. (2023) ¹	\$335.6
GDP growth, constant prices % change (2023) ¹	0.2%
Gross domestic product per capita, current prices USD (PPP) (2023) ¹	\$32,204
Inflation, year-end consumer prices (2023) ¹	3.9%
Fiscal balance (net lending (+) or net borrowing (-) of general government; % of GDP) (2023) ¹	-2.3%
Public debt (General government gross debt, % of GDP) (2023) ¹	39.4%
Current account (% of GDP) (2023) ¹	-3.5%
Investment (% of GDP) (2023) ¹	22.9%
Poverty headcount ratio at \$6.85 a day (2017 PPP) (% of population) (2022) ²	4.7%

1. World Economic Outlook, October 2024, IMF
2. Poverty headcount ratio at \$6.85 a day (2017 PPP) (% of population) - Argentina, Brazil, Chile, Colombia, Mexico, Peru

Figure 2:
Gross Domestic Product, Levels and Growth¹

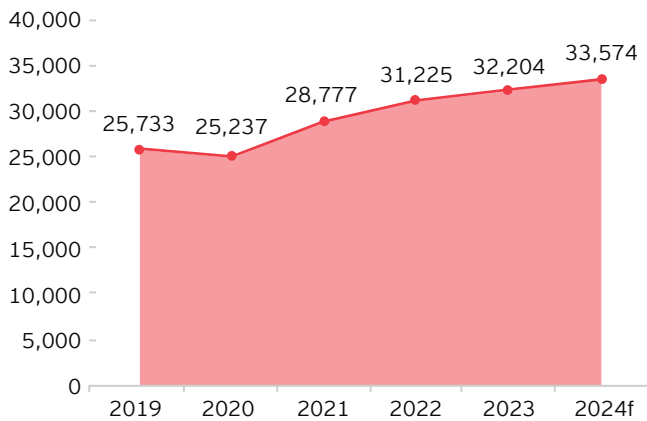


1. World Economic Outlook, October 2024, IMF

After a GDP rebound of 11.3% in 2021, its highest annual increase on record, the economy has been readjusting. As pandemic stimuli were withdrawn, the labor market weakened, demand stabilized, and the policy interest rate was raised significantly, among other factors, leading to a sharp deceleration in the economy.

The Chilean economy closed 2023 with a growth of 0.2%, but growth expectations range between 2.25% and 2.75% for 2024, and between 1.5% and 2.5%, for 2025 according to the Central Bank of Chile.

Figure 3:
Gross domestic product per capita, current prices (in USD, PPP)²



2. World Economic Outlook, October 2024, IMF

Chile’s growth in recent decades has significantly increased the country’s GDP per capita. The International Monetary Fund estimates that GDP per capita, in terms of purchasing power parity (PPP), will reach around USD 33,574 in 2024.

Figure 4:
Annual gross domestic product (GDP) by economic activity at current prices in dollars³ (2023)

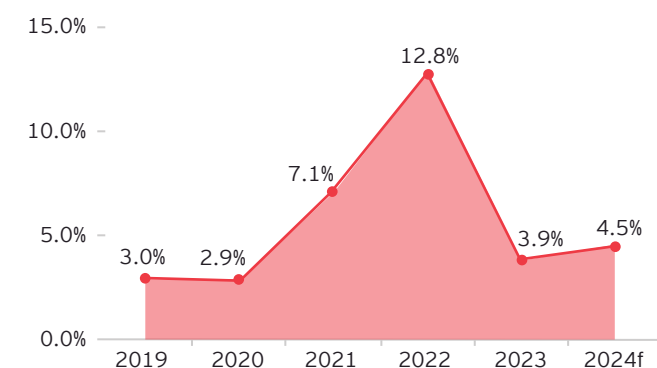


3- Annual gross domestic product (GDP) by economic activity at current prices in dollars (2023), ECLAC

The sectors that contribute most to the Chilean GDP are financial services, real estate and rentals; followed by public administration, defense, healthcare, social security and personal services. Mining and retail follow in relevance.

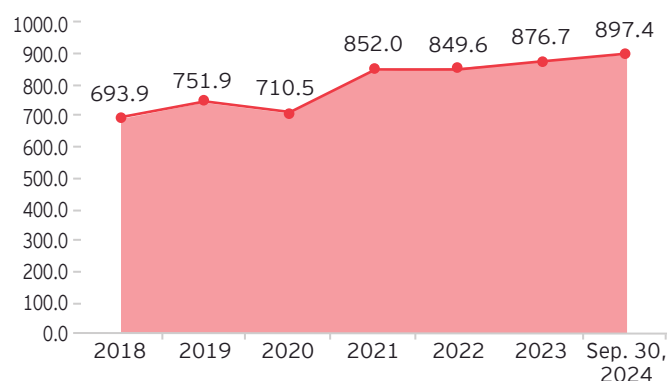
Figures 5 and 6:

Inflation, end of period consumer prices¹



1. World Economic Outlook, October 2024, IMF

Exchange rate of foreign currency (USD/CLP)²



2. Exchange rate, S&P

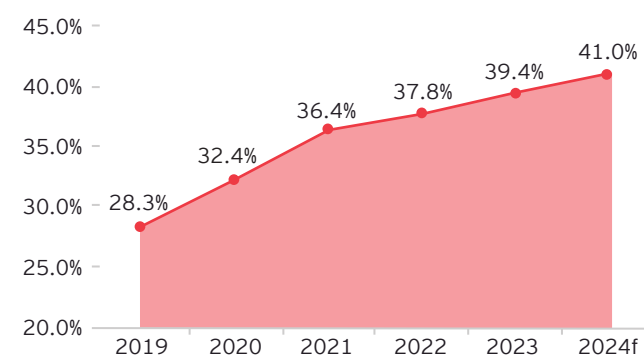
While Chile had consistently met its ~3% inflation target, relatively elevated levels of inflation were reached in 2021 and 2022 as a result of imbalances produced by the pandemic. A robust monetary policy response and inherent economic adjustments have helped bring down inflation from a record high of 12.8% in 2022. The year 2023 closed with an annual variation in the total CPI of 3.9%. Nevertheless, inflation is expected to reach 4.5% in 2024. By 2026, it is expected to reach the target of 3% according to the Central Bank.

In this scenario, the Central Bank of Chile decided to begin lowering the policy interest rate (11.25%) in July 2023. By October 2024, it had reached 5.25%.

Meanwhile, the Chilean currency depreciated last year, ending with an exchange rate of 876,7 Chilean pesos = 1 USD. This depreciation trend has continued in 2024.

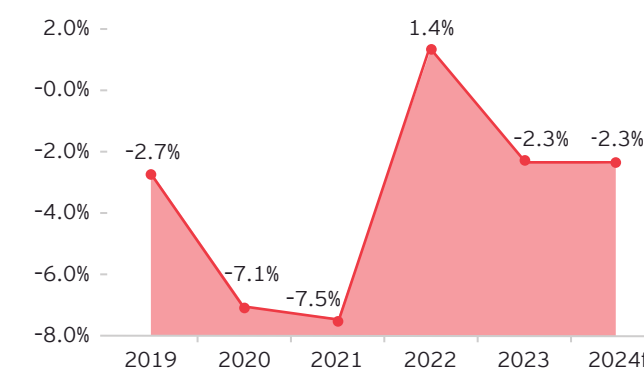
Figures 7 and 8:

Public debt (General government gross debt, % of GDP)³



3. World Economic Outlook, October 2024, IMF

Fiscal balance (net lending (+) or net borrowing (-) of general government; % of GDP)⁴

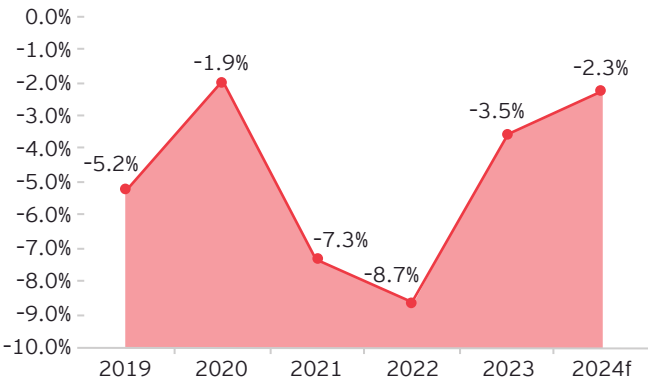


4. World Economic Outlook, October 2024, IMF

Following an upward trend in recent years, the IMF estimates that public debt in Chile will reach 41% of the GDP in 2024. In terms of fiscal deficit, after a fiscal surplus in 2022, a deficit of -2.3% was recorded in 2023, and for 2024 a similar figure is expected.

Figure 9:

Current account (% of GDP)¹

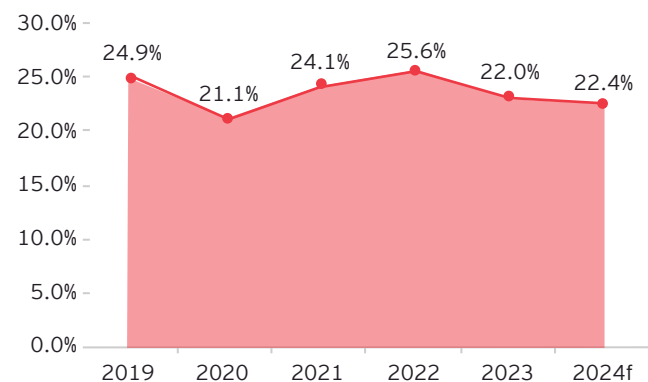


1. World Economic Outlook, October 2024, IMF

According to the latest figures from the Central Bank of Chile, during the year 2023, the current account presented a deficit of US\$11.899 billion, representing 3.6% of the gross domestic product (GDP), a figure slightly higher than the one estimated by the IMF last October (-3.48%). For 2024, the Central Bank projects a current account of -2.1% while the IMF expects -2.3%.

Figure 10:

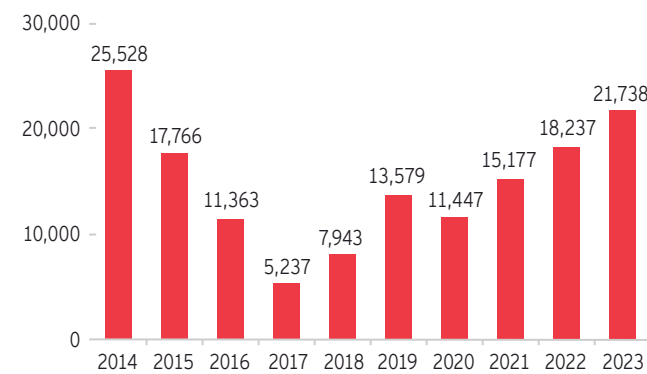
Investment (% of GDP)²



2. World Economic Outlook, October 2024, IMF

Figure 11:

FDI Chile (In millions of USD)³



3. Foreign direct investment, net inflows (BoP, current US\$) - Latin America & Caribbean | Data (worldbank.org)

For 2024, investment in Chile as a percentage of GDP is projected to remain at similar level to 2023, according to IMF estimates.

In 2023, Chile ranked as the fourth-largest recipient of FDI in Latin America and the Caribbean, securing 12%



The Chilean economy is characterized by its political and macroeconomic stability, its significant natural resources, skilled human capital, and favorable business climate, making it an attractive destination for corporate development.

Chile is one of the most open countries in the world. Its clear rules, incentives for foreign investment, multiple trade agreements, and world-class infrastructure, make the country an excellent entry point for investors wanting to take advantages of the opportunities the region has to offer.

Establishing a business in the country

Chile has been a gateway to the region and a Latin American hub for many years due to its ongoing leadership, economic and political stability, number of economic treaties and openness to the world, free flow of capital, entrepreneurial leadership, talent availability among many other differentiating factors. The country offers many incentives and advantages, including a simple process for establishing and operating businesses.

Foreign investors can do business in Chile as individuals or through entities governed by the Commercial Code and other applicable legal standards. The types of entities most often used to do business in the country are detailed below:

1. Stock Corporations (S.A.)

Are composed of shareholders that raise common capital. Decisions are adopted through shareholders' meetings, and they are managed by a board of directors.

Characteristics:

- 1.1 Shareholders:** Formed by a minimum of 2 shareholders, with no maximum number of shareholders.
- 1.2 Types:** Stock corporations can be classified as open or closed.
- 1.3 Open Stock Corporations (S.A.A.):** Those that (i) offer their shares to the public, (ii) have more than 500 shareholders, or (iii) 10% of their capital is held by a minimum of 100 shareholders (excluding individual shareholders that exceed such percentage).
- 1.4 Closed Stock Corporations:** All other stock corporations that do not meet the criteria to be Open Stock Corporations (S.A.A.).

- 1.5 Liability:** The liability of the shareholders is limited to the amount of their shares.
- 1.6 Administration:** They must have a board of directors, composed of at least three essentially revocable members, that appoint an administrator and the chairman of the board.
- 1.7 Oversight:** Open Stock Corporations must register with the Registry of Securities Issuers and are subject to oversight by the Financial Market Commission (CMF - Comisión para el Mercado Financiero). Closed Stock Corporations are not subject to oversight.
- 1.8. Transfer of shares:** There is no legal limitation to the transfer of shares.
- 1.9. Reserved business:** There are certain businesses that are reserved for stock corporations, and which are overseen by the CMF or another sectorial Superintendency (banks, insurance companies, public works concessionaries, general funds administrators, etc.).

2. Limited Liability Companies

Limited liability companies are one of the most common business formats used by individuals and legal entities that carry out operations in Chile.

Characteristics:

- 2.1. Partners:** They are formed by a minimum of 2 and a maximum of 50 partners, which can be national or foreign, residents or non-residents, individuals or legal entities.
- 2.2. Liability:** The partners limit their liability to the amount of contributions made or up to a higher sum as long as it is expressly established, without any minimum capital requirement.
- 2.3. Administration and oversight:** The purpose, administration and oversight of the company can be freely agreed upon by the partners, except for operations reserved by law for Stock Corporations (S.A.).

2.4. Transfer of equity rights: Unanimity is required for the transfer of equity rights.

3. Individual Limited Liability Company

An individual can acquire the status of a legal entity under the figure of an Individual Limited Liability Company (E.I.R.L.). Equity is limited to what is stated in the deed and the owner only responds with their personal property up to the capital contribution to the company and the company responds with all its assets.

EIRLs can carry out all types of civil and commercial transactions, except for those reserved by law for Stock Corporations (S.A.).

4. Joint-stock Corporation (SpA)

This type of corporation is a variation of stock corporations that is governed primarily by its bylaws, and the shareholders have some freedom in the establishment of their provisions. In the absence of bylaws or special standards that govern this type of company, they are governed by the standards for closed stock corporations.

Characteristics:

- 4.1. Shareholders:** minimum of one shareholder. The company must be transformed into a stock corporation and register with the CMF if it meets any of the qualifications to make it an open stock corporation.
- 4.2. Liability:** The liability of the shareholders is limited to the amount of their shares.
- 4.3. Administration:** The administration of an SpA can be freely agreed upon by its shareholders in its bylaws.
- 4.4. Oversight:** In the same manner as closed stock corporations, SpAs are not subject to oversight by the CMF.
- 4.5. Transfer of shares:** There are no legal limitations to the transfer of shares.

5. Branch or agency of a foreign branch

To establish branches of foreign companies in Chile, there is no need for formal approval from the government. A legal representative must be established on behalf of the foreign company, who must legalize certain documents before a Chilean Public Notary. These must be written in the original language and be accompanied by a Spanish translation. The documents are as follows:

- 5.1. Proof that the company is legally established abroad.**
- 5.2. Certification that the company exists.**
- 5.3. An authentic copy of the company's current bylaws.**
- 5.4. A general power of attorney issued by the company to the legal representative that will represent it in Chile.**

This power of attorney must clearly establish that the legal representative acts in Chile under the direct responsibility of the company and with ample powers to be able to act on its behalf.

Likewise, the legal representative must sign a public deed on behalf of the company.

They must subsequently register an extract of the deed in the Commercial Registry and publish such extract in the Official Gazette.

Tax Regime

1. General Overview

1.1. Corporate Income Tax (CIT) Rate: 27%. For further details, refer to Section

1.2. Capital Gains Tax Rate: 35%

1.3. Branch Tax Rate: 27%. For further details, refer to Section 2.

1.4. Withholding Tax (WHT) Rate:

► **Dividends:** 35%

The 35% WHT applies to the amount of the gross dividend.

One hundred percent of the CIT paid by the company can be used as a credit against the WHT, with specific rules depending on the type of company and residence of the foreign shareholder or partner.

The tax is applicable to payments made to non-residents.

For further details, refer to Section 2.

► **Interest:** 35%

A reduced rate of 4% applies to certain interest payments including, but not limited to, interest paid on loans granted by foreign banks, insurance companies, financial institutions, and interest paid with respect to import operations.

The tax is applicable to payments made to non-residents.

► **Royalties from Patents, Trademarks, Formulas and Similar Items:** 0% - 15% - 20% - 30%

No WHT is imposed on payments related to standard software if certain requirements are met.

A reduced WHT rate of 15% applies to payments with respect to the following:

- Invention patents
- Models
- Industrial drawings and designs
- Layout sketches or layouts of integrated circuits
- New vegetable patents
- Use or exploitation of computer programs (software)

The reduced tax rate does not apply to payments made to companies resident in jurisdictions considered to be preferential regimes. As a result, the WHT rate for such payments is 30%.

A reduced WHT rate of 20% applies to payments for television broadcasting and cinematographic materials.

The tax is applicable to payments made to non-residents.

► **Engineering, Professional, and Technical Services:** 0% - 15% - 20%

A 15% rate applies to payments for engineering, technical assistance, professional and other technical services rendered in Chile or abroad. However, if the payments are being made to a company with a tax address in a jurisdiction considered to be a preferential regime, the WHT rate is 20%. An exception, payments abroad made as consideration for technical assistance can be exempt from WHT if ruled by Customs to be associated with exported services.

► **Other Fees and Compensation for Services Rendered Abroad:** 35%

The tax is applicable to payments made to non-residents. Please consider some payments are exempted from taxation, but a case by case analysis is required.

► **Branch Remittance Tax: 35%**

The 35% tax is applicable to the amount of the gross dividend. One hundred percent of the CIT paid by the branch can be used as a credit against the WHT, with specific rules depending on the type of company and residence of the foreign shareholder or partner.

For further details, refer to Section 2.

1.5. Net Operating Losses (Years)

- Carryback - N/A
- Carryforward - Unlimited

2. Tax on rent and corporate income (CIT)

2.1. CIT

Entities resident in Chile, as well as branches of foreign entities operating within the country, are taxed on their worldwide income. An entity is considered to be a resident if it is incorporated in Chile.

CIT is levied annually on the net accrued income. However, income from foreign sources is usually calculated on a cash basis. The taxable profit of foreign branches and passive income from controlled foreign corporations are accounted for on an accrual basis.

- Calculation of net taxable income (trading income)

- **General**

Taxable income, calculated in line with generally accepted accounting principles, encompasses all profits except for specific items exempt from taxation. Generally, all expenses capable of producing income, either in the relevant calendar year or in the future, and which are properly supported and justified, can be deducted to determine taxable income.

This includes disbursements related to transactions between unrelated parties,

either to prevent or settle litigation. Bad debts outstanding for over 365 days between unrelated parties are also deductible.

Interest expenses incurred from investments in Chilean companies are deductible for CIT purposes. Typically, expenses are deducted on an accrual basis.

However, cross-border payments to related foreign parties are deductible on a cash basis, provided that the corresponding WHT has been declared and paid. Royalty payments made to a related foreign party may be subject to further deductibility restrictions, based strictly on the context of this rule.

Regarding inventory valuation, both the first-in, first-out (FIFO) method and the weighted average cost method are legally accepted. Additionally, a monetary correction must be applied to the cost for accurate valuation.

- **Monetary correction**

The Income Tax Law includes monetary adjustment rules, commonly referred to as monetary correction. These rules mandate the annual revaluation of specific assets and liabilities, accounting for changes in the consumer price index (CPI) and foreign exchange rates. The application of different rates for adjusting assets and liabilities can lead to taxable profits or losses.

For monetary correction purposes, the following adjustments are necessary: The initial net value of fixed tangible assets must be restated according to the CPI changes, which are determined monthly by the National Statistical Service. Depreciation is then calculated based on the restated asset value. Inventories at the balance-sheet date need to be restated to reflect their replacement cost.

Credits, rights, and liabilities in foreign currency or linked to price indices are adjusted based on changes in the relevant foreign-exchange rate or index. Investments in foreign entities are considered foreign-currency denominated assets and adjusted accordingly.

- **Depreciation**

A yearly depreciation quota for the use of tangible fixed assets is allowed as a deductible expense. The depreciation percentage is determined by applying a straight-line method on the useful life of the assets without considering a residual value as determined by the Chilean Tax Authority for each category of assets. Once fully depreciated, assets are recorded at a nominal value of CLP 1.

According to the Income Tax Law, taxpayers are entitled to opt for an accelerated depreciation regime, understood as the establishment of a useful life for new or imported fixed assets, equivalent to one third (1/3) of the useful life established by the tax authority.

Accelerated depreciation can only be used to compute the taxable income for CIT purposes. The excess depreciation, corresponding to the difference between the accelerated depreciation allowance and a notional normal depreciation allowance, is recaptured for purposes of GIT or WHT applied to dividends or profits paid to shareholders, owners, or partners. Fixed assets that become unusable before the end of their expected useful life may be depreciated twice as fast as originally contemplated under their applicable regime.

- **R&D incentives**

Under Law No. 20,241, Chile offers tax incentives for CIT taxpayers investing in R&D until 2025. The incentives include: Tax Credit: 35% credit on certified R&D expenses, capped at 15,000 monthly tax units (Unidad Tributaria Mensual, UTM) per year. This credit is non-refundable but can be carried forward. Tax Deduction: Deduction of the remaining 65% of R&D expenses, applicable even if not directly necessary for income generation (deductible in up to 10 years). R&D can be conducted internally or with third parties, with at least 50% of the expenses incurred in Chile. Taxpayers can initiate projects with a pre-approval affidavit to Chilean Economic Development Agency (Coporación de Fomento de la Producción in Spanish, acronym COFRO), with 18 months to formalize the project. Tax incentives are claimed annually in the company's tax filings following COFRO's resolution.

- **Relief for losses**

Losses derived from the commercial activities of the Chilean entity in the relevant commercial year, may be deducted as an expense for tax purposes.

Accumulated tax losses, duly adjusted by inflation, may be carried forward indefinitely. If there is a qualified change of ownership, the accumulated tax losses may not be deducted from income generated after the ownership change. No qualified change of ownership occurs between entities belonging to the same economic group. The Internal Revenue Service and Supreme Court rulings have also established that tax loss audit faculties to be exercised by the Chilean Tax Authority are not subject to any statute of limitation.

2.2. Rates of CIT

In general, a CIT rate of 27% is applied to annual net income earned. Under the Partially Integrated Regime, shareholders, owners, or partners of entities subject to CIT will be taxed only on effective distribution of dividends or profits. Such shareholders, owners or partners will be subject to the final taxes, i.e., the WHT at 35% rate, in case of foreign residents; or the Global Income Tax (GIT) at rates between 0% and 40%, in case of Chilean resident individuals.

However, for micro, small, and medium-sized enterprises, as a general rule, the CIT rate is 25%, provided they meet strict requirements. Nevertheless, a temporary subsidy introduced by Law No.21.578 reduces the CIT rate for SMEs to 12.5% for the year 2024.

The same 25% CIT rate, as per the general rule, also applies to non-profit entities, including foundations, unions, and similar organizations.

2.3. Dividends

The distribution of dividends or profits among CIT taxpayers is not subject to incremental CIT. The CIT regime allows shareholders, owners and partners subject to WHT or GIT to use the CIT paid by the entity distributing such dividends or profits as credit in the WHT or GIT determination. In general, 65% of the CIT paid by the entity distributing dividends or profits may be used as a credit to offset the amount of AT or GIT payable. As a result, the higher overall income tax burden would be 44.45%.

In the case of foreign shareholders, owners or partners resident in a country that has a Double Taxation Treaty (DTT) in force with Chile, 100% of the CIT paid over the distributed dividends or profits would be available as CIT credit against the WHT or GIT applicable on dividends or profit distributions if: (i) qualifies as a tax resident in a DTT Country and is able to obtain a tax residence certificate from the tax authorities; (ii) is not considered a fiscally transparent entity; and (iii) is the beneficial owner of the dividends.

2.4. Mining tax/ specific taxes per industry (list)

▶ Mining tax

Effective January 1, 2024, a new Mining Royalty Law applies to mining operator and consists of two components:

- **Ad Valorem Component:** A 1% tax rate on annual copper sales over 50,000 metric tons of fine copper (TFC), excluding sales from other minerals. This component is adjusted against any negative Adjusted Mining Operational Taxable Income (RIOMA). The sales calculation considers a six-year average, including sales to related parties as defined by the Chilean Tax Code.
- **Mining Margin Component:** This applies to exploiters with at least 50% income from copper sales and over 50,000 TFC in sales. The tax rate varies from 8% to 26% based on the Mining Operating Margin (MOM). Different rates apply to exploiters with less than 50% income from copper, with exemptions and progressive rates based on annual sales.

Additionally, a maximum tax burden cap is set, combining the CIT, Mining Royalty, and shareholder taxation. This cap is 46.5% for sales equal or greater than 80,000 TFC and 45.5% for lower sales. Mining exploiters must file the Mining Royalty annually and make provisional monthly payments based on gross income from mining product sales. They are also required to report annual financial statements, including a note on company ownership, to the Chilean Financial Market Commission and conduct external audits.

2.5. Capital gains (direct and indirect)

For corporate income taxpayers, capital gains are considered an ordinary income, therefore, subject to the corresponding CIT rate (27% or 25% depending on the taxpayer as noted in the section above) on annual accrued basis.

In the case of Chilean resident individuals, as a rule, GIT rates (i.e., progressive rates between 0% and 40%) are applied on an accrual basis. However, there are exemption rules applicable to capital gains generated by the disposal of certain assets (shares, social rights, real estates, among others) under certain and specific conditions.

Additionally, there are also exemption provisions applicable to certain assets under capital market rules. Considering this, the sale of publicly traded shares is subject to a sole 10% tax rate, fulfilling strict conditions.

Finally, foreign residents who obtain a capital gain from disposal of Chilean assets, whether direct or indirectly, are regularly subject to the 35% WHT rate. However, this rate may be reduced under certain tax treaties.

2.6. Administration

In Chile, the Constitution mandates that tax revenues cannot be earmarked for specific purposes and only the executive branch can propose tax system changes. Taxes are mostly national, with the exception of the Municipal License Tax. The tax administration is handled by three main agencies: the Chilean Tax Administration (Servicio de Impuestos Internos, SII) for tax compliance and enforcement, the National Customs Service (Servicio Nacional de Aduanas) for customs duties on cross-border trade, and the Treasury for collecting outstanding tax debts. Accounting periods end on December 31, with income taxes payable in April. Additionally, taxpayers make provisional monthly payments towards their annual income tax.

3. International Tax

3.1. Foreign tax relief

Chilean income tax law provides that foreign income tax paid or owed can be used as credit against Chilean income tax (CIT, WHT, and CIT). The tax credit may be claimed up to a limit of 35% of the foreign-source income, depending on the nature of the income and the existence of a DTT.

3.2. Foreign-exchange controls

Under the provisions of Chapter XIV of the Compendium of Foreign Exchange Regulations of the Central Bank of Chile (Chapter XIV), foreign investors may bring capital into Chile under the terms and considerations applicable to foreign loans, deposits, investments, and capital contributions.

For fund inflows from external credits exceeding one million dollars, it's essential to process them through an entity of the Formal Exchange Market (M.C.F.). For these purposes, MCF must be understood as composed by banks and other financial entities designated by the Central Bank of Chile in accordance with the powers granted by its Organic Constitutional Law. For these purposes, MCF must be understood as composed by banks and other financial entities designated by the Central Bank of Chile in accordance with the powers granted by its Organic Constitutional Law.

Additionally, when capital contributions in Chilean pesos from abroad are received, the investment recipient must report the transaction. This reporting requirement specifically applies to capital contributions in Chilean pesos resulting in the foreign investor achieving or maintaining at least a 10% stake in the rights or shares of the recipient entity.

It must be noted that most of the reporting obligations are carried-out by the bank or financial company assisting in the transfer of funds through the Formal Exchange Market.

3.3. Transfer pricing

Chilean Transfer Pricing regulations, consistent with OECD guidelines, offer several methods for assessing transactions between related parties.

These methods include: (i) Comparable uncontrolled price; (ii) Resale price; (iii) Cost-plus; (iv) Profit-split; and (v) Transactional net margin.

An alternative method can be used if none of the above are applicable, with the choice depending on each transaction's specific details.

Taxpayers are required to file annual sworn statements with the SII, detailing related party transactions, the transfer- pricing methods used, and other pertinent information. They must also maintain comprehensive documentation to support compliance with these rules.

Since 2017, Chile has enforced Country-by-Country (CbC) regulations. These regulations require the submission of CbC, Master File, and Local File Sworn Statements to the SII under certain conditions. The Local File requirement includes additional supporting information such as agreements, functional organization charts, group structures, and loan payment schedules.

3.4. Debt-to-equity rules

Excess indebtedness exists if the "debt" of a Chilean entity exceeds three times its tax equity (capital propio tributario; financial equity with certain adjustments). "Debt" includes all debt, regardless of whether it is foreign or local or related or unrelated, as well as the debt at the level of the company's permanent establishments abroad.

If excess indebtedness is triggered, a 35% surtax applies on interest if both of the following circumstances exist:

- ▶ The interest is paid abroad due to related-party (or deemed related-party) debt.

- ▶ The interest benefits from a reduced WHT rate (4% under domestic law or tax treaty rate).

In this case, the applied WHT may be used as a credit by the Chilean debtor who must bear the 35% penalty tax. The concept of relationship also includes any type of guarantee.

3.5. Controlled foreign corporations

In general, foreign-source income is taxed on a cash basis. However, under the controlled foreign corporation (CFC) rules, Chilean resident taxpayers are taxed on an accrual basis on passive income received or accrued by a CFC. Under the CFC rules, passive income includes the following:

- ▶ Dividends or profit distributions from non-controlled entities
- ▶ Interest (unless the controlled entity is a bank or financial institution)
- ▶ Royalties (unless derived from research and development projects)
- ▶ Capital gains
- ▶ Income from the lease of real property (unless the exploitation of real property is the principal activity of the controlled entity)
- ▶ Income from the assignment of certain assets

Specified Chilean-source income Control of a foreign entity is deemed to exist in any of the following circumstances:

- ▶ 50% or more of the capital, profit or voting rights is directly or indirectly owned by a Chilean taxpayer.
- ▶ The Chilean taxpayer has a decisive influence on the administration of the foreign entity.



- ▶ The foreign entity's tax address is located in a country or territory with a preferential tax regime, unless proven otherwise (that is, a foreign entity is deemed controlled if its tax address is in a tax haven or preferred jurisdiction, unless the Chilean taxpayer demonstrates that it does not control the entity).

3.6. Preferential tax jurisdictions

A territory or jurisdiction is deemed to have a preferential tax regime under this law if it satisfies this two of the following jointly: a) no valid information exchange agreement with Chile, or, if there is one in force, it contains limitations that do not allow an effective exchange of information; and b) fails to meet standards for transparency and information exchange based on the qualifications set by the Global Forum on Transparency and Exchange of Tax Information, or any other international organization that may replace the latter provided Chile is a permanent member.

Engaging in transactions or executing contracts with countries identified as having preferential tax regimes can restrict certain tax benefits for taxpayers. This includes limitations on recognizing losses from derivative instruments, constraints on preferential withholding tax rates, and implications for determining excess indebtedness, among other effects.

Please consider these considerations shall be in force as of January 1, 2025.

4. Value-added tax (VAT)

In general, VAT is levied at a 19% rate upon the recurrent sale of property, certain fixed assets, or even real estate assets (excluding land), services regardless of their recurrence, imports and other transactions.

The acquisition of goods, services, and imports that are subject to VAT entitles the buyer or recipient to a VAT credit, provided they are involved in selling goods or providing VAT-liable services. This VAT credit is equivalent to the VAT detailed in invoices

for goods acquired, services utilized, imports, or other VAT-liable transactions.

When such a taxpayer sells VAT-liable goods or services, the VAT charged on these sales is recorded as a VAT debit. This debit can be offset against any accumulated VAT credit. According to VAT methodology, VAT credits are used to offset VAT debits. If there's a positive difference, it represents the VAT payable. Any remaining VAT credits after this offset can be carried forward indefinitely.

In general, exportation of goods performed by Chilean taxpayers are exempt from VAT. However, exporters are specially allowed to recover any VAT paid related to their export activities. Specific VAT credit recovery mechanisms are available, pre- and post- export.

In addition, VAT taxpayers that maintain VAT credit for at least 2 months, arising from the acquisition of fixed assets or services considered to be part of the cost of such fixed assets, can either offset the credit against any tax liability or request a cash refund.

Regarding imports, it must be noted that the VAT Law establishes an exemption for imported capital goods that are destined for the development, exploration or exploitation in Chile of mining, industrial, forestry, energy, infrastructure, telecommunications, research or technological, medical or scientific development projects, among others, provided that the aforementioned project implies an investment of an amount equal to or greater than five million United States dollars.

5. Other

5.1. Green taxes

Chile's Green Tax targets emissions from fixed sources, applying to establishments emitting 100+ tons of Particular Matter (PM) annually or 25,000+ tons of CO₂. It excludes emissions from hot water boilers used exclusively for personnel and generators under 500 kWt.

As of February 25, 2023, taxpayers can offset their taxable emissions by implementing emission reduction projects, known as 'offsets'.

These projects must be additional, measurable, ascertainable, and permanent, and not part of existing legal obligations like prevention plans or emission standards. To be recognized, these projects need approval from the Ministry of the Environment and certification from an authorized external auditor.

The tax, payable annually in Chilean pesos in April, is calculated differently for various pollutants:

- ▶ For PM, NO_x, and SO₂: The tax is 0.1 per ton, adjusted by a formula considering the social cost of pollution and local population.
- ▶ In 'saturated' or 'latent' zones with high PM, NO_x, or SO₂ levels, an additional air quality coefficient is applied to the tax rate.
- ▶ For CO₂: The tax is USD 5 per ton emitted. However, it exempts sources using non-conventional renewable energy with biomass as the primary source.

The tax aims to encourage environmental responsibility and reduce harmful emissions.

5.2. Customs duties

Chile's customs duties are primarily based on the cost, insurance, and freight (CIF) value of imported goods, with a general rate of 6%. However, due to over 60 international trade agreements, the effective rate for most goods is under 1%. These duties can be deferred for up to seven years for capital goods intended to produce export goods, and some are even exempt from these duties.

In addition, Chile operates free-trade zones in Iquique and Punta Arenas since 1975, with benefits extended to Arica and Tocopilla. Within these zones, imported merchandise is not subject to VAT or customs duties and can be used for various activities like storage, sales, and manufacturing. Sales and services in these zones are VAT exempt, and profits are exempt from CIT.

Regarding the temporary admission of goods, Chile allows certain items, including foreign vehicles and machines, to enter temporarily, requiring a guarantee for corresponding customs duties. These goods can be stored in bonded warehouses without paying customs duties until formal importation. The Chilean customs authorities control these warehouses and can designate national factories as bonded warehouses for raw materials and components for manufacturing.

Chile's participation in international trade is marked by several key agreements. It's a member of the Andean Community, gaining benefits from its free-trade zone, and the Latin American Integration Association (ALADI), which aims to establish a Latin American common market. The country has a free-trade agreement with the European Free Trade Association (EFTA) since 2004 and maintains association agreements with the European Union and, as of 2021, with the United Kingdom. These agreements generally aim to reduce tariffs and enhance trade relations. Chile is also part of the General Agreement on Tariffs and Trade (GATT), the Asia Pacific Economic Cooperative (APEC), and is associated with Mercosur. Further, it has signed Free Trade Agreements (FTAs) with numerous countries around the globe, including South Korea, the U.S., China, and Japan, which typically focus on eliminating or reducing customs duties on a range of products.

5.3. Investment and saving incentives

In Chile, there's a VAT exemption for importing capital goods intended for investment projects. The key condition is that these goods must be used in a project with a minimum investment of USD five million, as of the application's filing date with the Ministry of Finance. Notably, the importer doesn't have to be the project developer; the project can be executed either by the importer or a third party. Upon verifying that the requirements are met, the Ministry of Finance will issue a resolution to grant the exemption and notify the SII. This exemption aims to encourage significant investments by reducing the tax burden associated with importing essential capital goods.

Additionally, taxpayers subject to VAT who hold a tax credit balance for at least two consecutive tax periods arising from the acquisition of tangible personal or real property to be included in fixed assets or of services that form part of the cost value of such assets, may offset this balance against any kind of taxes or customs duties, or choose to receive a refund from the General Treasury of the Republic.

Finally, it is worth mentioning that there is a possibility of electing an accelerated depreciation regime for new and imported fixed assets discussed above.

5.4. Stamp Tax (ST)

In general terms, all documents evidencing monetary credit operations are subject to ST at the time of its issuance. Monetary credit operations consist of the delivery or commitment to deliver an amount of cash, and the commitment by the recipient to reimburse it at a different time. Foreign monetary credit operations, even if there is no document, are subject to ST.

ST is levied on the principal amount established in the corresponding documents. The rates are as follows: (i) 0.066% of the principal for each month or fraction thereof

between the issuance of the loan and its maturity, capped at 0.8%; (ii) 0.332% on the principal in case of loans repayable on demand or without a specific maturity date.

ST is paid once per loan, in general.

ST is a permitted expense for CIT purposes.

5.5. Other taxes

► Tax on fuels

Chilean Law No. 18.502 sets out the specific tax on fuels, comprising a Base Component and a Variable Component. The Base Component is defined in Monthly Tax Units, translated to USD as follows:

- Motor gasoline: 6 UTM (circa USD 413) per m³
- Diesel oil: 1.5 UTM (circa USD 103) per m³
- Compressed natural gas: 1.93 UTM (circa USD 133) per 1,000 m³
- Liquefied petroleum gas: 1.4 UTM (circa USD 96) per m³

The Variable Component adjusts the Base Component through variable rate taxes or tax credits, including the Mechanism for the Stabilization of Fuel Sales Prices mechanism, which stabilizes fuel price fluctuations.

This tax is levied at the point of first sale or importation, impacting the producer or importer. Producers must pay the tax within the first 10 working days post-transfer, while importers are required to pay before withdrawing goods from Customs.

Current regulations allow certain VAT taxpayers and exporters, to reclaim up to 100% of the tax on diesel oil, provided it's not used in road vehicles.

► **Property Tax**

In Chile, the Property Tax, as per Law 17,235, is applied to real estate properties with rates ranging from 1% to 1.4% annually, determined based on the property's classification as agricultural or non-agricultural and its fiscal value. This tax regime includes a Global surtax on the total fiscal value of all real estate owned by a single taxpayer, with progressive rates that vary depending on the total value. Additionally, there's a specific surtax for non-agricultural real estate in urban areas that are undeveloped, abandoned, or categorized as ballast wells.

For certain taxpayers, the Property Tax paid can be offset against CIT liabilities or, otherwise, deducted for income tax purposes, and there are specific exemptions and benefits for eligible taxpayers or properties.

► **Contribution for Regional Development**

The Contribution for Regional Development, established by Law 21,210, imposes a 1% tax rate on the acquisition value of fixed assets exceeding USD 10 million. This is applicable to taxpayers subject to CIT who

operate on actual income determined by complete accounting records and invest in projects involving significant fixed asset acquisitions or constructions.

These projects also need to undergo an environmental impact assessment as required by Law 19,300. The Contribution for Regional Development is accrued from the first fiscal year in which the project generates operating profit and is payable to the Chilean Treasury in April of the following year, either in full or in installments over a maximum of five years. This approach aims to encourage significant investment projects while considering their environmental impact.

5.6. GAAR

Substance over form rules are currently in effect. These rules empower the SII to challenge transactions performed under abuse of juridical forms or simulation and to request payment of the relevant taxes that would have applied. GAAR rules do not prevent the SII from exercising criminal actions. There is a presumption of good faith on behalf of taxpayers and the Tax Authority must prove its arguments (burden of proof) in a Tax Court.



Labor Regime

1. Labor Law

1.1. Classification of employment contracts based on their duration.

Labor law allows a classification of employment contracts in terms of their duration, including an indefinite contract, a fixed-term contract, and a contract for specific work, as follows:

► Indefinite Contract

A contract that does not have a set period or predetermined term of duration and, for the same reason, grants greater job stability, since the employee has the right to keep their employment until an event occurs that constitutes legal cause for termination. This type of contract is most common in Chile.

► Fixed term contract

Its duration or validity is limited to a specific term agreed between the parties, which can be expressed in days, weeks, months, years, or by establishing a start date and an end date. As a general rule, the duration of this contract cannot be longer than one year (or two years, in case of managers or employees with a professional or technical degree).

► Contract for a determined work

Under this type of contract the employee is required to execute a specific and determined project or intellectual work for the respective employer, and the validity of the contract is circumscribed and limited to the duration of such work.

1.2. Working hours and rests

Since April 26, 2024, there is a limit of 44 working hours per week (42 hours from April 2026 and 40 hours from April 2028), which must be distributed between a minimum of 5 days and a maximum of 6 days (from 2028

the minimum will be 4 days). There are some employees that are exempt from the maximum weekly hours limit mentioned above in accordance with the Labor Code.

Under exceptional circumstances, it is possible to agree on overtime, which cannot exceed 2 hours (generally) per day and must be authorized by the employer only for resolving temporary situations in the company. As a general rule, overtime must be paid at a regular hourly rate with a 50% increase.

In general terms, employees are entitled to different rest periods, which can be summarized as follows:

- **Rest between working hours:** The workday shall be divided into two periods, leaving between them at least 30 minutes per day for lunch.
- **Daily rest:** Employees with established working hours have the right to a rest between one working day and the next with a duration equivalent to at least the period worked.
- **Weekly rest period:** As a general rule, Sundays and official holidays are rest days.

1.3. Law on remote work, telework and international aspects

Law No. 21,220 about remote work and teleworking allows employees to provide their services in a different place than the premises of the employer, which may be their home or another place, and/or through technological, digital or telecommunications channels. The provision of services under this modality requires a written agreement between the parties.

As a rule, remote work or teleworking is subject to weekly working hours. However, the regulation allows for a more flexible distribution of hours or even the exclusion of the weekly hours limit in the case of teleworking. Other legal obligations have to be met by the employer, such as providing equipment, tools and materials and ensuring safety and health conditions.

1.4. Non-waivable employment benefits

In Chile, employees are entitled to, among others, the following mandatory and non-waivable employment benefits:

- ▶ **Minimum monthly salary**

Until June 30, 2024, the minimum monthly salary was CLP 460,000. As of July 1, 2024, the minimum monthly salary is increase to CLP 500,000.

- ▶ **Annual Leave**

Employees with more than one year of service are entitled to an annual paid leave of 15 working days.

- ▶ **Profit sharing**

By law, certain companies are required to distribute a percentage of their profits to their employees. The employer, in order to comply with this obligation, may choose between two alternatives contemplated in the Labor Code.

- ▶ **Social security**

According to the Chilean social security system, all dependent employees have the obligation to contribute to the social security system. The Chilean pension system includes mandatory contributions of 7% of the monthly remuneration for health insurance and 10% of the monthly remuneration for the pension fund, including a commission that varies according to each administrator. For 2024, there is a monthly cap on such contributions of 84,3 units of account (Unidad de Fomento, UF) .

Additionally, there is a mandatory contribution for disability and survivors' insurance equivalent to 2.01% of the employee's gross monthly remuneration, a contribution for occupational accidents and diseases insurance with a basic rate of 0.90%, which can be increased up to 3.4% depending on the level of risk of the activities carried out within the company, and a contribution for children accompaniment insurance, also called "SANNA Law", which amounts to 0.03%

of the employee's remuneration. All these contributions are borne by the employer and the basis for these contributions has a monthly limit of UF 84.3.

There are also contributions for unemployment insurance

As a general rule, the employee contributes 0.6% of their gross monthly remuneration and the employer contributes 2.4%. For 2024, the gross monthly remuneration that serves as the basis for these contributions has a monthly limit of UF 126.6.

1.5. Expiration or termination of the employment relationship

According to Chilean Labor Law, the employer can only terminate the employment contract invoking certain specific causes that are established by law, mainly detailed in articles 159, 160 and 161 of the Labor Code.

Legal causes for termination include resignation, death of the employee, mutual agreement, certain faults incurred by the employee, dismissal for business needs, dismissal of representatives with administrative powers, among others. It is important to keep in mind that the cause(s) invoked for the termination of the employment contract must be supported by facts.

Mandatory payments such as severance and indemnities may be triggered, depending on, among other factors, the cause invoked.

Once the employment contract has been terminated (regardless of the cause), a severance payment ("finiquito") must be granted by the employer and the respective amounts must be made available to the employee within ten business days (excluding Sundays and holidays) counted from termination. The objective of the finiquito is to establish the end of the employment relationship and settle all pending obligations between the parties regarding the employment contract that was terminated.

1.6. Employees' rights and protection

In Chilean legislation, labor law is structured around principles that aim to balance the relationship between employers and employees, promoting fair working conditions with a focus on protection to the latter.

Among the main aspects with regard to this matter, it is worth highlighting the labor rights that are non-waivable for the parties, such as the principle of employment stability (which, among other conditions, requires the employer to terminate the employment contract only through a cause that is expressly established by law) and the principle of the primacy of reality, which gives priority to what has occurred in practice over what the parties have agreed to in document.

From a health and safety perspective, the employer is required to take all necessary measures to effectively protect the life and health of its employees, informing them of potential risks and maintaining adequate hygiene and safety conditions in the workplace, as well as the necessary actions to prevent occupational accidents and diseases.

Likewise, all labor relationships shall be based on a non-violent treatment, which has to be compatible with the dignity of a human person and with gender perspective; in this regard, workplace harassment, sexual harassment and violence at work must be prevented by the employer.

1.7. Labor unions

► Incorporation requirements and mode of operation

Labor unions can exist in a company when they are created by virtue of a voluntary act of the employees (members) in accordance with the respective formalities, procedures and quorums required by law. In general terms, legally constituted unions have the power to bargain collectively according to certain procedural rules. If the union initiates this type of collective bargaining, the employer is obliged to engage in such bargaining. Nonetheless, collective bargaining could also

be voluntarily initiated between one or more employers and one or more unions at any time and without restrictions of any nature.

► Collective Bargaining Agreements ("CBA")

According to the Chilean Labor Code, a CBA is a contract between employers and employees to establish common working conditions and remunerations for a certain period in accordance with the rules provided in the Labor Code. Parties are free to agree on the conditions they so decide, provided that the rights and obligations established by labor legislation are not violated.

2. Considerations for foreign employees

2.1. Legal considerations regarding foreign employees

In labor matters, Chilean and foreign employees have the same rights and obligations. Without prejudice to the above, it is important to keep in mind that there are certain particularities when hiring foreign individuals, including a legal limitation on foreign hires, among others.

In this sense, the Labor Code establishes that at least 85% of the employees' providing services for the same employer must be Chilean, except for those companies that do not have more than twenty-five employees. There are certain specific rules applicable for purposes of computing the indicated percentage.

2.2. Immigration regulations

Regarding this matter, it should be noted that Immigration Law 21,325 regulates the entry, stay, residence and exit of foreigners from the country, as well as the exercise of rights and duties, without prejudice to those contained in other legal regulations.

The main immigration categories are:

► Transitory Permanence

It is the permit granted by the National Immigration Service to foreigners who enter the country without intention of settlement, authorizing them to stay in national territory for a limited period.

► **Temporary Residence**

It is the permit granted by the National Immigration Service to foreigners who intend to settle in Chile for a limited time.

► **Definitive Residence**

It is a permit to reside in Chile indefinitely, authorizing the execution of any legal activity, with no limitations other than those established by the legal and regulatory provisions.

The general rule in Chile is that foreigners are not authorized to carry out remunerated activities in the country unless they have a residence permit or special authorization issued by the competent immigration authority.

3. Taxes levied on wages

The general rule applicable to taxation on personal income is contained in Article 3 of the Income Tax Law, which establishes that “[...] Unless otherwise stated in this law, any resident of Chile shall pay taxes on their income from any origin, regardless of whether the source of income is located in the country or abroad, and taxpayers who are not Chilean residents are subject to taxation on their income if it is sourced within Chile”. However, during the first three years of residence in Chile, foreign individuals are only taxed on their Chilean sourced income.

Both residents and non-residents have the obligation to pay taxes on salaries, bonuses, allowances, and any other similar concept of compensation they receive for services rendered in the country.

The remuneration received by individuals that are Chilean tax residents for the provision labor services is classified as “employment income” and is subject to Second Category Tax, which is calculated monthly based on progressive rates from 0% to 40%. Income received by taxpayers without residence in Chile is subject to Additional Tax, paid as a single tax, at a general rate of 35% (without prejudice to the exceptions established by law), with no deductions allowed.

Financial Reporting

1. Publicly traded companies

Publicly traded companies, except for certain entities operating in financial services, are required to publish quarterly and annual financial information under IFRS as issued by the IASB.

2. Publicly and regulated companies

Other entities regulated by the Chilean Commission for the Financial Market (CMF), except for certain entities operating in financial services, are also required to publish financial information under IFRS as issued by the IASB.

3. Special cases

For certain banking and insurance entities, full IFRS is not applied in Chile. Certain IFRS standards are not applied in Chile but rather regulation of the CMF is used for certain items within the financial statements.

4. Other country-specific aspects

No regulated entities can issue their financial statements under either IFRS as issued by the IASB or IFRS for SMEs.





Colombia

Message from EY Colombia's Country Managing Partner

Colombia stands out for its diversity of natural resources and a strategic geographical location that provides us with a direct and efficient connection to multiple destinations, facilitating international trade and business expansion. We have consolidated a robust and versatile economy, with solid pillars in industries such as oil, gas, mining, agriculture, textiles, and manufacturing.

Ximena Zuluaga

Country Managing
Partner,
EY Colombia



Despite political challenges, Colombia has demonstrated remarkable resilience, facing uncertainty with determination and foresight.

With the fourth-highest GDP in Latin America and the third-largest population in the region, our country stands out as a regional economic engine with a dynamic and ever-growing domestic market.

We are proud to be pioneers in integrating the UN's Sustainable Development Goals into our National Development Plan, as well as being the first country in the region to publish a green taxonomy, reflecting our commitment to sustainability and environmental responsibility.

Our country offers competitive costs in human talent, raw materials, distribution, and production factors, ensuring a comparative advantage for companies operating in our territory.

In addition, we are a major fruit exporter, standing out as the second largest coffee exporter in the world, the third in bananas, and the sixth in avocados, among others, according to 2022 data on trade value.

With this guide for 2024, you can find detailed information on the available opportunities and prospects. This document is designed to establish goals, strategies, and guide investors interested in Colombia.

Kind Regards,



Overview

Colombia, located in South America, has Caribbean and Pacific coasts, as well as a diverse geography of mountains, jungles, and plains. Bogota is the capital and most important city, followed by Medellin, noted for its innovation, and Cali, known for its cultural and sports scene. Its population reflects indigenous, African, and European influences, which can be seen in its music, dance, festivals, and gastronomy. Its main industries are oil and gas, mining, agriculture (especially coffee), textiles, and manufacturing. Colombia has sought economic openness with trade agreements, showing interest in innovation and economic diversification to strengthen its position in the global market. It has focused on improving infrastructure to boost sectors such as tourism and manufacturing.



Population¹ 51,874,000

Urban²: 82%

Rural: 18% (2022)



Official language³

Spanish



Area⁴

1,140,619 km²





System of government³

Presidential Republic
President: Gustavo Petro
Next elections: 2027



Climate³

Tropical, with stable temperatures throughout the year. There are hardly any seasonal differences in temperature



International Time⁵

GMT-5 (All Colombia)



GDP current prices⁶

USD \$363.6 Bn. (2023)



GDP per capita (PPP)⁷

USD \$20,787.6 (2023)



Currency⁸

Colombian Peso

US\$1 = COP 4,169.1 (Sep. 30, 2024)



Key sectors⁹

Colombia stands out in the production of textiles, food processing, oil, clothing and footwear, beverages, chemicals, cement, gold, coal, and emeralds. Its main agricultural products are coffee, flowers, bananas, rice, tobacco, corn, sugar cane, cocoa, oilseeds, vegetables, forest products, and shrimp.

Why invest in Colombia?



1. World Economic Outlook (October 2024), IMF - Population
2. Urban population (% of total) - Latin America and the Caribbean (2023), World Bank
3. Main languages Latin America and the Caribbean, system of government and weather, DatosMundial.com
4. Extension (square kilometers) - Latin America and the Caribbean (2021), World Bank
5. International Time in Argentina, 24timezones.com
6. World Economic Outlook (October 2024) - GDP, current prices, IMF
7. World Economic Outlook (October 2024) - GDP per capita, current prices, IMF
8. Exchange rate, S&P
9. Encyclopedia Britannica
10. World Economic Outlook, October 2024, IMF
11. Why invest in Colombia, investincolombia.com.co
12. UN Comtrade



Country's economic outlook

Colombia is the fifth largest country in Latin America in size, and the fourth in GDP. The country has the third largest population in the region, after Mexico and Brazil.

It is also one of the most economically and politically stable countries in the region, with a tradition of free market economy.

The growth of the Colombian economy saw a strong rebound after the pandemic, reaching 10.8% in 2021 and 7.26% in 2022. However, growth started to slow in 2023, ending at 0.6%, according to the National Department of Statistics (DANE). The IMF estimates that the growth will pick up in 2024 reaching 1.6% and then 2.47% in 2025.

On the other hand, inflation, which has historically been low, increased to 5.7% in 2021, 13.2% in 2022 and 9,3% in 2023. It is expected to land close to its target of 3% by the end of 2025, according to the IMF 2024 Article IV Consultation statement.

During its latest technical visit to the country, the IMF praised the progress of the more restrictive macroeconomic policies implemented over the past two years. These policies have led to a significant reduction in the internal and external imbalances that accumulated during the pandemic years. They particularly noted the reduction of inflation and the current account deficit.

The Colombian economy is diverse and comprises a range of sectors that contribute to its dynamism. Among the most important of these are public and personal services, financial services, retail and manufacturing.

The Oil and Gas industry plays a crucial role in the Colombian economy, accounting for a high percentage of exports. The country is also one of the top exporters of coffee, bananas, and flowers. Likewise, tourism is an area in full development thanks to the rich culture, history, and nature that the country has to offer.

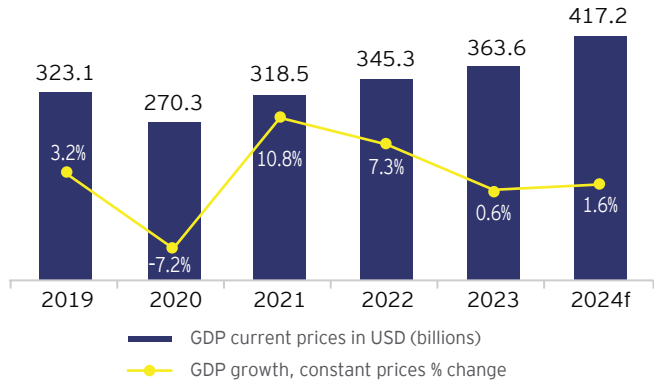
Table 1:

Index	Colombia
GDP current prices USD bn. (2023) ¹	\$363.6
GDP growth, constant prices % change (2023) ¹	0.6%
Gross domestic product per capita, current prices USD (PPP) (2023) ¹	\$20,787.6
Inflation, year-end consumer prices (2023) ¹	9.3%
Fiscal balance (net lending (+) or net borrowing (-) of general government; % of GDP) (2023) ¹	-2.7%
Public debt (General government gross debt, % of GDP) (2023) ¹	54.3%
Current account (% of GDP) (2023) ¹	-2.5%
Investment (% of GDP) (2023) ¹	13.6%
Poverty headcount ratio at \$6.85 a day (2017 PPP) (% of population) (2022) ²	34.8%

1. World Economic Outlook (October 2024) IMF
2. Poverty headcount ratio at \$6.85 a day (2017 PPP) (% of population), World bank 2023



Figure 2:
Gross Domestic Product, Levels and Growth¹

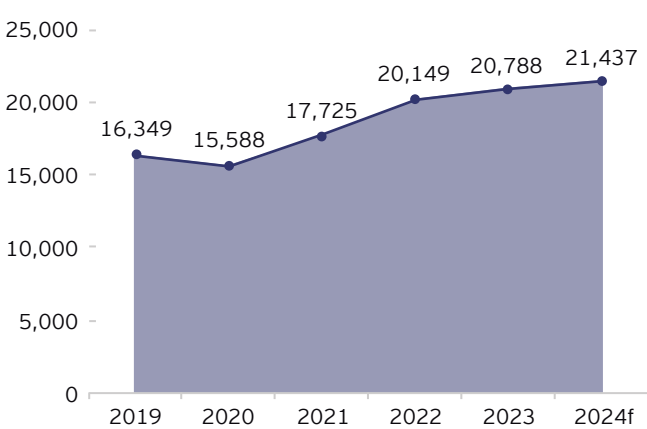


1. World Economic Outlook (October 2024) IMF

In the wake of the pandemic-induced macroeconomic imbalances, Colombia's economic expansion decelerated in 2023, culminating in a modest 0.6% GDP growth. This represented a shift towards a more sustainable growth trajectory following the vigorous post-pandemic recovery.

In October, the IMF expected 2024's growth to reach 1.6% (up from 1.14% anticipated in April) and 2.5% in 2025 and 3% in the medium term.

Figure 3:
Gross domestic product per capita, current prices (in USD, PPP)²



2. World Economic Outlook (October 2024) IMF

Colombia's GDP per capita in terms of purchasing power parity (PPP) has shown steady growth since 2020, reaching USD 20,788 in 2023, and is expected to reach USD 21,437 in 2024.

Figure 4:
Annual gross domestic product (GDP) by economic activity at current prices in dollars³ (2023)



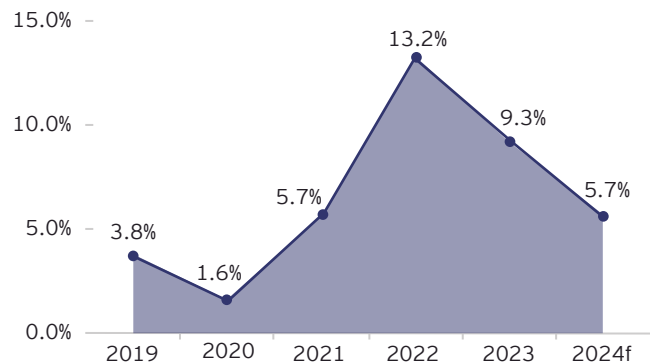
3- Annual gross domestic product (GDP) by economic activity at current prices in dollars (2023), ECLAC

The sectors that contribute most to the GDP are those related to financial and real estate services, as well as public and personal services.

Retail and trade are also highly relevant to the country, as well as manufacturing, agriculture, and mining.

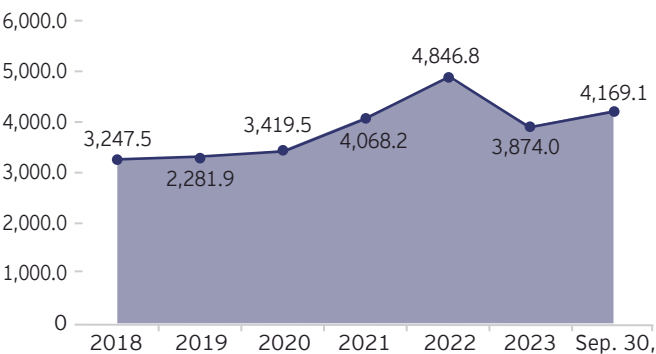
Figures 5 and 6:

Inflation, end of period consumer prices¹



1. World Economic Outlook October 2024, IMF

Exchange rate of foreign currency (USD/COP)²



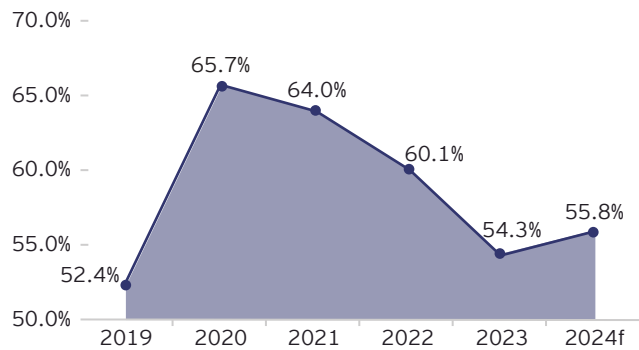
2. Exchange rates of foreign currencies, S&P

In October, the IMF estimated that Colombian inflation will drop to 5.7% this year. It is expected to converge towards its 3% goal in 2025.

By the end of 2023, the Colombian currency appreciated against the dollar, a trend that has not continued in 2024.

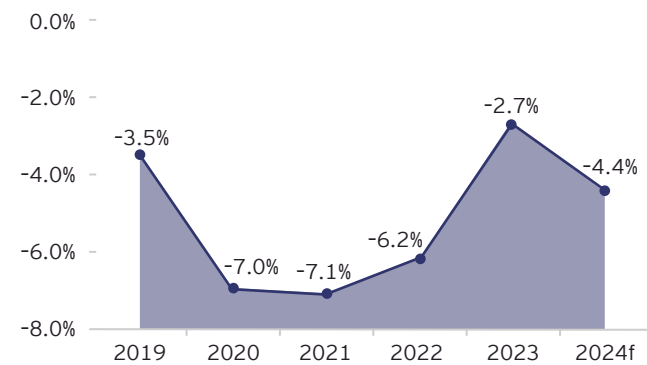
Figures 7 and 8:

Public debt (General government gross debt, % of GDP)³



3. World Economic Outlook October 2024, IMF

Fiscal balance (net lending (+) or net borrowing (-) of general government; % of GDP)⁴

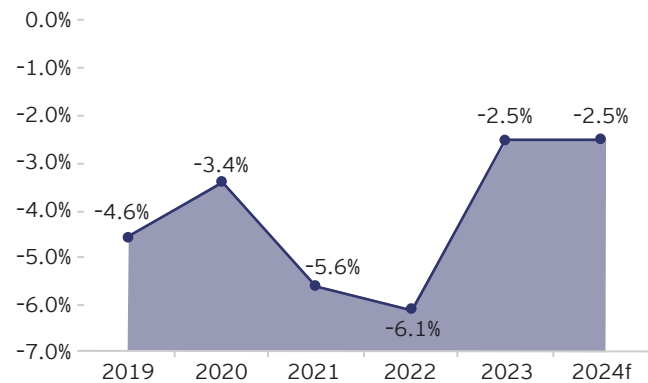


4. World Economic Outlook October 2024, IMF

Colombia strengthened its public finances in 2023. The country reached a fiscal deficit of 2.7% of the GDP in 2023, below the government target. The country also achieved a significant reduction in public debt, closing at around 54%. For 2024, it's expected to raise to 55.8%.

Figure 9:

Current account (% of GDP)¹

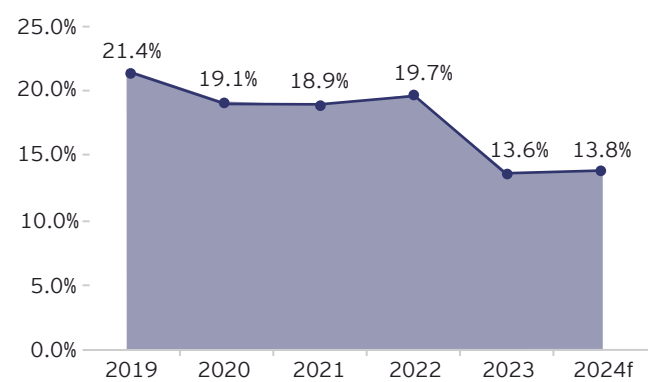


1. World Economic Outlook October 2024, IMF

The IMF projected that the current account deficit will stabilize at around 2.5% of GDP this year.

Figure 10:

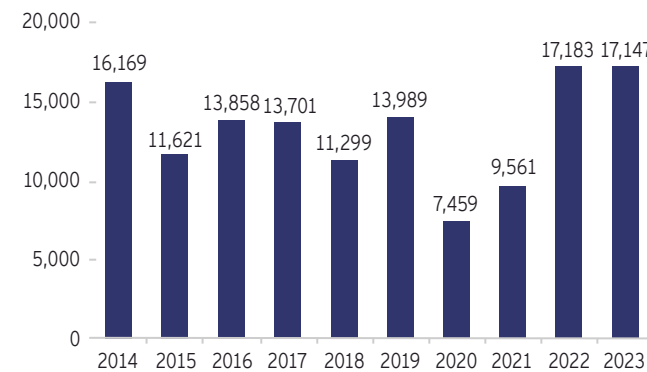
Investment (% of GDP) ²



2. World Economic Outlook October 2024, IMF

Figure 11:

FDI Colombia (In millions of USD)³




3. Foreign direct investment, net inflows (BoP, current US\$) - Latin America & Caribbean | Data (worldbank.org)

Investment as a percentage of GDP is projected to be 13.8% for 2024, a level similar to 2023, but significantly lower than previous years.

Colombia’s FDI inflows remained consistent with 2022 figures, representing 9% of the region’s total FDI.

Colombia has become an attractive destination for investors from around the world. The fourth-largest economy in Latin America offers economic and political stability, an internal market of 52 million people, a wide diversity of sectors, and a strategic geographical location that provides easy access to markets in North America, South America, and Europe.

In addition to its economic dynamism, the country has demonstrated an ongoing commitment to attracting foreign investment by implementing proactive policies and incentive programs to promote business growth.



Establishing a business in the country

1. Investment Regulation and Promotion Agencies

1.1. Foreign Exchange Regime

The Colombian Foreign Exchange Regime and the International Investment Regime are regulated under Colombian law. Their compliance is jointly supervised and controlled by the Superintendence of Companies (international investments and loans), the Superintendence of Finance (activity of the intermediaries of the exchange control market), and the Colombian Tax and Customs Authority (Autoridad Tributaria y Aduanera, acronym DIAN”) (import and exports of goods and residual competence).

1.2. International Investments

In accordance with foreign exchange regulations, foreign investors in Colombia must properly carry out their operations through the foreign exchange market and register their investments before the Central Bank. With this information the Central Bank can supervise, for statistical purposes, investment flows and protect foreign exchange rights.

The Foreign Exchange Regime classifies foreign investment in Colombia into two main groups, foreign direct investment (“FDI”) and portfolio investment.

1.3. Foreign Direct Investment in Colombia (FDI)

Refers to the direct investment made by foreign resident investors in Colombian companies. FDI is freely allowed in all sectors of the economy except in the following activities:

- ▶ Defense and national security
- ▶ Processing and disposal of hazardous or radioactive products not produced in Colombia.
- ▶ The most common targets recognized as FDI by the Foreign Exchange Regime
- ▶ **Domestic companies:** capital contribution of a company through the acquisition of shares or quotas.
- ▶ **Real estate:** The acquisition of real estate, directly or through a trust agreement.
- ▶ Shares registered before the National Registry of Securities Issuers (“RNVE”) declared for permanence purposes.
- ▶ **Trusts:** The acquisition of rights in trust agreements with trust companies supervised by the Superintendence of Finance.

1.4. Portfolio investments

A direct foreign investment in any of the following assets is considered to be a portfolio investment:

- ▶ Securities registered before the RNVE or listed in Foreign Securities Quotation Systems.
- ▶ Share in collective investment funds.
- ▶ Share in negotiable depository receipt programs of securities.

1.5. Special Foreign Exchange Regime

The Colombian foreign exchange regimen provides a set of special rules that may be applicable to branches of foreign companies that:

- ▶ Execute activities in the oil and gas and mining industries.
- ▶ Provide services that are inherent to the hydrocarbon sector and are exclusively devoted to this kind of service.
- ▶ In general, the Branches that choose operate in the special regime do not have access to the Colombian foreign exchange market. This means that these branches may not freely purchase foreign currency through the FX control market nor execute all types of operations, only authorized transactions. Additionally, these branches are not allowed to open or hold accounts abroad registered with the Central Bank under the compensation modality.

1.6. Foreign exchange rights and its protection

A foreign investment duly registered before the Central Bank grants the foreign investor the following rights:

- ▶ Transfer of dividends.
- ▶ Reinvesting or capitalizing dividends and any income derived from the investment.
- ▶ Transfer abroad of any income derived from the sale of the investment, the liquidation of the company or portfolio or the reduction of the company's capital.

1.7. Legal vehicles

Colombian commercial law provides for different types of legal vehicles by means of which investors can establish a permanent business presence in Colombia. Currently, the most common legal vehicles are: Simplified Share Companies (Sociedad por Acciones Simplificada), and branch offices of foreign companies (Sucursal). Traditional legal entities



such as Corporations (Sociedad Anónima) and Limited Liability Companies (Sociedad de Responsabilidad Limitada) are still used but have been replaced in general by Simplified Share Companies.

1.8. Simplified Share Companies (Sociedades por Acciones Simplificada or “S.A.S.”)

S.A.S. are the legal vehicle of choice for both local and foreign investors, regardless of the industry or the size of the business to be undertaken, due to its simplified scheme, which allows greater ease in the administration and management of companies, with emphasis on the will of the shareholders expressed through the bylaws, its primary source of regulation.

This type of entity allows for flexibility in several aspects such as the negotiation of shares and the payment of capital, and is therefore, a convenient vehicle for the pursuit of incorporate joint ventures.

1.9. Branch offices of foreign companies (Sucursal)

Branch offices are going concerns or commercial establishments opened in Colombia by a foreign company for the development of its corporate businesses or part of it. The branch office and its home office are deemed to be one and the same legal entity, and therefore, the branch office cannot have a different or greater legal capacity than its home office; and it is not legally possible to execute contracts between the home office and its branch office in Colombia. Nevertheless, for foreign exchange and customs purposes branch offices and their home offices are treated as separate entities, being allowed to make and receive payments for imports and exports of goods.

Colombian commercial laws provide that if a foreign company undertakes a permanent activity in Colombia, such foreign company must register a branch office in Colombia with the purpose of carrying out those activities in the country.



Tax Regime

1. General overview

- 1.1. Corporate income tax rate: The general corporate income tax rate is 35% in 2024.
- 1.2. Capital gains tax: A 15% rate is generally applied over capital gains.
- 1.3. Withholding taxes: Generally, any payment made abroad that qualifies as Colombian sourced income for the recipient is subject to withholding tax.

Most relevant withholding taxes on outbound transactions

Activity	Rate
Consulting services, technical services, and technical assistance services	20%
Management and direction services	33%
Interest paid to international lenders	15% (one year or more) or 20% (less than one year) or 5% for infrastructure projects under the Public-Private Partnerships scheme within the framework of Law 1508 of 2012.

► Dividends

- Dividend distributions to non-residents (entities or individuals) are subject to dividend tax at a rate of 20%, which is collected via withholding tax.
- On a dividend distribution, if the relevant profits were subject to taxation at the corporate level only the 20% dividend tax is applicable. Otherwise, if the dividend distribution is made out of profits that were not subject to taxation at the corporate level, the dividends will be subject to recapture income tax at the rate applicable for the period of the distribution (for 2024, 35%).
- A 10% dividend withholding tax applies on distributions between Colombian companies, unless the distribution is made between enterprise group of companies.

Note. Tax rates may be reduced when a double taxation agreement is in place.

1.4. Controlled foreign companies (“CFC”)

The CFC regime applies to Colombian tax residents (individuals or entities) that directly or indirectly hold an interest equal to or greater than 10% of the capital or of the profits of a foreign entity that is considered a CFC.

1.5. Colombian holding company regime (“CHC”)

CHC regime applies for Colombian entities whose main corporate purpose includes holding securities or shares in national or foreign entities, and/or the managements of said investments. Entities may apply to the CHC regime to the extent they comply with certain requirements, namely having at least 10% of the capital of two or more Colombian and/or foreign entities for a 12-month period, having three or more employees and having human and material resources in Colombia. Inclusion in the CHC regime must be requested to the Tax Authority.

1.6. Payment of taxes in kind

There is the possibility that taxpayers that obtain gross income equal to or greater than 33.610 Tax Value Units (approx. USD 285,000) could pay up to 50% of the tax due via an investment in works / infrastructure that benefit the so-called ZOMAC or PDET. The taxpayer must follow a specific process and obtain the required approvals.

1.7. Tax credit for VAT paid on productive fixed assets

VAT paid on the acquisition or construction of productive fixed assets (even if the acquisition is made via a leasing agreement with an irrevocable purchase option) can be applied as a credit against the income tax liability. The credit can be claimed in the year of the acquisition of the asset, or in the case of a construction, in the year in which it is completed. Any excess credit could be carried forward without limitation.

1.8. Foreign tax relief

For national companies and resident individuals, a credit for foreign taxes paid on foreign-source income is granted, up to the amount of Colombian income tax due on the foreign-source income.

1.9. Significant Economic Presence

Non-resident individuals or entities (for tax purposes) pay income tax in Colombia on revenue from the sale of goods and/or provision of services to customers and/or users located in the country. This is paid via withholding tax at a 10% rate when the non-resident entity does not have a Tax Identification Number (TIN) in Colombia or 3% on gross revenue if the non-resident registers in the Single Tax Registry ("RUT") and obtains a Colombian TIN.

1.10 Net Tax Rate - NTR/ minimum tax

Colombian entities (including branches) have to pay a Top-Up tax on income that has an effective tax rate (ETR) below the 15% minimum rate.

1.11. R&D+I

Research, Development and Innovation is an option for obtaining benefits in Colombia considering the amount approved by the Government for investments every year.

2. Other taxes and considerations

2.1. Equity tax

Some foreign entities and individuals are subject to this tax if their net equity for tax purposes is equal to or higher than 72,000 Tax Value Units (approx. USD 634,900), as of January 1, 2023. The applicable rates range from 0,5% to 1,5%. The 1.5% rate will apply until 2026 and, as from 2027, the highest tax rate will be 1%. An equity tax return must be filed annually.

2.2. Debit tax

The tax rate of the debit tax is 4x1000 (0.4%) and applies on the total amount of the transaction. The withholding agents of the debit tax are the financial entities and the Central Bank.

2.3. Value added tax - VAT

The general VAT rate is 19%. This rate applies to all goods and services unless a specific provision allows a different tax rate.

2.4. Tax on single-use plastics

This tax is levied on the sale, self-consumption and importation of single-use plastics used for packaging, wrapping or packing goods. Producers and importers of single-use plastics are subject to this tax.

2.5. Tax on sugary beverages

As from November 1, 2023, this tax will apply over ultra-processed sugary beverages, as well as concentrates, syrups, powders which, after being mixed or dissolved, obtained sugary beverages.

2.6. Tax on ultra-processed foods

As of November 1, 2023, some ultra-processed foods will be subject to tax when they have added sugar, salt, sodium and/or fats. The tax rate is set to be increased progressively from 10% (FY 2023), to 15% (FY2024) and to 20% (from FY2025 onwards).

2.7. Industry and commerce tax / turnover tax

The industry and commerce tax ("ICA") is a municipal tax that is applied on gross revenue earned from industrial, commercial or service activities in any municipality and specific property located therein, regardless of whether the activity is permanent or occasional. The ICA rate varies depending on the municipality, ranging from 0.2% and 1.4%.

The paid Turnover tax can be treated as 100% deduction against the CIT.

2.8. SIMPLE regime

The SIMPLE rate ranges from 1.2% to 8.3% of a small business's gross revenue, depending on the business's economic activity and the amount of gross revenue.

2.9. Registration tax

The registration tax is levied on all documentary acts, contracts or legal business to be registered with the Chambers of Commerce or with the public instrument registration offices. Tax rates range from 0.1% to 1% depending on the nature of the act or contract contained in the document to be registered.

2.10. Tax procedural matters

For FY 2023 income tax returns, to be filed between April and May 2024, there is an "audit benefit" which reduces the statute of limitation to six months or 12 months, if the income tax liability is increased by 35% or 25%, respectively, in comparison to the prior year's income tax liability.

2.11. Transfer pricing

Transfer pricing rules were first implemented in Colombia on January 1, 2004 and they basically follow OECD principles. Transfer pricing rules are applicable to all the taxpayers that carry out transactions with related parties abroad, related parties located in a free-trade zones or any entity located in tax havens or in a preferential tax regime. Colombian transfer pricing rules establish formal duties, mostly following the OECD BEPS Action 13 requirements for the documentation of transfer pricing transactions.

2.12. Double taxation treaties

Colombia has double taxation treaties in place with Canada, Andean Pact, Chile, Czech Republic, India, Italy, France, Mexico, Japan, Spain, South Korea, Portugal, Switzerland, and the United Kingdom.





Labor Regime

* A labor reform bill is currently taking course in the Congress. The bill was already approved in the first debate in the House of Representatives and is currently coursing debate before the Senate.

1. Labor law

1.1. Territoriality and labor law

Labor laws apply to all the inhabitants of Colombian territory, regardless of their nationality, who have been hired through an employment agreement in Colombia. Therefore, any employment agreement entered into abroad and performed outside Colombian territory is not covered by the Colombian labor legislation.

1.2. Employment agreements

An employment agreement exists whenever an individual agrees to render a personal service to another individual or legal entity, in exchange for a remuneration. The existence of a labor relationship does not require a special formalization and is presumed when the following conditions are met:

- ▶ The services are rendered personally by the employee.
- ▶ There is continued dependence or subordination of the employer.
- ▶ The services are rendered in exchange for a salary (remuneration).

1.3. Salary

For 2024, the minimum legal monthly salary is COP 1,300,000 (approx. USD 330), and no employer can pay a salary below this amount.

1.4. Ordinary salary, fringe benefits and vacations

▶ Legal services bonus

Every employer must pay a bonus equal to one month of salary per year of service (in two

installments, one half in June and the second half before December 20) to all employees who have worked all the respective semester or pro rata to the time worked.

▶ Paid annual leave

The employee is entitled to enjoy 15 working days per year worked or in proportion to the fraction worked for resting and recreation purposes.

▶ Severance payment

Employees are entitled to a severance payment consisting of one month of salary for every year of service (and pro rata for fractions thereof), which must be calculated up to December 31. If the salary is variable (e.g., if it includes commissions or incentive bonuses) or has changed in the last three months, the base for calculating the severance payment is the monthly average salary of the prior year. Severance payment must be directed to the severance fund chosen by the employee before February 15.

▶ Interest on severance payment

In cases where severance interests apply, a 12% annual rate must be paid directly to the employee once a year, in January.

▶ Footwear and work attire

Employers shall deliver every four months, free of charge, one pair of shoes and work clothing to employees who earn up to twice the legal monthly salary. It is supplied on April 30, August 31 and December 20.

▶ Transportation aid

Employers must pay, on a monthly basis, transportation aid to employees who earn up to twice the legal monthly salary. When the employee works remotely, this transport aid is changed to a connectivity aid.

1.5. Family day

The family day must be guaranteed as part of a workday without affecting mandatory rests. This obligation will no longer be applicable after July 15, 2026.

1.6. Working hours

Currently, the maximum number of working hours per week will diminished based on Law 2101, 2021 as follows: for year 2024 - 46 hours, for year 2025 - 44 hours; for year 2025-42 hours.

1.7. Right to disconnect

Generally, employees have the right to disengage from work during non-work hours. The employer has the obligation to guarantee the right to disconnection from work and any clause or agreement that goes against or violates that right shall be ineffective. Likewise, the Law requires employers to have a disconnection policy. Failure to observe the right to disconnect from work may constitute workplace harassment.

1.8. Maternity leave

Maternity leave is granted to all employed pregnant or adoptive mothers in Colombia for a period of eighteen weeks. According to Colombian labor law, mothers are entitled to maternity leave of two weeks prenatal and 16 weeks postnatal. The mother may choose to allocate the two prenatal weeks to the postnatal period, meaning that maternity leave will last seventeen weeks after childbirth.

1.9. Collective dismissal

Employers must obtain prior authorization from the Ministry of Labor for all collective dismissals. Without such approval, the termination of employment agreements will be deemed ineffective.

1.10. Workplace harassment

Any persistent and demonstrable conduct before an employee by another employee or employer, seeking to infuse fear, intimidation, terror, distress, cause labor demotivation or lead to the employee's resignation is deemed as workplace harassment. The Law considers the following conducts as workplace harassment:

- ▶ Labor mistreatment
- ▶ Labor persecution
- ▶ Labor discrimination
- ▶ Labor obstruction
- ▶ Labor inequity and labor deprotection

1.11. Social security

The social security system encompasses the pensions, health and labor risks systems and payroll tax contributions. Every employer is obligated to register its employees in the social security system and make the corresponding monthly contributions in a timely manner.

	Basis	Rate	Employer	Employee
Pension	Salary + 1.41 + 1.4.2	16%	12%	4%
Health	Salary + 1.41 + 1.4.2	12.5%	8.5%	4%
Solidarity fund	Salary + 1.41 + 1.4.2 + 1.4.3	0.522%	0.522%	1% -2%
Labor Risk	Salary + 1.41 + 1.4.2 + 1.4.4	-6.9%	-6.9%	N/A
SENA, ICBF, Family Compensation Fund (payroll taxes)	Salary + 1.4.5	9%	9%	N/A



Financial Reporting

1. Accounting standards

Since 2009, Colombia adopted a new framework of accounting, financial information and information assurance rules aligned with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The National Government delegated the process of technical standardization of standards in Colombia to the Technical Council of Public Accounting ("CTCP").

2. Financial statements

All businesses (either legal entities, branch offices or individuals) are required to keep accounting records in Spanish following IFRS.

Accounting records may be kept abroad, provided that the books are presented in Colombia upon request by the relevant authorities.

3. Simplified accounting for small companies

Eligible small companies may keep simplified accounting records, prepare and issue abbreviated financial statements and disclosures or apply moderate levels of assurance in the review of financial statements.

The Colombian Government shall determine the criteria to qualify for such treatment, based on the level of income and assets, number of employees, legal type, or special socioeconomic conditions.

4. Functional currency

IAS 21 allows for each entity to define a functional currency that measures the economic effects of its operation and serves as a basis to prepare its financial statements. This standard defines certain guidelines to determine which should be the applicable functional currency, such as: (i) the currency at which the sales prices of the goods and services commercialized by the Company are rated; (ii) the factors of the country which in a great extent affect those sale prices; (iii) the currency that influences operating costs to a higher extent; and on a subsidiary basis (iv) the currency with which the company obtains most of its financing, always considering the economic reality of the operation of each company.

5. Electronic documents

Colombia has migrated towards to the presentation of accounting information electronically. Companies must generate and receive electronic documents (electronic invoices, electronic support of transactions carried out with counterparties that are not required by law to issue invoices, as well as acknowledgment for the receipt of invoice or of goods and/or services). Local laws contain the framework and requirements for e-invoicing, including the requirements to correctly evidence all costs and expenses within the accounting books and the annual CIT.

On the other hand, companies are required to deliver, through a technological provider, the XML file, the document that serves as supporting information for transactions carried out with third parties that are not required by law to issue electronic invoices.

6. Publicly and Non-publicly traded companies

The following requirements apply to traded companies:

- ▶ Statutory accounting books must be maintained under IFRS, including the general ledger and posting journal.
- ▶ Accounting records must be kept in Spanish and in Colombian pesos. If the functional currency is different from the Colombian peso, a conversion process is required.

- ▶ Third-party records are required.
- ▶ Annual individual Financial Statements report (as at December) with disclosures must be approved at the Annual Shareholders' Meeting and be signed by an accountant certified in Colombia.
- ▶ Companies that are under common control or management by one or more parts (Business Groups) must prepare Consolidated Financial Statements.
- ▶ Companies must report their financial statements as at December 31 in XML format, when required by the regulatory body or when they reach the threshold defined by each Superintendence.

Decree 2420 issued in 2015 specifies that financial statements must be prepared in accordance with IFRS, differentiating between three different groups of entities:

- ▶ Public entities, entities of public interest and large companies must report under Full IFRS standards.
- ▶ Medium and small enterprises which are not public entities or public interest entities may report under Simplified IFRS.
- ▶ Small & Micro entities which are not public entities or public interest entities may report under Simplified IFRS.

7. Special cases

A Company must verify the obligation to report the financial statements to the control entities according to its business sector, among the most common:

- ▶ Superintendence of Companies, National Superintendence of Health, Superintendence of Finance, Superintendence of Transportation.
- ▶ Financial Statement for Companies that do not meet the going concern must be prepared under the bases contained in Decree 2101 of 2016.

- ▶ The application of IFRS in Colombia is subject to certain exceptions established by the regulator contained in Decree 2420 issued in 2015 and the amendments thereto. These exceptions vary depending on the type of entity. For example, banking establishments, financial corporations, financing companies, financial cooperatives, higher-level cooperative organizations and insurance entities, have a specific treatment of the credit portfolio and its impairment, the classification and valuation of investments, which will continue to be applied in accordance with the requirements of the Basic Accounting and Financial Circular of the SFC (Financial Superintendence of Colombia).

8. Other considerations

A Statutory Auditor is required for:

- ▶ A Company with gross assets, as at December 31, equal to or greater than 5,000 SMMLV (approx. USD 1,625,000).
- ▶ A Company with gross income, during the year, equal to or greater than 3,000 SMMLV (approx. USD 975,000).
- ▶ Branches of foreign companies.





Ecuador

Message from EY Ecuador's Country Managing Partner

Ecuador stands out for having a stable democracy, supported by a monetary system with the dollar as its currency.

Our country boasts a wide variety of climates and natural resources, making it an attractive destination for investment in oil exploration and exploitation, gold and copper mines, fishing activities such as shrimp, and agricultural exports with significant investments in bananas, cocoa, coffee, among others.

Our main cities are fully covered by basic services, and we have a population with prominent levels of entrepreneurship and digital literacy. All of this creates an environment conducive to investment and business growth.

To facilitate your understanding of the opportunities that Ecuador has to offer, we have designed this Business and Investment Guide. The document prepared by EY professionals provides guidance to identify the opportunities that our country offers and to help both local and foreign investors make informed decisions to achieve success in their investments.

We hope that this guide is of great use, and we encourage you to explore the investment opportunities that Ecuador has to offer.

Kind Regards,

Javier Salazar

Country Managing
Partner
EY Ecuador





Overview

Ecuador is located in northwestern South America and stretches from the Pacific coast to the Amazon jungle and the Andes. The capital of Quito is located in the Andes; Guayaquil is the largest port city; and Cuenca is famous for its architecture. The population includes mestizos, Amerindians, Afro-Ecuadorians, and a white minority, reflecting their culture through music, dance, art, and colorful festivals. Natural resources such as oil, minerals, fisheries, agriculture, and its biodiversity drive major industries such as agriculture (banana, cocoa, coffee, flowers), fishing, oil, tourism, and manufacturing. Its presence in the global economy has been strengthened through trade agreements such as the Free Trade Agreement with the European Union and bilateral treaties with China and the United States.



Population¹ 18,001,000

Urban²: 65%

Rural: 35% (2022)



Official language³

Spanish



Area⁴

256,370 km²





System of government³

Democratic and unitary republic

President: Daniel Noboa

Next elections: 2025



Climate³

Tropical on the coast, temperate in the highlands, and hot and humid in the Amazon region



International time⁵

GMT-5 (All Ecuador)



GDP current prices⁶

USD \$118.8 Bn. (2023)



GDP per capita (PPP)⁷

USD \$16,192.9 (2023)



Currency⁸

US Dollar



Key sectors⁹

Ecuador's key sectors include oil and mining, fishing, agriculture and food (including shrimp, bananas and plantains, cocoa and processed by-products, tuna and fish, and coffee and processed by-products), construction, and hospitality.

Why invest in Ecuador?



1. World Economic Outlook October 2024, IMF - Population
2. Urban population (% of total) - Latin America and the Caribbean (2023), World Bank
3. Main languages Latin America and the Caribbean, system of government and weather, DatosMundial.com
4. Extension (square kilometers) - Latin America and the Caribbean (2021), World Bank
5. International Time in Argentina, 24timezones.com
6. World Economic Outlook October 2024, IMF - GDP, current prices, IMF
7. World Economic Outlook October 2024, IMF - GDP per capita, current prices, IMF
8. Exchange rate, S&P
9. Encyclopedia Britannica
10. Why invest in Ecuador? - investecuadortourism.com
11. UN Comtrade



Country’s economic outlook

Ecuador has a diversified economy with a wide range of sectors, including agriculture, mining, oil, tourism, among others. The country has a strategic geographical location, straddling the equator, which provides it with a unique advantage in terms of biodiversity and agricultural potential. Ecuador is renowned for its production of high-quality cocoa, bananas, flowers, and coffee, making it a key player in the global agricultural market.

Ecuador’s use of the U.S. dollar as its official currency simplifies financial transactions and reduces currency risk for foreign investors, making it an economically stable environment for business operations.

After a phase of slow economic expansion, the nation experienced a strong recession in 2020, with a contraction of -9.2%, followed by a strong recovery with 9.8% growth in 2021. In 2022, the economy began to slow down growing 6.2% and 2.4% in 2023. The IMF forecasts a 0.3% grow for 2024. During 2023, Ecuador faced political turbulence prompting the exit of ex-President Guillermo Lasso and triggering snap elections that ushered in Daniel Noboa as the new president.

In May, the IMF Executive Board approved a new 48-month Extended Fund Facility (EFF) arrangement for Ecuador, providing access to approximately USD 4 billion. This loan is intended to assist Ecuador in stabilizing its economy. According to the IMF, Ecuadorian authorities have taken decisive and prompt measures to address the fiscal and security challenges.

The government’s commitment to enhancing trade agreements and improving infrastructure, including ports, roads, and telecommunications, further bolsters Ecuador’s appeal as a business destination

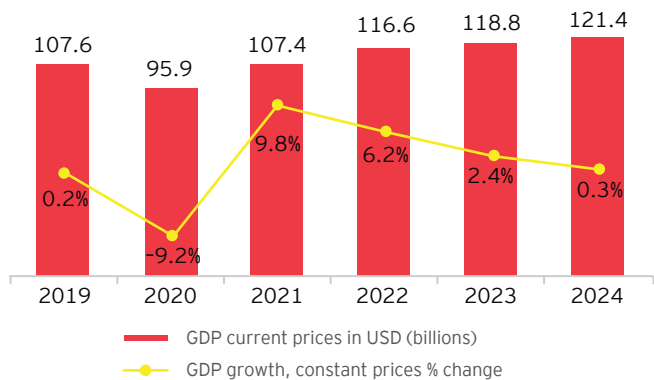
The country also has a growing middle class, which is driving demand for a wide array of consumer goods and services, from technology and electronics to healthcare and education. Ecuador’s rich cultural heritage and natural beauty, including the Galapagos Islands, offer untapped potential in the tourism sector, attracting visitors from around the globe.

Table 1:

Index	Ecuador
GDP current prices USD bn. (2023) ¹	\$118.8
GDP growth, constant prices % change (2023) ¹	2.4%
Gross domestic product per capita, current prices USD (PPP) (2023) ¹	\$16,192.9
Inflation, year-end consumer prices (2023) ¹	1.4%
Fiscal balance (net lending (+) or net borrowing (-) of general government; % of GDP) (2023) ¹	-3.6%
Public debt (General government gross debt, % of GDP) (2023) ¹	55.4%
Current account (% of GDP) (2023) ¹	1.9%
Investment (% of GDP) (2023) ¹	21.4%
Poverty headcount ratio at \$6.85 a day (2017 PPP) (% of population) (2022) ²	29.9%

1. World Economic Outlook October 2024, IMF
2. Poverty headcount ratio at \$6.85 a day (2017 PPP) (% of population), World bank 2023

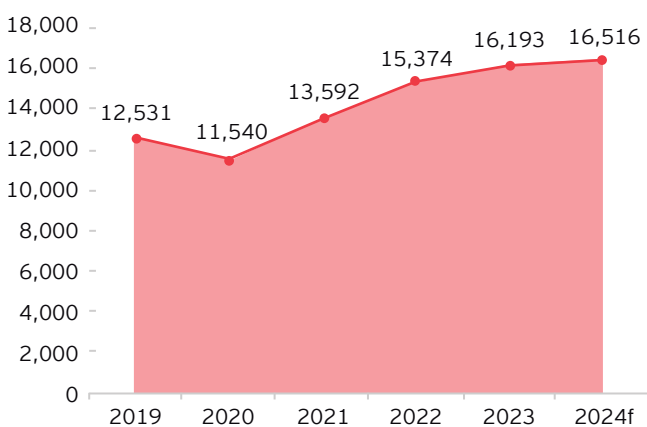
Figure 2:
Gross Domestic Product, Levels and Growth¹



1. World Economic Outlook October 2024, IMF

Ecuador’s economic growth experienced a sharp decline during the pandemic, followed by a strong rebound. However, growth has slowed in recent years, due to political uncertainty, a security crisis, energy shortages due to droughts, and exogenous shocks to oil revenue and interest rates. The current government is also facing liquidity and financing challenges while trying to limit its dependency on oil according to the IMF (Ecuador: Request for an Extended Arrangement Under the Extended Fund Facility-Press Release; Staff Report; and Statement by the Executive Director for Ecuador). The organization projects a modest 0.3% increase for 2024 and 1.2% for 2025.

Figure 3:
Gross domestic product per capita, current prices (in USD, PPP)²



2. World Economic Outlook October 2024, IMF

In 2021, Ecuador’s per capita GDP reached and surpassed its pre-pandemic level. It is expected to continue its growth and reach USD 16.516 by the end of the year.

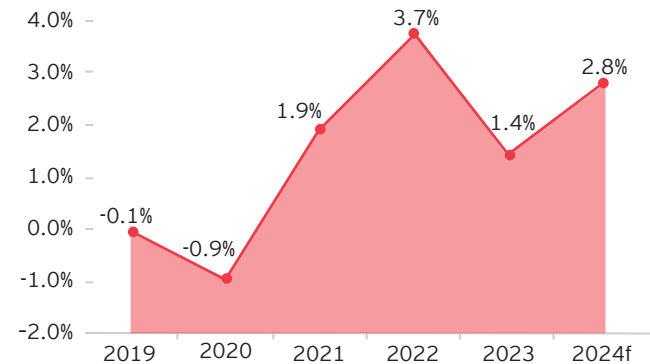
Figure 4:
Annual gross domestic product (GDP) by economic activity at current prices in dollars³ (2023)



3- Annual gross domestic product (GDP) by economic activity at current prices in dollars (2023), ECLAC

Figure 5:

Inflation, end of period consumer prices¹

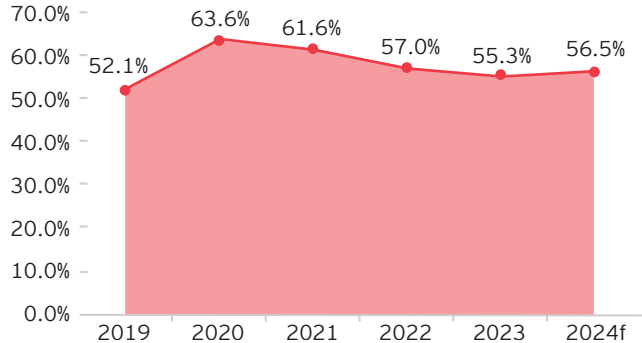


1. World Economic Outlook October 2024, IMF

Ecuador, with its dollarized economy since 2000, experienced a lower inflation rate compared to the rest of the region. Inflation is expected to end 2024 with a 2.8% increase.

Figure 6:

Public debt (General government gross debt, % of GDP)²



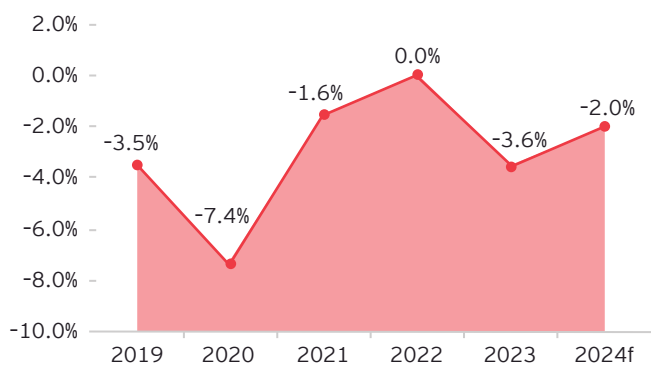
2. World Economic Outlook October 2024, IMF

After a rapid rise from 2014 to 2020, Ecuador's public debt stock has been decreasing since then, reaching 55.3% in 2023. A moderate increase is expected for 2024.

The nation reached an agreement with the IMF to access a 48-Month US\$4 Billion Extended Fund Facility Arrangement, in order to support the government's efforts to stabilize the economy.

Figure 7:

Fiscal balance (net lending (+) or net borrowing (-) of general government; % of GDP)³

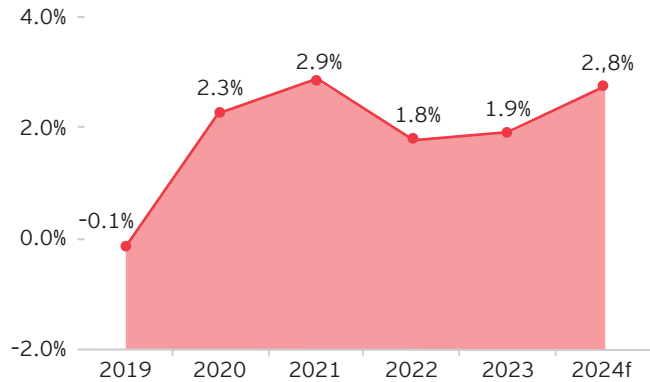


3. World Economic Outlook October 2024, IMF

Following a surplus of 0.05% in 2022, the fiscal position worsened in 2023, resulting in a deficit of 3.6% of GDP. This decline was largely driven by a weaker-than-expected oil balance, with lower export prices and production, as well as higher-than-anticipated interest payments on floating rate debt.

Figure 8:

Current account (% of GDP)¹

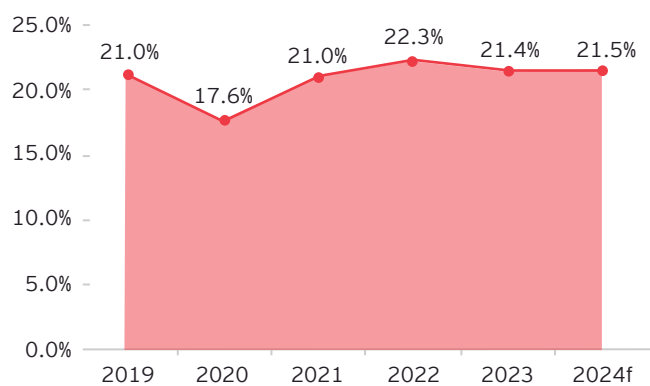


1. World Economic Outlook October 2024, IMF

The current account surplus saw a slight increase from 1.8% of GDP in 2022 to approximately 1.9% in 2023, despite a significant drop in oil-related exports and rising interest payments on external public debt. IMF expects it to reach a solid 2.8% in 2024.

Figure 9:

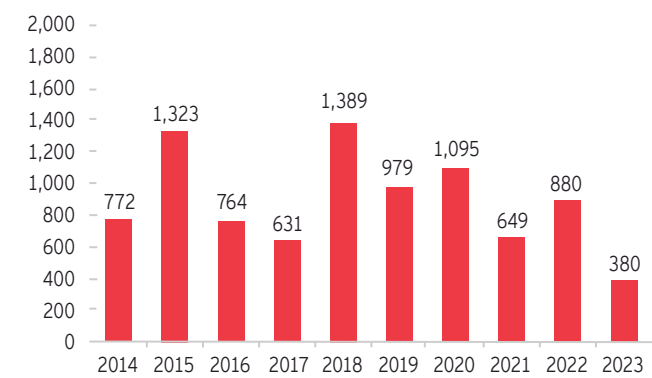
Investment (% of GDP)²



2. World Economic Outlook October 2024, IMF

Figure 10:

FDI Ecuador (In millions of USD)³



3. Foreign direct investment, net inflows (BoP, current US\$) - Latin America & Caribbean | Data (worldbank.org)

In line with the global decline in foreign investment, in 2023, Ecuador received US\$ 380 million in foreign direct investment, marking a 57% drop from 2022 and the lowest level of inflows since 2010.



Ecuador offers a unique investment landscape due to its strategic location, which provides easy access to both North and South American markets, and its use of the U.S. dollar as the official currency, reducing currency exchange risks for foreign investors. The country has made strides in recent years to improve its infrastructure, especially in transportation and energy sectors, facilitating smoother trade and operational efficiency for businesses.

Establishing a business in the country

1. Investment Regulation and Promotion Agencies

1.1. General Incentives

Ecuador has recognized the importance of foreign investment as a driver for economic growth and development. To this end, the country has established a comprehensive legal framework designed to attract and protect foreign investors. The government has made efforts to streamline processes, provide incentives, and ensure a stable investment climate.

► Tax Incentives

To take full advantage of these opportunities, foreign investors are encouraged to engage with local agencies such as ProEcuador and the Ministry of Production, Foreign Trade, Investments, and Fisheries. These agencies can provide tailored information and support to navigate the investment landscape in Ecuador.

Ecuador's tax incentives are designed to reduce the overall cost of investment and enhance profitability for foreign businesses. These incentives include:

- **Income Tax Reduction:** Investors can benefit from a reduction in income tax rates, subject to certain conditions and the nature of the investment.
- **Remittance Tax Exemption:** For specific cases, such as the import of capital goods or repatriation of profits, investors may be exempt from the currency outflow tax.
- **VAT Exemptions:** The import of certain capital goods may be exempt from VAT, reducing the initial investment costs.

1.2. Industries with special incentives

- **Renewable Energy:** The country is rich in renewable energy resources, and the government offers incentives for projects that harness solar, wind, geothermal, and biomass energy. These incentives may include tax benefits, expedited permits, and access to land.
- **Tourism:** Recognizing the potential of its diverse landscapes and cultural heritage, Ecuador provides incentives for investments in tourism infrastructure, such as hotels, resorts, and eco-tourism projects. These may include tax holidays and import duty exemptions for tourism-related goods.
- **Agriculture and Agroindustry:** To promote modernization and value addition in the agricultural sector, the government offers incentives for investments in technology, innovation, and infrastructure. This includes tax benefits and support for research and development.
- **Mining and Petroleum:** Ecuador's mining and petroleum sectors are open to foreign investment, with special regimes in place for exploration and exploitation activities. These regimes provide fiscal stability and regulatory incentives to encourage investment in these sectors.

2. Doing Business

2.1. Characteristics for each type of entity

Sociedad Anónima (S.A.)

- a. **Ownership:** Minimum of two shareholders required, no maximum limit. The company may subsist with one shareholder.
- b. **Subtypes of Entities:** Can be "abiertas" (publicly traded) or "cerradas" (privately held).
- c. **Liability:** Limited to the amount of capital contributed.
- d. **Administration:** Board of Directors and a General Manager required; Board meetings at least annually.
- e. **Oversight:** Supervised by the Superintendencia de Compañías, Valores y Seguros.

- f. **Transfer of Shares:** Restrictions may apply in privately held companies as per bylaws.
- g. **Other Important Aspects:** Must maintain a legal reserve fund.

Compañía Limitada (Ltda.)

- a. **Ownership:** Between two and 15 partners. The company may subsist with one shareholder.
- b. **Subtypes of Entities:** No subtypes.
- c. **Liability:** Limited to the amount of capital contributed.
- d. **Administration:** Managed by a Manager; no Board of Directors required.
- e. **Oversight:** Supervised by the Superintendencia de Compañías, Valores y Seguros.
- f. **Transfer of Shares:** Approval from the majority of partners required for transfer.
- g. **Other Important Aspects:** “Compañía Limitada” or “Ltda.” must be included in the company name.

Sociedad por Acciones Simplificadas (S.A.S.)

- a. **Ownership:** At least one shareholder, no maximum limit.
- b. **Subtypes of Entities:** No subtypes; designed for flexibility.
- c. **Liability:** Limited to the amount of capital contributed.
- d. **Administration:** Flexible management structure can have a single manager or a board of managers.
- e. **Oversight:** Subject to fewer regulatory requirements; supervised by the Superintendencia de Compañías, Valores y Seguros.
- f. **Transfer of Shares:** Customizable according to the company’s bylaws.
- g. **Other Important Aspects:** Simplified establishment process and reduced formalities.

Sucursal de Empresa Extranjera (Branch of a Foreign Company)

- a. **Ownership:** Not applicable, as it’s an extension of the parent company.
- b. **Subtypes of Entities:** Not applicable.
- c. **Liability:** Parent company fully liable for branch’s actions and obligations.
- d. **Administration:** Managed by a legal representative of the parent company.
- e. **Oversight:** Registration with the Superintendencia de Compañías, Valores y Seguros required.
- f. **Transfer of Shares:** Not applicable.
- g. **Other Important Aspects:** Separate capital allocation and accounting required for Ecuadorian operations.

3. General Incentives

Foreign companies doing business in Ecuador or deriving income from Ecuadorian sources need to be aware of the country’s international taxation rules and compliance requirements. Here are some key points:

- ▶ **Corporate Income Tax:** Non-resident companies are subject to income tax on Ecuadorian-sourced income. The current rate may vary, and it is essential to verify the applicable rate with local tax authorities or advisors.
- ▶ **Withholding Tax:** Payments made to foreign entities from sources within Ecuador are subject to withholding tax at varying rates, depending on the nature of the payment and the existence of any applicable double taxation treaties.
- ▶ **Indirect Taxes:** Value-added tax (VAT) may apply to goods and services provided within Ecuador. Foreign companies should assess their VAT obligations and registration requirements.
- ▶ **Transfer Pricing:** Transactions between related parties must comply with transfer pricing regulations, ensuring that they are conducted at arm’s length.

- ▶ **Permanent Establishment:** Foreign entities should be cautious of activities that may create a permanent establishment in Ecuador, as this could trigger additional tax liabilities and reporting obligations.
- ▶ **Tax Treaties:** Ecuador has entered double taxation treaties with several countries. These treaties may provide relief from double taxation and should be considered when structuring cross-border transactions.
- ▶ **Reporting Requirements:** Non-resident entities may have reporting obligations, including the filing of tax returns for income sourced in Ecuador.
- ▶ **Customs Duties:** Importation of goods may be subject to customs duties and import taxes. Proper classification and valuation of goods are crucial for compliance.
- ▶ **Remittance Tax:** A tax on currency leaving the country (5% rate) may apply to certain transactions, although exemptions may exist for specific cases or under international agreements.



Tax Regime

1. General Overview

1.1. Corporate Income Tax Rate: 25% - 28%

1.2. Capital Gains Tax Rate: 10%

1.3. Branch Tax Rate: 25% - 28%

1.4. Withholding Tax Rate:

- ▶ Dividends: 10% or 14.8%
- ▶ Interests: 25% to 37%
- ▶ Royalties: 25% to 37%
- ▶ Technical Services: 25% to 37%
- ▶ Other fees and compensation for services rendered abroad: 25% to 37%
- ▶ Branch remittance tax: 10% (profits as dividends)

Please note 37% applies for cross border payments to tax haven jurisdictions.

1.5. Net Operation Losses (years): Companies, individuals required to keep accounting records, and undivided estates that are obligated to maintain accounting records can offset losses incurred in a tax year against taxable profits earned within the following five tax periods, provided that the offset does not exceed 25% of the profits obtained in each period. For this purpose, profits or losses are understood as the differences resulting between taxable income that is not exempt, minus deductible costs and expenses.

2. Tax on rent and corporate income

2.1. Corporate Income Tax

a. Determination of the net taxable income (trading income)

In Ecuador, the net taxable income for corporate income tax purposes is determined based on the company's trading income. This encompasses all revenues derived from the company's ordinary business activities, after adjusting for allowable deductions, exemptions, and any specific adjustments as mandated by Ecuadorian tax law.

► General

The determination of net taxable income for corporate income tax purposes is based on a company's global income, adhering to the worldwide income principle. This encompasses all revenue streams, including sales, services, royalties, and interest, irrespective of where the income was generated. To be eligible for deductions, expenses must be directly related to the income-producing activities of the business and must be thoroughly documented and justified with appropriate records such as invoices, receipts, and contracts. It is important to note that the tax system disallows deductions for certain types of expenses, including those that are personal in nature, fines, penalties, and costs associated with tax-exempt income.

► Monetary correction

Ecuador does not currently apply a system of monetary correction for tax purposes. This means that inflationary adjustments to the financial statements are not recognized for the calculation of taxable income.

► Depreciation

General Rule: Fixed assets used in the business can be depreciated over their useful life, providing a deduction against taxable income. The rates and methods of depreciation are specified by tax regulations.

Accelerated Depreciation: In certain cases, accelerated depreciation may be allowed for specific assets or investments, encouraging businesses to invest in new technologies or infrastructure.

► R&D incentives

Ecuador offers incentives for research and development (R&D) activities aimed at fostering innovation and technological advancement. These incentives may include tax credits or deductions for expenditures on qualifying R&D projects. Companies engaging in R&D activities should carefully document their expenditures to qualify for these incentives. It is possible to apply for a potential 10%, 8% or 6% reduction in the corporate income tax rate.

► Relief for losses

Businesses can carry forward tax net operating losses for up to five years to offset against future taxable income. The offset is limited to 25% of the taxable profits in any given year.

b. Rates of corporate tax

Corporate Income Tax rate is 25%, although, it can be increased in 3 percentage points (28%) when the following occurs:

- The company's shareholder structure is not disclosed.
- In the corporate structure to the tax authority there is a resident beneficial owner, established or protected in a tax haven, and the beneficial owner is a tax resident in Ecuador.

c. Dividends

Dividends distributed by Ecuadorian companies to both resident and non-resident shareholders are generally subject to income tax. The effective tax rate is 10% or 14.8% and conditions can vary depending on the compliance of tax obligations and the existence of any applicable double taxation treaties.

For non-resident shareholders, dividends are typically subject to withholding tax at the source in Ecuador. However, if a double taxation treaty is in place between Ecuador and the recipient's country of residence, the treaty may provide for a reduced withholding tax rate.

d. Mining tax / specific taxes per industry (list)

The mining industry in Ecuador is subject to several taxes, including:

- ▶ **Royalties:** Mining companies must pay royalties based on a percentage of the sales value of the minerals extracted. The rate can vary depending on the type of mineral and the volume of production.
- ▶ **Environmental Taxes:** Companies may be subject to taxes aimed at environmental conservation and to cover the costs of mitigating environmental impacts.

e. Specific Taxes per Industry

- ▶ **Oil & Gas:** The oil and gas sector is subject to a variety of taxes, including royalties, profit-sharing with the state, and environmental taxes. The specific rates and conditions are often determined by the contracts between the state and the oil companies.
- ▶ **Telecommunications:** Telecommunication companies may be subject to a special contribution for the regulation and control of telecommunications.

- ▶ **Banana Industry:** There is a specific tax on the export of bananas, which is calculated per metric ton.
- ▶ **Financial Sector:** Banks and financial institutions are subject to a special contribution based on their total assets or equity.
- ▶ **Alcoholic Beverages and Tobacco:** These products are subject to excise taxes, which are levied on the production and importation of these goods.

f. Capital gains (direct and indirect)

Capital gains derived from direct or indirect transfers of shares of Ecuadorian entities are subject to 10% flat-rate income tax. Indirect transfers are taxable if both of the following conditions are met:

- ▶ At any time during the tax year in which the transfer is performed, the real value of the shares of the Ecuadorian entity or permanent establishment represents directly or indirectly 20% or more of the real value of the nonresident company's shares.
- ▶ In the same fiscal year or 12 months before the transaction, the transfer of shares of the nonresident company by the same seller directly or indirectly corresponds to an aggregate amount exceeding 300 basic fractions of income tax for individuals (USD\$ 3'570,600 for the 2024 fiscal year). This amount is increased to 1,000 basic fractions of income tax for individuals (USD\$ 11,902,000 for the 2024 fiscal year) if the transaction does not exceed the 10% of the total share capital.

3. International Tax

a. Foreign tax relief

Ecuador provides foreign tax relief to avoid double taxation on income that residents earn abroad. This relief typically comes in the form of a tax credit, where the income tax paid in a foreign country can be credited against the Ecuadorian tax liability on the same income. The amount of credit is usually limited to the amount of Ecuadorian tax payable on the foreign income. Taxpayers should verify the existence of any tax treaties that might provide additional relief.

b. Foreign-exchange controls

Ecuador does not currently have stringent foreign-exchange controls, as it uses the US dollar as its official currency. This dollarization facilitates free movement of capital in and out of the country. However, certain reporting requirements may exist for significant transactions, and a remittance tax (5%) is imposed on certain foreign currency remittances.

c. Transfer pricing

Transfer pricing rules in Ecuador require that transactions between related parties, both domestic and international, be conducted at arm's length. This means that the prices charged in intercompany transactions should be consistent with prices charged between independent entities under similar circumstances. Companies must maintain documentation to support their transfer pricing policies and may be required to file an annual transfer pricing report after exceeding USD\$ 10 million in transactions.

d. Debt-to-equity rules

In Ecuador, the thin capitalization rules apply to both domestic and international related-party transactions. The rules are intended to limit the amount of interest that can be deducted when calculating taxable income if the debt-to-equity ratio exceeds a certain level set by the tax authorities.

The specific ratio is determined by Ecuadorian tax law and may be subject to change, so it's important to consult the current regulations for the most up-to-date figures. As of the last update, the acceptable debt-to-equity ratio was 3:1. This means that for every dollar of equity, a company can have up to three dollars of debt from related parties before the thin capitalization rules take effect. If a company's debt-to-equity ratio exceeds the prescribed limit, the interest paid on the portion of the debt that exceeds the limit may not be deductible for income tax purposes. This effectively increases the company's taxable income and, consequently, its tax liability.

In Ecuador, the tax legislation limits the amount of interest that can be deducted between related parties by considering the company's EBITDA. The rules typically specify that the deductible interest cannot exceed a certain percentage of the company's EBITDA for the fiscal year. This is to ensure that the interest deductions are in line with the company's operational earnings capacity and to limit the ability to erode the tax base through interest payments.

The specific percentage and how it is applied can vary and may be subject to change with new tax laws or amendments. As of the latest information available, the interest deduction was limited to an amount not exceeding 20% of the company's EBITDA. It's important for companies to verify the current regulations and calculate their allowable interest deductions accordingly.

e. Controlled foreign corporations

Ecuador's tax law includes CFC rules aimed at preventing tax avoidance using foreign entities controlled by Ecuadorian residents. Under these rules, passive income earned by a controlled foreign corporation may be attributed to the Ecuadorian resident and subject to tax in Ecuador, regardless of whether the income is distributed.

f. Preferential tax jurisdictions

Ecuador has provisions to counteract the effects of transactions with entities located in preferential tax jurisdictions, commonly known as tax havens. Transactions with entities in these jurisdictions are subject to increased scrutiny and may face adverse tax consequences, such as non-deductibility of expenses and increased withholding tax rates.

Ecuador has implemented a rule regarding preferential tax jurisdictions that focuses on the effective tax rate applied in those jurisdictions. The rule is designed to discourage transactions with entities located in jurisdictions where the effective tax rate is significantly lower than in Ecuador.

The specific rule states that a jurisdiction is considered to be a preferential tax jurisdiction (or tax haven) if it imposes an effective income tax rate that is less than 60% of the effective rate that would be charged in Ecuador. This means that if the corporate income tax rate in Ecuador is 25%, a foreign jurisdiction with an effective tax rate lower than 15% (which is 60% of 25%) could be classified as a preferential tax jurisdiction.

4. Value Added Tax

In Ecuador, the Value Added Tax (VAT) is a crucial component of the tax system, applied to the value added at each stage in the production and distribution of goods and services. Currently, by law, the standard VAT rate stands at 13%, applicable to most transactions involving goods and services within the country. Businesses engaged in providing taxable goods or services are required to register for VAT, issue VAT invoices, file periodic VAT returns, and remit the collected VAT to the tax authorities. Certain goods and services, such as basic foodstuffs, education, and healthcare, may be exempt from VAT or subject to a zero rate, particularly in the case of exports where VAT is charged at 0% but allows for the recovery of input VAT.

However, significant change is on the horizon for the fiscal year 2024, as the Ecuadorian government has decreed a temporary increase in the VAT rate to 15%. This adjustment necessitates businesses to adapt by revising their pricing strategies, updating accounting and billing systems to accommodate the new rate, and managing cash flow implications due to the collection and remittance of a higher VAT amount. Clear communication with customers about the VAT rate change will be essential to maintain transparency and manage expectations during this period.

The Value Added Tax (VAT) credit system is a key component of the VAT framework that allows businesses to offset the VAT they have paid on their eligible purchases and operational expenses against the VAT they have collected from their sales. This mechanism prevents double taxation and ensures that the tax is ultimately borne by the end consumer.

When a VAT-registered business makes purchases of goods or services necessary for its commercial activities, it pays VAT on these purchases, known as input VAT. Conversely, when the business sells goods or services, it collects VAT from its customers, known as output VAT. The VAT tax credit allows the business to subtract the input VAT from the output VAT. If the VAT collected on sales exceeds the VAT paid on purchases, the business must remit the difference to the tax authorities. If the VAT paid on purchases is greater than the VAT collected on sales, the business may have a credit balance, which can be used to offset future VAT payments or, in some cases, request a refund.

5. Other

a. Green taxes

Ecuador has implemented environmental or “green” taxes aimed at promoting sustainable practices and reducing environmental impact. These taxes may include levies on plastic bags, emissions, and pollutants, as well as incentives for eco-friendly initiatives and technologies.

Tax for plastic bags

- ▶ Triggering event: transfer of plastic bags
- ▶ Rate: USD\$ 0.08 per plastic bag.

Tax on plastic bottles

- ▶ Triggering event: bottling beverages in non-returnable plastic bottles.
- ▶ Rate: USD\$ 0.02 per bottle

Motor Vehicle Contribution

- ▶ Triggering event: Ownership of an internal combustion vehicle.
- ▶ Rate: 1% of the value of the vehicle registration.

b. Customs duties

Customs duties are taxes imposed on goods imported into Ecuador. The rates of customs duties can vary depending on the type of goods and their country of origin. Ecuador may apply preferential rates for goods imported from countries with which it has trade agreements. Additionally, certain goods may be subject to additional import taxes or tariffs.

c. Investment and saving incentives

Investments may apply for a 3% points reduction in the corporate income tax or even a 5% reduction subject to an Investment Agreement with the Ecuadorian Government.

In case of applying for an Investment Agreement, there is a limit in the application of incentives subject to the tax expenditure limit in each fiscal year.

For 2024, the maximum amount to be received in incentives for each Investment Agreement is USD\$ 10,4 million.

d. Other taxes

Ecuador imposes several other taxes, which may include municipal taxes, property taxes, and vehicle taxes. These taxes are typically administered at the local level and can vary by jurisdiction. Businesses and individuals should be aware of the local tax obligations in the areas where they operate or reside.

e. GAAR

The General Anti-Avoidance Rule (GAAR) is a principle in tax law designed to prevent tax avoidance strategies that, while legal, are considered abusive or contrary to the intent of the tax laws. Ecuador's tax authorities may invoke GAAR to challenge and disallow transactions or arrangements that are deemed to have been implemented primarily for the purpose of obtaining a tax advantage without a substantial economic or commercial justification.





Labor Regime

1. Labor Law

1.1. Classification of employment contracts based on their duration nature

- ▶ **Permanent contracts:** In Ecuador most employment contracts must be signed on a permanent basis (there are no fixed-time contracts) with a 90-days probation period to be used to verify employees' performance to accomplish with the position assigned and determine their continuity in the company as well. If a termination occurs within the 90-days period, no severance payments shall be performed. Permanent contracts must be registered in the Ministry of Labor portal during the first 30 days from the employment date.
- ▶ **Youth contract:** This type of contract is created to employ young people aged from 18 to 29 years.
- ▶ **Productive contract:** This type of contract is used in the Productive Sector, which can be continuous or discontinuous. The contract will be signed for a maximum term of one year and can be renewed twice for the same term. It cannot exceed 3 years in total.
- ▶ **Emergency contract:** An individual employment contract for a defined time that can be used for the sustainability of production and revenues in an emergency or for new investments or business, modification of business or in the case of needs of greater demand for production or services.
- ▶ There are **other types of contracts** having a fixed time, however they usually refer to a specific labor with a start and end date.

1.2. Working hours and breaks

The maximum working hours are eight per day and these must not exceed 40 hours per week. In exceptional cases, due to business requirements and based on regulations issued by the Ministry of Labor, special working schedules might be applied in which working days and days off are consecutive. Working hours may be distributed in a regular way on the five working days of the week and overtime is subject to additional payments.

Supplementary hours: Up to 4 hours per day and a maximum of 12 hours per week. If these hours take place during the day up to midnight, a 50% surcharge must be applied to the normal hourly rate. From midnight to 6 a.m., the surcharge increases to 100%. Calculation base: Daytime hourly wage.

Extraordinary hours: Hours worked on weekends or holidays. Are subject to a 100% surcharge. Calculation base: Daytime hourly wage

1.3. Law on remote work, teleworking and international labor

The parties may agree, at the beginning or during the labor relationship, the teleworking mode in the employment contract, such as: self-employed, mobile, part-time or occasional. For new contracts, it is mandatory to register the contract on the Ministry of Labor portal during the first 30 days from the employment date. For current contracts, the registration must not exceed 15 days from its modification.

The amounts paid to the worker for services associated with Teleworking (telephone or Internet) shall be considered as work tools and shall not be part of the employee's salary or wage. Employees who work on teleworking mode will have all individual and collective rights, as well as social benefits.

1.4. Principles governing employment

Remuneration is compounded by all income received by the employee in cash, kind or services, including compensation for extraordinary work, commissions and individual contributions to the Ecuadorian Social Security Institution (IESS) as well as any other compensation associated to the industry or service. For the year 2024, the monthly minimum wage is USD 460.

Labor benefits that are exempt from income tax and social security contribution purposes, are detailed as follows:

► Thirteenth and Fourteenth Remunerations

Employees are entitled to receive the thirteenth remuneration equivalent to the 12th portion of the annual remuneration, payable on a monthly basis or one-time payment every December, from 1st to 24th, depending on employee's choice. The fourteenth remuneration is equivalent to one basic salary, it is payable on a monthly basis or one-time payment every March, from 1st to 15th (if employees are located in the Coast Region) or in August, from 1st to 15th (if employees are located in the Andean and Amazonian Regions).

► Reserve Funds

From the beginning of the second year of employment, employees are entitled to receive 8.33% of their remuneration on a monthly basis. This amount could be paid to the employee or directly to the Ecuadorian Social Security Institute every month, depending on the employee's choice. If the benefit is accrued through the Ecuadorian Social Security Institution, employees shall be allowed to request this payment in three years.

- **Vacations:** Employees are entitled to an annual uninterrupted period of 15 days of rest, including non-working days, as of the

first year of employment. Employees who have worked for more than five years in the same company, will have the right to one additional day of vacation for each year up to 30 days. These exceeding additional 15 days can be received in cash as an employer decision.

- **Maternity Leave:** Every working woman is entitled to eighty-four (84) days of paid leave due to the birth of her child. In the case of multiple births, the period is extended for ten additional days. Absence from work must be justified by presenting a medical certificate duly validated by the Ecuadorian Social Security Institute.
- **Profit Sharing:** Employees are entitled to participate in the profits of the employer for every fiscal year (from January 1st to December 31st). The percentage is equivalent to 15% of the company's profit: 10% will be split for the employees and the 5% will be delivered directly to the employees, in proportion to their family dependents. Regarding workers linked to the mining activity, they will receive 3% of the profit sharing and the remaining 12% will be paid to the State and to the Autonomous Decentralized Governments, which will allocate it to social investment projects and territorial development in the areas where mining activities are carried out. Profit sharing must be paid until April 15th of every year and shall be subject to Income Tax.

1.5. Expiration or termination of the employment relationship

In general terms, the labor relationship may end by mutual agreement, untimely dismissal or by justified termination. In case of mutual agreement or untimely dismissal, the employee will be entitled to receive a compensation bonus for eviction, equivalent to 25% of the last monthly income received in payroll (includes salary, commissions, overtime among others) for the years worked.

In addition to the eviction bonus, employees terminated under untimely dismissal shall receive a severance compensation corresponding to one month of remuneration for every worked year (not only entire years). In cases where the individual had worked less than three years, they will receive at least three months of remuneration.

1.6. Workers rights and protection

The Constitution mandates that the State guarantees workers full respect for their dignity, a decent life, fair remuneration and compensation, and the performance of healthy work that is freely chosen or accepted. Equal opportunities at work are a fundamental principle.

Any form of precarious employment relationship is prohibited, including the elimination of outsourcing and labor intermediation in activities that are part of the company's core business.

1.7. Labor unions

- **Incorporation requirements and mode of operation:** Employees, without any distinction or need for prior authorization, have the right to form professional associations or unions as they deem appropriate, to join them or to withdraw from them.

Labor unions have legal status by virtue of their establishment in accordance with the law and their registration with the Regional Labor Directorate. The existence of a union shall be proven by the Ministry of Labor.

- **Collective bargaining:** Trade unions have the right to form federations, confederations, or any other trade union groupings, as well as to join or withdraw from them or from international organizations of workers or employers.



2. Considerations for foreign workers

2.1. Legal considerations regarding foreigner workers

Foreign workers engaged in a labor relationship must receive all labor benefits similar than the national ones. Foreigners must be also enrolled in the mandatory Social Security regime, even if they do not have an Ecuadorian ID. They must instead request an affiliation code from Social Security entity to be affiliated from the first day of work. The hiring process is the same as for local workers, but a legal immigration status shall be also required.

Employers are required to keep a record of each foreign worker and register the labor contract in the Ministry of Labor system. Compliance with this requirement will be verified by the Ministry of Labor through the Regional Offices of Labor.

The authorities will impose penalties to any company, whether legal or natural persons, in the event of non-affiliation of the foreign worker to the mandatory Social Security, as well as for non-payment of at least one Unified Basic Salary.

2.2. Immigration regulations

Foreigners must be subject to obtain the applicable visas in order to perform any labor activity in Ecuador. Temporary residence visas are valid for two years and can be renewed multiple times, at the discretion of the Ministry of Foreign Affairs. An application for a visa may be submitted to the Ministry of Foreign Affairs in Ecuador or at the Ecuadorian Consulate in the applicant's country of origin or in the country where the individual is considered a legal resident. For Consulates, the visa application could be also requested through the following portal: <https://serviciosdigitales.cancilleria.gob.ec/authentication>.

Depending on the conditions of the assignment, foreigners can apply for a temporary residence visa under labor contract or for legal representation. After 21 months, they will be eligible to apply for a permanent residence visa under the same conditions.

Foreigners will be also able to obtain permanent residence visas if they have stayed in Ecuador for at least 21 months, as temporary residents.

It is worth noting that all foreigners having temporary or permanent residences must obtain an Ecuadorian ID, upon the applicable visa.

3. Taxes levied on wages

Ecuadorians and foreigners being residents in Ecuador are subject to tax on their worldwide income. Nonresidents are subject to tax on Ecuadorian-source income only, regardless of where it is paid. In both cases Income Tax is calculated based on the tax progressive rates from 0% to 37% (see the rates on the chart at the end of the text).

Ecuadorians and foreign residents who receive income from business activities or professional, commercial or any other services performed in Ecuador are subject to Income Tax. The mandatory tax withholding to be performed by the company is equivalent to 10%.

Taxable income includes income from services rendered under a verbal or written contract of employment, regardless of whether the income is received in cash, in services, or benefits in kind.

Dividends, benefits derived from stocks options and any other kind of income or capital gains derived from sales or shares by individual or companies are subject to a 10% withholding tax.

Tax on income from wages is withheld at source by employers. Taxpayers must file returns between March 10th and 28th, depending on the ninth digit of the individual's taxpayer identification number (see the rates on the chart at the end of the text).

Income from wages shall be also subject to the employer social contribution equivalent to 12.15%, which is calculated over the taxable income and paid directly to the Ecuadorian Social Security Institute every month.

For income tax purposes, there are some applicable deductions, such as:

- ▶ Social security contributions assumed by individuals: 9.45% equivalent to the percentage for employees under labor relationship and 17.6% for Legal Representatives and professionals, if applicable.
- ▶ Personal expenses: individuals are entitled to a discount on their income tax triggered due to their personal expenses according to the following rule: an individual may apply a 18% discount over the income tax triggered based on the number of the family dependents and measured with basic basket unit (USD 789.57). To apply the deduction, individuals must have local receipts of expenses related to health, education, housing, clothing, food, tourism and pets.

Number of family dependents	Number of BBU	Maximum amount for Personal Expenses	Maximum discount
0	7	5,504.17	990.75
1	9	7,076.70	1,273.82
2	11	8,649.41	1,556.89
3	14	11,008.34	1,981.50
4	17	13,367.27	2,406.11
5 or more	20	15,726.20	2,830.72
Catastrophic illnesses	100	78,631.00	14,153.58

- ▶ Third age deduction: individuals who are 65 or older can deduct one basic amount of USD 11,902 for income tax purposes.

- ▶ Disability deduction. individuals can claim a deduction corresponding to their percentage of disability (from 30% to 100% disability).

Basic portion	Excess portion	Basic portion Tax	% Excess portion Tax
-	11,902.00	-	0%
11,902.00	15,159.00	-	5%
15,159.00	19,682.00	163.00	10%
19,682.00	26,031.00	615.00	12%
26,031.00	34,255.00	1,377.00	15%
34,255.00	45,407.00	2,611.00	20%
45,407.00	60,450.00	4,841.00	25%
60,450.00	80,605.00	8,602.00	30%
80,605.00	107,199.00	14,648.00	35%
107,199.00	And so on	23,956.00	37%

Financial Reporting

Requirements and regulations for the preparation and presentation of financial information:

1. Classification of companies

Ecuador uses the criteria from The Andean Community (Comunidad Andina, CAN) to establish the classification of companies, which are based on: total gross sales, total assets and number of workers. This classification is distributed as follows: microenterprises, Small and Medium-sized Enterprises (SMEs) and large companies.

2. Regulatory bodies:

- ▶ **Superintendency of Companies Exchanges and Insurance:** A body in charge of the regulation and control of companies operating in the country, supervising a wide range of companies. Among which are: Public Limited Company (Inc.), Limited Liability Companies (LLC.), Associative companies such as consortiums and temporary unions, Companies in specific sectors such as insurance, securities (stock exchange), and other non-banking financial entities and Branches of foreign companies operating in Ecuador.

In Ecuador, companies that meet the following criteria are required to carry out an external audit:

- a. Companies with assets above USD\$100,000. It applies to national mixed economy companies, corporations with the participation of public or private entities with social or public purposes, branches of foreign companies and associations between them and national companies operating in the country;
- b. Companies with assets above USD\$500,000. It applies to national corporations, limited by shares and limited liability companies;

- c. Companies that must present consolidated balance sheets and public-interest companies defined in the applicable regulations.

The rotation of external auditor in Ecuador is required every five years except for public interest companies, among which are mainly: Companies registered in the Public Registry of securities, insurance companies, risk rating agencies, external auditors, vehicle companies, among others whose rotation is every three years.

- ▶ **Superintendency of Banks:** Entity in charge of the regulation, control and supervision of the country's financial system.
- ▶ **Superintendency of Economy Popular and Solidary:** Body in charge of the regulation, control, supervision and promotion of organizations in the popular economy sector, as well as the popular and solidarity financial sector. The companies under its control include Cooperatives, Associations, Mutual Societies, Savings Banks, Communal Banks and Cooperative Insurance.

3. Accounting Regulations:

By means of resolution No. 08.G.DSC issued in 2008, Superintendency of Companies Exchanges and Insurance established that in 2009 the transition process to International Financial Reporting Standards (IFRS) will be carried out in a phased manner for the different types of entities subject to its control and regulation.

Larger companies, including those listed on the stock exchange, were early adopters of IFRS, while for small and medium-sized enterprises (SMEs) a simplified accounting framework known as IFRS for SMEs was established.

4. Listed entities:

Companies listed on the stock exchange are registered in the Public Registry of the Stock Market and in their respective stock exchange to which they report.

Companies are required to submit financial statements signed by the accountant and legal representative once every six months. In addition, audited annual financial statements prepared in accordance with IFRS, the latest filing date is 120 days after December 31 of each year.

Entities listed on the stock exchange are classified as public interest companies, in accordance with the regulations of the Superintendency of Companies Exchanges and Insurance. Accordingly, these companies are required to adhere to certain specific regulations, including the restriction of not employing the services of the same external audit firm for the review of their financial statements for more than three consecutive years.

5. Regulated entities:

Entities under the control of the Superintendency of Banks of Ecuador prepare their Financial Statements in accordance with accounting standards established by the Financial Policy and Regulation Board and the Superintendency of Banks of Ecuador. Entities under this scheme present daily and monthly financial statements. In addition, entities submit audited annual financial statements

Insurance companies, reinsurance companies, insurance adjusters and insurance producing advisors are regulated by the Superintendency of Companies Exchanges and Insurance and submit their financial information according to IFRS with external auditor rotation every three years.

6. Special cases

The entities regulated by the Superintendency of Economy Popular and Solidary present their financial statements in accordance with the accounting standards established by the Superintendency of Economy Popular and Solidary and regulations established by the Junta de Política y Regulación Monetaria y Financiera.

7. Other country-specific aspects

Tax Compliance Report (TCR): It must be submitted by companies required to carry out a financial audit; therefore, the Tax Administration will define the scope of the review to be carried out by the auditor and the content of the corresponding reports. The latest filing date is until July 31 of each year, according to the ninth digit of the local TAX ID (RUC).





Mexico

Message from EY Mexico's Country Managing Partner

In recent years, Mexico has positioned itself globally as a strategic and attractive place for business, driven primarily by factors such as its geographical position and its consolidation as the United States' leading trading partner.

The effect of nearshoring cannot be ignored, a phenomenon that has made Mexico an ideal option for companies, including those with headquarters in China, looking to relocate their supply chains under the USMCA, along with a series of tax incentives that the government has implemented to motivate and promote investments in the country.

While the scenario for doing business in Mexico is promising, it is crucial for companies interested in starting operations in the country to have a comprehensive understanding of various regulatory compliance issues that need to be addressed from their pre-landing process to the full establishment of their business.

Our Tax and Legal Services teams share this brief guide with key information, covering the main challenges for any organization entering the Mexican market.

I invite you to explore the information in this guide and look forward to discussing the business issues that you may be facing in Mexico.

Kind regards,

Manuel Solano

Country Managing
Partner
EY Mexico





Overview

Mexico is located in North America and has a diverse geography with beaches, jungles, mountains, and deserts. Its capital, Mexico City, is also the largest city, followed by Guadalajara, a cultural and technological center, and Monterrey, renowned for its industry. The Mexican population has diverse roots: indigenous, European, and African, and its rich culture is manifested in music, art, gastronomy, and festivities such as the Day of the Dead. With abundant resources such as oil, silver, copper, and a unique biodiversity, its main sectors include manufacturing (automotive, electronics), oil, tourism, agriculture (corn, avocado, tequila), and mining. Mexico seeks integration into global trade through treaties such as the T-MEC and is committed to innovation and technology to strengthen its economy.

The information contained in this section reflects the most recent data available up to September 30th. By that date, the elections in Mexico had already been conducted, and the swearing-in ceremony of the new government led by Claudia Sheinbaum was awaited.



Population¹ 127,504,125
Urban²: 81%
Rural: 19% (2022)



Official language³
Spanish



Area⁴
1,964,375 km2





System of government³

Federal Presidential Republic

President: Andrés Manuel López Obrador (Claudia Sheinbaum, was elected on June and will take office on October 1st).

Next elections: 2030



Climate³

The northwest is dry and warm, while the interior regions are more arid. South of Mexico City, the climate is tropical due to high temperatures and constant humidity



International Time⁵

GMT-6 (Mexico City, Guadalajara, Monterrey, Leon)

► GMT-5 (Cancun)

► GMT-7 (Mazatlan)

Daylight saving time (summer):

► GMT-5 (Coahuila, Nuevo Leon, Tamaulipas, Chihuahua)

► GMT-7 (Tijuana, Mexicali)

Standard time (winter):

► GMT-6 (Coahuila, Nuevo Leon, Tamaulipas, Chihuahua)

► GMT-8 (Tijuana, Mexicali)



GDP current prices⁶

USD \$1,788.8 Bn. (2023)



GDP per capita (PPP)⁷

USD \$24,248.7 (2023)



Currency⁸

Mexican Peso

US\$1 = MXN 19.58 (Sep. 30, 2024)



Key sectors⁹

Mexico has strong industries in manufacturing (motor vehicles), oil, agriculture (crops and tropical fruits), food and beverages, tobacco, chemicals, iron and steel, mining (silver), textiles, apparel, consumer durables, and tourism.

Why invest in Mexico?

12th largest GDP in the world and 2nd largest in Latin America in 2023¹⁰

15th largest country in the world by field area¹¹

16th recipient of foreign direct investment in 2022¹²

Its network of trade agreements gives it privileged access to 46 countries. Uniquely positioned to take advantage of nearshoring opportunities, thanks to its geographic location, business opportunities, and participation in the USMCA treaty¹³

World leader in manufacturing: 3rd largest exporter of automatic data processing machines (computers, readers, etc), 4th largest of vehicles in 2023 (in trade value)¹⁴

World leader in mineral production: 1st in silver, 3rd in lead, 4th in zinc, 6th in gold, 11th in petroleum in 2023¹⁵

World leader in food: 2nd exporter of fresh fruits, 3rd exporter of fruits and nuts, 3rd exporter of beverages in 2022 (in trade value)¹⁴

1. World Economic Outlook (October 2024), IMF - Population
2. Urban population (% of total) - Latin America and the Caribbean (2023), World Bank
3. Main languages Latin America and the Caribbean, system of government and weather, DatosMundial.com
4. Extension (square kilometers) - Latin America and the Caribbean (2021), World Bank
5. International Time in Argentina, 24timezones.com
6. World Economic Outlook (October 2024) - GDP, current prices, IMF
7. World Economic Outlook (October 2024) - GDP per capita, current prices, IMF
8. Exchange rate, S&P
9. Encyclopedia Britannica
10. World Economic Outlook, October 2024, IMF
11. The World Fact Book, CIA
12. Foreign direct investment, net inflows, World Bank
13. Government of Mexico - Foreign Trade
14. UN Comtrade
15. World mining data



Country’s economic outlook

Mexico is the third largest country in Latin America, after Brazil and Argentina. Mexico City is the country’s capital and the most densely populated city in North America, ranking 6th in the world in terms of population.

Mexico is the second largest economy in Latin America, and according to the International Monetary Fund (FMI), it is 12th in the world.

In 2023, the country showed a solid GDP growth of 3.2%, according to information from the National Institute of Statistics and Geography (INEGI), completing the third year in a row of expansion.

In October, IMF revised Mexico’s economic growth projections, reducing this year’s forecast to 1.45% and 2025 forecast to 1.34%.

Inflation eased to 4.66% in 2023, but increased in the first half of 2024. Nevertheless, it is expected to end at 4.5% in 2024.

In terms of public finances, the fiscal targets approved for 2023 were met.

In both political and economic terms, 2024 will be defined by the presidential elections held in June 2024, in which the official candidate Claudia Sheinbaum won by a wide margin. The results signal broad policy continuity with Andrés Manuel López Obrador’s government.

The Mexican economy is closely tied to that of its partners in the North American Free Trade Agreement (NAFTA), especially the United States. The replacement of NAFTA with the United States-Mexico-Canada Agreement (USMCA) in 2020 has favored the country’s economic growth and its transition to a manufacturing-centered economy.

Additionally, its proximity and close trade relationship with its northern neighbor make it a strategic destination for locating or relocating production processes near the US market.

Mexico has a diversified activity, with major exports including automobiles, consumer electronics, oil, minerals, and food. Services, industry, and agriculture are among the economy’s primary sectors. Tourism also plays a significant role, with Mexico being one of the world’s top tourist destinations.

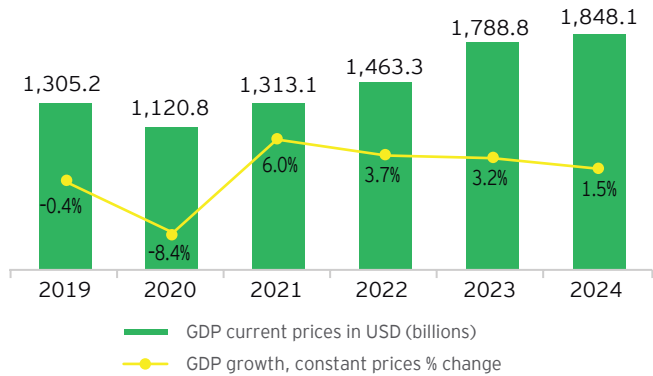
Table 1:

Index	Mexico
GDP current prices USD bn. (2023) ¹	\$1,788.8
GDP growth, constant prices % change (2023) ¹	3.2%
Gross domestic product per capita, current prices USD (PPP) (2023) ¹	\$24,248.7
Inflation, year-end consumer prices (2023) ¹	4.4%
Fiscal balance (net lending (+) or net borrowing (-) of general government; % of GDP) (2023) ¹	-4.3%
Public debt (General government gross debt, % of GDP) (2023) ¹	53.1%
Current account (% of GDP) (2023) ¹	-0.3%
Investment (% of GDP) (2023) ¹	24.6%
Poverty headcount ratio at \$6.85 a day (2017 PPP) (% of population) (2022) ²	21.8%

1. World Economic Outlook October 2024, IMF
2. Poverty headcount ratio at \$6.85 a day (2017 PPP) (% of population), World bank 2023

Figure 2:

Gross Domestic Product, Levels and Growth¹



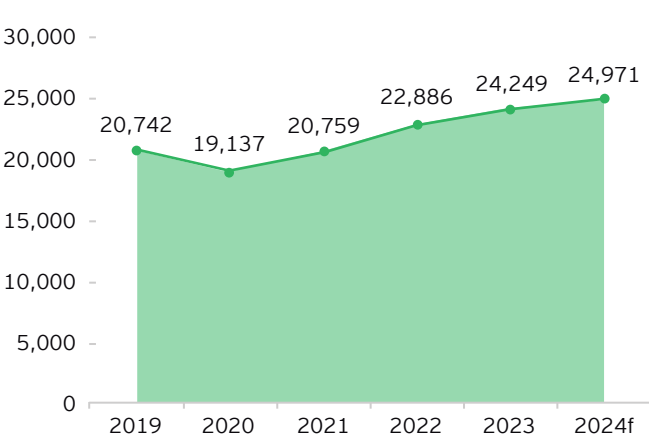
1. World Economic Outlook (October 2024) IMF

The Mexican economy has shown solid expansion in 2023 for the third year in a row, closing at 3.2%, driven mainly by the dynamism of the industrial sector.

For 2024 and 2025, a moderation in economic activity is expected, constrained by production capacity limitations, the continuation of restrictive monetary policy, and a slowdown in growth in the United States, according to the International Monetary Fund (IMF). In October, the IMF revised its forecasts, lowering the growth rate expectations from 2.4% to 1.5% for this year, and from 1.4% to 1.3% for 2025.

Figure 3:

Gross domestic product per capita, current prices (in USD, PPP)²



2. World Economic Outlook October 2024, IMF

The sustained growth in recent years has allowed the GDP per capita to grow in Mexico. In terms of purchasing parity power (PPP), the IMF estimated that it would reach USD 24,971 in 2024.

Figure 4:

Annual gross domestic product (GDP) by economic activity at current prices in dollars³ (2023)

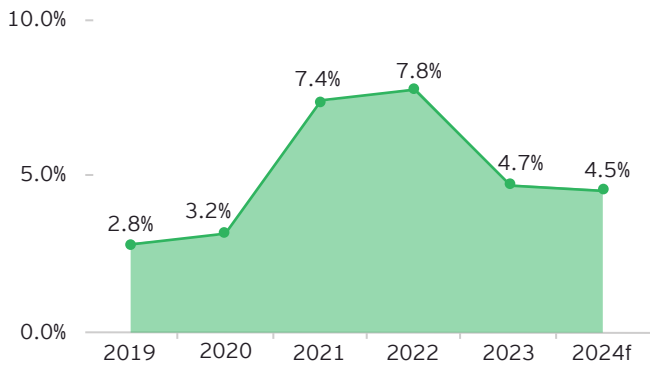


3- Annual gross domestic product (GDP) by economic activity at current prices in dollars (2023), ECLAC

The sectors that contribute the most to Mexico’s GDP include whole sale and retail trade, which encompasses hospitality, the manufacturing industry, financial services, real estate, rental services, and public administration together with personal services and all its derivatives.

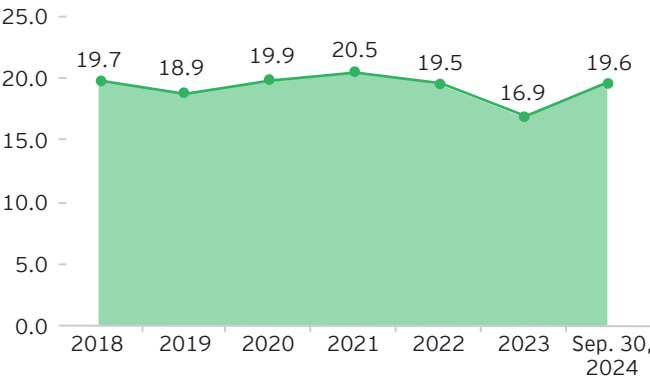
Figures 5 and 6:

Inflation, end of period consumer prices¹



1. World Economic Outlook October 2024, IMF

Exchange rate of foreign currency (USD/MXN)²



2. Exchange rate, S&P

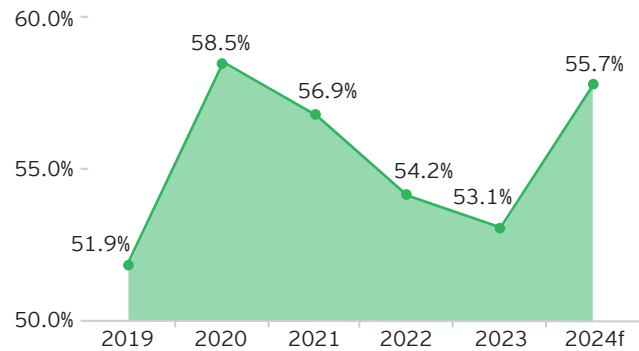
Inflation in Mexico showed a significant slowdown from 2022, when it reached 7.82%, its highest level in 20 years. In 2023, inflation closed at 4.66% in 2023.

The National Consumer Price Index (INPC) saw its most significant rise of the year in July, with a 1.05% increase compared to June. This uptick pushes the annual inflation rate to 5.57%, marking its highest point since May 2023, when it was 5.84%. Nevertheless, IMF estimates that inflation will close at 4.5% this year.

Meanwhile, the exchange rate reflected the strength of the Mexican peso in 2023, closing at 16.9 pesos per dollar compared to 19.5 in 2022. A weakening of the peso is anticipated this year, driven by the judicial reform proposal being advanced by the government.

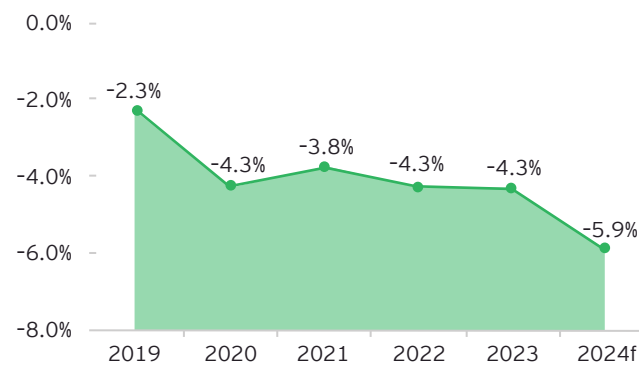
Figures 7 and 8:

Public debt (General government gross debt, % of GDP)³



3. World Economic Outlook October 2024, IMF

Fiscal balance (net lending (+) or net borrowing (-) of general government; % of GDP)⁴



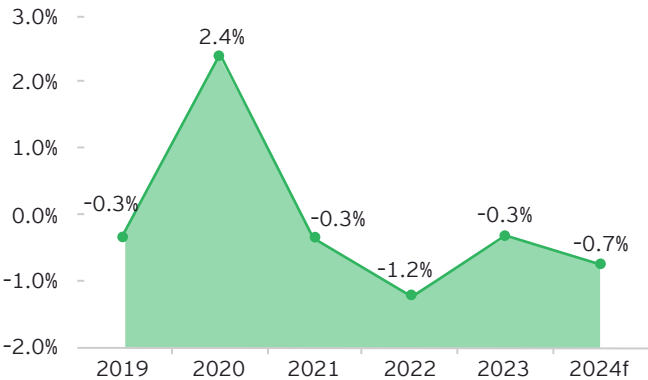
4. World Economic Outlook October 2024, IMF

Public finances closed last year with relative stability. According to the IMF’s April 2024 report, Mexican public gross debt reached 53.1% of GDP in 2023 (net debt closed at 47%), and it is expected to increase to 57.7% in 2024.

Additionally, the fiscal balance is projected to decline to -5.9%, compared to -4.3% the previous year.

Figure 9:

Current account (% of GDP)¹

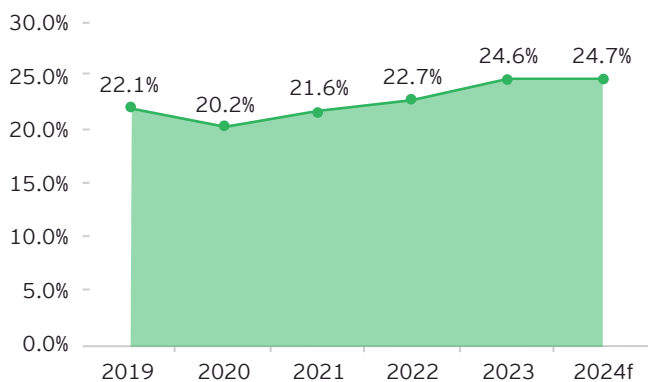


1. World Economic Outlook October 2024, IMF

The Mexican current account is expected to reach -0.7% of the GDP in 2024.

Figure 10:

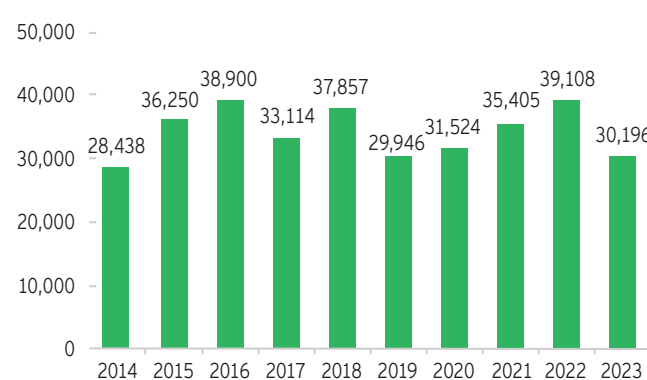
Investment (% of GDP)²



2. World Economic Outlook October 2024, IMF

Figure 11:

FDI Mexico (In millions of USD)³



3. Foreign direct investment, net inflows (BoP, current US\$) - Latin America & Caribbean | Data (worldbank.org)

The IMF estimates that investment will reach 24.7% in 2024, a similar level to the prior year.

In 2023, Mexico was the second-largest recipient of FDI in Latin America and the Caribbean, capturing 16.4% of the region's total inflows with US\$ 30.196 billion. However, this represented a 23% decrease compared to 2022, in line with the decline recorded across Latin America.



With a stable, diversified, and steadily growing economy, Mexico stands as the second-largest economy in Latin America and one of the most significant emerging markets worldwide. Additionally, its expanding middle class represents an attractive consumer market, alongside a young and talented workforce.

Mexico also offers a strategic location for businesses seeking access to either the U.S. or Latin American markets, serving as a bridge between the two regions. It boasts appealing tax incentives and numerous trade agreements, including the USMCA with the United States and Canada, facilitating access to major international markets.



Establishing a business in the country

Mexico has several benefits and incentives to promote trade and investment.

1. Tax benefits for Key Export Sectors

Tax benefits are granted to companies in the general regime or simplified trust regime and to individuals with business and professional activities who are engaged in the production, processing or industrial manufacturing and export in key sectors of the export industry such as semiconductors, automotive sector, pharmaceutical sector, among others.

- 1.1. Immediate deduction of investments in fixed assets (used for the first time in Mexico): ranging from 86% to 89% depending on the type of 3 asset, and from 56% to 88% depending on the activity in which the machinery and equipment are used.
- 1.2. Mechanism for immediate deduction in income tax prepayments, which benefits the companies' cash flows.
- 1.3. With regard to creditable VAT, the immediate deduction will be considered as a fully deductible expense.
- 1.4. Furthermore, eligible taxpayers will be granted a tax benefit consisting of an additional 25% deduction of the increase in training expenses.

2. Tax benefits to promote investment by taxpayers who carry out productive economic activities within the Development Poles for the Welfare of the Isthmus of Tehuantepec (PODEBI Decree).

These benefits include:

- 2.1. A tax credit equivalent to 100% of income tax.
- 2.2. Immediate deduction of 100% of the original amount of the investment in assets, and tax credits equivalent to 100% of the value added tax (VAT) payable between companies' resident in the PODEBI.

- 2.3. For such purpose, taxpayers must obtain the certificate of compliance with the requirements and guidelines established in the PODEBI Decree.
- 2.4. Individuals in the business and professional activities regime, legal entities in the general regime and legal entities in the simplified trust regime who apply the benefits established in the Decree must make prepayments through specific tax returns according to their tax regime.
- 2.5. VAT incentive may be applied as of the date of issuance of the certificate of compliance and while the benefit is effective.

3. Other considerations

The following considerations are important for customs and trade aspects of the business operations including incentives and promotion programs, import duties, trade agreements followed by the value added taxes applicable to transactions within Mexico.

Incentives & Promotion programs	
IMMEX Intended for companies exporting at least US\$500,000 or 10 percent of their production. Destined to conduct manufacturing, maquiladora, and export services. Allows the temporary importation of goods and provides the benefit of deferring duty payment on imports.	PROSEC Destined to companies conducting a manufacturing process within 24 listed sectors. Allows the importation of goods with reduced tariff rates regardless of their country of origin. The finished products can be either exported or sold in domestic market.
VAT & Excise Tax Certification Focused on companies that are compliant with their tax and customs obligations. Provides a fiscal credit over the VAT & Excise Tax payable upon temporary importations. Available for companies operating under IMMEX program, Automotive Bonded Warehouse and Strategic Bonded Warehouse.	Strategic Bonded Warehouse Intended for companies that have the legal use of facilities located within a Strategic bonded warehouse. Allows the temporary importation of goods for their handling, storage, custody, exhibition, sale, distribution, manufacturing or repair.

4. Legal aspects

Mexico's laws are generally favorable for investors and make it easier for companies to do business in the country. Certain considerations for setting up operations in Mexico are listed below.

4.1. Subsidiary or Branch

The common options for doing business in Mexico are through the incorporation of a Mexican entity or the registration of a branch (that may or may not create a permanent establishment (PE)). It is important to determine which is the convenient scheme, considering all applicable perspectives (e.g., legal-corporate, labor, tax, etc.).

- ▶ **Branch:** Technically, this vehicle does not have an independent legal personality from its parent company and, therefore, it acts on behalf of such parent company, who is responsible for its obligations/liabilities.
- ▶ **Subsidiary:** It is an entity with an entirely independent legal personality from its equity holders and, consequently, it acts on its own behalf.

The most common types of Mexican entities are the Corporation (Sociedad Anónima - "SA") or Limited Liability Company (Sociedad de Responsabilidad Limitada - "SRL"), which require at least 2 shareholders/partners (either Mexican or foreign corporations or individuals).

4.2. Annual Corporate Obligations of Subsidiaries

From a strictly legal-corporate perspective, the annual obligations of Mexican companies are as follows:

- ▶ Holding an Annual Shareholders'/Partners' Meeting whereby the mandatory annual compliance matters will be addressed, including the discussion and, if applicable, the approval of (i) the report prepared by the Board of Directors/Managers of the company regarding the operations of the same during the prior year; and (ii) the

financial statements of the prior year.

- ▶ If required under the bylaws of the company, holding an Annual Board Meeting whereby the corresponding annual compliance matters will be addressed.
- ▶ In accordance with Article 35 of the Foreign Investments Law, any company with foreign investment shall file the Annual Notice before the National Registry of Foreign Investments, if any of the corresponding thresholds is surpassed.
- ▶ Quarterly notices shall also be filed before the National Registry of Foreign Investments, if any of the corresponding thresholds is surpassed during a quarter.

4.3. Restrictions on Foreign Investments

Mexican legislation on Foreign Investments allows Mexican entities with foreign investment to engage in most of the sectors and economic activities. Exceptions to the foregoing include the following:

- ▶ **Activities reserved to nationals:** (i) national land transportation of passengers, tourism and cargo (excluding courier and parcel services); (ii) development banking; (iii) rendering certain technical and professional services, according to specific Mexican laws.
- ▶ **Certain activities within the following strategic sectors are reserved to the Mexican Government:** (i) exploration and extraction of oil and other hydrocarbons; (ii) planning and control of the national electricity system, as well as electrical energy activities; (iii) generation of nuclear energy; (iv) radioactive minerals; (v) telegraphs, radiotelegraphy and post mail; (vi) currency issuance and coinage; and (vii) control, monitoring and surveillance of airports, ports and heliports.

Mexican Foreign Investments Law establishes restrictions on land ownership by foreign investors.

- **Other activities with restrictions:** Among others, (i) manufacture and sale of explosives, fireweapons, cartridges and ammunition; (ii) radio broadcast; (iii) printing and publication of newspapers for exclusive circulation in national territory; (iv) legal services; and (v) private preschool, elementary school, middle high school, high school and upper or combined education services.

4.4. Data Protection

Mexico has a comprehensive data protection legal framework that entered into full force and effect within 2010 and 2013, which is aligned to international standards on data privacy and is applicable to the processing of personal data of any individual (e.g., employees, clients, visitors, suppliers, ultimate beneficial owners, etc.), in the understanding that the collection, use, transfer, storage, dissemination and, in general, any action to exploit or dispose of the data is considered processing. The Mexican authority in charge of the enforcement of the legislation on data protection is the National Institute for Transparency, Access to Information and Protection of Personal Data (Instituto Nacional de Transparencia, Acceso a la Información y Protección de Datos Personales).

It is highlighted that said legal framework mainly aims to protect the personal data of individuals by establishing rules for the processing of the same, including the obligation to observe certain general principles during the processing, such as the principles of consent, proportionality, purpose and responsibility.

In virtue of the foregoing, it is important for companies to create and implement a data protection program focused on the compliance of Mexican legislation on data protection.

4.5. Ultimate Beneficial Owners

On January 2022 Mexico introduced certain provisions in the tax legislation to regulate a new obligation for companies, trustors, beneficiaries or trustees, in the case of trusts,

and contracting parties or members, in the case of any other legal figure/vehicle, mainly consisting on collecting, verifying and keeping updated, reliable and complete information of their respective ultimate beneficial owner(s), as part of their bookkeeping, and to provide it to the Tax Administration Service (Servicio de Administración Tributaria) when requested.

Further, it is highlighted that to fully comply with said new rules it is necessary to perform several actions, such as creating and implementing control procedures for obtaining and keeping the required information and documents; hence, Mexican entities/vehicles shall make efforts to comply with the referred obligations since its incorporation, so as to avoid fines and other types of sanctions.

4.6. Taxpayers Registry and Tax Representative

In order to obtain a Taxpayers Registry in Mexico, the subsidiary/branch will need to provide a tax domicile located in Mexico and the legal representative must be a Mexican resident for tax purposes and have a valid Taxpayers Registry in Mexico.

Corporations are considered residents of Mexico if their principal place of management is located in Mexico.

4.7. Opening Bank Accounts

Branch/subsidiary must open a bank account in Mexico and the legal representative to open bank accounts must be a Mexican or a foreigner resident with a valid migratory visa in Mexico (Mexican residency).

Financial institutions residing in Mexico or abroad with branches in Mexico undertake the procedures to identify foreign accounts or reportable accounts for the Automatic Exchange of Information on Financial Accounts for Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standard (CRS) purposes.





Tax Regime

1. Income tax

Mexico has a standard income tax system; Corporations resident in Mexico are taxable on their worldwide income from all sources, including profits from business and property; a nonresident corporation in Mexico is subject to profits tax on income earned from carrying on business through a permanent establishment in Mexico or, in the absence thereof, and on Mexican-source income; divided in three main regimes: corporate income tax, individual income tax and a withholding regime for nonresidents.

1.1. Income tax rate (corporations): 30%

1.2. Income tax rate (individuals): up to 35%

1.3. Employees' Profit sharing: 10% (subject to a cap)

1.4. Carryforward (net operating losses): 10 years

1.5. Carryback (net operating losses): not allowed

1.6. Consolidated returns: Not applicable. Notwithstanding, a special regime allows a group to defer income tax for up to three years.

2. International tax

Mexico has a large tax treaty network (60 tax treaties in force and 1 in process of ratification).

Mexico signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (MLI) on June 7, 2017. The MLI has been ratified and entered into effect as of January 1, 2024. Mexico included 61 jurisdictions within its list for the MLI; currently 48 of them are effectively amended by MLI provisions and 7 more of them will be amended after the ratification process.

2.1. Capital gains tax rate: 30% on gain if transferred (i.e., sale or disposition of investments) to a buyer by Mexican residents. 25% to gross proceeds if transferred by foreign shareholders or 35% on net gain, provided certain formal requirements are met.

2.2. Branch tax rate

30%

2.3. Withholding tax rates

- ▶ Dividends: 10%
- ▶ Interest: 10%-35%
- ▶ Royalties and Technical Services: 5%-35%
- ▶ Branch profits: 0%
- ▶ Other Fees and Compensation for Services Rendered Abroad: 0%

3. Foreign tax relief

Mexican corporations are taxed on foreign-source income when earned. Foreign tax credits can be used to reduce, or possibly eliminate, double taxation.

4. Payments to Preferential Tax Jurisdictions

International tax provisions increased deductibility limitations and higher withholding taxes on many cross-border transactions. Potentially any payments made by Mexican companies to related parties in jurisdictions subjecting the related parties to a tax rate lower than 22.5% can become non-deductible.

5. Controlled foreign corporation rules

Extensive anti-deferral rules are included within Mexican tax law and are based on an effective rate test for controlled foreign corporations or investments.

If a Mexican corporation does not distribute its profits of a controlled foreign subsidiary, the tax liability on such profits is deferred until dividends are paid. Companies with investments in vehicles or entities located in a low-tax jurisdiction or

income subject to preferred tax regimes (PTRs), in which case income is generally taxable even if no distributions are received from those entities.

6. Thin capitalization rules

Interest deductions may be disallowed if the debt-to-equity ratio exceeds 3:1. This restriction only affects interest associated with foreign related parties, even though the debt-to-equity ratio calculation takes all interest-bearing debt of a company into account.

Thin capitalization rules would be disabled for those taxpayers with interest expense over MxP\$20 million to a net interest expense deduction limitation equal to 30% of “adjusted taxable income.”

7. Financing/debt push-down limitations

There are no restrictions on debt pushdown under Mexican tax law. Debt pushdown is usually achieved through mergers or the assignment of debt from a parent entity to Mexican acquisition vehicles. This type of financing methodology is usually subject to an economic substance analysis and additional limitations under Mexican tax law.

Deduction of interest expenses are limited to 30% of taxpayers' adjusted taxable income or “Tax EBITDA”. This provision is applicable to interest expenses arising from debts exceeding MXN 20M, of the Mexican entities that are part of the same Group.

8. Corporate Income Tax

Mexican resident companies are subject to a 30% corporate income tax (CIT) rate on their taxable income (revenues less expenses).

In the North and South border zone certain taxpayers who receive income exclusively in the northern and Southern border region are entitled to a 20% CIT; this benefit will be applied until December 31, 2024. For companies initiating activities in the region, the taxpayer must show the use of new assets in the region for the qualified activities. The taxpayers planning to take advantage of the Decree incentives (published on December 31, 2018; December 30, 2020 and the modification on December 30, 2020) should review the requirements and prepare the authorization request or file the required notice to claim the benefits.

As of 2019, tax authorities released a simulator that preloads the data for taxable income, withholding taxes and certain payments such as payroll CFDI information. In case if the preloaded information is not correct, the amended returns must be submitted.

9. Main formalities

- 9.1. **Corporate tax return:** annually, no later than March 31 of the following year.
- 9.2. **Tax Situation Information Return (ISSIF 2023):** annually, no later than March 31 of the following year. It is applicable, among other situations, when the taxpayer had taxable income in the previous fiscal year that exceed \$974.6 Million pesos; the taxpayer has been transactions with related parties that must comply with tax opinion issued by Public Accountant registered; the taxpayer made payments to foreign entities that exceed \$100 Million pesos.
- 9.3. **Tax opinion:** annually, no later than May 15 of the following year, this fiscal obligation is applicable, among other situations, when the taxpayer had taxable income in the previous fiscal year that exceed \$1,779 Million pesos.
- 9.4. **Estimated monthly payments and withholdings:** monthly, no later than the day 17 of the following month.
- 9.5. **Electronic Accounting Record (EAR):** monthly, during the next 3 business days of the second following month.
- 9.6. **Local and master file returns:** annually, no later than May 15 of the following year.
- 9.7. **Informative return regarding the loans with foreign resident:** annually, no later than February 15 of the following year.
- 9.8. **Informative return regarding the transactions with foreign related parties:** annually, no later than May 15 of the following year.
- 9.9. **Report of significant transactions:** quarterly, May 31, August 31, November 30, February 28.

9.10. Disclosure of reportable tax planning schemes: following 30 working days from implementation.

10. Transfer pricing requirements in Mexico

Mexican taxpayers entering into transactions with foreign and domestic related parties should comply with the local transfer pricing rules which are largely in line with the OECD guidelines.

10.1. Annual Transfer Pricing Report

As per articles 76 sections IX of the MITL, taxpayers conducting related parties abroad are required to prepare and maintain contemporary transfer pricing documentation for the intercompany transactions carried out with foreign and domestic related parties.

10.2. Exhibit 9: Mexico's transfer pricing information tax return form

Appendix 9 of the tax return (DIM Appendix 9) fully discloses the results of transactions held with related parties.

Exhibit 9 must be filed no later than May 15 of the following year.

10.3. BEPS Returns

Article 76-A of the MITL establishes the obligation to submit the BEPS returns (Master File / Local File / CbCR) before 31 December for Master File and before 15 May for Local File of the following year when the following conditions are met:

- ▶ Revenues equivalent or greater than the amount stated within article 32-H of the Federal Tax Code. (Master/Local File).
- ▶ Taxpayers who are required to audit their financial statements for tax purposes and its related parties carrying on intercompany transactions.
- ▶ Listed and Parastatal entities.
- ▶ Permanent Establishments.
- ▶ Mexican holdings with revenues equivalent or greater than \$12,000 Million of MXN (CbCR).

Taxpayers should use the official platforms issued by SAT for the submission of requirements 2, 3 and 4.

Penalties related to BEPS returns range from \$199.6K - \$284.2K MXN (per return) and cancellation of the import/export registry + disallowing the celebration of contracts with the government. Penalties related to Exhibit 9 range from \$99.5K - \$199.1K MXN.

Noncompliance could result in the denial of deductions with related parties.

11. Indirect Taxes: VAT & IEPS

11.1. Value Added Tax (VAT) Applicability

Business entities and individuals that carry out, in Mexican territory, any of the taxable activities as described below are subject to VAT:

▶ Transfer of goods

Even if the transferor reserves the ownership of the asset being transferred.

▶ Rendering of independent services

Affirmative covenant by one person to perform in favor of another person, regardless of the act/ classification given.

Special VAT on digital services provided by foreign taxpayers:

- ▶ Supply of certain digital services provided by foreign residents through digital means/ platforms is taxable at the 16% VAT rate. Foreign digital service providers are required to register in Mexico for VAT purposes and to charge, collect, remit and, in some cases, withhold and file VAT.
- ▶ Digital services subject to VAT include streaming services; gaming activities; access to data, information, news, and weather; third-party intermediation services between providers and users of goods; access to online clubs and websites; and online educational services.

- ▶ Mexican individuals with business activity that sell goods, provide services, or grant temporary use or enjoyment of goods, as well as foreign residents that render digital services through technological platforms, are subject to VAT and Mexican income tax withholding, as applicable, to be done by intermediary platforms.

▶ **Temporary use or enjoyment of goods**

(Usufruct or any other act, independently of the legal form used for said purpose, whereby one person allows another one to temporarily use or enjoy tangible goods in exchange of a consideration.)

▶ **Importation of goods and services**

(The introduction of goods or services into the country.)

11.2. VAT Determination

VAT is an indirect tax that is determined and triggered on a cash-flow basis. (i.e., deposit or payments).

VAT paid on the acquisition of goods and services is creditable based on a factor to be determined, which excludes expenses incurred to carry out out-of-scope and exempt activities, so long as the following requirements are fulfilled:

- ▶ VAT is paid on expenses strictly indispensable to carry out taxable activities.
- ▶ VAT must be expressly charged to taxpayers, and it must be described separately in the corresponding electronic invoice.
- ▶ VAT effectively paid in the month.
- ▶ VAT withholdings are filed, as applicable.

VAT is determined as follows:

	Payable VAT
-	Creditable VAT per creditable factor
=	Subtotal
-	VAT withheld by 3 rd parties
+	VAT withheld to 3 rd parties
=	PAYABLE VAT (FAVORABLE VAT)

11.3. VAT Rates

The following rates apply:

- ▶ Standard 16%.
- ▶ Reduced 8% rate on activities performed in the border region per tax incentive.
- ▶ 0% on specific activities- i.e., exported goods, patented medicines, unprocessed food.
- ▶ Exempt - i.e. housing, land, financial, educational and medical services, public events.

11.4. VAT Returns

VAT Return is filed electronically through the tax authority's website, monthly, by the 17th day of the following month.

Informative return known as DIOT per its acronym in Spanish, which must contain information of transactions with suppliers, filed electronically, monthly, through the tax authority's website, by the last day of the following month.

11.5. Special Tax on Production and Services

Business entities and individuals that carry out, in Mexican territory, any of the taxable activities as described below are subject to IEPS:

- ▶ Transfer of goods. (i.e., alcoholic beverages, beers, tobacco products, fossil fuels, energy, and flavored drinks.)
- ▶ Rendering of independent services. (i.e., gaming and lottery, telecommunications networks.)

11.6. IEPS Determination

IEPS is an indirect tax that is determined and triggered on a cash-flow basis. (i.e., deposit or payments).

IEPS is paid without being able to credit any amounts, except in certain cases such as IEPS paid on the acquisition alcoholic beverages, fossil fuels, energy and flavored drinks, pesticides, and high-calorie food, subject to the fulfillment of certain requirements.

11.7. IEPS Rates and Fees

The most relevant transactions subject to IEPS are:

- ▶ Energy drinks 25%
- ▶ Telecommunications 3%
- ▶ Gambling games and lottery 30%
- ▶ Alcoholic beverages and beer Up to 14° - 26.5%
- ▶ Cigars and other tobacco products: 160%

▶ Fossil fuels:

- Propane: 5.91 cents per liter
- Butane: 7.66 cents per liter
- Gasoline and gas-jet: 10.38 cents per liter

11.8. IEPS Return

IEPS Return is filed electronically through the tax authority's website, monthly, by the 17th day of the following month.

12 Judiciary Reform

On September 15, 2024, the Decree reforming various articles of the Political Constitution of the United Mexican States that regulate the Federal Judicial Power (PJF) was published in the Official Gazette of the Federation. The main objective of the reform is to renew the PJF so that judges, magistrates, and ministers are elected by popular vote. At the local level, it is indicated that congresses must implement similar processes of popular election for local judges. Many key aspects of the reform will still need to be defined in the secondary legislation, which will establish the operational details to implement the approved changes.



Labor Regime

1. Labor law

In Mexico, employment relationships are regulated by the Federal Labor Law, which sets forth the rights and obligations of employers and employees. The employees in Mexico are entitled to the following rights and protections:

1.1. General Conditions

In general, employment relationships must abide by the following:

- ▶ Set forth an employment term defined as either:
 - Indefinite
 - Definite
 - By Season
 - By trial or training period
- ▶ A weekly work shift of maximum 48 hours.
- ▶ Maximum of 9 extra hours per week.
- ▶ Provide employees with a copy of their written employment agreement.
- ▶ In case the employee works more than 40% of their weekly work shift from home, abide by the NOM 037 teleworking regulations.
- ▶ Grant payment on a weekly or biweekly schedule.

1.2. Benefits

Employers must grant employees at least:

- ▶ Minimum Salary of \$248.93 pesos daily on the general Mexican territory and \$374.89 pesos daily on the border region.
- ▶ Yearly vacation period with full salary (see table).

- ▶ Vacation premium of 25% of the salary paid during the vacation period.
- ▶ Year-end bonus equivalent to 15 days' salary.
- ▶ Employee profit sharing.
 - Employee profit sharing is paid in May of each year and is calculated as 10% of the net profit reported by the Mexican entity for the previous fiscal year.
 - Profit sharing is allocated among the employees according to the days worked and salaries earned by each during the fiscal year.

Year	Vacation Days
1	12
2	14
3	16
4	18
5	20
10	22
Two additional days for every 5 years of seniority.	

1.3. Union Rights

Employees have the right to freely organize, to join the Union of their election, to switch from one Union to another or to not be a part of a Union.

If at least 30% of the employees choose to be represented by a Union, the Employer shall negotiate a Collective Bargaining Agreement (CBA) with such Union.

The CBA should be revised every year regarding salaries and every other year regarding benefits. For a CBA revision to be valid, it should be approved by the majority of employees.

1.4. Employment Termination

Employment relationships can end either by:

► **Acts of no responsibility to the employer:**

Mutual consent, acts against company values, violent acts against employer or company personnel, abandonment, negligence, immoral acts/harassment/or sexual acts against employer or company personnel, revealing company's secrets, 3 or more absences in a period of 30 days, amongst others.

This is a special procedure that needs to be activated, it's not automatic.

Employer must give "finiquito" or termination payment which consists of vacation, vacation premium, holiday bonus, seniority bonus, pending salaries and any other benefit accrued by the employee.

► **Unjustified dismissal:**

If the employer decides to terminate the labor relationship unilaterally and without any of the causes for termination having actually occurred, then it will be an unjustified dismissal.

Employer must give unwarranted termination payment which consists of vacation, vacation premium, holiday bonus, seniority bonus, missing salaries, interest over such salaries, constitutional compensation, restitution to the workplace, and under certain circumstances 20 days salary for each year served at the company.

2. Individual tax compliance

Individuals should pay taxes in Mexico if they are considered Mexican tax residents or if they are considered foreign tax residents receiving income from a Mexican source of wealth.

2.1. Mexican Tax Residency definition

- Individuals who establish their home in Mexico, regardless of whether they own that home or rent it.
- If individuals also have a home in another country, they are considered Mexican tax residents if:

- More than 50% of their income is derived from working in Mexican territory during a calendar year.
- The center of their professional activities is in Mexico.
- If applicable, tax treaty with the home country could be reviewed to solve double tax residency issues.

Note: As from 2022 tax year individuals that end assignment in Mexico, must confirm they will be considered as tax residents of another country to break Mexico tax residency.

If the individual does not file the change of residency notice, it will be considered that he / she has not moved his/her tax residency to another country and would be obligated to file an annual a Mexican annual tax return reporting worldwide income.

2.2. Mexican Non-Tax Residents

- Individuals who do not meet the circumstances to be considered Mexican tax residents in terms of the local law or the tax treaty if it is applicable.
- Each type of income has a Mexican source of wealth definition and triggers different obligations.

Non-tax residents receiving salary income could be tax exempt if:

- Spend less than 183 days in Mexico in a 12-month period.
- Individuals' salary is paid by the foreign entity with no charge back to the Mexican entity.
- Foreign entity that pays the salary should not have a permanent establishment in Mexico, and if so, the services performed by the individuals must not be related with such permanent establishment.

- ▶ The following tax rates are applied to salary income:
 - First MXN \$125,900 earned are exempt.
 - 15% tax rate applied to income that exceeds the amount above and up to MXN \$1,000,000.
 - 30% tax rate applied to income that exceeds MXN \$1,000,000.

2.3. Mexican Tax Residents General Tax Obligations

- ▶ Taxable on worldwide income.
- ▶ Subject to file an electronic annual tax return no later than April 30th with no extensions allowed.
- ▶ Interests of 1.47% per month and inflation adjustments must be paid for late filing.
- ▶ Income tax rates are progressive and rang from 1.92% to 35%.
- ▶ Individuals are obliged to pay an additional 10% tax rate on the net dividend received.
- ▶ Additional 10% tax rate on dividend received is considered as a definitive payment, thus there is not alternative to take any foreign tax credit under this obligation. Also consider the dividend income must be additionally included under the Mexican Annual tax return and being allowed to take a credit over the taxes paid abroad.
- ▶ **Salary income:** if individuals are enrolled in a payroll, the Mexican entity is responsible to withhold and pay the income tax otherwise, individuals are responsible to pay through an electronic monthly tax return.
- ▶ Only Mexican tax residents are allowed to report personal deductions.

2.4. Foreign Non - resident individual Tax Obligations

- ▶ Not subject to file an electronic annual tax return. Monthly payments are definitive.
- ▶ Taxable on Mexican source income (days worked in Mexico for salary income purposes).

- ▶ If applicable, taxpayers are required to submit electronic monthly tax returns no later than 15 days after the salary is collected.

3. Social Security

3.1. Social security contributions

Social security in Mexico is mainly divided into two Institutes, one of them is the Mexican Institute of Social Security (IMSS) in charge of medical coverage, cash benefits in case of disabilities, as well as retirement plans, in second place we have the Institute of the National Housing Fund for Workers (INFONAVIT) and its main function is to grant cheap loans for the purchase of a house. The employer must ensure that his workers are registered with social security in order to obtain the benefits of both Institutes.

Coverage in each Institute: Benefits in kind and money.

IMSS	Illness
1	Motherhood
2	Occupational accidents
3	Disability and death
4	Childcare centers for children
5	Retire
INFONAVIT	Housing

3.2. Cost of social security

- ▶ Employer: The approximate cost they contribute amounts to 17% in 2024 based on contributions (salaries, bonuses, etc.)
- ▶ Worker: Will contribute an average of 2% of the same contribution base as the previous point.

Payments must be made on a monthly and bimonthly basis as appropriate to each Institute.

3.3. Violations and penalties for non-compliance

If social security contributions are not paid as provided for by law, you may be exposed to the following infractions and fines:

- ▶ 40% of the omitted amount in case of non-payment.
- ▶ 20 to 350 times the UMA for not registering as an employer with the authorities, as well as its employees, others.

3.4. Local Contributions (Payroll Tax)

Mexico is made up of 32 states, each of which imposes local taxes within its own law, in addition to federal taxes. One of the most well-known state taxes is the Payroll Tax (ISN), each state imposes a percentage % on the total payroll paid that could range from 2% to 4.25% in 2024.

Do not lose sight of the fact that both social security authorities and local contributions authorities could oblige employers to review the correct fulfillment of their obligations, through an authorized public accountant.

3.5. Immigration

Locally incorporated companies are required to obtain sponsor license before being eligible to hire foreign nationals.	Foreigners can be in Mexico under one of the following immigration categories:
	Visitors (encompassing Tourists and Business Travelers)
	Temporary Residents
	Permanent Residents

The applicability of any of these categories to a specific assignment depends on a combination of factors, including nationality, source of income, required time of stay in Mexico, family ties to Mexicans or other foreigners and sponsoring entity.

Some nationalities are approved to enter Mexico as visitors upon arrival, while others require a visa. Permissibility for visa-free arrival can change based on government policy. Visa issuance can take between a few days and up to a few weeks or months, based on availability of consular appointments, so it is advisable to review inadvance of any trip.



Financial statements

1. Non-publicly traded companies

Companies that are not considered to be of public interest or regulated, may present their financial statements under: Mexican Financial Reporting Standards (MFRS), International Financial Reporting Standards (IFRS), Generally Accepted Accounting Principles in the United States (US GAAP), at their choice. Generally, both MFRS and IFRS are applied.

2. Public interest and regulated companies

Public interest entities that do not belong to the financial or insurance sector must report their information under IFRS. On the other hand, regulated financial entities report under the provisions of the National Banking and Securities Commission (CNBV Criteria) and in the absence of a criterion, they apply the Mexican Financial Reporting Standards (MFRS). Additionally, non-regulated financial entities generally report under either MFRS or IFRS, depending on their choice. Finally, insurance entities report under the Criteria of the National Insurance and Bonding Commission.

3. Special cases (with sector specifications)

Non-profit entities in Mexico report under MFRS.

Governmental entities apply governmental accounting.

4. Other considerations

The Mexican Financial Reporting Standards (MFRS) have a high degree of convergence with the IFRS, maintaining certain differences mainly in relation to inflationary accounting, recognition of certain employee benefits and valuation models for fixed assets, intangible assets or investment properties.

In the absence of a specific Mexican standard, the MFRSs contemplate the supplementary application of IFRS.





Paraguay

Message from EY Paraguay's Country Managing Partner

Paraguay has a strategic location in the heart of South America, making it a potential major logistics center for regional trade, along with competitive labor costs, a stable economy, and low corporate taxes, having shown resilience to regional and global economic crises over the past decades.

Angélica Schomburgk

Country Managing
Partner
EY Paraguay



Recently, the international rating agency Moody's Ratings has awarded Paraguay the coveted investment grade status. This milestone is significant for the Paraguayan economy as it reflects international confidence in the stability and economic prospects of the country.

The country has a growing economy backed by abundant natural resources, such as fertile lands for agriculture and renewable energy.

With the implementation of policies that encourage foreign investment, offering tax incentives, a favorable business environment, an expanding domestic market, existing trade agreements, and significant urban growth, Paraguay emerges as an attractive destination for investors looking to diversify their portfolios and leverage the potential of a developing economy.

We invite you to explore the immense business possibilities offered by Paraguay, a country that is committed to legal security and respect for investors' rights. We are confident that as you delve into this guide, you will find compelling reasons to consider our country as an excellent destination for your investments.

Kind regards,

Overview

Paraguay, located in South America, is characterized by its inland location and extensive plains. The capital of Asunción is the political and cultural center of the country. Other important cities are Ciudad del Este, a trade and border center, and Encarnación, known for its Carnival and the Jesuit Reductions of Jesus and Trinidad (Reducciones Jesuíticas de Jesús y Trinidad), declared a World Heritage Site by UNESCO⁷. The Paraguayan population is diverse. Traditional music such as the Paraguayan polka, guarania, and folklore reflect the country's cultural identity. Paraguay's natural resources include fertile land, rivers such as the Paraguay and Paraná, as well as abundant biodiversity. Its main industries include agriculture (especially soybean, corn, and wheat production), livestock, hydropower, food manufacturing, and timber. Paraguay has sought out trade agreements to strengthen its economy.



Population¹ 6,780,744

Urban²: 63%

Rural: 37% (2022)



Official language³

Spanish and Guaraní



Area⁴

406,752 km²





System of government³

Presidential Republic
President: Santiago Peña
Upcoming elections: 2028



Climate³

Subtropical, with warm summers and cool winters. High humidity variation between the eastern and western regions



International Time⁵

Daylight saving time (summer):

► GMT-3 (All Paraguay)

Standard time (winter):

► GMT-4 (All Paraguay)



GDP current prices⁶

USD \$43.0 Bn. (2023)



GDP per capita (PPP)⁷

USD \$15,869.1 (2023)



Currency⁸

Guaraní

US\$1 = PYG 7,829 (Sep. 30, 2024)



Key Sectors⁹

Paraguay's key economic activities include agriculture, livestock, forestry, and mining. Its main products include timber, oils, yerba mate, tobacco, manioc derivatives, sugar, meat, textiles, cement, and lime.

Why invest in Paraguay?

Lowest tax rates
in the region and
extensive tax
investment incentives

Solid economy,
macroeconomic
discipline and low
public debt

Best business climate
in the region in 2024¹⁰

Cheapest green energy
in the region which
allows it to export
energy to the region¹¹

Large food exporter:
3rd of soy, 4th of soy
oil, 12th in corn, 14th in
bovine meat in 2023¹²

The international rating
agency Moody's Ratings
has awarded Paraguay
the investment grade
status in this 2024

1. World Economic Outlook (October 2024), IMF - Population
2. Urban population (% of total) - Latin America and the Caribbean (2023), World Bank
3. Main languages Latin America and the Caribbean, system of government and weather, DatosMundial.com
4. Extension (square kilometers) - Latin America and the Caribbean (2021), World Bank
5. International Time in Argentina, 24timezones.com
6. World Economic Outlook (October 2024) - GDP, current prices, IMF
7. World Economic Outlook (October 2024) - GDP per capita, current prices, IMF
8. Exchange rate, S&P
9. Encyclopedia Britannica
10. Marketdata (August 2023)
11. Paraguay sigue siendo el país con el mejor clima de negocios revela informe de centro brasileño; Agencia IP
12. UN Comtrade



Country's economic outlook

Paraguay has an attractive investment landscape, with a wealth of natural resources, abundant renewable electrical energy, ample advantage and benefits for foreign and domestic investments, a solid economy and a trainable young population. The construction and maintenance of the infrastructure are considered major priorities for its government.

Opportunities are also appealing in the agribusiness sector and livestock activities, as Paraguay is one of the world's top exporters of soybean and beef.

According to the IMF 2024 Article IV Consultation, in 2023, the economy saw strong growth following a drought recovery, mainly supported by the agriculture and electricity sectors. Inflation pressures eased, with expectations aligning closely with the central bank's 4% target. The external current account recorded a surplus, and the Guarani remained relatively stable.

Paraguay has an open economy and is a founding partner of MERCOSUR (Southern Common Market), which main objective is to create a common market and ensure the free movement of goods, services, capital and labor among member countries.

Paraguay has enacted several laws and programs to promote domestic and foreign investment by means of

tax exemptions and other incentives.

Almost all Paraguayan economic sectors are open to foreign capital. There are no restrictions on capital inflows and outflows and Paraguayan law guarantees equal treatment for foreign and domestic investment, except for the ownership of land near borders by foreigners.

Finally, as mentioned before, recently the international rating agency Moody's Ratings has awarded Paraguay the coveted investment grade status.

Table 1:

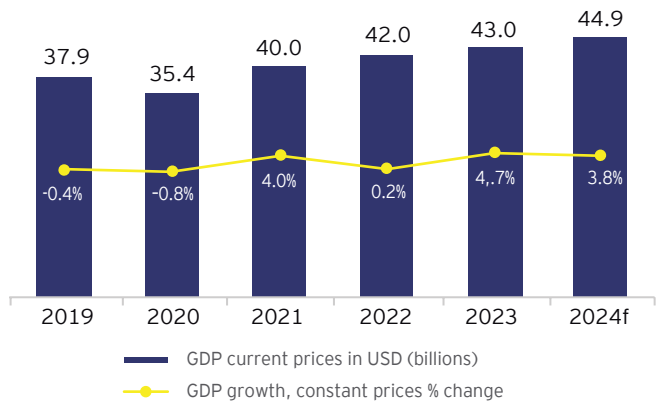
Index	Chile
GDP current prices USD bn. (2023) ¹	\$43.0
GDP growth, constant prices % change (2023) ¹	4.7%
Gross domestic product per capita, current prices USD (PPP) (2023) ¹	\$15,869.1
Inflation, year-end consumer prices (2023) ¹	3.7%
Fiscal balance (net lending (+) or net borrowing (-) of general government; % of GDP) (2023) ¹	-3.8%
Public debt (General government gross debt, % of GDP) (2023) ¹	41.2%
Current account (% of GDP) (2023) ¹	0.3%
Investment (% of GDP) (2023) ¹	19.6%
Poverty headcount ratio at \$6.85 a day (2022 PPP) (% of population) (2022) ²	19.9%

1. World Economic Outlook (October 2024) IMF
2. Poverty headcount ratio at \$6.85 a day (2017 PPP) (% of population), World bank 2023



Figure 2:

Gross Domestic Product, Levels and Growth¹



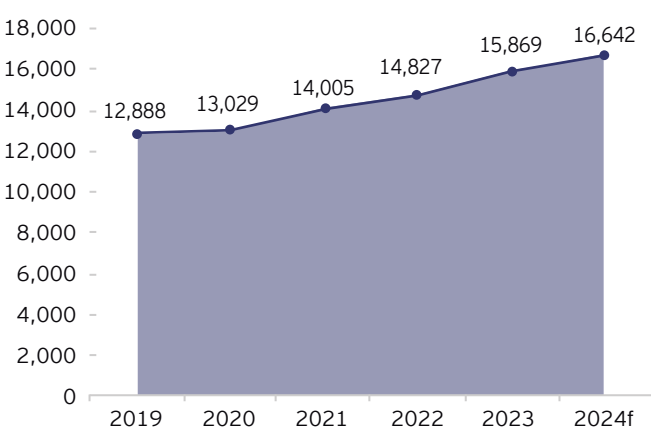
1. World Economic Outlook October 2024, IMF

Paraguay’s economy grew 4.7% in 2023, aligning with expectations from both local and international organizations. This made it one of the regional leaders in economic growth last year.

For 2024 and 2025, the economy is expected to grow a solid 3.8%, in a context of regional economic slowdown, once again making it one of the top-performing countries.

Figure 3:

Gross domestic product per capita, current prices (in USD, PPP)²



2. World Economic Outlook October 2024, IMF

Paraguay’s GDP per capita has risen steadily even during the pandemic. According to the IMF, it is projected to reach USD 16,291 in 2024.

Figure 4:

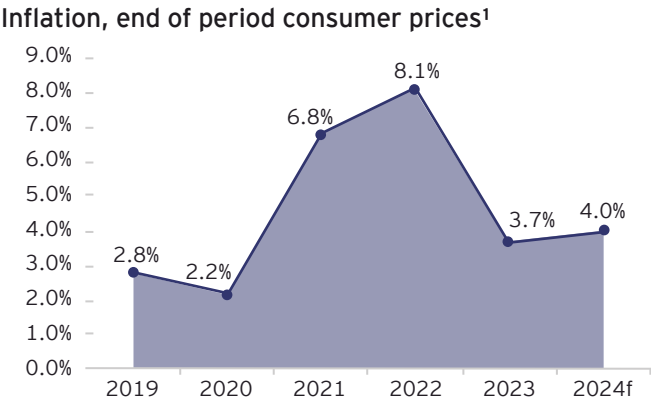
Annual gross domestic product (GDP) by economic activity at current prices in dollars³ (2023)



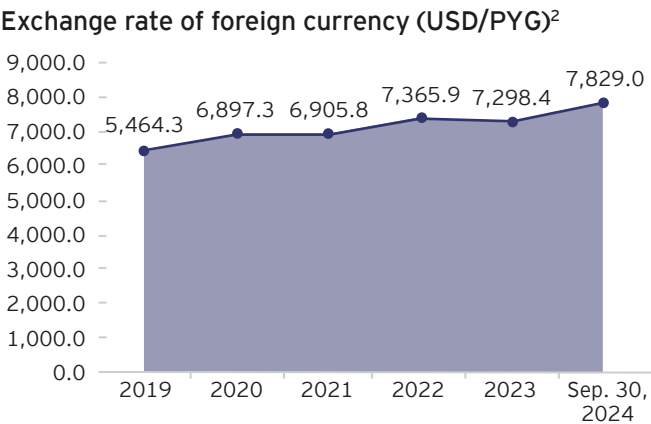
3. Annual gross domestic product (GDP) by economic activity at current prices in dollars (2023), ECLAC

The main economic sectors contributing to Paraguay’s GDP are as follows: Manufacturing industries; wholesale and retail trade, and hospitality; public administration and personal services; financial intermediation and real estate; and Agriculture, hunting, forestry, and fishing.

Figures 5 and 6:



1. World Economic Outlook October 2024, IMF

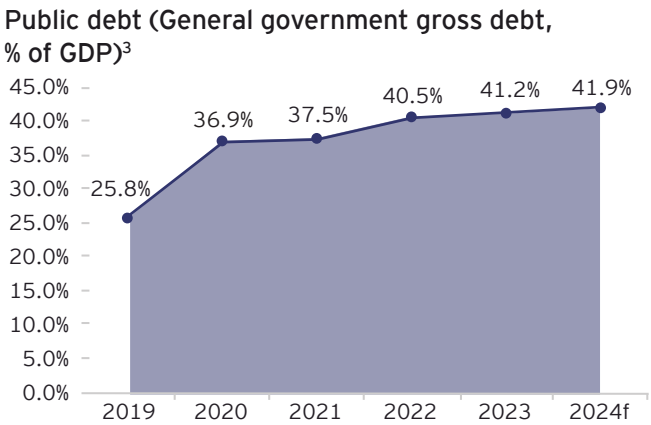


2.Exchange rate, S&P

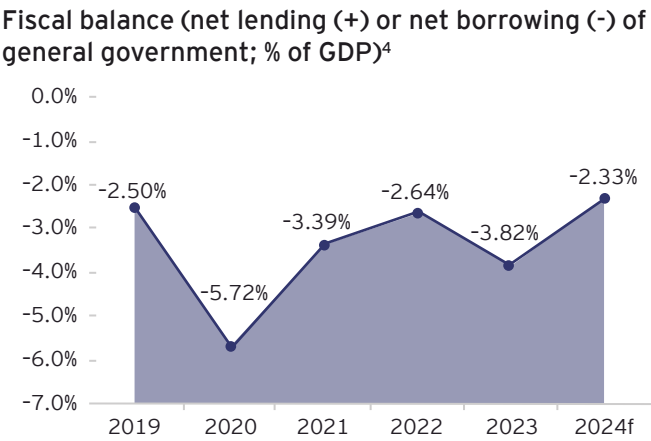
Paraguay has the advantages of a strong inflation targeting structure, supported by an open and adaptable currency exchange regime, according to IMF Article IV Consultation. Paraguay concluded 2023 with a cumulative inflation rate of 3.7%, a figure below the official target of 3.8% and significantly under the previous 8.1%. For 2024 inflation is expected to to 4.0%, in line with the international trend.

The exchange rate has shown relative stability during the last years, but 2024 has seen an increase in the devaluation of the guaraní.

Figure 7 and 8:



3. World Economic Outlook October 2024, IMF

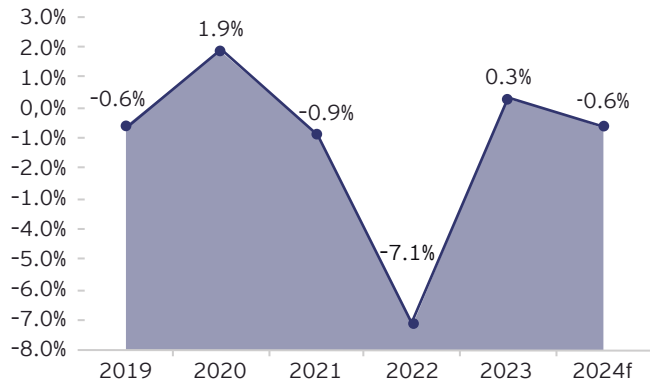


4. World Economic Outlook October 2024, IMF

Paraguay’s public debt experienced a rise following the pandemic, climbing to 41.2% of GDP by 2023. For 2024, a further increment is anticipated; however, a gradual decline is projected for the subsequent years. The fiscal balance deteriorated mildly in 2023, yet improvements are forecasted for 2024.

Figure 9:

Current account (% of GDP)¹

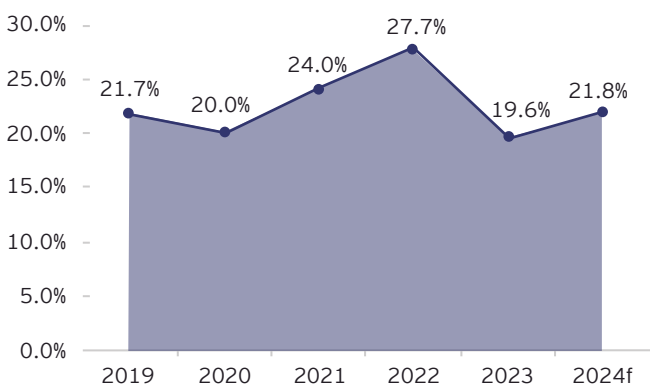


1. World Economic Outlook October 2024, IMF

The external current account registered a surplus in 2023, and according to the IMF, expected a deficit of 0.6% is expected for 2024.

Figure 10:

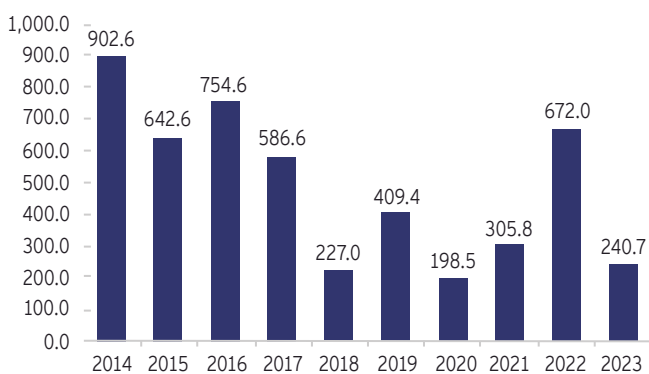
Investment (% of GDP) ²



2. World Economic Outlook October 2024, IMF

Figure 11:

FDI Paraguay (In millions of USD)⁵



3. Foreign direct investment, net inflows (BoP, current US\$) - Latin America & Caribbean | Data (worldbank.org)

Investments in Paraguay as a percentage of GDP decreased in 2023 after a high 2022 and is expected to reach 21.8% in 2024.

Following two years of consecutive growth, foreign direct investment (FDI) into Paraguay declined once more in 2023. However, investment project announcements have significantly increased.

The country has consistently demonstrated macroeconomic stability, characterized by low inflation and steady GDP growth, which provides a predictable business environment. Paraguay’s strategic location in the heart of South America also grants easy access to the larger Mercosur market, offering significant opportunities for trade and expansion.

Additionally, the nation boasts a young and increasingly skilled workforce, competitive labor costs, and a favorable tax regime, including low corporate tax rates and various incentives for foreign investment.

Establishing a business in the country

1. Main Types of business

The most common business forms of organization are:

- ▶ Joint Stock Corporation (Sociedad Anónima or S.A. for its acronym in Spanish).

- ▶ Limited Liability Company (Sociedad de Responsabilidad Limitada or S.R.L. for its acronym in Spanish).
- ▶ Branch.
- ▶ Simplified Stock Company (EAS for its acronym in Spanish).

The main descriptions of each type of entity are:

	Joint Stock Company (S.A. for its acronym in Spanish)	Limited Liability Company (S.R.L. for its acronym in Spanish)	Branch	Simplified Stock Company (E.A.S. for its acronym in Spanish)
General Information	<i>S.A. must have at least 2 shareholders, who may be either individuals or legal entities.</i>	<i>S.R.L. must have at least 2 and a maximum of 25 partners, who may be either individuals or legal entities.</i>	<i>Branches are considered an extension of the Parent Company and do not have a true legal autonomy nor own corporate body. Their corporate purpose is the same as the Parent Company's. Branches do not summon or hold Board of Directors or Shareholders meetings locally.</i>	<i>EAS can be formed by one or more natural or legal persons. The single-member E.A.S. cannot establish or participate in another single-member E.A.S.</i>
Corporate Management	<ul style="list-style-type: none"> ▶ Overseen by one or more Directors appointed in the Incorporation Bylaws or during the Ordinary Shareholders Meeting. ▶ S.A. must have a Trustee Body or Syndics. ▶ The members of the BOD and Trustee Body must have Paraguayan nationality or have a Paraguayan identity card. ▶ The Bylaws shall specify the minimum and maximum number of Board of Directors (BOD) members allowed. ▶ The Bylaws must regulate the constitution and operation of the BOD and Trustee Body, considering also the dispositions in the local law. 	<ul style="list-style-type: none"> ▶ Overseen by one or more Managers, who have the same rights and obligations as the Directors of the Joint Stock Company. ▶ The Manager/s must have Paraguayan nationality or have a Paraguayan identity card. ▶ If there are several Managers, the provisions on the operation of the S.A.'s BOD will apply. ▶ The Bylaws must regulate the constitution and operation of the Managers. 	<ul style="list-style-type: none"> ▶ Overseen by the Legal Representatives or Managers appointed by the Parent Company. ▶ The legal representative must have Paraguayan nationality or have a Paraguayan identity card. 	<ul style="list-style-type: none"> ▶ EAS do not require to have a management body, except as provided otherwise in the Bylaws. If not stipulated, all management functions will correspond to the legal representative appointed. ▶ The legal representative must have Paraguayan nationality or have a Paraguayan identity card. ▶ The members of the management body or legal representative may be appointed by any method provided for in the Bylaws, and in the absence of this, by the rules provided for the administration and representation of an S.A.

Shareholders or Partners Meeting	<ul style="list-style-type: none"> ▶ In the S.A. the Shareholders Meetings can be Ordinary and Extraordinary and must take place at the company's registered office. ▶ The Annual Ordinary General Shareholders' Meeting must be convened by the BOD within 4 months following the close of the fiscal year (by April 30th) to address the following agenda: the Board of Directors' annual report, the balance sheet and income statement, the allocation of profits, the Trustee Body' report, and any other matters pertaining to the company's management. The meeting will cover the appointment of directors and trustees, as well as their compensation. ▶ Nevertheless, Shareholders can hold Ordinary or Extraordinary meetings throughout the year within the framework of their needs and the course of their corporate activities. ▶ To date, virtual meeting, are not accepted by the competence authority for the S.A. 	<ul style="list-style-type: none"> ▶ The S.R.L are not required to hold an Annual Mandatory Meeting of the Partners. ▶ If the articles of the Bylaws do not determine the method of deliberation and decision-making, the rules regarding Meetings of the S.A. will apply, except regarding the procedure for calling meetings, which will be notified personally to the partners. 	N/A	<ul style="list-style-type: none"> ▶ In general, the members of the EAS make up the administrative body or by the natural person, when it is a Sole Proprietorship EAS. ▶ Virtual meetings, are accepted for the E.A.S. ▶ The management of the EAS is simpler than an S.A., because it does not require the holding of Annual Ordinary General Shareholders Meeting or the obligation to have a trustee or supervisory body.
Minimum Capital Threshold	<ul style="list-style-type: none"> ▶ There is no minimum capital threshold for the incorporation of S.A. But the share capital must be totally subscribed* by the shareholders at the moment of the incorporation of the company. <p>* The subscribed capital make reference to the sums that the shareholders force themselves to contribute to the company within the term generally established in the bylaws.</p>	<ul style="list-style-type: none"> ▶ No minimum capital threshold for the incorporation of a S.R.L. But the capital must be fully subscribed and must be integrated at least in 50% when the capital contribution is doing by money. ▶ This integration of the capital must be complete within a period not exceeding 2 years. 	<ul style="list-style-type: none"> ▶ No minimum capital threshold for the incorporation of a Branch. 	<ul style="list-style-type: none"> ▶ No minimum capital threshold for registration. But the share capital must be totally subscribed in the act of incorporation of the EAS. ▶ This integration of the capital must be complete within a period not exceeding 2 years.

Type of Shares/ Quotas	<ul style="list-style-type: none"> ▶ The capital of S.A. is represented by shares. ▶ The Bylaws may create different types of shares establishing preferential voting or economic rights. 	<ul style="list-style-type: none"> ▶ SRLs' ownership is represented by registered quotas. Quotas have a minimum value of PYG 1.000 (USD 0.13 approx.) each, as indicated in the Bylaw. 	N/A	<ul style="list-style-type: none"> ▶ The capital of EAS is represented by shares. ▶ The Bylaws may create different types of shares establishing preferential voting or economic rights.
Transfer of Shares/ Quotas	<ul style="list-style-type: none"> ▶ Shares may be sold or transferred to third parties. ▶ The transfer of shares is usually subject to restrictions and regulations set out in the company's bylaws or shareholder agreements. These restrictions may include preemptive rights, prior approval by the board of directors, or limitations on transfer to certain persons or entities. ▶ All transfer of shares must communicate to the competent authority. 	<ul style="list-style-type: none"> ▶ When the S.R.L. has more than 5 partners the quotas can only be transferred to third parties with the agreement of the partners representing three-quarters (75%) of the capital. If there are not more than 5 partners, unanimity agree will be required. ▶ The transfer of quotas is free between partners, unless otherwise established by the Bylaws. ▶ The transfer of quotas must be carried out by Public Deed and be registered in the Public Registry. 	N/A	<ul style="list-style-type: none"> ▶ Shares may be sold or transferred to third parties. ▶ The Bylaws may stipulate the prohibition of trading the issued shares or any of their classes, provided that the duration of the restriction does not exceed 5 years, counted from the issuance. ▶ All transfer of shares must communicate to the competent authority.

2. Auditing mandatory presentation

According to tax law and regulations in force, taxpayers who invoice Guaraníes 9.2 billion (approximately USD 1.3 million) or more, are obligated to be audited by registered and independent auditors who must issue a Tax Compliance Report and inform the Paraguayan Tax Authority directly.

3. Control Entities

For companies in general, the applicable regulatory entity is the Ministry of Economics and Finance through two bodies:

- ▶ Directorate of Legal Persons and Structures and Final Beneficiaries (Dirección Nacional de Personas y Estructuras Jurídicas y Beneficiarios Finales, in Spanish), for corporate issues; and

- ▶ Directorate of Tax Revenue (Dirección Nacional de Ingresos Tributarios, in Spanish), for tax issues.

Banks, savings and loan companies, exchange agencies, general bonded warehouses and insurance companies are controlled by the Banks and Insurance Superintendence, an agency reporting to the BCP (Central Bank of Paraguay). Also, there are other regulatory bodies related to, for example, stock exchange companies, cooperatives, etc.

Depending on the type of business, the companies may also be controlled by:

- ▶ National Competition Commission (CONACOM for its acronym in Spanish)
- ▶ Consumer and User Defense Secretary (SEDECO for its acronym in Spanish)
- ▶ Ministry of Industry and Commerce (MIC for its acronym in Spanish).

4. Public Procurement Supply

Law N° 7021/22 creates the National Public Supply System and the National Public Procurement System of Paraguay, regulating new mechanisms to do public procurement in the country in a more efficient way and in an improvement in public spending. This law counts with its Regulatory Decree N° 2264/24.

Likewise, Law N° 7021/22 establishes the use of electronic means for the proceedings and actions that make up the institutional administrative procedures, as well as administrative acts and measures, through the Public Procurement Information System (SICP for its acronym in Spanish).

This law also disposes the creation of the State Suppliers Registry in which will be registered all individuals, corporations and set up consortium or with intention agreement, to participate in the procurement procedures governed by the law. For the registration, the interested have to do the registration through the SICP <https://www.contrataciones.gov.py> in the section of "Seller" and enter in "Request Registration as State Supplier".

The Regulatory Decree regulates, within others, the characteristics that should have conventions of consortium constitutions to be present in the public convenes, forms of offers presentation, guarantees of contact fulfillment and of anticipation, etc.

Tax Regime

1. General Overview

Paraguayan Tax System is divided in two principal types of taxes that would normally affect a company: central government taxes and municipal taxes. Corporations, Limited Liability Companies and branches of companies incorporated abroad have the same tax treatments. Taxes usually apply to these entities generated incomes and purchase operations.

The Paraguayan Tax Authority is a dependent unit of the Ministry of Economics and Finance. It is responsible for the collections and administration of all tax laws in force related to central government.

The Paraguayan tax system is classified into:

Income taxes:

- ▶ Business Income Tax;
- ▶ Dividends and Profit Tax;
- ▶ Personal Income Tax; and
- ▶ Non-Resident Income Tax.

Indirect taxes:

- ▶ Value Added Tax; and
- ▶ Excise Tax.

Equity tax (Real Estate Tax ruled and collected by City Hall).

2. Direct Taxation

2.1. Business Income Tax

Business Income Tax levies income, profits or gains of Paraguayan source that come from all types of economic activities, primary, secondary, and tertiary. This tax includes all the agricultural, commercial, industrial activities and services, excluded those income taxed by Personal Income Tax.

Rate

The tax rate is 10%.

Foreign Tax Treaties and Tax Credit

The Paraguayan taxpayers can deduct from the Business Income Tax obligation, the Income Tax paid abroad, whatever its denomination and liquidation on those same incomes, provided that the discount does not exceed the amount of the tax that the taxpayer must pay in the country for said income.

This will be equally applicable to the income obtained related to agreements in force to avoid double taxation in Paraguay.

Paraguay has general Double Tax Treaties in force with Taiwan, Chile, Uruguay, Qatar and the United Arab Emirates. During this year 2024, Spanish Kingdom and Republic of Paraguay signed a Double Tax Treaty that is also in force.

Income Tax Incentives

The country has one of the broadest laws on foreign investment. The Investment Law No. 117/91 guarantee a free exchange regimen without restrictions on inflow and outflow of capital, as well as freedom for remittance abroad of dividends, interest, commissions, and royalties for technology transfer and other items, which, however, are subject to the taxes established by law. Paraguay allows free contracting of investment insurance in the country or abroad, and the establishment of joint ventures.

There are certain tax incentives for investors, both local and foreign, such as the provided by Law No. 60/90 its amendments and regulatory decrees. The purpose of this Law is to promote investment

and reinvestment of capital by granting special tax benefits. To obtain these advantages the foreign investor must submit its investment project to the Ministry of Industry and Commerce and the Ministry of Economics and Finance. The benefits granted are irrevocable provided investors comply with the obligations established by the Law. Investment projects under this regimen are exempt from certain taxes on the investment for a period of up to 5 years, under certain conditions. There are no restricted sectors, discriminatory treatment or limitations. The foreign investor does not require any government authorization different from local investors to make investments. Profits and dividends are tax-free for 10 years if the investment falls under Law 60/90 and the project involves over US\$ 13 million (according to Decree No. 8894/23) and if the country of origin cannot allow the use of the local taxes as tax credit in their own jurisdiction.

In sum, the most significant benefits are the exemptions of:

- Customs duties and VAT on local purchases and importation of machinery;
- WHT on loan interest when issued by well-known international financial institutions and the project of investments is more than US\$ 13 million; and
- 15% WHT on dividends remitted abroad when the investment is higher than US\$ 13 million.

To qualify for the above-mentioned tax benefits, investors are required to prepare and file an investment project which will be analyzed for approval by local authorities.

Transfer Pricing

Paraguayan legislation calls them "Special Norms for the Valuation of Operations" and establishes that the taxpayers of the Business Income Tax that carry out operations with related parties residing abroad or in the country, will be obliged for the purposes to determine their income and deductions, considering for those operations the prices and compensation that they would have used with or between independent parties in comparable operations, under similar conditions.

Taxpayers who carry out operations with related parties residing in the country (in this case when the operation for one of the parties is exonerated, exempt or not reached by the BIT) and abroad, must obtain and keep a Technical Study that includes the supporting documentation that demonstrates compliance with these standards as long as they have surpassed PYG 10.000.000,000 (USD 1.4 million) in the previous year. The Tax Administration will establish a registry that will include the professionals qualified to prepare the Technical Study.

2.2. Dividends and Profits Tax

Dividends and Profits Tax levies earnings, dividends and revenues (hereinafter profits) made available or paid to the owner, the consortium, partners or shareholders of entities established by law, as well as the permanent establishments of entities incorporated abroad, will be subject to this tax.

The rate is:

- ▶ 8% when the recipient of the profits is an individual, corporation or entity resident in the country; or
- ▶ 15% when the beneficiary of these concepts is a non-resident, including those obtained by the parent company abroad.

2.3. Personal Income Tax

Personal Income Tax is classified in two categories:

- i. Income and capital gains; and
 - ii. Income derived from the provision of personal services in an independent or dependent manner.
- ▶ Income and capital gains shall be understood as the income, in money or in kind, derived directly or indirectly from assets, goods or rights, owned by the PIT taxpayer. The PIT rate for the income and capital gains is 8%.
 - ▶ Personal services is calculated by the difference between the actual income received and the deductible expenses incurred (cash basis) during the fiscal year (January-December).

For personal services, a progressive tax rate will apply:

Net Income	Tax Rate
- Incomes until Gs. 50.000.000	8%
- From Gs. 50.000.001 to Gs. 150.000.000	9%
- Equal or more than Gs. 150.000.001	10%

2.4. Non-Resident Income Tax

Non-Resident Income Tax (INR for its acronym in Spanish) levies income, profits or benefits obtained by individuals, corporations and other non-resident entities in Paraguay, coming from taxable events provided in the Business Income Tax and Personal Income Tax.

The tax rate is 15% on taxable base. The taxable bases are established presumptively according to the law provision.

3. Indirect taxation

3.1. Value Added Tax

VAT is applicable to:

- ▶ Sales
- ▶ Services rendered, other than personal services rendered under payroll-employee relationship
- ▶ Imports

Applicable rates

VAT rates are 10% and 5%. Basically, the latter rate is applicable to family housing leases and sales of real state, some agricultural products, basic family products and pharmaceutical goods.

Incentives related to this tax

Exports are VAT-exempted.

The VAT paid on goods and services incorporated into exports is recoverable through Credit Memos called Tax Credit Certificates issued by Tax Authorities; such certificates may be transferred or used to pay other taxes.

3.2. Excise Tax

Excise Tax (ISC for its acronym in Spanish) is applicable to the importation or first sale in factory of the following goods:

- ▶ Cigarettes;
- ▶ Tobacco;
- ▶ Beer, fruit juice, beverages in general;
- ▶ Various types of alcoholic beverages;
- ▶ High calory products;
- ▶ Petroleum-derived products;
- ▶ New and used aircraft and ships;
- ▶ Weapons and its accessories; and
- ▶ Electric appliances such as dishwashers, laundry machines, sound recording devices, cellphones, among others.

Exemptions

Exports are exempted of Excise Tax.

4. Import duties and taxes

Imports in general are subject to the following taxes:

1. Customs duties;
2. Tax on selected consumer items, if applicable; and
3. Value-added tax, if the product is subject to this tax.

The Mercosur Treaty provides that goods originated in the member countries may circulate freely within the territory of the five-member countries and that goods that do not originate within them are usually subject to "Common customs duties for external products".

5. Other Tax Regimes

Free Trade Zone Regime

The following activities performed in the established Free-Trade Zone areas are considered covered by this regime:

a. Business

b. Industries

c. Services

Tax benefits under Free-Trade Zone regime

The activities performed under the Free-Trade Zone regime mentioned above developed in a pre-determined Free-Trade Zone area are exempted from any kind of tax, including national, regional or municipal taxes; such as the following:

- ▶ Entity Constitutions;
- ▶ Taxes on dividends remitted abroad;
- ▶ Payment of royalties, commissions, fees, interests and any other remuneration for services, technical assistance, technology transfer, loans and financing, equipment rental and every other service provided from third countries to Users of the Free-Trade Zone.

Users that carry out commercial, industrial or service activities dedicated to exports to third countries, shall pay a unique tax on this regime of 0.5% on the total invoicing amount. This tax will be paid at the time of the formalization of each Export Office.

Maquila Regime

The Maquila Regime allows the introduction of machinery into Paraguay on a temporary basis (Maquila temporary importation) during the production process.

The Maquila Law offers important advantages, among others, the geographical location of the country (center of South America and of the Mercosur) and a preferential taxation treatment.

Maquila Unique Tribute: payment of a tax corresponding to 1% on value added in Paraguayan territory, or on the value of the invoice issued by order and account of the Head Office, whichever is greater.

ERNC Tax Incentive Regime

The Law N° 6977/23 regulates and promotes the generation, development and use of electric energy from non-conventional sources (ERNC, for its acronym in Spanish).

The ERNC are “non-fossil energy sources, e.g., biomass, bioenergy, geothermal, solar, wind and green hydrogen”. It should be clarified that regulation on the production of energy of hydraulic origin is excluded from this disposition.

Individuals and legal entities that are producers or destined to the manufacturing, implementation, and utilization of energy from renewable energy sources will enjoy a special tax incentive regime both in

capital invested and the importation of equipment, machinery, inputs for the development of the industry, destined to the production of electric energy. This special tax incentive regime will be for a period of 5 (five) years according to the scopes and limitations established in the present law.

Likewise, the investments in ERNC will receive tax benefits included in Law N° 60/90 “Tax Incentives for the Investment of National and Foreign Capital”; Law N° 117/91 “On Investments”; and Law N° 5542/15 “On Guarantees for Investments and Promotion of Employment Generation and Economic and Social Development”. To benefitiate from these incentives, the application authority will set the minimum of investment.





Labor Regime

1. Labor Law

Labour relations are regulated by a “Labour Code” applicable to the relationship between employers and payroll employees.

The type of labour relationship that may be established are:

- ▶ For an indefinite term
- ▶ For a fixed term
- ▶ Piecework

The current Labour Code is not applicable to Directors, Managers, Administrators, and other executives of companies, provided that their representation, amount of remuneration, nature of job, technical capacity, and especially independence in the job does not imply subordination.

1.2. Working Week

The normal working day has 8 (eight) hours, with a maximum of 48 hours a week for daytime work, and 7 (seven) hours a day and 42 (forty-two) hours a week for nighttime work. For part-time modality, the worker shall work between 16 hours and a maximum of 32 hours per week. The maximum monthly load will be 128 hours.

1.3. Monthly Minimum Wage

The minimum wage is Gs. 2.798.309 = USD 358 approximately.

For part-time modality, the calculation of monthly remuneration will be based on the legal minimum wage and will be paid according to the number of hours worked.

Annual statutory Christmas bonus or 13th salary (“Aguinaldo”)

Is equal to a twelfth of the employee’s compensation accrued during the calendar year (including salary, overtime, commissions, or other compensation). The annual statutory bonus must be paid before December 31 or, proportionally, upon termination of the labour relation.

Vacation pay varies according to the employee’s seniority:

Length of service	Vacation days
More than 1 year through 5 years	12 days
From 5 through 10 years	18 days
10 years onwards	30 days

1.4. Teleworking

Teleworking is a special type of employment relationship regulated in 2021. This modality of work, consists of performing an activity, producing a product, or providing a service remotely, without requiring the physical presence of the worker, through the use of Information and Communication Technologies (TIC for its acronym in Spanish), carried out at the worker’s home or in an establishment other than the employer’s workplace, under a system of control and supervision of their work through the use of technological means.

This modality applies to workers in a relationship of dependency both for labour relations in the public and private sector, however, the teleworking is not mandatory for either the employer or the worker. The employer may make visits to monitor compliance with occupational health and safety standards, as well as the maintenance of computer equipment, subject to prior notification and agreement with the teleworker. A right to digital disconnection of workers is guaranteed, which allows employees to not answer work communications, calls, emails, messages, WhatsApp, etc, outside their working hours.

1.5. Social Security

Contributions are calculated based on the employee monthly salary. Employer's contributions amount is 16.5% and the employee's is 9%. Social security coverage encompasses health care and pension benefits.

The banking sector has its own social security, being the employer's contributions 17%, and the employee's 11%. Foreign employees from countries with Social Security Agreements with Paraguay may be exempted from local Social Security contribution through a Certificate of Coverage issued by the Social Security Authority of the country of origin.

2. Immigration regulations.

The Paraguayan government published a new Migration law ("the Law") on 18 October 2022 that introduces changes to the rules governing foreign nationals who seek to enter and/or establish residence in the country.

The aforementioned law sets forth the statutory rules related to foreign immigration, migration and repatriation of nationals.

A foreign individual can live and work in Paraguay after obtaining their residence. The residence is applicable to foreigners of all nationalities, as established by the mentioned Migration Law.

Types of Filing:

- i. **Temporary:** a foreigner who enters with the intention of temporarily residing in the country for the duration of the activities that gave rise to the admission is considered a temporary resident. The maximum term of duration in this category of residence is 2 (two) years. It can be renewed up to one time, for period equal to that authorized. This residence is a previous requirement for the Permanent Residence application.
- ii. **Permanent:** residence authorization granted to foreign citizens of any nationality who have fulfilled the condition of temporary resident for two years and wish to settle in Paraguayan territory on a permanent basis, to carry out any type of lawful activity, in accordance with the provisions of the Migration Law. Notably, foreigners are exempt from the two-year residence requirement if they can reliably prove the realization of investments in Paraguay or are qualifying dependents of a Paraguayan national. The maximum term of duration in this category of residence is 10 (ten) years.
- iii. **Spontaneous or Occasional:** its purpose is to document foreign citizens who wish to settle for a period of no more than 90 (ninety) days to engage in remunerated or unremunerated work activities in Paraguay. This filing can be extended only once, for the same period.



Financial Reporting

1. Companies Listed on the Asunción Stock Exchange.

Except for certain companies operating in the financial industry, companies listed on the Asunción Stock Exchange must prepare and submit their Financial Statements according to the reference framework of the Financial Information Regulations (NIF for its acronym in Spanish) issued by the Public Accountants Council of Paraguay.

Financial statements prepared in accordance with the generally accepted accounting principles of the United States of America (US GAAP) or with the International Financial Reporting Standards (IFRS), are also accepted.

In the case of Brokerage firms, Fund Managers, and their respective managed Funds, although they are not issuers of financial instruments on the Asunción Stock Exchange, they must issue their Financial Statements adopting NIF issued by the Public Accountants Council of Paraguay, or US GAAP, or IFRS.

2. Regulated Companies

Regulated companies such as Banks, Financial Entities, Insurance Companies, and Cooperatives must adopt the accounting standards and policies issued by their respective natural regulator, which can be the Central Bank of Paraguay through the Superintendency of Banks, the Superintendency of Insurance, and the Superintendency of Securities, as well as the National Institute of Cooperativism.

3. Private Companies

Private companies may adopt the Financial Information Regulations (NIF) issued by the Public Accountants Council of Paraguay as a framework of best practices for preparing their financial statements. Likewise, the Paraguayan tax regulator, the National Directorate of Tax Revenues (DNIT for its acronym in Spanish), establishes certain accounting guidelines for taxpayers in general, which are normally observed by local companies in the preparation of their Financial Statements.





Peru

Message from EY Peru's Country Managing Partner

Peru is considered one of the world's leading emerging markets, standing out for its macroeconomic stability, which is one of the nation's most important pillars of competitiveness.



Paulo Pantigoso

Country Managing
Partner
EY Peru

Nearly uninterrupted economic growth over the past 24 years has contributed to the improvement of infrastructure, development of human capital, adoption of new technologies, and a higher standard of living for all Peruvian citizens. Additionally, its open policy when it comes to the international market, manifested through multiple trade agreements, complements legislation that is favorable to private domestic and foreign investment.

The recognition of Peru's solid economy is based on low inflation (it closed 2023 with its 26th year in a row of single-digit inflation), international reserves equivalent to 27.0% of GDP, a controlled fiscal deficit, and public debt that does not exceed 33.0% of GDP at the close of 2023, well below the average of other emerging countries around the world (67.0%) and region (68.1%). Additionally, 2023 closed with a trade surplus record of USD17.4 billion; and an estimated GDP growth of 3.0% for 2024, according to the Central Reserve Bank of Peru (BCRP).

We firmly believe that Peru offers great opportunities and an ideal business climate for profitable investment. Through the Doing Business Latam 2024, we commit to support Peru and the region in their development by helping businesses get started, grow, and thrive. We hope this guide will help you discover new initiatives. We are at your disposal for any assistance you may require.

Kind Regards,



Overview

Peru is located in South America and has a geographic diversity that ranges from the Pacific coast to the Andes Mountains and the Amazon jungle. Lima is its capital and largest city; other major cities include Cusco, known for its Inca legacy, and Arequipa, recognized for its cultural heritage and colonial architecture. The Peruvian population is diverse, with indigenous and European influences, reflected in its music, dance, festivals, and cuisine. Peru is rich in natural resources, such as minerals (especially copper, gold, and zinc), fishery, agriculture (coffee, asparagus, grapes, etc.), and has a great biodiversity. The country has established trade agreements and is considered one of the world's leading emerging markets with a solid economic and industrial background.



Population¹ 33,049,588

Urban²: 79%

Rural: 19% (2022)



Main language³

Spanish



Area⁴

1,285,216 km²





System of government³
Democratic and presidential republic
President: Dina Boluarte
Next elections: 2026



Climate³
Tropical. No significant differences between seasons



International Time⁵
GMT-5 (All Peru)



GDP current prices⁶
USD \$266.9 Bn. (2023)



GDP per capita (PPP)⁷
USD \$17,024.7 (2023)



Currency⁸
Peruvian Nuevo Sol
US\$1 = PEN 3.72 (Sep. 30, 2024)



Key sectors⁹
Peru stands out in various sectors that include mineral extraction and refinery, steel and metal manufacturing, oil extraction and refinery, natural gas and natural gas liquefaction, agriculture and food processing, fishing and fish processing, cement, and textile.

Why invest in Peru?

1st place in country reputation in the region in 2022¹⁰

22 trade agreements, 28 bilateral investment treaties and 9 double taxation agreements

15th most attractive country to invest in renewable energy¹¹

World leader in mineral production: 2nd in zinc, 3rd in copper and silver, 4th in tin, and 5th in Lead¹²

Large exporter: 1st larger exporter of grapes, cranberries, bilberries and others, 3rd exporter of avocados, dates, figs, pineapples, avocados, guavas, mangoes and mangosteens (in tradevalue 2022)¹³

1st largest exporter of fishmeal in the world, 4th of ores, slag and ash (in tradevalue 2022)¹³

1. World Economic Outlook (October 2024), IMF - Population
2. Urban population (% of total) - Latin America and the Caribbean (2023), World Bank
3. Main languages Latin America and the Caribbean, system of government and weather, DatosMundial.com
4. Extension (square kilometers) - Latin America and the Caribbean (2021), World Bank
5. International Time in Argentina, 24timezones.com
6. World Economic Outlook (October 2024) - GDP, current prices, IMF
7. World Economic Outlook (October 2024) - GDP per capita, current prices, IMF
8. Exchange rate, S&P
9. Encyclopedia Britannica
10. RepCore Nations 2022
11. Climatescope by Bloomberg
12. U.S. Geological Survey, Mineral Commodity Summaries, January 2024
13. UN Comtrade



Country's economic outlook

Peru has traditionally been one of the countries with the highest macroeconomic stability in the region, thanks to its tradition of sound fiscal policies. Additionally, the country has a strong commitment to open markets and foreign investment, leading it to sign multiple trade agreements.

The strength and prudence of its macroeconomic policies have driven high and uninterrupted growth for several years, at least until the arrival of the pandemic, alongside low inflation and a solid fiscal position, allowing for significant development in the country.

After a strong economic rebound in 2021, GDP growth slowed down, closing 2023 at a negative 0.6%.The IMF expects that the country will soon return to its growth path, estimating a 3.0% and 2.6% growth for 2024 and 2025 respectively.

Meanwhile, inflation ended 2023 at 3.2%, and despite the imbalances caused by the Covid-19 health crisis, it has never exceeded double digits over the last 26 years. On the other hand, public gross debt remained around a moderate 33% of GDP at the end of 2023, below the 34% recorded in 2022.

Peru's economy is based on a wide variety of resources. It is one of the top producers of copper, gold, silver, and zinc. The mining industry plays a key role in Peru's exports and the overall economy, attracting substantial foreign investment.

Agriculture and fishing are also essential industries that significantly contribute to employment and exports. In fact, Peru is one of the world's leading fishing nations due to the abundant marine resources along its coasts.

Additionally, Peru has a growing tourism sector thanks to its rich cultural history, biodiversity, and world-renowned archaeological sites.

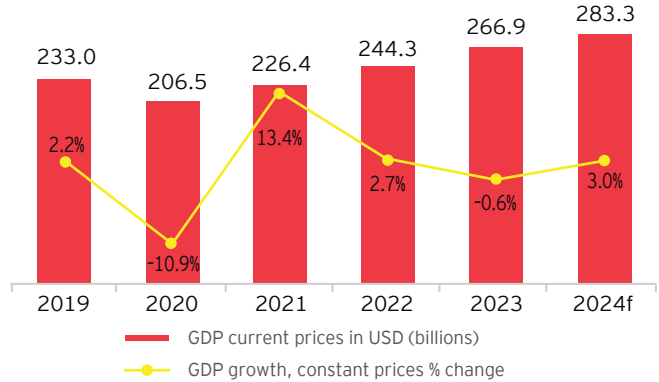
Table 1:

Index	Peru
GDP current prices USD bn. (2023) ¹	\$266.9
GDP growth, constant prices % change (2023) ¹	-0.6%
Gross domestic product per capita, current prices USD (PPP) (2023) ¹	\$17,024.7
Inflation, year-end consumer prices (2023) ¹	3.2%
Fiscal balance (net lending (+) or net borrowing (-) of general government; % of GDP) (2023) ¹	-2.8%
Public debt (General government gross debt, % of GDP) (2023) ¹	33.0%
Current account (% of GDP) (2023) ¹	0.8%
Investment (% of GDP) (2023) ¹	17.4%
Poverty headcount ratio at \$6.85 a day (2017 PPP) (% of population) (2022) ²	32.2%

1. World Economic Outlook October 2024, IMF
2. Poverty headcount ratio at \$6.85 a day (2017 PPP) (% of population), World bank 2023

Figure 2:

Gross Domestic Product, Levels and Growth³

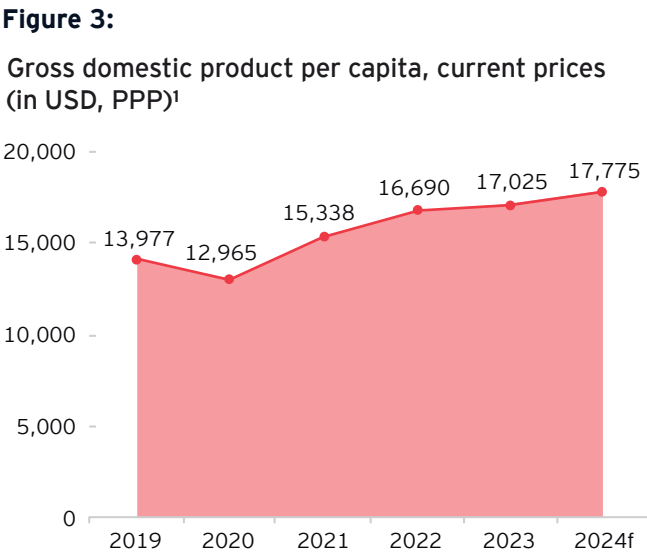


3. World Economic Outlook October 2024, IMF

Peru was one of the fastest-growing economies in Latin America in recent decades until the arrival of the pandemic. In 2021, the economy experienced a significant rebound with a growth rate of 13.35%, after which it began to moderate.

According to the Central Reserve Bank of Peru, in 2023, the GDP contracted by 0.6%, driven by a series of supply shocks that impacted private domestic demand. Last year, the country experienced a series of social and political disturbances early in the year, and sectors such as fishing, agriculture, and related industries were affected by El Niño phenomenon. Despite that, the country has maintained institutional stability.

The IMF is expecting a 3.0% GDP growth in 2024 due to a robust rebound in agriculture and fishing following the El Niño event, along with a mining boom and a more flexible monetary policy aligned with lower inflation.



1. World Economic Outlook October 2024, IMF

Peru’s years of growth have led to an increase in its GDP per capita. In terms of purchasing power parity (PPP), it is expected to reach USD 17.775 in 2024.

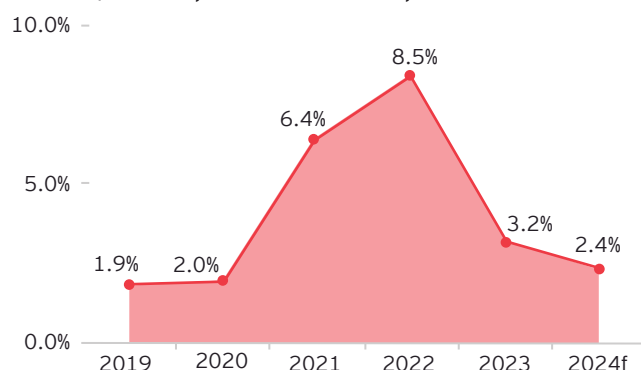
Figure 4:

Annual gross domestic product (GDP) by economic activity at current prices in dollars² (2022)

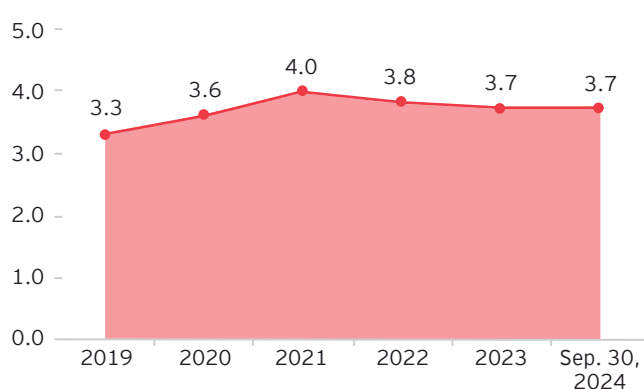


2- Annual gross domestic product (GDP) by economic activity at current prices in dollars (2022), ECLAC

In Peru, the sectors that contribute most to the GDP are public and personal services, wholesale and retail trade, including hospitality (hotels and restaurants), mining, and the manufacturing industry. These are followed by financial intermediation, construction, agriculture, and fishing.

Figures 5 and 6:**Inflation, end of period consumer prices¹**

1. World Economic Outlook October 2024, IMF

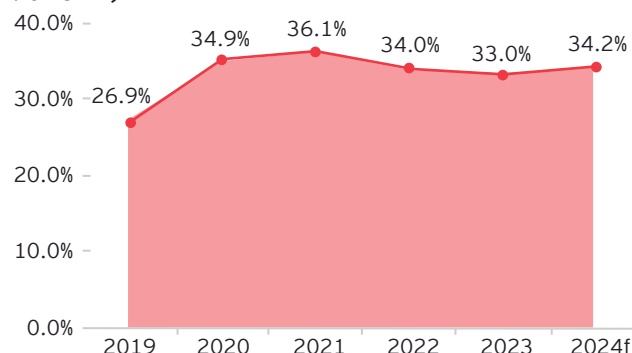
Exchange rate of foreign currency (USD/PEN)²

2. Exchange rate, S&P

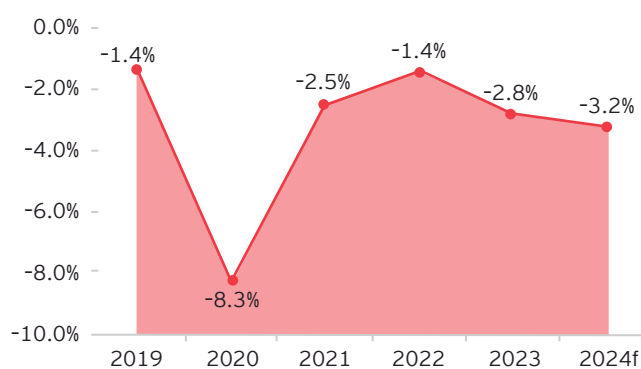
Peru's stability and solid macroeconomic policies have been highly successful in controlling inflation. The Consumer Price Index (CPI) closed the January-December 2023 period with inflation at 3.2%, according to the National Institute of Statistics and Informatics (INEI), very close to the target range of 2% +/- 1%.

During the first months of 2024, inflation reached and remained within the target range, making it one of the lowest among the largest economies in Latin America. The IMF estimates that it will close at 2.4% in 2024.

Meanwhile, the exchange rate remained stable in 2023, closing at 3.7 soles per dollar.

Figures 7 and 8:**Public debt (General government gross debt, % of GDP)³**

3. World Economic Outlook October 2024, IMF

Fiscal balance (net lending (+) or net borrowing (-) of general government; % of GDP)⁴

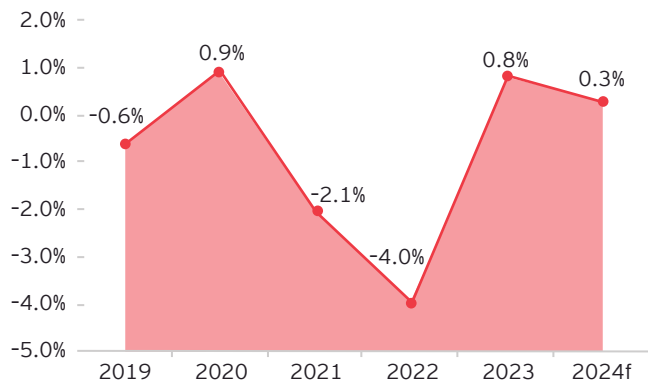
4. World Economic Outlook October 2024, IMF

The international organization estimates that public debt in 2024 will close around 34% of GDP, a relatively low level, that continues to support economic resilience.

In 2023, the fiscal deficit amounted to 2.8% of the GDP, according to the Central Reserve Bank of Peru (BCRP). This result is attributed to lower overall government revenue, mainly due to reduced tax revenue received by the National Government. The IMF projects a figure of -3.2% for 2024.

Figure 9:

Current account (% of GDP)¹

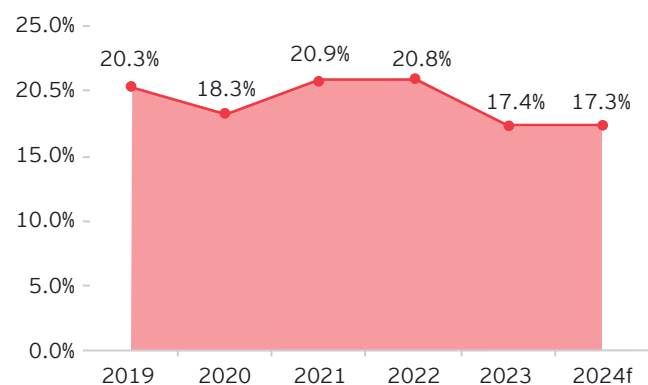


1. World Economic Outlook October 2024, IMF

The current account close 2023 with a 0.8% surplus. The IMF forecast indicates that in 2024, the current account is likely to show a surplus again, though smaller than in 2023.

Figure 10:

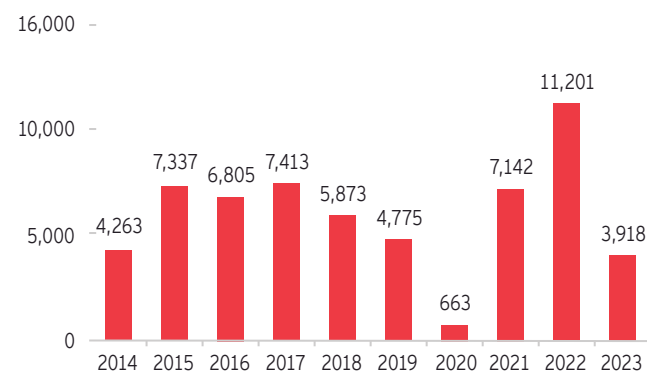
Investment (% of GDP)²



2. World Economic Outlook October 2024, IMF

Figure 11:

FDI Peru (In millions of USD)³



3. Foreign direct investment, net inflows (BoP, current US\$) - Latin America & Caribbean | Data (worldbank.org)

Investment as percentage of GDP in Peru is expected to close at 17.3% in 2024, similar to 2023.


After two years of receiving considerably high foreign direct investment inflows compared to previous years, FDI in Peru fell by 65%, totaling USD 3.918 billion.

Nevertheless, the last two years recorded a significant higher direct investment than the preceding years.



With a system that favors domestic and foreign private investment, legal stability, and a growing middle class, Peru offers a secure and dynamic business environment for investors looking to obtain attractive returns and to diversify their portfolios in an emerging market that has shown great macroeconomic stability and nearly uninterrupted growth.

Peru has a strong vocation of openness towards international markets. In addition to its investment promotion policies, Peru has a significant network of free trade agreements and bilateral agreements, offering a range of benefits and guarantees to foreign investors such as stability in the rules of the game, protection of intellectual property, national treatment, and preferential access to markets.



Establishing a business in the country

1. Promotion of Foreign Investment

In Peru, the participation of the private sector remains focused on investment and business activity.

In terms of foreign investment, the legal framework aims to encourage it by incorporating regulations that promote and secure rights and providing access to regimes that guarantee various benefits.

Thus, laws have been enacted since 1991 that materialize the promotion of investment, while in 1993 the Constitution enshrined the principle of national treatment according to which domestic and foreign investment are subject to the same conditions, preventing discrimination of investors and their investments.

The following are some of the rights established for foreign investors: (a) equality of treatment before the law; (b) right to unrestricted private property (with certain exceptions, such as investments within 50 kilometers of the territorial borders or investments in broadcasting services, which require prior authorization from the State); (c) freedom of trade, industry, import and export; (d) right to the free transfer of profits or dividends; (e) right to use the most favorable exchange rate on the market; (f) right to freely choose the form of business incorporation; (g) right to free competition; (h) right to acquire shares of national companies; (i) right to have access to internal and external financing; (j) right to carry out operations in both national and international currencies, without exchange controls.

Measures have been established for the protection of said investments. Foreign investors can enter into Legal Stability Agreements with the State in order to obtain the guarantee that future legal and regulatory changes will not affect the conditions under which they adopted the investment decision. These Agreements guarantee investors and the investees access to equal treatment compared to local investors; the stability of the regime of free availability of foreign currency and remittance of profits, dividends and royalties; the stability of the income tax regime in force at the time of its subscription; and the stability of the employment contracting systems and export promotion regimes. As of December 31, 2021, all Legal Stability Agreements entered into will stabilize the income tax rate in force at the time of execution plus two percentage points.

For such purposes, investors are required to: (i) invest a minimum of USD 5 million in any sector of economic activity, except in the case of the mining and hydrocarbon sectors, in which the minimum investment is USD 10 million; and (ii) channel their investments through the Peruvian financial system. The term of these Agreements is 10 years, except in the case of PPP concessions where the whole term contract is subject to stability.

In addition, there are International Investment Agreements or Bilateral Investment Treaties establishing international standards that guarantee a transparent and predictable treatment applicable to investments. These agreements offer guarantees for foreign investors and their investments in Peru as to treatment protection against non-commercial risks and adequate dispute resolution mechanisms in order to create an adequate, stable and predictable climate that will attract foreign investment and encourage establishment in the country.

2. Corporate structures in Peru

Main characteristics	S.A.A.	S.A.	S.A.C.	S.R.L.	Branch
Capital	Capital is represented by nominal shares. There may be share classes.			Capital is divided into equal, cumulative and indivisible partnership interests.	It has “assigned” capital instead of share capital.
Number of shareholders/partners	Not less than 2	2 to 750	2 to 20		No shareholders and/or partners
Transfer of shares/partnership interest	The shares must be registered in the Public Securities Market Registry of the Stock Market Superintendency. The transfer of shares should be registered in the Registry of the Clearance and Settlement Institution and/or in the share ledger book.	Share transfers must be recorded in the share ledger book.		The transfer of partnership interests is formalized by means of a public deed and is registered in the Public Registry.	No shares and/or partnership interests
Transfer	Shares can be transferred freely.		The shareholder/partner who intends to transfer shares/participations must notify the other shareholders/partners so that they can exercise their right of first refusal.		Not applicable
Corporate Bodies	<ul style="list-style-type: none"> ▶ General Shareholders Meeting ▶ Board of Directors ▶ Management 		<ul style="list-style-type: none"> ▶ General Shareholders' Meeting ▶ Board of Directors (optional) ▶ Management 	<ul style="list-style-type: none"> ▶ General Partners' Meeting ▶ Management 	No bodies, only a permanent representative

Main characteristics	S.A.A.	S.A.	S.A.C.	S.R.L.	Branch
Legal reserve	The company is required to allocate a minimum of 10% of the distributable profits of each fiscal year, net of income tax, to a legal reserve until an amount equal to one fifth to the share capital has been reached.			No obligation to allocate funds to a legal reserve.	
Employee profit sharing	If the company has more than 20 employees, it is required to distribute profits among its workers based on a certain percentage.				No obligation to distribute profits.
Notice of meeting	No less than 25 days in advance. Additionally, the same notice may contain more than one notice of meeting. There should not be less than 3 or more than 10 days between one notice and another.	In the case of notices of mandatory annual meetings or those provided for in the bylaws, no less than 10 days prior to the date set for the meeting; in other cases, no less than 3 days prior to the date of the meeting. In the event of a second convening, this meeting must be held within 3 to 10 days after the first meeting.			No meeting obligations



Tax Regime

1. General Overview:

1.1. Corporate Income Tax Rate (%) Resident entities: 29.5%.

1.2. Capital Gains Tax Rate (%) Resident entities: 29.5%.

In the case of non-resident entities: 30%. Nevertheless, capital gains arising from the sale of marketable/ negotiable securities through the Lima Stock Exchange (BVL) are subject to a tax rate of 5%.

1.3. Branch Tax Rate (%) Branches of non-resident entities:

29.5% on their Peruvian-source income.

1.4. Withholding Tax (WHT) (%) Peruvian-source income obtained by non-resident entities is subject to WHT, depending on the type of income:

- ▶ Dividends: 5%.
- ▶ Interest: 4.99%, provided certain requirements are met. Interest paid to related parties abroad: 30%.
- ▶ Royalties from Patents, Trademarks, Formulas and Similar Items: 30%.
- ▶ Technical Services. Technical assistance services economically used in Peru: 15%.
- ▶ In general, compensations and fees for services rendered abroad: 0%. However, technical assistance services (see point d) above) and digital services (30%) are taxed, provided that they are economically used in Peru.
- ▶ Branch Remittance Tax: 5%.
- ▶ Other income deriving from business activities rendered within Peruvian Territory: 30%.

1.5. Net Operating Losses (Years)

- ▶ Carryback: N/A
- ▶ Carryforward: Resident companies may select between two options:
 - Losses can be carried forward for four consecutive years, beginning with the first subsequent year in which the losses arise.
 - Losses can be carried forward indefinitely, but with a deduction limit equivalent to 50% of the taxpayer's income for each fiscal year.

2. Tax on rent and corporate income tax

2.1. Corporate income tax

- ▶ Calculation of the net taxable income (trading income)

- *General*

Income tax is levied on net income and is determined annually. The fiscal year begins on January 1 of each year and ends on December 31, with no exceptions.

Income tax returns for corporations, branches, and individuals must generally be filed around March 31 of the following year. Corporations established in Peru are subject to income tax on a worldwide income basis. Non-resident corporations, branches established in Peru and permanent establishments of non-resident legal entities that are located in Peru are only taxed on Peruvian-source income.

It should be noted that resident companies are required to file prepayments on income tax.

- *Monetary correction*

This adjustment is not regularly applicable in the case of legal entities.

- Depreciation

The cost of acquisition, production and construction is regularly recognized via depreciation according to its useful life and pursuant to the maximum percentages established by law according to the type of asset.

- R&D incentives

Expenses on scientific research projects, technological development and technological innovation may get a super deduction of an additional 140%, 90% or 60%.

Rates depend on the company's net income, whether the project is carried out directly or by a scientific research center and whether the latter is a resident of Peru. Among other requirements, the project must be authorized by a qualifying entity.

2.2. Corporate tax rates

See 1. General Overview

2.3. Dividends

In the case of resident legal entities, dividends received from other resident legal entities are not taxed. Dividends received from non-resident legal entities are subject to a tax rate of 29.5%. Deemed dividends included in the Peruvian tax legislation are also subject to taxation.

2.4. Special regimes²

► Mining

- Special Mining Tax

The Special Mining Tax ("IEM") is levied on the operating profits of mining concession holders engaged in the exploitation of mineral resources and is applicable to the sale of metallic mineral resources as well as resources for personal use or unjustified withdrawals of such assets. The IEM is determined and paid quarterly

based on a progressive cumulative scale of operating margins, with marginal rates ranging from 2% to 8.4%. Technically the IEM is based on the sum of each increase in the operating margin, multiplied by the rate of the progressive tax as per the following table and definitions:

Special Mining Tax			
Scale Nº	Scale of Operating Margin		Marginal Rate
	Lower limit	Upper limit	
1	0%	10%	2.0%
2	10%	15%	2.4%
3	15%	20%	2.8%
4	20%	25%	3.2%
5	25%	30%	3.6%
6	30%	35%	4.0%
7	35%	40%	4.4%
8	40%	45%	4.8%
9	45%	50%	5.2%
10	50%	55%	5.6%
11	55%	60%	6.0%
12	60%	65%	6.4%
13	65%	70%	6.8%
14	70%	75%	7.2%
15	75%	80%	7.6%
16	80%	85%	8.0%
17	Over 85%		8.4%
Operating Margin = $\frac{\text{Operating Profit}}{\text{Sales Revenue}}$ X 100			

- Special Mining Encumbrance

The Special Mining Encumbrance ("GEM") is a voluntary payment, applicable to mining concession holders and concessionaires engaged in the exploitation of metallic mineral resources with investment projects subject to Contracts for Guarantees and Promotional Measures for Investment established in the General Mining Act, which cannot be affected by changes in the legislation regarding the IEM and mining royalties.

For such purpose, an agreement is entered into for the payment of the GEM. Like the IEM and Mining Royalties, the GEM is paid quarterly, and is calculated by applying a cumulative progressive rate of 4% to 13.12%, depending on the operating margin, to the quarterly operating profit.

- **Mining Royalties**

The mining royalty is applicable to mining concession holders and concessionaires engaged in the exploitation of metallic and non-metallic mineral resources. Mining Royalties shall be paid quarterly and are determined by applying a cumulative progressive rate of 1% to 12% to the operating profit, depending on the operating margin, provided the amount payable is not less than 1% of the revenue generated from the sales executed during the calendar quarter. If this condition is not met, the minimum amount payable for royalties shall be determined based on sales revenue.

► **Agribusiness³**

A reduced income tax rate of 15% has been established from 2021 to 2030 for individuals and legal entities in the sector whose income does not exceed 1,700 UITs (PEN 8,755,000 or approx. USD 2,357,861), with a gradual reduction in the special lower rate for those companies who exceed 1,700 UITs, as follows:

- 2021 -2022: 15%
- 2023 -2024: 20%
- 2025 -2027: 25%
- 2028 on: General regime⁴

2.5. Administration

The main Peruvian tax authority is the Superintendencia Nacional de Aduanas y de Administración Tributaria (acronym: "SUNAT"). Its primary function is the administration and collection of government taxes (Income Tax, VAT, etc.). Additional functions include, among others, the supervision, assessment, and control of compliance of tax and customs duties.

3. International Tax

3.1. Foreign tax relief

Taxes effectively paid abroad may be offset against Peruvian income tax applicable over foreign source income, provided that the amount resulting from the application of the average taxpayer rate for income obtained abroad is not exceeded.

Any credit that is not applied in a given fiscal year cannot be offset during subsequent or prior fiscal years and cannot be refunded. As of January 1, 2019, under certain conditions, credits may be deducted not only in the case of income tax paid abroad, as on the distribution of dividends (direct credit), but also the tax on the business activities of the subsidiary (first-tier indirect credit) and even the tax on the business activities of the latter's subsidiaries (second-tier indirect credit).

3. On December 6, 2020, Law 31087 was enacted, repealing Law 27360—the Act for the Promotion of Investment in the Agricultural Sector. Subsequently, on December 31, 2020, Law 31110 was enacted, the Act on the Agricultural Labor Regime and Incentives for the Agriculture and Irrigation, Agro-export and Agribusiness Sectors. The new regime has been in force since 2021.

Scope of the new regime:

- Individuals or legal entities who farm crops and/or raise livestock.
- Individuals or legal entities engaged in agribusiness activities, provided they primarily use agricultural and livestock products, outside the province of Lima and the Constitutional Province of Callao. It does not include agribusiness activities related to wheat, tobacco, oil seeds, oils, and beer.
- Agricultural producers, excluding those organized in producers' associations, provided each individual association does not exceed hectares of production.

4. Additionally, there is an accelerated depreciation benefit of 20% annually for investments in water and irrigation infrastructure, as well as a deduction of expenses for which receipts have been issued by taxpayers subject to the New Simplified Consolidated Regime, for up to 10% of the amounts proven with receipts granting the right to deduct costs or expenses (with a maximum limit of 200 UITs per fiscal year). Finally, individuals or legal entities whose net income does not exceed 1,700 UITs in the fiscal year are entitled to a tax credit of 10% with reinvestment of up to 70% of annual profits, after income tax, during the 2021-2030 period. Reinvestment must prioritize the enhancement of agriculture, to the extent possible, through the implementation of a technology-based irrigation system.

3.2. Foreign-exchange controls

There are no foreign-exchange controls in the Peruvian Tax System.

3.3. Transfer pricing

Transfer pricing rules are based on the arm's length principle as interpreted by the OECD and should be considered solely for income tax purposes.

In Peru, these rules do not only apply to transactions between related parties, but also to transactions with non-cooperative countries or territories or tax havens and entities subject to a preferential tax system.

Note, however, that the value agreed by the parties must only be adjusted when a lower tax payment has been generated in the country. Taxpayers subject to the scope of application of transfer pricing laws must submit three annual information tax returns, depending on the level of turnover and the amount of the transactions: i) Local Report; ii) Master Report; and iii) Country-by-Country Report.

3.4. Debt-to-equity rules

As of 2021, the deduction of interest on financing (whether from related or third parties) is only permitted for an amount of up to 30% of the Tax EBITDA for the prior year. This concept has a specific definition for the purposes of this law (tax net income after loss carryforwards plus net interest, depreciation and amortization). Nondeductible interest may be carried forward for the next four taxable fiscal years with the net interests of the corresponding fiscal year. There are specific exceptions in tax regulations.

3.5. Controlled foreign corporations

As of January 1, 2013, the "International Tax Transparency System" was incorporated, applicable to taxpayers resident in Peru who own controlled non-resident entities with regard to the passive income of such, provided that they are subject to income tax in Peru for foreign-source income. According to this system, the

passive income obtained through subsidiaries incorporated in other jurisdictions must be included in the taxable income of individuals and companies resident in Peru, even when the effective distribution of the dividends associated with such passive income has not occurred.

3.6. Preferential tax jurisdictions (tax havens)

Companies resident in Peru cannot deduct, for purposes of calculating income tax, the expenses derived from operations carried out with individuals or entities residing in countries or territories with little or no taxation, except in the case of operations involving (i) loans; (ii) insurance and reinsurance; among others.

4. Value-added tax

Value Added Tax (VAT) is levied on the sale of goods, the provision and use of services and the import of goods in Peru at an 18% tax rate (includes 2% for Municipal Promotion Tax). VAT uses the debit/credit system, under which the VAT paid on sales is offset against the VAT paid on purchases. Any VAT that is not used as credit in a particular month may be applied in the following months until it is extinguished. This credit is not subject to term or the running of statutes.

Individuals or legal entities currently making investments and developing projects in a two-year or longer pre-operational stage may resort to the Early VAT Recovery System and request the early recovery of the VAT transferred or paid for the acquisition of new capital goods, intermediate goods, as well as construction services and agreements, directly used in the execution of the respective project.

5. Other

5.1. Green taxes

Selective Consumption or Luxury Tax ("ISC") could be included in this category. This tax applies to the consumption of specific goods, such as fuels, cigarettes, beers, liquors, soft drinks, gambling and bets, etc. It is applied under three categories:

- Specific, involving a fixed amount in Soles per unit of measurement.
- At value, based on a percentage of the sale price; and
- Sale price, based on a percentage of the suggested retail price.

5.2. Customs duties

Imported goods are subject to import tariffs with currently ad valorem rates of 0%, 6% and 11%⁵. Likewise, VAT of 18% is applied to imported goods.⁶ There are also specific duties to be applied as additional variable duties on imported agricultural and livestock products such as hard yellow corn, rice, milk and sugar.⁷

The customs taxes and duties applied are summarized below:

Tax	Rate	Taxable Base
Customs Tariffs (a)	0%, 6% y 11%	CIF Value (d)
Value Added Tax (VAT) (b) (c)	18%	CIF Value + Customs Duties

Notes:

- (a) The customs tariff rates depend on the type of goods being imported.
- (b) The VAT can be used as tax credit by the importer.
- (c) Certain goods are also subject to the ISC.
- (d) This value shall be determined according to the WTO Customs Valuation Agreement, as well as the standards of the Andean Community and national law.⁸

5.3. Investment and saving incentives

The Peruvian Government may guarantee legal stability to national and foreign investors in terms of the legislation governing income tax and specifically, distribution of dividends. Foreign investors with the right to request the execution of a legal stability agreement are those willing to invest in Peru for a period of no less than two years and for a minimum amount of USD 10 million in the Mining and/or Hydrocarbons sectors, or USD 5 million in any other economic activity.⁹ As of December 31, 2021, all Legal Stability Agreements entered into will stabilize the income tax rate in force at the time of execution plus two percentage points.

5.4. Stamp Duties

There are no Stamp Duties in the Peruvian Tax System.

5.5. Other taxes

- Temporary Net Assets Tax ("ITAN"):

ITAN is equivalent to 0.4% of the total value of net assets in excess of PEN 1 million determined as at December 31 of the prior year. Companies in the pre-operational stage are excluded. ITAN payments can be used as an income tax credit.

A refund may be requested for any balance not used in the current year.

5. In addition, a tariff rate of 4% is charged in the case of Express Shipments (goods with a FOB value of USD200 or more, up to a maximum amount of USD2,000 per shipment).

6. Additionally, and depending on the type of goods and origin thereof, imports may be taxed with the Selective Consumption or Luxury Tax (ISC), Antidumping Duties, Compensation Duties, or others.

7. Some imported goods can also be charged with anti-dumping or compensation duties. The former is applied to some imported goods when, according to the INDECOPI assessment, the price discrimination could harm or threaten to harm a branch of national production. Compensation duties are applied to imported goods that are subsidized in their country of origin and can harm or threaten to harm national production branch via the importation thereof, according to the INDECOPI assessment.

8. The import of goods is subject to the Prepaid VAT System, wherein the tax is determined by applying a percentage to the CIF customs value plus all taxes levied on the import and other surcharges, where applicable. The applicable tax rate is 3.5%, 5%, or 10%, depending on the situation of the importer and/or the goods to be cleared through customs. Like VAT, the amount paid may be used by the importer as a tax credit.

9. For such purpose, it is necessary to make capital contributions to a company currently established or to be incorporated in Peru for an amount of no less than USD 10 million in the mining and hydrocarbons sector, and USD 5 million in any other economic sector. This investment must be made within a period of no more than two years. The term of the agreement is ten years, except for those investors who have entered into a concession agreement as established in Executive Order (Decreto Supremo) 059-96- PCM. In this case, stability governs for the term of the concession.

The Private Investment Promotion Agency (ProInversión), as a representative of the Peruvian Government, can enter into legal stability agreements to provide guarantee to the investors and companies receiving these investments, as applicable.

► **Tax on Financial Transactions (“ITF”) and Means of Payment**

A 0.005% tax is generally levied on deposits and withdrawals in Peruvian bank accounts. As a general rule, any payment in excess of PEN 2,000 or USD 500 must be made using the so-called “Means of Payment,” which includes bank deposits, drafts, wire transfers, transfer of funds, payment orders, credit and debit cards issued in Peru, and checks. Failure to use these methods of payment would lead to the corresponding cost or expense of the payment not being recognized for income tax purposes. In addition, any VAT arising from said transactions cannot be used as a tax credit.

► **Municipal Taxes**

- **Property Tax:** is an annual municipal tax that is levied over the value of urban or rustic premises. For such purpose, premises are considered to include land, buildings and fixed and permanent facilities. The tax rate is calculated on a progressive cumulative scale varying between 0.2%, 0.6% and 1.0%, depending on the value of the property. The tax is charged to the individual or legal entity that, as at January 1 of every year, is the owner of the respective property.
- **Property Transfer Tax:** is levied on the transfer of urban or rural property, with or without valuable consideration, in any form or manner, including sales in which the ownership rights are not transferred to the buyer until the total price is paid. The taxable base is the sales price of the property, which may not be less than its self-assessed value. The tax rate is 3%, to be paid by the buyer. The first 10 Tax Units (UITs) are tax-free.

- **Vehicle Property Tax:** is an annual tax on ownership of automobiles, pickup trucks, and station wagons manufactured in the country or imported that are no more than three years old. The three years are calculated from the first registration of the vehicle in the Vehicle Property Registry.

The taxable base is determined by the original value of acquisition, importation, or entry into ownership. The applicable tax rate is 1%.

5.6. GAAR

As of July 19, 2012, anti-avoidance rules were established in the Tax Code in relation to SUNAT’s powers in cases of tax avoidance or simulated transactions. With regard to tax avoidance, SUNAT has the power to demand payment of the tax debt. In order to implement this power, the tax authority must prove that the taxpayer meets the following conditions:

- The taxpayer—whether individually or jointly and severally with other taxpayers—has engaged in artificial or improper acts to obtain a specific tax advantage; and
- The use of said acts cause legal or economic effects, other than tax savings or advantages, equal or similar to those that would have been obtained through regular or proper acts.



Labor Regime

1. Labor law

1.1. Classification of employment contracts based on their nature.

▶ Indefinite contracts

Contracts that do not have a defined term. Such employment agreements fully extend all labor rights and benefits to the workers as per Peruvian law.

▶ Fixed term or Modal Contracts

This category of contracts requires an objective cause justifying the temporary nature of the contract term, aligning with the type of contract deployed. The contract's validity is guided by its adherence to the regulations stipulated in the prevailing legislation.

▶ Part-Time Contracts

These contracts are used for labor relationships encompassing less than an average of four working hours per day. Despite being entitled to all statutory benefits, part-time workers are not eligible for:

- Compensation for unjustified dismissal
- Severance indemnity (CTS)
- 30-day annual leave

▶ Considerations for all types of contracts

All the above contracts include a probationary period.

This period, which begins upon commencement of the employment agreement, may be for:

- 3 months for general workers

- 6 months for proficient or trusted employees
- 12 months for management-level employees.

For any extension of the probationary period to be valid, written documentation is necessary.

1.2. Working hours and breaks

In Peru, the maximum working time is set at 8 hours per day or 48 hours per week. However, there are exceptions in place for roles requiring extended hours - these instances are deemed as atypical workdays.

This modality could be:

- ▶ Cumulative
- ▶ Irregular
- ▶ Alternating schedules

Regardless of the structure of the workday, it may not exceed an average of 8 hours per day or 48 hours per week over any given three-week period or any shorter timeframe.

1.3. Law on remote work, telework and international labor

For employees who work remotely, either entirely or partially, locally or internationally, it is necessary to define a work schedule. In situations where employees do not work continuous 8-hour shifts, their schedules may be distributed across a maximum of 6 days per week. A mandatory digital disconnection period must be established within the work schedule corresponding to a continuous 12 hours within a 24-hour cycle.

1.4. Principles governing employment

Peru's labor laws are designed to protect workers' rights and promote fair treatment. Several key principles guide employment in Peru.

- ▶ **Principle of Equal Opportunities**
Advocates non-discrimination in the workspace, regardless of gender, origin, or religion, thereby promoting an equal and unbiased environment.
- ▶ **Remuneration**
Workers are entitled to fair remuneration that provides them a decent living for themselves and their families.
- ▶ **Limitation on Working Hours**
The maximum working hours in Peru is 8 hours per day or 48 hours per week.
- ▶ **Job Security**
Workers are protected against unjustified dismissal.
- ▶ **Social Security**
Workers have the right to social security protection, which includes health insurance and pension benefits.
- ▶ **Right to Organize**
Workers have the right to form and join trade unions, engage in collective bargaining and participate in strikes.
- ▶ **Health and Safety**
Employers must ensure the health and safety of workers by providing a safe and healthy work environment.
- ▶ **Rights concerning Maternity, Paternity, and Family Responsibilities**

Workers have the right to protection and assistance in the event of pregnancy, childbirth and lactation. Furthermore, certain provisions are established for parental leave and childcare.

1.5. Types of remuneration and minimum monthly income

Peru's Minimum Living Wage (RMV) is set at S/1025.00. Salaries, which can be paid in cash or in kind, are determined mutually between the employer and the employee, who can also decide on the currency of payment.

Salary can take various forms: it can be fixed (known as the basic salary or wage), variable (subject to the fulfillment of certain conditions, such as commissions or piecework), or mixed (a combination of fixed and variable components). It can be agreed to be disbursed on a weekly, bi-weekly, or monthly basis.

1.6. Distribution of profits

In accordance with Peruvian legislation, specifically the "Employee Profit Sharing Law", companies that engage in business activities and have a workforce exceeding twenty employees, are legally required to distribute a stipulated percentage of their annual fiscal profits among their employees.

The assigned percentage is contingent on the economic sector in which the company operates. In the mining and telecommunications sphere, the percentage is set at 10%. In the industrial sector, it amounts to 8%, and for all other economic and commercial activities, the established percentage is 5%. Peruvian legislation stipulates that companies must provide workers with a profit-sharing settlement, which is a document that outlines how profits were calculated. This document serves to inform the worker of the formula applied so they are aware of how the profits were distributed.

This item is subject to income tax and is calculated based on tax net income of the company, the days effectively worked by the employee during the corresponding fiscal year, and the remuneration received.

1.7. Absences: holidays, vacations, pregnancy

Anchored in the Peruvian Constitution is the core right of every worker to rest after work. This includes mandated weekly rest, holidays, and 30-day paid annual leave for each year of service. If an employee works during their compulsory weekly rest period and isn't given a substitute rest day within the same week, the employer is obligated to pay the regular salary along with a 100% surcharge.

Peruvian regulations uphold the right of worker to enjoy paid leave on statutory holidays recognized by law. These include:

New Year's Day (January 1); Maundy Thursday and Good Friday (the date varies each year); Labor Day (May 1); Flag Day (June 7); Saints Peter and Paul's Day (June 29); Air Force Day (July 23); Independence Day (July 28 and 29); Battle of Junín (August 6); Saint Rose of Lima Day (August 30); Battle of Angamos (October 8); All Saints' Day (November 1); Immaculate Conception (December 8); Battle of Ayacucho (December 9); and Christmas Day (December 25).

Should operational factors or justified business requirements necessitate labor on a legally recognized holiday, the employer is obligated to substitute such a rest day, compensating the employee for the full day not worked. If the employer does not comply with substituting the rest day within the designated period, they are liable to compensate the employee with a 100% daily wage premium. Specifically, should the Labor Day holiday (May 1) overlap with the obligatory weekly rest day, the worker is to receive one day's pay for the holiday in addition to the corresponding pay for the weekly rest day.

On the other hand, maternity leave represents one of the most consequential benefits afforded to employees. It grants the employee a span of 98 days of leave, distributed into prenatal and postnatal periods, each consisting of 49 days.

However, it is possible to allocate a portion, or the totality, of the prenatal period to the postnatal period. For this option to be applicable, a medical certification affirming the employee's ability to carry out their work duties up until the projected childbirth date must be submitted to the employer. This action should be undertaken by the employee two months prior to the estimated birthdate.

Maternity leave can be extended by 30 days if the worker has multiple births or due to the birth of a child with a disability. During this period, the worker will receive a subsidy equivalent to their regular remuneration, which will be paid by the social security system.

1.8. Social Security systems

The worker assumes the entire contribution to the pension system of their choice, either the National Pension System (13% of salary) or the Private Pension System (10% of the salary plus the administration fee according to the Pension Fund Administrator -AFP), while the employer only withholds this contribution.

The employer assumes the contributions to Social Health Insurance - EsSalud, which amount to 9% of the worker's remuneration. In addition, the employer must provide the worker with a mandatory life insurance, and in the case of workers whose activities involve a high level of risk, a supplementary occupational risk insurance.

1.9. Expiration or termination of the employment relationship

An employment relationship can be concluded through:

- ▶ Expiration of the contract
- ▶ Mutual agreement
- ▶ Resignation
- ▶ Absolute permanent disability or death of the worker
- ▶ Retirement
- ▶ Collective dismissal
- ▶ Dismissal on justifiable and objective grounds

1.10. Protection and rights of the worker

As a general obligation, the payment of benefits is mandatory in accordance with the period worked and the conditions of the worker.

Regarding employment termination, if the stated grounds for dismissal are found to be lacking, legal safeguards for the worker dictate that the employer is obligated to provide compensation and could potentially be required to reinstate the worker. This applies in cases of unjustified, fraudulent, or void dismissals.

However, exceptions are made for management personnel and workers in positions of trust, who cannot request reinstatement and are only entitled to compensation.

1.11. Trade unions and collective bargaining

The prerequisites for forming a trade union include:

- ▶ Affiliating more than 20 workers, in the case of corporate unions.
- ▶ Holding an assembly where the union's regulations are approved, and the board of directors is elected.
- ▶ Registering the trade union with the Ministry of Labor.

Trade union organizations present the interests of all workers within their scope, both in conflicts and during collective labor negotiations.

The result of collective bargaining is a collective agreement, ratified by the employer and the union or workers' representatives. This agreement governs compensation, working conditions, productivity measures, and other labor-related clauses. Under Peruvian law, companies operating for at least one year are required to negotiate these conditions.

With regard to the application of the collective agreement, if the union comprises an absolute majority of workers, the agreement signed shall apply to all company workers, regardless of their union membership. Conversely, if less than half of the company's workers are in the union, the agreement will only apply to those who are union members.

2. Considerations for foreign workers

2.1. Legal considerations regarding foreign workers

In Peru, legal provisions specify that the number of foreign personnel engaged by either a local or foreign company may not exceed 20% of the total workforce. This limit can be circumvented only with specific authorization.

Employment agreements with foreign workers must be in writing and are typically for a fixed term, not exceeding three years. These contracts can be subsequently extended for similar terms.

Foreign workers who do not reside in Peru and stay in the country for less than 183 days during any 12-month period must pay income tax by applying a 30% rate on their earnings, including salary.

2.2. Immigration regulations

Foreign workers need to have an appropriate immigration status. They may qualify for residency, which can be extended after an initial period of one year, or as a temporary migrant, extendable following an initial period of up to 183 days. These regulations are in accordance with the conditions established under the Legislative Decree on Migration.

3. Taxes levied on wages

For workers, income tax is levied on their earnings from employment, which can include wages, salaries, bonuses, commissions, and other forms of compensation.

Workers who receive more than 7 Tax Units (UIT) per year, meaning, S/36 101.00 annually for 2024, are subject to the payment of income tax.

The employer is responsible for withholding and paying the tax, making a projection of the employee's annual income and applying the following rates in effect for 2024:

Sum of net income and foreign-source income earned	Rate
Up to S/25 750.00	8%
More than S/25 750.00 to S/103 000.00	14%
More than S/103 000.00 to S/180 250.00	17%
More than S/180 250.00 to S/231 750.00	20%
More than S/231 750.00	30%



Financial Statements

Requirements and regulations for the preparation and presentation of financial information:

a. General matters

The Peruvian Accounting Standards Board (CNC) has established that the general accounting principles are basically the standards issued by the International Financial Reporting Standards Board (IFRSB) including the International Financial Reporting Standards (IFRS), the IFRS Interpretation Committee (IFRIC), and the Standing Interpretations Committee (SIC).

The CNC is responsible for issuing the General chart of Accounts for companies and methodologies that apply to both private business and government entities.

According to the most recent regulations in force, companies that obtained income (in the last two years) in excess of 2,300 UITs (PEN11,845,000) are required to submit financial statements in accordance with the IFRS. Small and medium-sized enterprises (SME) that obtained income (in the last two years) higher than 150 UITs (PEN772,500) and lower than 2,300 UITs (PEN11,845,000) are required to issue their financial statements in accordance with the IFRS for SME.

Finally, in 2024 The Ministry of Economy and Finance (MEF) approved the financial reporting standard for microenterprises, (income lower than 150 UITs - PEN772,500) that establishes a simplified accrual accounting framework for this business segment.

b. Publicly and regulated companies

Companies that issue debt or shares in the capital market are subject to the regulations of the Peruvian Securities and Exchange Superintendency (SMV). Companies supervised by the SMV are obliged to issue their financial statements in accordance with IFRS, as issued in accordance with the International Financial Reporting Standards Board. The annual financial information of companies supervised by SMV must be audited and include the previous year for comparative purposes.

c. Special cases

Financial statements issued by companies in the financial system, insurance companies, and pension funds must comply with accounting standards issued by Superintendency of Banking, Insurance and Pension Funds (SBS).

The SBS ensures that the financial, insurance, private pension, savings and credit cooperative systems and the companies that make them up are solid, solvent and sustainable over time; so that they can fulfill the important role they play in the country's economy, and with the obligations and commitments they contract with their users, respectively.

Finally, the public companies are required to issue their financial statements in accordance with the International Public Sector Accounting Standards (IPSAS).

d. Other aspects

It is important to mention that on 26 June 2023, the International Sustainability Standards Board (the ISSB or the Board) issued its first two IFRS Sustainability Disclosure Standards, ushering in a new era in international corporate reporting:

- ▶ IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information (IFRS S1) sets out the core content requirements for a complete set of sustainability-related financial disclosures and requires an entity to disclose information about all sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects. The effect on the entity's prospects refers to the effect on the entity's cash flows, its access to finance or cost of capital over the short, medium, or long term.
- ▶ IFRS S2 Climate-related Disclosures (IFRS S2), which is the ISSB's first topic-based Standard, requires an entity to provide information about its exposure to climate related risks and opportunities.

The ISSB was established by the IFRS Foundation in November 2021 in response to demands from global capital markets for the development of standards to provide a comprehensive global baseline of sustainability disclosures.

Both IFRS S1 and IFRS S2 are effective for annual reporting periods beginning on or after 1 January 2024. A 'climate first' transition option is available, which allows an entity to provide only climate-related disclosures in its first year of applying IFRS S1 and IFRS S2.

Mandatory application of IFRS Sustainability Disclosure Standards depends on each jurisdiction's endorsement or regulatory processes. The application of IFRS Sustainability Disclosure Standards is not linked to the application of IFRS Accounting Standards. Therefore, an entity applying IFRS Accounting Standards for financial reporting purposes is currently not required to also apply IFRS Sustainability Disclosure Standards, and vice versa.





Uruguay

Message from EY Uruguay's Country Managing Partner

Cr. Alejandro Barboni

Country Managing
Partner
EY Uruguay



Uruguay has traditionally kept its doors open to the world and been also one of the most attractive emerging markets, strategically positioning itself as an interesting place for investment, largely determined by factors such as its geographical location and its economic and institutional stability.

Considering this, it is crucial that companies interested in starting to operate in the country have a deep understanding of the regulatory compliance requirements that should be addressed from the pre-landing process to the complete establishment of their business.

Our teams share this brief guide with key information, covering the main challenges of any organization entering the Uruguayan market.

I invite you to explore the information in this guide and look forward to discussing the business issues that you may be facing in Uruguay.

Kind regards.

Overview

Uruguay, in the south of South America, is famous for its beaches and its cultural and economic capital, Montevideo. Other key cities are Punta del Este, popular for its beach resorts, and Colonia del Sacramento, known for its history. The population, mostly of European descent, celebrates its cultural diversity through music, tango, and carnival. Natural resources, such as fertile land and livestock, drive industries like agriculture (beef, soybeans, rice) and dairy. Uruguay has initiated several trade agreements, seeking more openness to global trade. With a focus on innovation, especially in technology and renewable energy, it maintains a stable economy and fosters industrial diversification for long-term sustainable growth.



Population¹ 3,422,794

Urban²: 96%

Rural: 4% (2022)



Official language³

Spanish



Area⁴

176,215 km²





System of government³

Democratic and presidential republic
President: Luis Lacalle Pou
Next elections: October 2024



Climate³

Temperate with well-defined seasons. Warm summers and cool winters



International Time⁵

GMT-3 (All Uruguay)



GDP current prices⁶

USD \$77.2 Bn. (2023)



GDP per capita (PPP)⁷

USD \$32,704.0 (2023)



Currency⁸

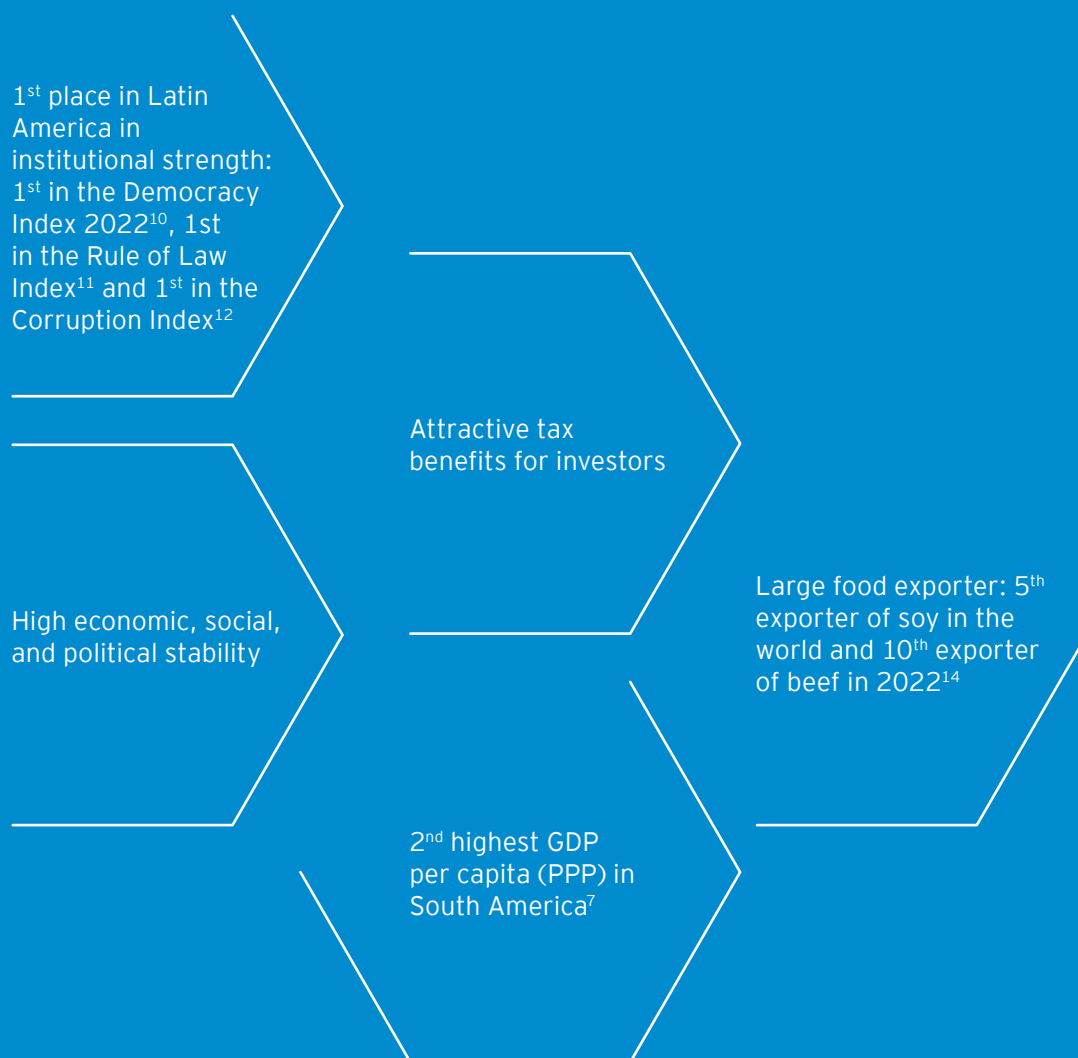
Uruguayan Peso
US\$1 = UYU 41.74 (Sep. 30, 2024)



Key sectors⁹

Uruguay stand out in the agrobusiness and industry sectors. The first focuses on crops such as soybeans, rice, wheat, corn, cattle, and sheep. Its main industries include meat processing, dairy, textile, paper, cardboard, fertilizers, alcohols, cement, and hydrocarbon refining.

Why invest in Uruguay?



1. World Economic Outlook (October 2024), IMF - Population
2. Urban population (% of total) - Latin America and the Caribbean (2023), World Bank
3. Main languages Latin America and the Caribbean, system of government and weather, DatosMundial.com
4. Extension (square kilometers) - Latin America and the Caribbean (2021), World Bank
5. International Time in Argentina, 24timezones.com
6. World Economic Outlook (October 2024) - GDP, current prices, IMF
7. World Economic Outlook (October 2024) - GDP per capita, current prices, IMF
8. Exchange rate, S&P
9. Encyclopedia Britannica
10. Economist Intelligence (2022)
11. World Justice Project Rule of Law Index (2023)
12. Transparency International (2023)
14. UN Comtrade



Country's economic outlook

Uruguay has one of the most stable political and economic environments in the Latin American region. Uruguay also boasts a high level of social stability, a well-established rule of law, and a transparent legal system. This provides investors with a reliable and predictable environment, which is key for long-term investment.

The country's economy is well diversified, ensuring resilience against external shocks. Additionally, Uruguay is among the countries with the highest GDP per capita in South America and has a highly educated workforce, which is conducive to businesses requiring skilled labor, particularly in the technology and services sectors.

In 2023, Uruguay faced the challenges of an exceptional severe drought and adverse external conditions, leading the country to grow just 0.4%. Nevertheless, the economy demonstrated resilience, thanks to the government's prudent macroeconomic strategies and robust institutional frameworks. Inflation in Uruguay ended 2023 at 5.11%, within the target range set by the authorities (between 3% and 6%). It is anticipated that the economy will experience a robust recovery in 2024.

The country has a favorable investment climate, underscored by its free zones, which offer tax benefits and other incentives to businesses operating

within them. Uruguay offers a cost-effective telecommunications infrastructure and a comprehensive network of road, port, and energy facilities nationwide.

Among its key sectors, the country is known for producing high-quality food, especially meat, dairy and grains (soy, wheat, barley). The forestry sector has experienced significant development, with substantial investments in eucalyptus and pine plantations. The ICT sector has grown in recent years, consolidating Uruguay as a technological hub in the region. The nation's commitment to renewable energy and sustainable practices also positions it as a leader in environmental sustainability, attracting investments in green technology and renewable energy sectors.

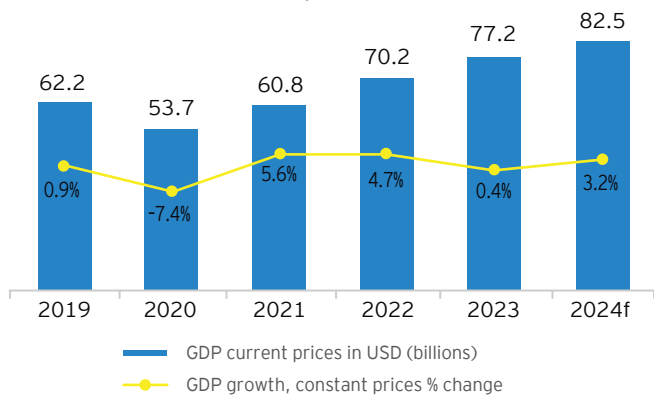
Table 1:

Index	Uruguay
GDP current prices USD bn. (2023) ¹	\$77.2
GDP growth, constant prices % change (2023) ¹	0.4%
Gross domestic product per capita, current prices USD (PPP) (2023) ¹	\$32,704.0
Inflation, year-end consumer prices (2023) ¹	5.1%
Fiscal balance (net lending (+) or net borrowing (-) of general government; % of GDP) (2023) ¹	-3.1%
Public debt (General government gross debt, % of GDP) (2023) ¹	64.5%
Current account (% of GDP) (2023) ¹	-3.8%
Investment (% of GDP) (2023) ¹	17.3%
Poverty headcount ratio at \$6.85 a day (2022 PPP) (% of population) (2022) ²	6.4%

1. World Economic Outlook October 2024, IMF
2. Poverty headcount ratio at \$6.85 a day (2017 PPP) (% of population), World bank 2023



Figure 2:
Gross Domestic Product, Levels and Growth¹

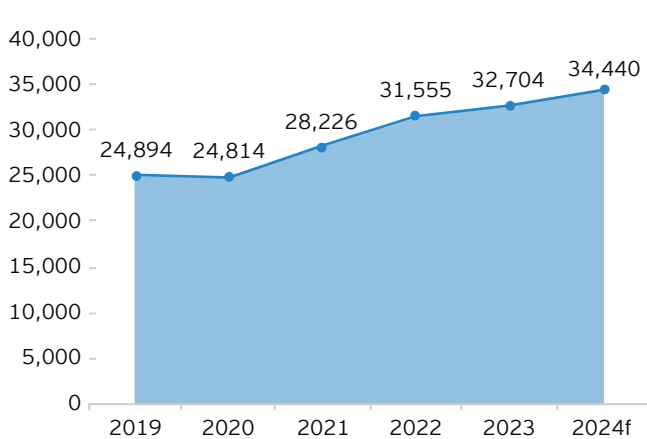


1. World Economic Outlook October 2024, IMF

The imbalances caused by the COVID-19 pandemic and then a severe drought affected the country in 2022 and 2023. Uruguay maintained a prudent fiscal management despite the adverse conditions.

The economy witnessed a modest expansion of 0.4% in 2023, primarily attributed to the drought-induced decline in the agricultural sector. The economic growth rate is projected to make a turnaround in 2024, with an anticipated increase to 3.2%, according to IMF.

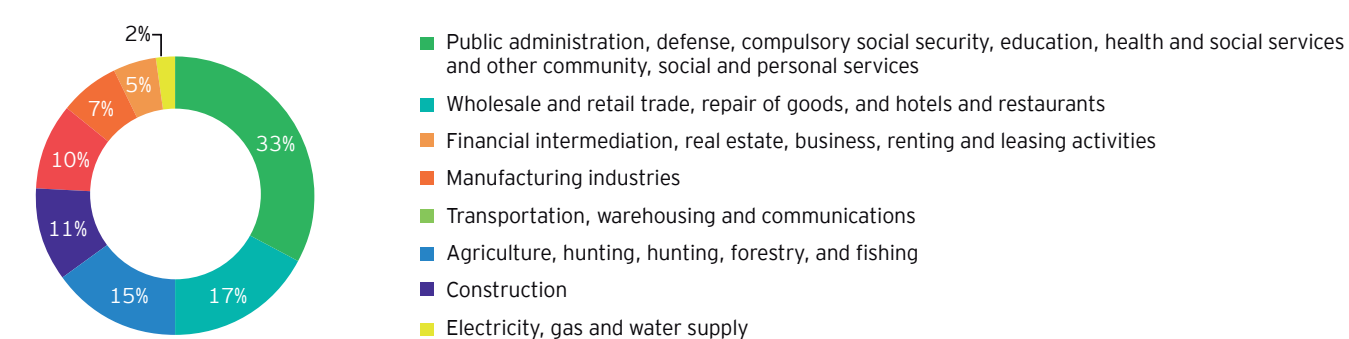
Figure 3:
Gross domestic product per capita, current prices (in USD, PPP)²



2. World Economic Outlook October 2024, IMF

Uruguay is renowned in Latin America for its high per capita income, that reached USD 32,704 in 2023. Relatively speaking, it boasts the most substantial middle class in the Americas and the Caribbean, according to World Bank.

Figure 4:
Annual gross domestic product (GDP) by economic activity at current prices in dollars³ (2023)

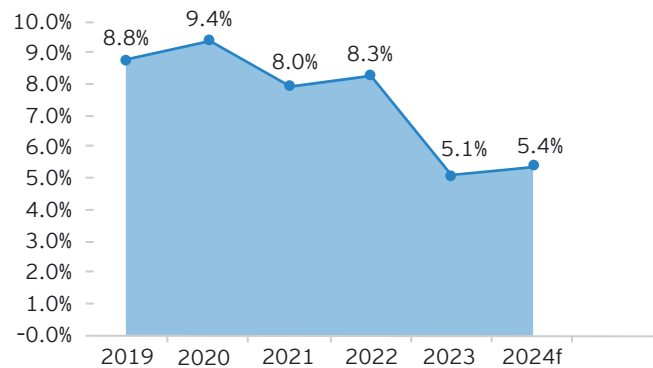


3- Annual gross domestic product (GDP) by economic activity at current prices in dollars (2023), ECLAC

The sectors that contribute the most in terms of GDP are: Public administration and personal services; wholesale and retail trade and hotels and restaurants; financial intermediation and real estate; and manufacturing.

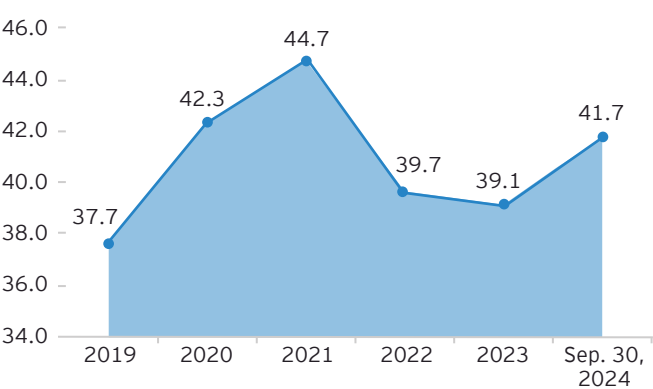
Figure 5 and 6:

Inflation, end of period consumer prices¹



1. World Economic Outlook October 2024, IMF

Exchange rate of foreign currency (USD/UYU)²



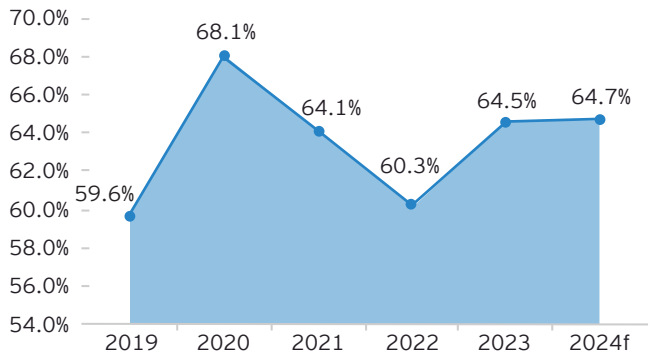
2. Exchange rate, S&P

Inflation in Uruguay decreased from 8.3% in December 2022 to 5.1% in December 2023, marking the lowest year-end rate since 2005. It is forecasted that inflation will rise mildly in the latter half of 2024, yet it is expected to remain within the established target parameters.

Regarding the exchange rate, the Uruguayan currency has experienced a cumulative appreciation during 2022 and 2023. The Uruguayan peso showed increased volatility in 2024 due to a series of political factors, including a referendum on social security and the October presidential elections

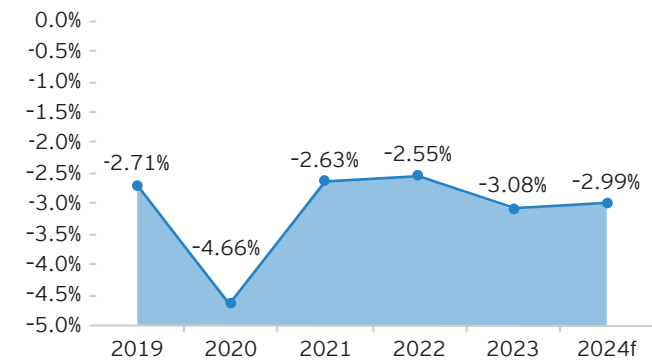
Figures 7 and 8:

Public debt (General government gross debt, % of GDP)³



3. World Economic Outlook October 2024, IMF

Fiscal balance (net lending (+) or net borrowing (-) of general government; % of GDP)⁴



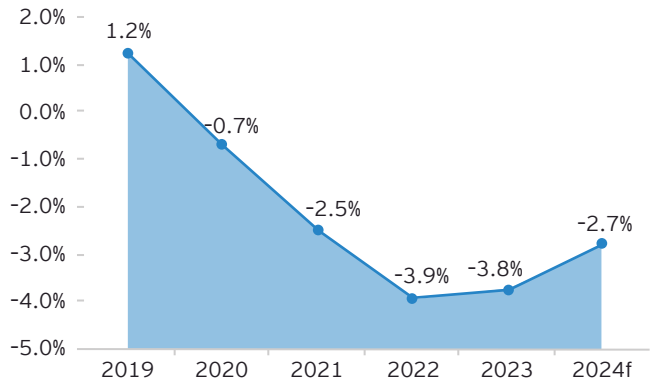
4. World Economic Outlook October 2024, IMF

As per the IMF Article IV Consultation, Uruguay’s deficit and debt figures for 2023 aligned with the objectives of the fiscal rule established at the Central Government level.

The effective execution of the new fiscal policy, even in the face of difficult conditions, has bolstered the trust in its policy measures. The government has met the fiscal rule objectives consecutively for four years.

Figure 9:

Current account (% of GDP)¹

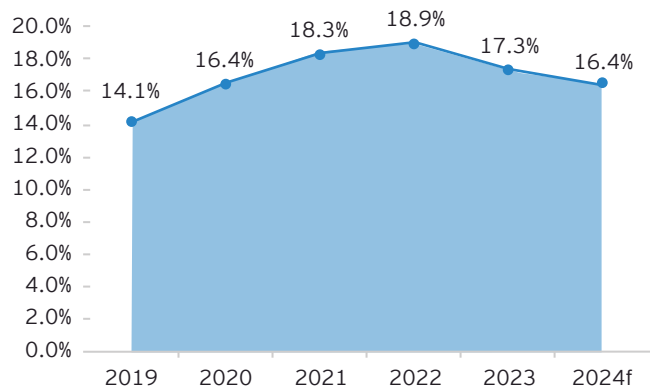


1. World Economic Outlook October 2024, IMF

The aftermath of the pandemic and the subsequent severe drought in 2023 led to a weakened current account, ending last year with a 3.8% deficit. Looking ahead to 2024, the current account is projected to register -2.7%.

Figure 10:

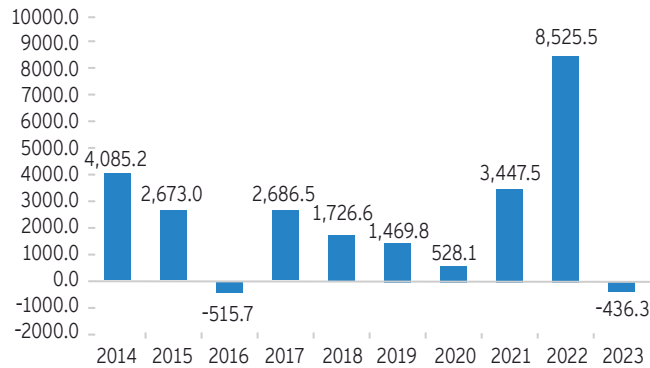
Investment (% of GDP)²



2. World Economic Outlook October 2024, IMF

Figure 11:

FDI Uruguay (In millions of USD)³




3. Foreign direct investment, net inflows (BoP, current US\$) - Latin America & Caribbean | Data (worldbank.org)

In 2023, FDI in Uruguay reached its lowest point in the last 7 years and a sharp decline compared to the previous year. However, despite these figures, Uruguay saw US\$ 4,562 billion in announced investments that year, representing a 388% increase from the previous year, according to Economic Commission for Latin America and the Caribbean (ECLAC).



Uruguay is recognized for its political, social, and economic stability, which provides investors with a reliable and predictable environment, key for long-term investments. It is always among the top places in the region in international doing business rankings.

Uruguay has a good quality of life, a skilled workforce, especially in sectors such as technology, financial services, and agribusiness. The combination of stability, tax incentives, a favorable trade environment, and a focus on sustainability makes Uruguay an attractive destination for investment.



Establishing a business in the country

1. Investment Regulation and Promotion Agencies:

General framework: Companies must be duly registered with the “Registro Nacional de Comercio” (Uruguay’s National Registry of Commerce, hereunder “RNC”) to successfully operate in the country. Corporations are generally regulated by Uruguayan Law 16,060 and 16,906.

The investment promotion regime is established under Law 16,906, which declares the promotion and protection of investments made by both national and foreign investors, within the country, as a matter of national interest. All companies, regardless of size, that are Corporate Income Taxpayers (in Uruguay, taxpayers of “IRAE”) are eligible to participate. Regulations provide tax benefits to projects whose investment meets objectives in terms of generating productive employment, increasing exports, enhancing the decentralization process, raising national added value, adopting clean technologies, and investing in research, development, and innovation. Companies with investment projects that are declared promoted will enjoy an exemption from the IRAE. The percentage of exemption and the duration for which it applies depend on the score achieved in the indicator matrix. The Commission for the Application of the Investment Law (COMAP) is a governmental body responsible for the implementation and oversight of investment promotion policies as outlined in Uruguay’s Law 16,906. COMAP’s activities include evaluating investment projects, determining their eligibility for tax benefits, and monitoring compliance with the established requirements for promotion.

Activities with specific regulations and incentives (among others):

a. Financial intermediation and financial activity:

Mainly governed by Uruguayan Law 15,322 and controlled by the “Banco Central del Uruguay” (BCU, Central Bank of Uruguay).

b. Insurance activities: These activities are mainly governed by Law 19,678 and require registration with the BCU.

c. Capital market regulations: The Uruguayan capital market is regulated by Law 18,627. This law applies to the agents that participate in the capital market, the stock exchanges and other markets for the negotiation of publicly offered securities, the securities themselves and their issuers.

d. Agriculture and farming: Activities related to production of animals or plants and their fruits for commercial or industrial purposes, as well as the use of renewable resources, are mainly regulated by Law 17,777.

e. Energy: The Uruguayan State has a monopoly over the electric power service, except for the activities of generation and commercialization of energy, which may be carried out by private companies. These activities are mainly regulated by Law 16,832 and controlled by URSEC (Uruguayan electric power regulatory unit) and ADME (Uruguayan electric power market administration).

f. Mining: This activity is governed by the Mining Code (Law 15,242). Local and foreign companies may be granted a concession to explore, extract and search for minerals in a specific area. Additionally, exploration and exploitation of hydrocarbons and accompanying substances located in the national territory, territorial sea, its seabed and subsoil, and the continental shelf can be developed by third parties and is regulated by Law 14,242. All deposits of hydrocarbons and accompanying substances, regardless of the form in which they appear, within the national territory, belong to the Uruguayan State.

g. Free zones: Mainly regulated by Law 15,921, free zones are specific areas of Uruguayan territory in which the goods introduced are not subject to any import taxes and the companies established there enjoy other benefits and exemptions provided by law.

2. Main types of corporations:

The main types of commercial entities according to Law 16,060 are stock corporations ("Sociedad Anónima"), simplified stock corporations ("Sociedad por Acciones Simplificadas"), limited liability companies ("Sociedad de Responsabilidad Limitada") and branches. All these need to be registered before the RNC.

a. Stock corporations ("Sociedad Anónima", acronym "S.A." or "S.A.U."): Their capital is distributed in shares represented in negotiable share titles and the shareholders' liability is limited to their contribution. The requirements for the transfer of their shares depend on whether these are bearer shares, nominative shares or registered shares. These corporations may be public or private. Public corporations are generally funded by the stock exchange, subject to an ongoing and more strict state supervision, while closed corporations are more common in Uruguay and have their own capital contributed by the partners and are subject to supervision when performing certain acts (i.e.: bylaws' reform, reduction or increase in capital, etc.), by the Internal Audit Office (AIN). As for basic requirements for their incorporation, Stock Corporations need to have more than one partner, 25% of the capital stock must be paid in, they must carry out an organized commercial activity and have a lucrative purpose. It should be noted that, after incorporation, S.A.'s are legally allowed to have a single shareholder, whether that is a legal entity or natural person. Additionally, as general market practice, shares of off-the-shelf Corporations are usually bought in order to avoid the incorporation process, as shares can already be bought in full by a single new shareholder.

b. Simplified Stock Corporations ("Sociedad por Acciones Simplificadas", acronym "S.A.S."): Recent type of stock corporation created by Uruguayan Law 19,820, characterized by having fewer formalities for its incorporation, while being a more flexible and modern type of corporate vehicle. These may be incorporated by a single Shareholder the contributions may be monetary or non-monetary and their social purpose may be any lawful activity. Simplified stock corporations seek to give autonomy to the shareholders to define the internal structure of the company, but as a result also have certain limitations such as not being able to go public, participate in the state or carry out certain activities.

c. Limited Liability Companies ("Sociedad de Responsabilidad Limitada", acronym "S.R.L."): The capital of these corporations is divided into equal, cumulative and indivisible quotas. The liability of the partners is limited to the integration of their installments and the number of partners cannot exceed 50. Partners may also be liable for labor and tax claims. Being a "personal" kind of company, the quotas are not represented in titles and transferring these require the amendment of the company's social contract and the registration of the new quota-holders, and transfer, before the Tax and Social Security Offices.

d. Branch of a foreign company: Law 16,060 states that Uruguay recognizes foreign companies, which may be authorized to engage in isolated acts and be on trial. However, in order to actively operate, or develop its social object in Uruguayan territory, they are required to establish a branch and register their articles of incorporation with the RNC, as well as the resolution of their Board of Directors (or competent internal body) to establish a branch in Uruguay, their address, the assigned capital and the individuals that will represent the company.



Tax Regime

1. General Overview

- 1.1. **Corporate Income Tax Rate (%):** Flat rate of 25% on the net Uruguayan sourced income (including some income generated abroad).
- 1.2. **Capital Gains Tax Rate (%):** Capital gains earned by corporate income taxpayers are taxed at the same rate (25%) as ordinary income as long as they are Uruguayan sourced (including some specific capital gains from abroad that are considered Uruguayan sourced). Capital gains earned by non-Uruguayan tax residents are also subject to tax provided it is of Uruguayan source. The general rate is 12%, but entities located in a low or nil tax jurisdiction are subject to a 25% rate, on real or notional taxable basis depending on the capital gain.
- 1.3. **Branch Tax Rate (%):** Flat rate of 25% on the net Uruguayan sourced income (including some income generated abroad).

1.4. Withholding Tax:

Uruguayan companies that make payments to non-resident individuals or entities generally act as withholding agents for taxes on such payments. The most common withholdings are as follows, to which specific exceptions may apply:

► Dividends:

- Dividends and profits distributed to non-residents or residents individuals are subject to a withholding tax of 7% as long as they are related to income subject to Corporate Income Tax. Additionally, undistributed net income over three years subject to Corporate Income Tax is also taxed at 7% as they are considered notional dividends.
- Dividends and profits distributed to another Corporate Income Taxpayer are exempt.

- Dividends and profits distributed from income not taxed by Corporate Income Tax are exempt.
- **Royalties:** The general rate applicable to payments of royalties of Uruguayan source is 12%. Payments to entities located in a low or nil tax jurisdictions are subject to a 25% rate.
- **Interests:** The general rate applicable to payments of interests paid to non-residents is 12%. Payments to entities located in a low or nil tax jurisdictions are subject to a 25% rate.
- **Technical Services:** Technical and advertising services provided from abroad to companies subject to Corporate Income Tax are considered Uruguayan-source income and are subject to a 12% withholding. Payments to entities located in a low or nil tax jurisdictions are subject to a 25% rate.
- **Digital Services:**
 - Income from services related to the production and distribution of films and audiovisual content, including those offered through the internet, technological platforms, and applications, when the acquirer is located in Uruguay, are considered Uruguayan-source income and are subject to a 12% (25% if it is an entity located in a low or nil tax jurisdictions) withholding.
 - Income from mediation or intermediation in the supply and demand of services rendered through the internet, technological platforms, computer applications or similar means is considered 100% Uruguayan-source income if both parties are in Uruguay, or 50% if only one party is in Uruguay. The tax rate is 12% (25% if it is an entity located in a low or nil tax jurisdictions) but there are no withholding agents appointed in this case, so the non-resident entity has to register in the tax administration and pay the corresponding tax.

- ▶ **Real Estate Lease:** Payments from rental of real estate located in Uruguay to residents or non-residents are subject to a withholding of 10.5% (tax office's position is that 12% withholding is applicable in case of non-resident companies). Payments to entities located in a low or nil tax jurisdictions are subject to a 30.25% rate.
- ▶ **Capital gain of real estate:** Payments from capital gains of real estate located in Uruguay to non-residents are subject to a withholding of 12% on net income. Payments to entities located in a low or nil tax jurisdictions are subject to a 30.25% rate.
- ▶ **Liabilities:** Liabilities held on December 31st each year with non-residents (except for imports of goods or loans) are subject to Net Wealth Tax withholding at the rate of 1.5% applicable on total amount of accounts payable.
- ▶ *In all cases the withholding applicable may be reduced in application of a double tax treaty.*
- ▶ *Although the withholdings mentioned are mainly for income tax, in some cases VAT withholding may apply (e.g. services provided in Uruguay by individuals or legal entities without a Permanent Establishment and digital services).*

1.5. Net Operating Losses (Years)

- ▶ **Carryback:** Not allowed.
- ▶ **Carryforward:** Allowed for 5 years.

2. Tax on rent and corporate income

2.1. Corporate Income Tax:

Determination of the net taxable income:

▶ **General:**

- Corporate Income Tax is an annual tax applying on Uruguayan sourced income (with certain exceptions) derived from activities performed, goods situated, or rights economically exploited in Uruguay obtained by resident legal entities or non-residents operating through a Permanent Establishment in Uruguay. Income derived from agricultural activities is subject to this tax; however, entities involved in such activities have the option to choose the Agricultural Products Sales Tax (IMEBA) as their taxation regime, depending on the nature and size of their business.
- In the case of Corporate Income Taxpayers that form part of a multinational group and for fiscal years starting from January 1st, 2023, taxation on passive income would be conditioned by substances requirements, with the exception of income coming from brands that would always be considered Uruguayan sourced.
- For mining activities, an additional tax to the Corporate Income Tax is established, which will levy the operational income derived from mining activities obtained by holders of concessions to exploit a large-scale mining project.

- To calculate net taxable income, expenses can be deductible from gross income if four conditions are met: accrued in the fiscal year, well documented, necessary to obtain and maintain Uruguayan source income and subject to taxation (in Uruguay or abroad) to the counterpart. A deduction of 100% of expense should apply if counterparty is taxed at a rate of 25% or higher. If not, it should only be deducted in proportion comparing both rates. Salary expenses are deductible if social security contributions have been made. Additionally, financial expenses are always considered indirect to obtaining taxable and non-taxable income, and are deductible based on a coefficient derived from the ratio of income-generating assets to total fiscal assets. Expenses should be real, and their amount in accordance with the economic advantage obtained by local taxpayer.
- ▶ **Monetary correction:** A fiscal adjustment for inflation is mandatory only when the percentage of variation in the Consumer Price Index accumulated over a 36-month period before the current fiscal year-end exceeds 100%.
- ▶ **Depreciation:** A depreciation deduction may be taken on tangible assets based on their useful lives using the straight-line method. For some assets, the units-of-production method may be used, and for some others useful lives are set by the regulations.

Intangible assets must be amortized based on their expected useful life. If it is not possible to determine the expected useful life, they should be amortized at an annual rate of 10%. Goodwill may not be depreciated.

The expected useful life may not be changed without approval of the tax authority. Approval will only be granted if the change is technically justified.
- ▶ **Relief for losses:** Losses can be carried forward for up to 5 years adjusted by the Consumer Price Index.

2.2. Corporate Income Tax Rates:

Flat rate of 25%.

2.3. Dividends:

- ▶ Dividends distributed by Corporate Income Taxpayers received by Corporate Income Taxpayer are not subject to tax.
- ▶ Dividends distributed by non-resident entities without permanent establishment in Uruguay are not subject to tax. In the case of Corporate Income Taxpayer who is part of a multinational group, this will be conditional on verifying the substance requirements, otherwise the taxpayer will be taxed by CIT at a rate of 25%.
- ▶ Dividend distributed by Corporate Income Taxpayers to local individuals or to foreign individuals/entities generally subject to 7% withholding as long as they are related to income subject to Corporate Income Tax.

2.4. Capital gains (direct and indirect):

- ▶ **Direct transfer:**
 - of Uruguayan shares/participations owned by individual residents or non-resident should be taxable at the rate of 12%.

Tax calculation: 12% rate applicable on 20% of sales price (fair market value). In case of low or nil tax jurisdictions entities a 25% rate would apply on 30% of fair market value. In case of participations whose previous acquisition has been informed to the National Commerce Registry within 30 days of the purchase and shares that are listed on the stock exchanges of Uruguay, provided that their fiscal value can be reliably proven, they could choose between the method described previously or the 12% rate applicable on the difference between the sale price and the tax value of the transferred participations (25% rate in case of low or nil tax jurisdictions entities). The tax value would be the purchase price updated by the variation of the Indexed Units' value.

Exemption: in the following cases, the shares/participations transfers are exempt from tax: 1) capital gains in which the transaction price does not exceed 30,000 Indexed Units (approx. USD 4,500) and that the sum of the capital gains that the taxpayer intends to exempt in the fiscal year does not exceed 90,000 Indexed Units (approx. USD 13,500), 2) the issuance of said values have been performed under public subscription, instrumented on pro rata and by listed entities.

- of Uruguayan shares/participation by entity located in Uruguay are subject at the rate of 25% (except for shares listed on the stock exchange, which will be exempt from Corporate Income Tax).

Tax calculation: 25% rate applicable on the difference between the sale price and the tax value of the transferred shares/participations.

- of a non-residents shares/participation by entity located in Uruguay are non-taxed. In the case of a Corporate Income Taxpayer that is part of a multinational group, this will be conditional on the verification of the substance requirements, otherwise it would be taxed at a 25%.
- ▶ **Indirect transfer:** of a Uruguayan shares/participation should not be taxable in Uruguay unless the share/participation transferred is of a located in a low or nil tax jurisdictions entity and that more than 50% of that entity's assets, valued according to Corporate Income Tax rules, are integrated, directly or indirectly, from goods located in Uruguay.

2.5. Special regimes:

Uruguay has granted several tax breaks and incentives, such as tax exemptions or reductions for extended periods.

Foreign investors are not discriminated by local tax laws and count with the same tax incentives as Uruguayan tax residents. Some of the special investing regimes are:

▶ Free Trade Zones:

Uruguay's Free Trade Zones offer a special regime granting tax exemptions and other benefits to attract investment, boost exports, create employee, and promote international economic integration. Companies operating in these zones are exempt from national taxes, except for social security contributions and taxes to be paid as withholding agent, such as personal income tax or non-residents income tax, in certain cases.

Free Trade Zones in Uruguay are designated areas, either publicly or privately owned, that are enclosed and demarcated by the Executive Power for the purpose of conducting various industrial, commercial, and service activities.

These zones offer tax exemptions and additional benefits as outlined in the law. Entities interested in operating within Free Trade Zones require obtaining authorization from the Executive Power by presenting an investment project that shows the venture's economic and financial feasibility and its benefits to Uruguay.

A wide range of activities is permitted in Free Trade Zones, including trade, storage, manufacturing, and various services, with entities permitted to provide services to areas outside the Free Trade Zones within Uruguay, subject to certain national restrictions.

▶ Investment promotion:

Uruguay's investment law offers tax incentives to foster investment and protect investors:

- **Automatic incentives:** Apply to certain taxpayers in the manufacturing, extraction, and agriculture sectors, providing various tax exemptions and refunds.

- **Specific incentives (Investment projects):** It involves a more detailed application process, and the tax benefits are granted by the Executive Branch with the assistance of COMAP, which receives the investment projects presented by the companies for evaluation and determination of the tax benefits to be granted and their term.

The benefits include exemptions on Corporate Income Tax, Net Wealth Tax on movable assets and real estate, Value Added Tax on local acquisitions of goods and services destined to input real estate that may be recovered through certificates of credit and imports exemptions (Value Added Tax, custom duties, among others).

- **Specific incentives (promoted sectors):** Certain sectors have been promoted for which there are regulatory Decrees. Companies belonging to these sectors must submit certain information to COMAP to access tax benefits. The main promoted sectors are call centers, share service centers; naval and electronics industry; agricultural machinery manufacturing; energy generation; tourism projects; treatment and final disposal of industrial solid waste; manufacturing of vehicles and equipment for cargo transportation; hydrocarbons; construction activities for the sale and leasing of residential and office properties in large-scale economic projects; and green hydrogen.

There are also other tax benefits granted to different sectors of activity, not covered by the Law on the Promotion and Protection of Investments, so they will not have to start the process at COMAP. These sectors are *biotechnology; forestry; scientific and technological innovation; external financial intermediation; graphic industry; software; vehicles or auto parts; biofuels; communication industry; housing.*

► **Trading Regime:**

This regime establishes an optional way of determining the Uruguayan source net income for the Corporate Income Tax settlement for:

- buying and selling goods abroad, which do not have the Uruguayan territory as origin or destination; or
- intermediation on the rendering of services, which are exclusively rendered and used economically abroad Uruguayan territory.

In these cases, the Uruguayan source net income would be 3% of the difference between the sale price and the purchase price of those goods and services (0.75% effective tax rate). If the taxpayers do not choose this option, they may determine the real Uruguayan source net income.

► **Industrial Parks and Scientific and technological Parks:**

Industrial and Scientific-technological Parks in Uruguay are designated areas for industrial production, services, and research and innovation activities. These parks, which can be either privately or publicly owned, are established to encourage the growth of manufacturing industries, innovative companies, and knowledge centers.

In order to be eligible for tax benefits both parks promoted, and the user must comply with certain requirements.

- **Benefit granted to the park promoted:** Corporate Income Tax exemption on a portion of the investment with the amount and duration varying based on the park's location and characteristics; Net Wealth Tax exemption for certain properties and equipment within the parks; Value Added Tax and customs duties exemptions for imported assets used in the park's operations or construction, provided they do not compete with domestic industry, Value Added Tax refunds for locally purchased goods or services for the park's operations or construction.
- **Benefit granted to the users:** They can submit an Investment Project to COMAP and in addition to the general benefits of the regime, the Corporate Income Tax exemption would be increased by 15% or 5%, depending on their activities within the park.

► **Mining:**

Investments made in mining and related activities are subject to special tax treatment. In particular, the contract to be signed between the Executive Branch and the owner of the mining project will establish the tax benefits, which cannot include the exemption from Corporate Income Tax in relation to investments related to mining and connected activities.

2.6. Administration:

Tax obligations vary depending on how the tax authority classifies entities. This classification refers to the degree of control by the tax administration towards the taxpayer. The classification categories are the following: Large Taxpayers, CEDE Taxpayers (Special Control of Companies), NON-CEDE Taxpayers. In this sense, belonging to the Large Taxpayers group will require greater controls by the administration towards the taxpayer, requiring greater frequency in the presentation of tax returns, as well as being designated as a withholding agent in more situations.

In general terms, it should be noted that an Uruguayan entity is required to submit monthly and annual tax returns/information annexes as well as monthly tax advances and withholding payments.

3. International Tax

3.1. Foreign tax relief:

Companies' resident in Uruguay may receive a tax credit for foreign income taxes paid, which can be used against their Uruguayan tax liability to the extent that there is a Double Tax Treaty between Uruguay and the country in which it was applied. Otherwise, the withholding cannot be credited in Uruguay. Furthermore, in addition to the existence of the treaty, the income subject to taxation abroad must be taxed in Uruguay, and therefore the credit cannot be recognized if the income was not taxed in Uruguay. If the credit is applied, it cannot exceed the tax that the income was taxed in Uruguay.

Additionally, for fiscal years starting from January 1st, 2023, it is established that Corporate Income Taxpayers who have been subject to taxation abroad on income obtained by an entity that is member of a multinational group derived from passive income from foreign assets that where subject to Corporate Income Tax. The credit to be imputed may not exceed the part of the tax calculated prior to such deduction.

3.2. Foreign-exchange controls:

Uruguay does not impose foreign-exchange controls. No restrictions are imposed on inbound or outbound investments. The transfer of profits and dividends, loan principal and interest, royalties and fees is unlimited. Non-residents may repatriate capital, together with accrued capital gains and retained earnings, subject to applicable withholding taxes and company law considerations.

Import and export operations are transacted at a free rate determined by the market.



3.3. Transfer Pricing:

Transfer Pricing regulations in Uruguay are contained in Corporate Income Tax laws and several related Executive Power Decrees.

It is based on the arm's length principle and is in many aspects consistent with the OECD's Transfer Pricing Guidelines. They are applicable to transactions with non-resident related companies as well as entities located in low or nil tax jurisdictions (domestic transactions with Uruguayan Free Trade Zones fall under this category).

Local companies with operations exceeding 50 million Indexed Unit (approx. USD 7,3 million) shall be required to submit information on an annual basis to the tax authority, while those below this threshold shall keep record of a transfer pricing analysis that support the transactions subject to these regulations in case that tax authorities require it.

Transfer Pricing information should include:

- ▶ Informative return including breakdown and quantification of transactions for the period included in the Transfer Pricing system.
- ▶ Copy of financial statements for the related fiscal year, when not required to be submitted under other provisions; and
- ▶ Transfer Pricing study.

Uruguayan regulations also requires that taxpayers that integrate a Multinational Group of a large economic dimension (those whose consolidated income in the previous fiscal year exceeds EUR 750 million) to submit a Country-by-Country Report. Taxpayers will be excepted from filing this report when it is submitted by a related entity to a foreign tax authority of a jurisdiction with whom Uruguay has an exchange of information agreement in force, in which case it should inform which would be such jurisdiction.

The Master File report must also be kept available for each fiscal year in case it is required by the tax authority and in Spanish. However, the regulations about its implementation have not yet been issued.

3.4. Debt-to-equity rules: Not applicable, but interest expense deduction restriction rules apply. Also, there is a special rule by which financial operations between a permanent establishment and its headquarters are always considered capital accounts.

3.5. Controlled Foreign Corporations (CFC):

Some special regulations may be considered related to CFC criteria, even if they are not exactly CFC:

- ▶ Income from capital investments located abroad received by low or nil tax jurisdiction entities are determined and allocated as dividends or as distributed profits to the corresponding Uruguayan resident individuals in proportion to their participation in the capital of the relevant entities at the time that the entity obtains the income.
- ▶ If an entity subject to Corporate Income Tax participates in the capital of a low or nil tax jurisdiction entity, the capital gains of the referred non-resident entity will be determined and allocated as dividends or profits to the corresponding Corporate Income Taxpayer for purposes of determining the dividends or profit taxed by tax at the time that the entity obtains the income.

A foreign tax credit is granted to the resident individual in proportion to the income attributed to him/her under this provision.

3.6. Preferential tax jurisdictions:

Special rules apply for low or nil tax jurisdictions entities.

Countries and jurisdictions considered low or nil taxation for Corporate Income Tax purposes are the following: Angola, Ascension Island, Christmas Island, Cocos Island (Keeling Island), Djibouti, Falkland Islands, Fiji Islands, French Polynesia, Guam, Guyana, Honduras, Jordan, Kiribati, Kingdom of Tonga, Labuan, Liberia, Niue, Norfolk Island, Pacific Islands, Palau Islands, Pitcairn Island, Puerto Rico, Republic of Yemen, Saint Helena Island, Saint Pierre and Miquelon, Saint Martin (former member of the Netherlands Antilles), Solomon Islands, Svalbard, Swaziland, Tokelau, Tristan da Cunha, Tuvalu and the United States Virgin Islands.

3.7. Double Tax Treaties:

Uruguay has a wide range of double tax treaties following in general the OECD and UN models. Typically, the Double Tax Treaties provide for reduced or eliminate tax rates on Uruguayan source income. Additionally, Uruguay has signed the Multilateral Agreement Instrument whose entered into force on 1 June 2020.

Uruguay has in force Double Tax Treaty with the following countries: Belgium, Brazil, Chile, Ecuador, Finland, Germany, Hungary, India, Italy, Japan, Korea, Liechtenstein, Luxembourg, Malta, Mexico, Paraguay, Portugal, Romania, Singapore, Spain, Switzerland, United Arab Emirates, United Kingdom, Vietnam. An additional tax treaty with Argentina contains a double taxation avoidance clause but does not follow OECD or UN models.

4. Value-added tax

The Value added tax is levied on the circulation of goods and the provision of services within the Uruguayan territory, on the importation of goods, and value added in the construction of immovable assets by non-taxpayers. The general rate is 22%. A reduced rate of 10% applies to certain goods and services such as basic food items, medicines, hotel services, health services, initial sales of immovable assets, etc.

There are some goods and services which are exempt from Value Added Tax, such as foreign currency; real estate (other than the initial sale); agricultural machinery and accessories; milk; books and magazines; newspapers and educational material; interest on public and private securities and deposits, real estate rentals and certain banking operations.

Exports of goods and services are exempted, being allowed to recover Value Added Tax paid on related purchases. The list of services export is explicitly detailed in the regulations.

When computing tax liability, input Value Added Tax may be credited against output Value Added Tax, so that in practice only the value added to the taxpayer's supplies is taxed. Value Added Tax applies to all stages of the distribution process.

5. Excise Tax

Excise Tax is levied on the first sale of specific products by importers or manufacturers. Specific products include, among others, alcoholic and non-alcoholic beverages, cosmetics, tobacco, fuels, vehicles. Exports are exempt. Rates vary for each item and are fixed by the Executive within a range established by law.

6. Other considerations

6.1. Custom duties:

- ▶ **Imports:** Customs duties are generally assessed on an ad valorem (by value) basis. Goods from MERCOSUR countries are typically exempt from customs duties, except for certain items. Other trade agreements may also offer customs duty benefits.

If no preferential treatment applies, imported goods are subject to the following charges and taxes:

- **Common External Tariff (Customs Duty):** ranges from 0 to 35%.
- **Consular Fee:** 5% of the customs value of the imported goods. In the case of goods covered by the MERCOSUR agreement, the consular fee will be 3% of the customs value of the imported goods. Certain goods will be subject to a 2% or a 0% consular fee.

- VAT: 22% or 10%, depending on the type of good, if applicable.
 - Advanced VAT payment: 10% or 3%, depending on the type of good, if applicable.
 - Advanced CIT payment: 4% or 15%, depending on the type of good, if applicable.
 - Excise Tax: ranges from 0% to 180%, depending on the type of good, if applicable.
- **Exports:** There are no subject to tax. To encourage export activities, the government provides some incentives, such as:
- VAT: 0%
 - Reimbursement of taxes: recover a portion of domestic taxes that are included in the cost of exported products, based on a percentage of their customs value (3% or 6% of the FOB value), provided that 20% of the value is added.
 - Temporary admission: exempting imported products for exportable goods from customs tariffs if the products are exported within 18 months.
 - Draw-Back: refund of taxes paid for the importation under the general regime of goods that, by definition, are imported on a temporary admission, which can be used in the production, transformation, repair or value addition, with effective employment of labor, of products to be exported.
 - Stock replacement: possibility of replacing imported goods under the general regime, by importing similar goods, free of taxes, when they have been used as input for transformation, production, repair or value addition in Uruguay, with effective employment of labor, of exported products.

- Other levies related to exports: In Uruguay, the basic principle of freedom of exportation applies and, generally, there are no levies on exports. However, some specific levies on exports are mainly applied to agricultural and livestock products, aimed at funding sector-specific functions such as sanitary inspections, meat industry operations, and disease control measures, affecting products like bovine hides, live animals, meat, and wool.

6.2. Net Wealth Tax:

The Net Wealth Tax is levied on the assets located in Uruguay of the entities at the end of the fiscal year. For its determination, certain liabilities are deducted from the assets valued according to fiscal regulations, applying the tax rate to the difference. General annual rate for most legal entities is 1.5%. The rate would be 3% if the entity is located in low or nil tax jurisdictions that do not have a Permanent Establishment in Uruguay. Financial institutions, such as banks, are subject to a 2.8% rate.

Regarding agricultural activities, Net Wealth Tax has certain characteristics to consider:

- Subject to a 0.75% rate in the event that their assets, calculated in a particular form provided in the regulations, do not exceed 30 million Indexed Units (approx. USD 4,4 million).
- Subject to a surcharge (except in the case of non-resident entities or resident entities with all the equity represented by bearer or registered shares whose holders are individuals) whose rate is unique, which will depend on the amount of assets calculated from a particular way. Rates range from 0.7% to 1.5%.
- Exempt from Net Wealth Tax as long as the value of the assets, calculated in a particular way, does not exceed 12 million Indexed Units (approx. USD 1,8 million).

6.3. Other taxes:

- ▶ **Real Estate Transfer Tax:** is a tax that is levied on the transfer (in various forms) of immovable property. The tax is assessed on the cadastral value of the property as adjusted for inflation or the sale price, whichever is lower. The tax is levied at a total rate of 4% (2% on each party) in the case of transfers for a consideration, 4% in the case of gifts and 3% in the case of transfers to heirs and legatees who are descendants or ascendants of the deceased.
- ▶ **Real Estate Tax:** is levied on both urban and rural immovable property and is payable by

owners, holders, offerors with a registered real estate offer contract and usufructuaries. The taxable base is the cadastral value of immovable property as shown in the land registry. The rates vary depending on the value and location of the property.

- ▶ **Primary Education Tax:** is levied on both urban and rural property with the purpose of financing basic public education.

6.4. GAAR: The Uruguayan Tax Code establishes the substance over form principle by which, the tax authorities can disregard the legal form when the economic reality is not aligned.





Labor Regime

1. Labor Law

Uruguay does not have a general labor Law or Corpus that regulates all aspects related to such matter. Instead, it is through a wide variety of isolated laws, decrees, regulations, resolutions and international instruments that employment relationships are regulated. In this chapter, we will be detailing some of the main aspects of Uruguayan labor law.

1.1. Classification of employment contracts based on their duration / nature:

In Uruguay, employment contracts are presumed to be for an indefinite term. In exceptional cases, an employer may hire employees on a temporary basis, whether that is caused by a definite term, or the fulfillment of a condition agreed at the start of the employment relationship. However, this term must be reasonable, and this employment contract must always be in writing to guarantee the employee's consent. While employment contracts with an indefinite term are not legally required to be in writing, and can be proved by other means, it is recommended to document them regardless.

Additionally, employment contracts may also have a probationary period, generally for a maximum term of 3 months, notwithstanding other special cases where the maximum period may vary or be forbidden. During the probationary period, any party may terminate the contract without any indemnity.

In definite term contracts and contracts with a probationary period, if the employment relationship continues after the agreed period, the contract will automatically be regarded as indefinite.

1.2. Working hours and breaks:

Uruguayan Law establishes temporary limits on the working day, plus the daily and weekly resting times that must be granted to employees: employees from commercial establishments can work up to a maximum of 8 hours per day, 44 hours per week, while employees from industrial establishments have their cap at 8 hours per day, 48 hours per week. Still, there are cases of more flexible work schedules. For example, in the commercial sector it is common to distribute the hours that should be worked on Saturday during the weekdays.

The hours worked by the employee that exceed their daily working-day limit are considered overtime. Overtime should always be paid, and the worker has the right to refuse to do them. Overtime may have a surcharge of 100%, or 150%, depending on whether they are performed on a working or non-working day (e.g. holidays). There is a maximum weekly overtime of 8 hours, and it always requires the prior consent of the worker, but this limit may still be exceeded in special cases.

It should also be considered that overtime does not apply to higher staff of industrial, commercial and service establishments or to university graduated professionals and highly specialized experts who, as such, perform tasks in industrial, commercial and service establishments. Still, their daily hours are limited as indicated above.

1.3. Remote work:

Remote work is a newly regulated modality of work established in our legal system by Uruguayan Law 19,978 from the year 2021. This Law is specific for the private sector (including workers in Free Zones, albeit with some differences), and allows the total or partial performance of work to be developed outside the physical environment provided by the employer. One of the essential requirements for its implementation is the existence of a written agreement with the employee that sets forth the specific conditions of teleworking.

1.4. Principles governing employment:

In Uruguay, there is a national minimum wage of UYU 21,107 (approximately USD 530) per month, UYU 844.28 (approximately USD 21) per day and UYU 105.54 (approximately USD 2.6) per hour on January 1st, 2023. Nevertheless, Wage Councils, which are integrated by representatives of workers, employers and the State, set higher minimum wages for certain roles or categories, for specific sectors. These entities can also set other compulsory additional benefits and wage adjustments, applicable to each specific sector of industry or commerce. Additionally, these conditions may also be set by individual Collective Bargaining Agreements between unions and employers (e.g. at the Company level), which should always improve the conditions or benefits set in the sectorial agreement, at the Wage Council level.

Other benefits that Uruguayan Law provides workers are the following:

- ▶ **Annual leave:** All workers have the right to enjoy a minimum of 20 days of paid annual leave which is generated proportionally to the time worked each year and increased based on the employee's length of service. In this sense, an additional day is generated when the 5th year of uninterrupted work with the same employer is reached, and subsequently, one additional day is added every 4 years. It is mandatory for the employer to grant this benefit in the calendar year following the one in which it was generated.
- ▶ **13th salary:** Workers also have a 13th salary that consists of 1/12th of the total salaries paid in cash in the twelve months preceding December 1st of each year. In practice, half of this sum is paid to the employee in June, using the average of salaries paid in cash of the last 6 months, while the remainder is paid in December, based on a new 6-month average. These payments must be done on the dates yearly established by the Uruguayan government.

- ▶ **Paid special leaves:** Uruguayan law also contemplates other types of paid leave, such as maternity / paternity leave, sick leave, marriage leave, study leave, etc.
- ▶ **Mandatory severance payment:** If the employer decides to terminate an employment contract (which does not require a justified reason), they must pay the employee a severance determined by law, unless the employer claims (and subsequently proves, if the employee files a labor lawsuit) that the employee acted in gross misconduct. The severance payment is calculated based on the current salary of the employee (including all benefits, such as overtime, food stamps, housing, etc.) and the number of years worked for the company. The salary at the time of the dismissal will be multiplied by the number of years worked for the same company (up to 6 years will be considered) which will determine the severance amount.

The legal severance can be more severe in specific circumstances determined by Uruguayan law (i.e.: where the dismissal is considered abusive, when dismissal is done during sick leave, maternity leave, etc.).

1.5. Expiration or termination of the employment relationship:

Severance payment is not required when an employment relationship may be terminated by mutual consent, expiration of a fixed-term, death, retirement, misconduct, total disability or by the decision of one of the parties.

1.6. Protection of the rights of the workers:

Uruguayan Labor Law, and its governing Principles, exist under the assumption that there is a power imbalance between the employer and employee, so labor regulation is designed to safeguard the rights of employees and set minimum standards governing working conditions. These standards are public order provisions and thus cannot be waived or dismissed and only set a minimum, which may be improved by individual or collective agreements between employer and employees.

1.7. Labor unions:

To protect their interests, employees and employers are free to form industry, branch, craft or company level unions. Since Uruguayan Law 20,127, these unions must register with the Ministry of Labor and Social Security as a condition to access to information for negotiation and for the withholding of union dues. Collective labor law is mainly regulated by Collective Bargaining Agreements between unions and employers, and the resolutions from Wage Councils, as indicated above.

2. Legal considerations regarding foreign workers

Uruguay has regulated migration through the Law 18,250, creating two types of residencies for foreigners: permanent and temporary. Additionally, since Uruguay is part of the South American Trade Agreement (MERCOSUR and its associated members), citizens of Argentina, Brazil, Paraguay, Venezuela, Chile, Bolivia, Peru, Ecuador, Colombia, Suriname and Guyana are benefitted with less requirements for the obtention of these residencies.

Except for certain cases in which Visas must be requested through Uruguayan Consulates, people from most countries are free to enter the country for up to 90 days, with the possibility of requesting an extension once. In order to work in Uruguay, a national identification card and a permit to stay in the country must be requested. There are three different types of filing for residency:

- ▶ **Temporary residence:** residence authorization granted to foreign individuals who enter with the intention of temporarily residing in the country for up to two (2) years, with the option to renew this term once. Fewer requirements apply when the individual is a citizen or relative of a citizen of a MERCOSUR country or associated member. No sponsorship is required from local individuals or entities. When the person is foreign to the MERCOSUR or associated countries, a justification may have to be invoked (for example, work or study reasons, family, etc.).
- ▶ **Permanent residence:** residence authorization granted to foreign citizens of any nationality who have the intention of permanently residing in Uruguay. It can be renewed with the renovation of the national ID. No sponsorship is required from local individuals or entities in order to be granted. If the individual is not a MERCOSUR or associated citizen, a proof of having enough means of living will be requested.
- ▶ **Provisional Identity Sheet:** work permit granted to foreign citizens that are required to work in Uruguay during a period of up to 180 days, renewable for an equal term during the same civil year. Sponsorship from a local company will be required for this permit to be granted. Additionally, it will allow the individual to request a Uruguayan ID and perform the corresponding social security payments.

3. Taxes levies on wages

3.1. Tax residence:

An individual is considered a tax resident in Uruguay if they meet at least one of the following criteria:

- ▶ Stays in Uruguay for more than 183 days during the calendar year (including sporadic absences).
- ▶ The main core or base of the individual's activities or economic interests in the year is in Uruguay: this happens when the individual generates bigger volume income in Uruguay than in any other country. In addition, unless tax residency is proven in another country, it will be considered that the individual has economic interests in Uruguay if it has real estate investment or direct or indirect investment when it exceeds a certain threshold.
- ▶ The main core or base of the individual's vital interest is in Uruguayan territory: it is presumed that this happens when the individual has his spouse or minor children depending on him/her habitually reside in Uruguay unless there is any proof against.

3.2. Employment income tax:

- ▶ **Personal Income Tax:** Tax resident individuals are subject to tax on their Uruguayan-source income. They are also subject to tax on certain income obtained abroad, such as yields of capital and work income, if certain conditions are met. Income subject to the tax is divided into the categories of capital gains (Category I) and labor income (Category II).

The basic rate of personal income tax on capital gains and yields of capital is 12%.

Tax on labor income applies to income derived from dependent or independent work. A specified amount of income is not subject to tax (84 Benefit and Contribution Bases – approx. USD 12,700). The tax is imposed at progressive rates ranging from 10% to 36%. Certain deductions are applied, among others, social security contributions and notional amount for their kids. Those deductions would be applicable at a rate of 14% if the nominal income is equal to or greater than 180 Benefit and Contribution Bases (approx. USD 27,100) or 8% for the remaining cases.

- ▶ **Non-Resident Income Tax:** Nonresident individuals are subject to Non-Resident Income Tax on their Uruguayan source income at a flat rate of 12% on gross income. No deductions are admitted.
- ▶ When non-residents become tax residents, they may have some benefits on the different types of income subject to certain conditions.

3.3. Social Security Contributions:

When a worker carries out their labor activity in Uruguay, whether they are a Uruguayan fiscal resident or not, their activity and the associated income would be subject to Social Security Contributions, which will be charged to both the employee and the employer.

▶ Employee Contributions:

- Pension fund 15% (capped). Rates should apply monthly up to Uruguayan Pesos 256,821 for year 2024 (approx. USD 6,300). This amount is updated annually, circa February.
- Health Insurance and Sick Pay: from 3% up to 8%, depending on the personal situation of the employee (uncapped)
- Labor reconversion fund: 0.1% (uncapped)

▶ Employer Contributions:

- Pension fund 7.5% (capped). Rates should apply monthly up to Uruguayan Pesos 256,821 for year 2024 (approx. USD 6,300). This amount is updated annually, circa February.
- Health Insurance and Sick Pay: 5% (uncapped, not applicable for corporate directors)
- Labor reconversion fund: 0.1% (uncapped)
- Labor Credit Guarantee Fund: 0.025% (uncapped)

- ▶ **Social Security Agreements:** Uruguay has Social Security Agreements with various countries, which can benefit in the non-taxation of Social Security Contributions if the conditions for their application are met. Currently, the countries with which Uruguay has in force Social Security Agreements are the following: Argentina, Austria, Belgium, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, France, Germany, Greece, Israel, Italy, Luxembourg, Netherlands, Paraguay, Peru, Portugal, Quebec, Romania, Russia (not yet in force), South Korea, Spain, Switzerland, United States, Venezuela.



Financial statements

1. Financial Statements submission to Nation 's Internal Audit Authorities (AIN)

In Uruguay, current regulations establish certain conditions to determine which companies are required to submit their Financial Statements (FFSS) to the Nation 's Internal Audit (AIN), which constitutes the state control authority for this obligation. In this regard, Decree No. 156/016 establishes the general regime, where the following subjects should mandatorily comply with submitting their FS once a year:

- a. Companies whose total income, reflected in the income statement (P&L), at the end of each fiscal year, exceed 26,300,000 Indexed Units (USD 3.860.000 approximately, values from FY2024); or
- b. Companies that obtain income above 4,000,000 Indexed Units (USD 590.000 approximately, values from FY2024) at the end of each fiscal year, whenever at least 90% of those incomes are not Uruguayan sourced.

Additionally, it is important to bear in mind that Decree No. 156/016 establishes certain sanctions and prohibitions in the event of non-compliance with the FS submission to AIN, such as:

- Economic fines.
- Prohibition of distributing profits until the FFSS are submitted.
- Eventually, suspension of the Unique Certificate issued by DGI (which constitutes a certificate of being up to date with tax obligations).

It is worthy to know that the FFSS submission process to AIN is carried out online; to this extent, the information to be submitted can be summarized as follows:

- a. Preparation of the FFSS with a specific AIN's format (including FFSS and Notes).
- b. Online submission of the required documents.
- c. Online signing of the documents by a legal representative of the company (*)
- d. Online signed report by CPA (*) - FFSS to be submitted should be accompanied by an Audit Report, a Limited Review Report or a Compilation Report, signed by local CPA.
- e. Online payment of issuance costs (approximately USD 15).

(*) To carry out the mentioned online signature, it is necessary to have a digital signature certificate installed, which must be renewed annually.

2. Financial Statements submission to other public stakeholders

It is important to consider that, depending on the activity carried out by the company in Uruguay, it may also be required to submit the Financial Statements (FFSS) to additional public agencies or institutions. For example, companies categorized as "Financial Institutions" (regulated by local Central Bank), must submit their FFSS to the Central Bank of Uruguay (BCU), companies included in the meat industry, such as slaughterhouses, must submit their FFSS to the National Meat Institute (INAC), among other similar cases. Therefore, it is very important that companies are up to date with all legal requirements to be compliant with local regulations.

Moreover, the Tax Authority (DGI) has also capability to request that certain companies to submit their FFSS annually, depending on the taxpayer category assigned by DGI, which is set considering annual revenues, company's size, company's activity, among other aspects.

In this sense, according to Tax Authorities Resolution No. 1093/005, companies included in the group of “big taxpayers” must annually submit their Tax Return accompanied by their FFSS with an Audit Report, signed by local CPA.

In addition, companies classified as “CEDE” taxpayers group (smaller companies than “big taxpayers” group but also subject to closer Tax Authorities controls) should also have their FFSS accompanied by at least a Limited Review Report signed by CPA (Audit report is also accepted), but in this case must not be submitted annually, but it should only be available in case the Tax Authorities request it.





Venezuela

Message from EY Venezuela's Country Managing Partner

Despite its privileged geographical situation at the north of the continent, it is widely known that for many years, and especially the last 10, Venezuela's unstable political, economic, and social situation has created a difficult business environment that continues today.

Alberto Afiuni

Country Managing
Partner
EY Venezuela



However, Venezuela has an enormous potential: it has the world's largest oil reserves and is 5th in natural gas reserves; the recent easing of sanctions has allowed for the reopening of the oil & gas sector. The country is rich in natural resources, both renewable and non-renewable, including gold and coltan, with a significant potential in petrochemicals, tourism, and agriculture. It has a large cocoa production, ranking among the best in the world, and it is one of the top 5 producers of the world's finest rums.

The country already has an installed infrastructure, industrial and technological know-how, and multi-million-dollar private savings (abroad), which means that Venezuela has the potential to both recover its economy at a faster growth rate than most countries in the world and to generate extraordinary returns for investors.

The country is opening up to private capital / venture capital, allowing for an increase in start-ups.

For any company looking for doing business in Venezuela, it is important to have a complete understanding of the many regulatory compliance issues that need to be addressed from their pre-landing process to the full establishment of their business. We hope this guide will provide helpful insights to understand the challenges ahead.

We will be glad to assist as well.

Kind regards,



Overview

Venezuela, in northern South America, stretches from the Caribbean coast to the Andes. Caracas is its political and cultural capital. Other key cities are Maracaibo, known for its oil industry, Valencia for its industrial and commercial activity, and Mérida for its natural beauty and universities. The Venezuelan population, with indigenous, African, and European influences, expresses its culture through music, dance, gastronomy, and festivities. Its natural resources include oil, gas, minerals, and rivers, driving sectors such as mining, agriculture (cocoa, coffee), and manufacturing.



Population¹ 28,301,696

Urban²: 88%

Rural: 12% (2022)



Official language³

Spanish



Area⁴

912,050 km²





System of government³

Democratic and presidential republic

President: Nicolás Maduro

Next elections: 2024



Climate³

Tropical in the lowlands and coastal areas, cooler in the Andean Mountain regions, and hot and humid in the Amazon region



International Time⁵

GMT-4 (All Venezuela)



GDP current prices⁶

USD \$99.2 Bn. (2023)



GDP per capita (PPP)⁷

USD \$7,943.3 (2023)



Currency⁸

Bolívar

US\$1 = VES 36.82 (Sep. 30, 2024)



Key sectors⁹

Venezuela stands out in sectors such as oil, gas, construction materials, food processing, textiles, iron, mining, steel, and aluminum

Why invest in Venezuela?

Largest crude oil reserves in the world and 5th in natural gas¹⁰

Venezuela's economy has shown signs of recovery, with the IMF estimating an 8% GDP growth in 2022 and 4.0% by 2023¹¹

Venezuela is preparing to receive new investments through measures like inclusion in the stock market, promotion of start-ups, and the enactment of the Organic Law of Special Economic Zones

Venezuela has diverse mineral resources, including coal, gold (one of the largest reserves), iron, and bauxite. It also has a high potential for agricultural, livestock, and fishing development

With tourist locations such as Canaima, Roraima, el Salto Angel, Margarita Island, and others ranging from jungles to beaches and mountains, Venezuela's tourism potential is limitless

1. World Economic Outlook October 2024, IMF - Population
2. Urban population (% of total) - Latin America and the Caribbean (2023), World Bank
3. Main languages Latin America and the Caribbean, system of government and weather, DatosMundial.com
4. Extension (square kilometers) - Latin America and the Caribbean (2021), World Bank
5. International Time in Argentina, 24timezones.com
6. World Economic Outlook October 2024, IMF - GDP, current prices, IMF
7. World Economic Outlook October 2024, IMF - GDP per capita, current prices, IMF
8. Exchange rate, S&P
9. Encyclopedia Britannica
10. OPEC, 2023
11. World Economic Outlook October 2024, IMF



Country's economic outlook

Venezuela presents a complex scenario, characterized by both challenges and potential opportunities. The nation holds the largest proven oil reserves in the world. In addition to oil, the country is rich in other natural resources, including natural gas, gold, diamonds, and bauxite. It also has vast tracts of fertile land suitable for agricultural production.

Venezuela has a population of around 28 million people, creating significant demand for consumer goods, services, infrastructure, and industrial production. If the economy recovers, there could be a surge in demand across various sectors.

Due to years of economic instability, hyperinflation, and currency devaluation, many assets in Venezuela are undervalued compared to their actual potential.

After several years of sharp contraction, the Venezuelan economy returned to growth in 2021. Economic activity in Venezuela expanded in 2023, albeit at a slower rate than the 8% growth seen in 2022. The International Monetary Fund (IMF) estimates that the Gross Domestic Product (GDP) grew by 4% in 2023 and will reach 3.0% in 2024.

The country has managed to significantly reduce inflation, although it remains at very high levels compared to the rest of the region, which leads to lower household consumption and a slowdown in productive activity.

Some policies have been implemented that have provided a measure of relief to the economy, including opening up to foreign investments, eliminating certain price controls, and relaxing restrictions on currency convertibility.

In an effort to foster progress in the discussions between the Venezuelan government and the opposition, the Biden Administration took steps in October 2023 to soften certain sanctions impacting Venezuela's crucial sectors such as oil and gold mining. These measures were a component of the broader negotiations taking place in Barbados and provided some economic relief.

Nonetheless, in the aftermath of the contentious presidential elections process held on July, the United States backed out of the previously granted permission to relax sanctions targeting Venezuela's oil and gold industries.

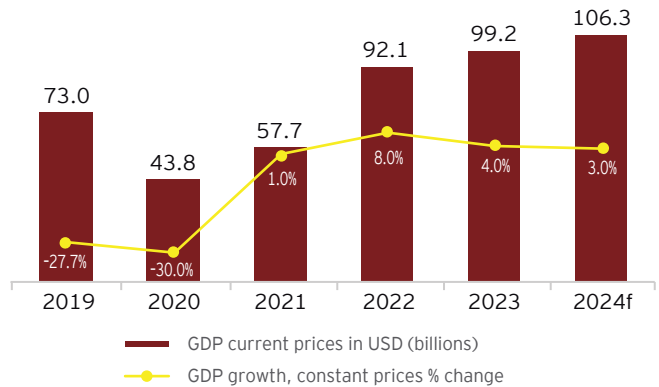
Table 1:

Index	Venezuela
GDP current prices USD bn. (2023) ¹	\$99.2
GDP growth, constant prices % change (2023) ¹	4.0%
Gross domestic product per capita, current prices USD (PPP) (2023) ¹	\$7,943.3
Inflation, year-end consumer prices (2023) ¹	190.0%
Fiscal balance (net lending (+) or net borrowing (-) of general government; % of GDP) (2023) ¹	-4.2%
Public debt (General government gross debt, % of GDP) (2023) ¹	146.3%
Current account (% of GDP) (2023) ¹	3.1%
Investment (% of GDP) (2023) ¹	n/a
Poverty headcount ratio at \$6.85 a day (2017 PPP) (% of population) (2022) ²	n/a

1. World Economic Outlook October 2024, IMF
2. Poverty headcount ratio at \$6.85 a day (2017 PPP) (% of population), World bank 2023

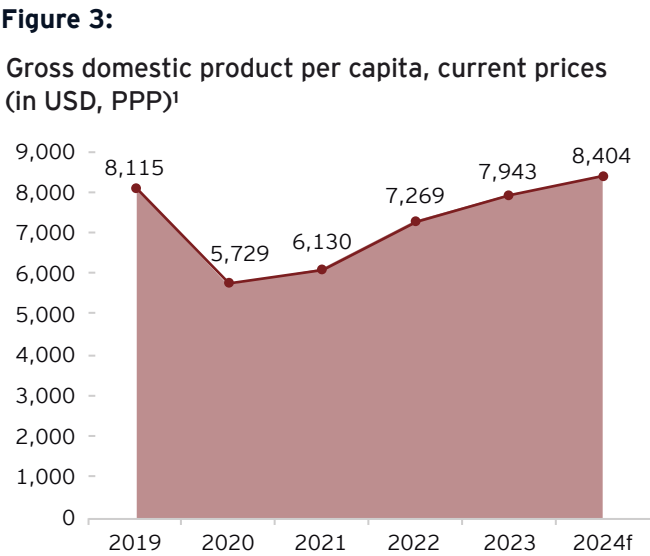
Figure 2:

Gross Domestic Product, Levels and Growth³



1. World Economic Outlook October 2024, IMF

The IMF estimates that between 2014 and 2020 Venezuela lost over 70% of its GDP. Although the reasons for the decline are many, experts name a decrease in around 70% of its oil extraction, government interventions in different industries, higher costs and taxes, international sanctions and an important exodus skilled population . Since then, it has experienced an economic improvement and the same organism estimates a growth rate of 8% and 4% for 2022 and 2023 and 3% for 2024.



1. World Economic Outlook October 2024, IMF

In line with its GDP, Venezuela’s per capita GDP saw a decline from 18,851 in 2013 to 5,729 in 2020, but has seen continuous improvement since 2021, although it is still far from its previous level.

Figure 4:

Annual gross domestic product (GDP) by economic activity at current prices in dollars² (2018)

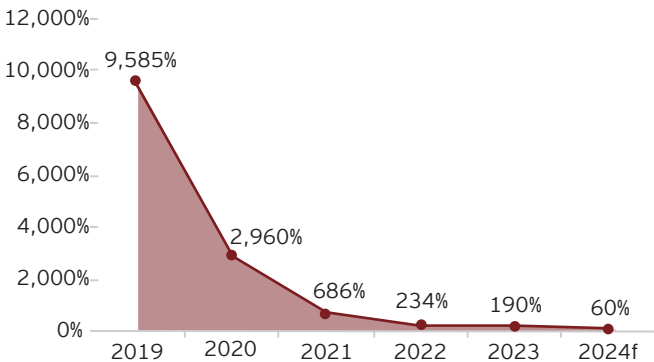


2- Annual gross domestic product (GDP) by economic activity at current prices in dollars (2018), ECLAC * No hay datos más actualizados para Venezuela

The main sectors in Venezuela are government, its related sectors and personal services; manufacturing industries; financial intermediation and real estate, and mining and quarrying.

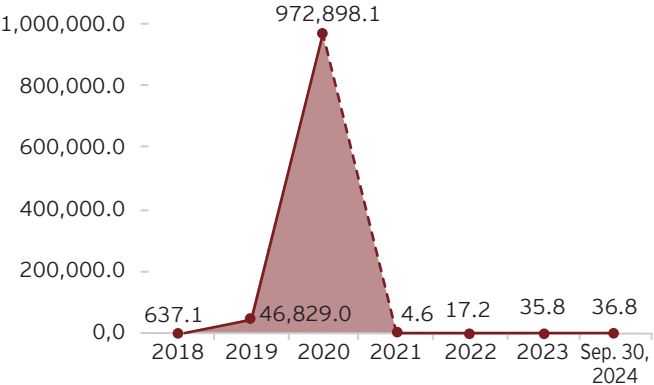
Figures 5 and 6:

Inflation, end of period consumer prices¹



1. World Economic Outlook October 2024, IMF

Exchange rate of foreign currency (USD/VES)²



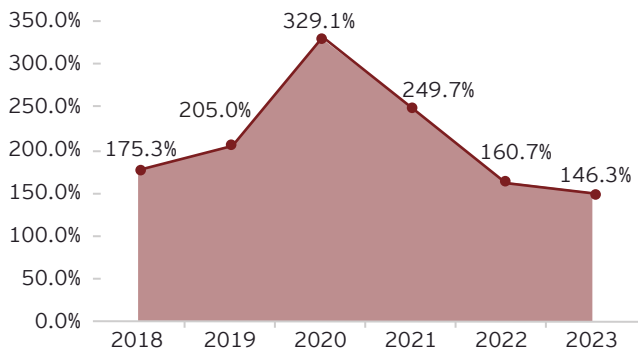
2. Exchange rate, S&P

Venezuela has suffered from severe inflation problems during the last decade, facing hyperinflation between 2018 and 2020. In 2023, Venezuela’s consumer price index was recorded at 190%, slightly below what was anticipated, as reported by the Venezuelan Finance Observatory (OVF). Despite the index remaining at an elevated level, this marks the fifth consecutive year of diminishing inflation rates in the nation. 2024 is expected to close with 60% continuing its diminishing trend.

Since 2018, Venezuela’s currency has undergone drastic changes due to hyperinflation. The bolívar soberano (Bs.S) circulated from 2018 to 2021, with five additional zeros removed from its value. Starting in February 2019, it was simply called the bolívar (Bs.), without changing its value. On October 1, 2021, it was replaced by the Bolívar digital (Bs.D), though it is still referred to as the bolívar (Bs.).

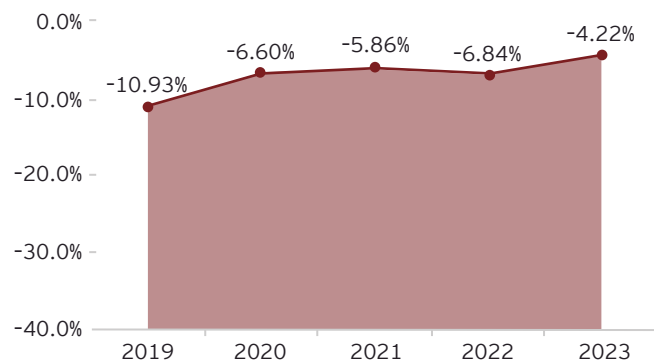
Figures 7 and 8:

Public debt (General government gross debt, % of GDP)³



3. World Economic Outlook October 2024, IMF

Fiscal balance (net lending (+) or net borrowing (-) of general government; % of GDP)⁴

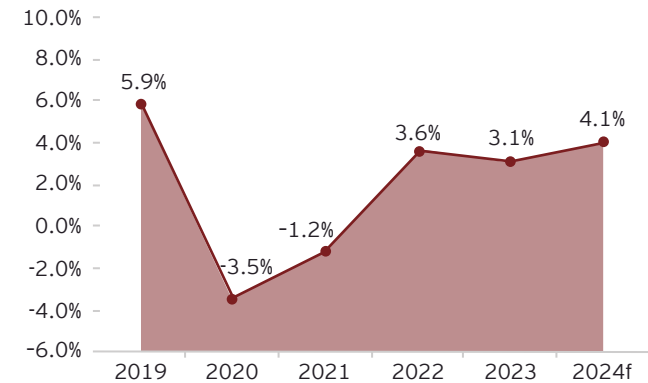


4. World Economic Outlook October 2024, IMF

Public debt as a percentage of GDP decreased from 329% in 2020 to 146% in 2023, remaining at very high levels. Meanwhile, the fiscal deficit improved in 2023 compared to that recorded in previous years.

Figure 9:

Current account (% of GDP)¹



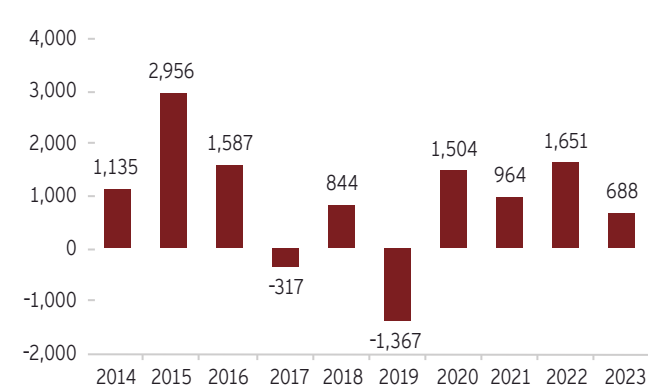
1. World Economic Outlook October 2024, IMF

After a 3.5% deficit in 2020, the current account returned to a surplus in 2022, and last year it closed at 3.1%. It is expected to reach 4.1% in 2024.

Figure 10:

(Venezuela no tiene data para el gráfico de investment, solo el de FDI)

FDI Venezuela (In millions of USD)²




2. Foreign direct investment, net inflows (BoP, current US\$) - Latin America & Caribbean | Data (worldbank.org)

After a significant drop in 2019, foreign investment in Venezuela returned to positive figures, but remained at relative low levels.



Venezuela has a vast number of resources and great potential for exploitation in areas such as oil and gas, mining, agriculture, tourism, among many others. The country also boasts a young and educated population and is situated in a strategic geographic position for trade, should the situation improve.

Despite its complex political and economic climate, recent years have seen improvements in economic performance, with positive growth figures and a more controlled inflation that, while still very high, has managed to decrease.



Establishing a business in the country

1. General framework

Companies must be registered in the Public Registry of Commerce of the related jurisdictions in order to be able to operate in the country.

2. Financial activities (Banks, etc):

Financial activities are ruled by Law of Banking Sector Institutions and require registration at the Banking Sector Institutions Agency.

3. Insurance activities:

These activities are ruled by Law of Insurance Activities and require registration at the Insurance Activities Agency.

4. Capital Market regulations:

Venezuelan Capital Market is ruled by the Capital Market Law and also includes regulations issued by the VZ Securities and Exchange Agency (SNV).

5. Oil and Gas:

According to the Master Hydrocarbons Law, upstream activities are reserved for the Venezuelan state, which must perform the activities (i) directly or (ii) through state-owned enterprises.

Upstream activities can be performed through joint venture corporations (*empresasmixtas*) in which the state owns at least 50% of the shares (qualifying the entities as state-owned enterprises).

The National Assembly must approve the incorporation of any mixed entities and the conditions for their operation. These joint venture corporations are owned by *Petróleos de Venezuela, S.A. (PDVSA)*, the Venezuelan state-owned oil and gas holding company, with at least 50% of the shares.

The tax regime that applies to the petroleum industry in Venezuela consists of a combination of corporate income tax (CIT), royalty tax, indirect taxes and special contributions.

6. Mining:

In accordance to Mining Activities Law, the exploration, exploitation and use of mining resources can only be done through the following methods:

- Directly by the National Executive;
- Exploration concessions and subsequent exploitation;

The concessions granted by the National Executive will be solely for exploration and subsequent exploitation and cannot exceed twenty (20) years, counted from the date of publication of the Exploitation Certificate in the Official Gazette of the Republic of Venezuela.

The period of the concession may be extended for successive periods of no more than ten (10) years, if the concessionaire so requests within three (3) years prior to the expiration of the initial period and the competent Ministry deems it pertinent, without that extensions may exceed the original period granted.

7. Main Types of business

7.1. Types of Companies

Venezuelan law offers a variety of business forms, including sole proprietorships, several forms of partnerships and corporations.

In general, business activities can be carried out in Venezuela by means of (i) a stock corporation, (ii) limited liability corporation, (iii) general partnership, (iv) *commandité* company, (v) stock *commandité* company, (vi) sole proprietorship, temporary association, (vii) branches of foreign corporations, among others.

In accordance with the Venezuelan Mercantile Code¹⁶, companies incorporated and domiciled in Venezuela, as well as companies incorporated abroad but domiciled in Venezuela must keep legal and accounting books. For the Corporations, Limited Liability Company and Stock Commandité Companies said books are:

- ▶ Shareholders (or members, or partnership) Book;
- ▶ Book of Shareholders' (or partners) Meeting Minutes;
- ▶ Book of Board of Directors' Meeting Minutes;

For all companies or partnerships, they must have:

- ▶ Journal entries Book;
- ▶ General Ledger Book;
- ▶ Inventory Ledger Book.

Additionally, Value Added Tax (VAT) legislation establishes that taxpayers have to keep the (i) Purchases Ledger Book and the (ii) Sales Ledger Book.

Venezuelan entities must keep its account records according to Venezuelan General Accepted Accounting Principles.

Now, the following are the different types of companies that can be incorporated in Venezuela.

7.1.1 Corporation (Compañía Anónima-C.A. o S.A.)

Corporations are the most widely used commercial entities in Venezuela, mainly because they constitute separate legal entities from that of their shareholders, have no limitation on the amount of capital (no minimum or maximum amount

of capital), and the shareholders' liability before third parties for the company's obligations is limited to the amount of their capital contribution.

They are usually managed by a Board of Directors. However, there is no limitation on the administration of the company, it could be administered by one administrator, two (2) or by a corporate body, such as a board of directors. The Directors of the company may or not be shareholders of the same.

For its incorporation, corporations require at least two (2) shareholders that may be individuals, corporations or partnerships, national or foreign, residents or non-residents of Venezuela. Notwithstanding the above, once the corporation has been created, it may exist and carry out commercial activities with a sole shareholder.

The Venezuelan Mercantile Code does not establish a minimum or maximum capital requirement. Therefore, the shareholders may contribute the amount of capital (in cash or in kind) that they desire. However, when determining the way in which the company will be financed (capital and/or liabilities) it will be necessary to take into account the provisions contained in the Mercantile Code and in the Income Tax (IT) Law in this regard.

At the time of registration of the corporation, the capital must be totally subscribed and at least twenty percent (20%) paid.

Shareholders' liability before third parties, for obligations acquired by the company is limited to the amount of their capital contribution.

The company's liability before third parties is unlimited, responding with its current and future assets ¹⁷

¹⁶ Official Extraordinary Gazette No. 475, published on December 21, 1955.

¹⁷ MORLES HERNANDEZ, Alfredo. Ob. Cit. Page 1516.

7.1.2 Limited Liability Company (Sociedad de Responsabilidad Limitada-SRL)

Limited liability companies (SRLs) are legal personae, separate from that of its partners. The use of SRLs was, until recently, limited to small businesses since the maximum capital amount of these types of entities is Bs. 0.02 (currently equivalent to USD 0.000000007). However, the use of these entities has increased, especially as a result of the check-the-box rules of the United States of America. SRLs qualify under these rules as a check-the-box entity. Additionally, it is relevant to mention that SRLs, due to the maximum capital amount, may face business barriers when trying to engage in business with governmental entities.

The entity's capital is divided in quotas of participation, which in no case may be equivalent to an amount lower than Bs. 0.00001 (currently equivalent to USD 0.0000000000037)¹⁸. The quotas may not be represented by shares.

The minimum capital requirement is of Bs. 0,0002 (currently USD 0,00000000007) and the maximum capital is Bs. 0,02 (approximately USD 0,000000007).

A minimum of fifty percent (50%) of the capital contribution made in cash must be paid; and those contributions made in kind have to be wholly paid.

The company's obligations are guaranteed by its capital. It is liable without limits and will respond with all its present and future assets.

The quota holders' responsibility before third parties is limited to the amount of the capital contribution into the company.

7.1.3 Partnership (Sociedad enNombreColectivo)

The partnership is an association of persons in which the partners that subscribe the association agreement, or that allow the use of their name in the denomination of the company, are joint, several and unlimitedly liable for all the obligations of the partnership.

It is relevant to mention that any person that is not a partner of the entity, but that uses his/her name or allows the use of their name in the partnership's name will be deemed be jointly and severally liable for the partnership's obligations before third parties.

Each partner acts as an agent for the company, with the authority to sign contracts for the purchase and sale of goods and services. The partner that contributes assets to the company, transfers the ownership of said to the partnership.

The management or administration of this type of entity may be performed by one or more administrators, who may be or not a partner of the company. If no administrators are appointed, all partners will take part in the administration.

Partners are unlimitedly liable for the obligations acquired by the entity.

7.1.4 Commandité Company (Sociedad enComanditaSimple)

Commandité Companies are those companies in which the obligations are guaranteed by the unlimited and joint liability of one or more partners, denominated general or active partners; and by the limited liability of one or more partners called silent partners. Silent partners' liability is limited to their capital contribution.

¹⁸ Article 316 of the Mercantile Code: The fees will be of the same amount and, in no case, less than one thousand bolivars. If the fee is higher than the minimum, it must be constituted by a multiple of one thousand bolivars.

It constitutes a legal entity different from its partners and carries out business with its own equity and a trade name. The entity's denomination may only contain the names of the general or active partners. If the silent partners were to allow their names to be included in the entity's denomination, they will become joint and severally liable for the obligations of the company. Silent partners shall not be involved in the administration of the company, as this corresponds to the managing partners. If the silent partners participate in the administration of the entity, they will become joint and severally liable for the obligations of the company.

Active or managing partners are entitled to administer the business within the limits established in the entity's creation agreement.

The Commandité Companies' responsibility before third parties is covered first by its equity and second by the equity of the active or general partners. Creditors may not attempt actions against the latter without first pursuing payment by the company.

7.1.5 Stock Commandité Company (Sociedad en Comandita por Acciones)

The nature of this company is quite similar to a Commandité Company, the basic difference between the Stock Commandité Company and the Commandité Company, is that in the former the interests of the silent partners may be represented by shares. Shares of a silent partner may be transferred without restriction. Shares of an active or general partner, on the other hand, may be transferred only with the consent of all other general partners. On the other hand, in the case of the Commandité Company, interests in the company are

not represented by freely transferable stock and all transfers of a partner's equity interest must be approved by the other partners.

The Stock Commandité Company is administered with a trade name that may only contain the name of the partners with unlimited liability, which are the active or general partners who manage the entity.

7.1.6 Association Agreement (Contratos de Cuentas en Participación)

Association agreements are joint ventures in which a businessman or company (denominated associating party) grants to one or more persons/entities (denominated participants or associates) participation in the profits or losses of a line of business or of the business, in exchange of the associate's contribution (cash or in kind contribution) to the line of business or business of the associating party.

Association agreements are not legal entities, but rather an agreement between the associating party and its associate. The associate is not required to participate in the management and administration of the business.

The associating party, when contracting, does so, on his own name and behalf, even when transactions relate to the business in which the associate is participating.

The distribution of the profits or losses of the line of business or business to which the association agreement relates, shall be distributed according to the terms established in the association agreement.

7.1.7 Consortia (Consortios)

Unlike other countries, Venezuelan commercial legislation does not specifically regulate Consortia. Consortia are defined in the Income Tax, Law¹⁹ which establishes that a consortium is a group of companies organized with the purpose of jointly performing an economic activity. Having been organized to perform a concrete economic activity, once this is completed, the consortium is extinguished²⁰.

Each party in the consortia ("Consortium member") maintains its own identity and juridical independence. Thus, the Consortium agreement does not give rise to a legal entity; on the contrary, it has no legal status. Therefore, the obligations acquired by the consortium are directly imputable to the consortium members, who are jointly liable before third parties' creditors or contractors of the consortium.

7.1.8 Branches of Foreign Companies

Any company domiciled abroad may register a branch in Venezuela in order to conduct business in the country. In this regard, according to the Venezuelan Mercantile Code, companies incorporated abroad with a branch in Venezuela maintain their nationality but are considered domiciled in Venezuela.

Any person that enters into an agreement on behalf of an unregistered foreign company is personally liable for any obligation arising in Venezuela from such contract²¹. The third party is able to elect to sue either the representative or the company itself.

7.1.9 Joint Ventures or Mixed Companies

Finally, we consider necessary to mention the existence of certain companies, namely, Joint Ventures or Mixed Companies, which have been established for carrying out activities in sectors considered as priority for the Venezuelan economy as mining and hydrocarbons.

A mixed company is not an additional legal form of entity, they are corporations (C.A.) in which private investors participate (in less than 49% of the capital of such entities) with the Bolivarian Republic of Venezuela through wholly owned subsidiaries in an extent of the capital of the mixed company that shall exceed fifty one percent (51%).

7.1.10 International taxation and taxes on entities not domiciled in the Country

The tax system applicable to subsidiaries of foreign entities bears a substantial similarity to the one applied to Venezuela resident entities.

¹⁹ Official Extraordinary Gazette No. 6,210, published on December 30, 2015.

²⁰ MARCANO, LUIS JOSÉ, quoting by GuillidTroconis, Guillermo

"Consideracionessobreeltratamiento de los consorcios en materia de Impuestos sobre la Renta" Revistade Derecho TributarioNº74, First Quarter 1997.

²¹ Article 357 of the Mercantile Code: All those who contract on behalf of companies incorporated abroad and not duly registered in Venezuela are subject to personal and joint liability for all obligations contracted in the country, without prejudice to third parties being able to sue the company itself and request the execution of the assets that appear in its name.





Tax Regime

1. General Overview

1.1 Taxpayer Identification Number

Individuals, corporations and entities, domiciled or not domiciled in the country, that conduct business in Venezuela are required to obtain a Taxpayer Identification Number (RIF).

The sole fact of having a taxpayer identification number (RIF) is not a per se condition for being considered as a taxpayer, neither generates tax implications.

1.2 Income Tax (IT) Treatment of Different Legal Entities

Corporations, Limited Liability Companies (SRL), Stock Commandité Companies, Branches and Permanent Establishments of Foreign Companies are subject to IT at progressive tax rates up to a maximum of thirty four percent (34%)²².

Partnerships, Commandité Companies and Associations are not considered as a separate taxpayer, therefore, these will not be directly subject to payment of the tax on their net taxable income (pass-through entities), because the tax shall be paid by the partners according to their participating percentage and based on the applicable tariff.

The same treatment corresponds for Consortia. Each of the members of the Consortium must report the portion of the net income or loss corresponding to their participation percentage and pay the corresponding tax.

Consortium members must designate a representative for fiscal purposes, that will in

charge of (i) determining the net income or loss of the Consortium; (ii) informing the Tax Administration the way in which the income or loss was determined and distributed, identifying each of the Consortium Members with their respective RIF and fiscal domicile.

In the cases of Joint Venture Agreements, the associating party and associate must calculate in their respective annual tax periods the relevant portion of income or loss that resulted from the business or line of business.

Rates are expressed in tax units (T.U.) the current value of which is Bs. 20,000.00²³. The tax unit (T.U.) value is adjusted annually to inflation according to the consumer price index of the immediate prior year.

1.3 Determination of Taxable Net Income and calculation of IT

Entities subject to IT on worldwide income shall determine their Venezuelan net taxable income separate from their foreign source net taxable income. In the determination of the entities Venezuelan source net taxable income, only costs and expenses incurred in Venezuela will be allowed, provide the conditions established in the IT Law and regulations are met. Likewise, in the determination of foreign source net taxable income, only costs and expenses incurred abroad may be deducted, provided relevant conditions are met.

The entities worldwide net taxable base, subject to the IT rate, will be the result of adding the Venezuelan and foreign net taxable income.

Description	Rate
For the fraction up to 2,000 T.U.	15%
For the fraction between 2,000 and 3,000 T.U.	22%
For the fraction exceeding 3.000 T.U.	34%

22 Note that in case of insurance, re-insurance, financial and banking sector entities, the proportional income tax rate of 40% will be applicable, in accordance to the amendment of the Income Tax Law published in Official Gazette N°6.210 dated December 30, 2015.

23 Currently the value of the Tax Unit is Bs. 20,000.00 equivalent to USD 0,0075 calculated at the CBV published exchange rate of Bs. 2.647.851,66 per 1 USD.

1.4 Adjustment for the Effects of Inflation

The IT Law establishes a system of adjustments for inflation, applicable on non-monetary assets and liabilities as well as on the fiscal net equity. The net result of the adjustments will be the increase or decrease of the net taxable income.

Non-monetary assets are those items in the Historical Balance Sheet of the taxpayer which value, due to their nature or characteristics, are susceptible to protection from inflation, such as inventories, merchandise in transit, fixed assets, buildings, land, machinery, furniture, equipment, construction in progress, permanent investments, deferred charges and credits and intangible assets.

On the other hand, monetary assets and liabilities are those items in the balance sheet of the taxpayer that represent nominal values in national currency that at the time of their disposal or liquidation are realized at the same historical value recorded in books.

Net Equity is understood as being the difference between total assets and liabilities, monetary and non-monetary.

The adjustment for inflation includes an initial adjustment for inflation of non-monetary assets in the fiscal balance sheet of the taxpayer. This adjustment results in an increase in the amount of Net Equity and represents an initial point of reference for the regular adjustment for inflation.

Taxpayers carrying out commercial, industrial, exploitation of mines and hydrocarbons and connected activities are required to make the initial adjustment at fiscal yearend. For this purpose, the taxpayers must first register in the Updated Assets Register (RAA).

Registration in the RAA will cause a tax of three percent (3%) on the value of the initial

adjustment for inflation of the depreciable fixed assets. This tax can be paid in up to three (3) equal and consecutive portions in the fiscal years starting from the registration in the RAA.

For FY initiated after December 31, 2015, taxpayers qualified as “special taxpayers” (high level of income taxpayer) are excluded from the application of the Tax Adjustment by Inflation regime.

1.5 Specific Rules Applicable to Permanent Establishments

In order to determine the net revenues of a permanent establishment, the IT Law allows for deduction of management and general administrative expenses (overheads), whether incurred in the country or abroad.

However, payments made by the permanent establishment to the home office or any of its branches, affiliates, subsidiaries, head office or related companies for royalties, interest, fees, technical assistance or similar payments in exchange for the right to use patents or other rights, or in the form of fees or commission, for services rendered or processes performed, shall not be deductible, except for payments made as refunds of expenses.

The deduction of management and general administrative expenses is subject to concurrent compliance with the following requisites:

- i. The expenses must be reflected in the financial statements of the permanent establishment;
- ii. The permanent establishment must attach to the final IT return the criterion for allocation of expenses authorized by the tax administration²⁴; and

24 For the attribution to overhead cost and expenses to the permanent establishment the Venezuelan Income Tax Legislation allows the use of the Report on Attribution of Profits to Permanent Establishments issued by the Organization for the Economic Cooperation and Development.

iii. The criterion of allocation must be rational and permanent. The rationality of the criterion of allocation is understood to be when it is based on the degree of use of the factors by the permanent establishment and on the total cost of such factors and permanent is understood to mean as constant over time.

In order to obtain approval for the allocation criterion, the method to be used for allocation of administrative and management expenses must be communicated and subject to the Tax Administration approval within the sixty (60) business days following the beginning of the corresponding fiscal year. The Tax Administration must respond to such request within a term of ninety (90) business days.

1.6 Transfer Pricing

The Venezuelan legislation contemplates transfer pricing rules for transactions with foreign related parties (i.e., a party that directly or indirectly participates in the management, control or capital of the Venezuelan company, or when the same persons participate directly or indirectly in the management, control or capital of the companies involved in the particular transaction).

Parties located in a “tax haven” jurisdictions are deemed to be related, so the transfer pricing principle of “arm’s length” applies to all transactions conducted with them.

The transfer pricing regulations adopted as supplementary regulations the Guides to Transfer pricing of the Organization for the Economic Cooperation and Development (OECD).

According to the transfer pricing regulations, all transactions between related parties must comply with the arm’s length principle. In this way, it is mandatory for taxpayers to employ the methodology established for transfer pricing analysis in order to verify that their income, costs and deductions comply with such principle.

The methods accepted internationally are the following:

- i. Comparable Uncontrolled Price Method;
- ii. Resale Price Method;
- iii. Cost Plus Method;
- iv. Profit Split Method;
- v. Transactional Net Margin Method.

The IT Law establishes that application of the uncontrolled comparable price method is considered the applicable method. The use of any other method will be evaluated by the Tax Administration according to the characteristics of the transaction and the economic activity developed.

Transfer pricing regulations require detailed documentation and information related to each of the inter-company transactions or type of transaction.

The IT Law also requires that all taxpayers file a transfer pricing informative return (PT-99). The transfer pricing return must be filed six (6) months after the fiscal year-end.

The Master Tax Code²⁵ empowers the Tax Administration to determine the income and deductions of the taxpayers that have not met the analysis in accordance with the transfer pricing methodology.

In the event of an adjustment that increases the taxable net income, the taxpayer shall be subject to payment of unpaid tax, a fine that ranges between twenty five percent (25%) and two hundred percent (200%). Likewise, in the case of failure to comply with the method established in the IT Law, a fine ranging between three hundred and five hundred tax units (300 T.U. and 500 T.U.) may apply.

²⁵ Official Extraordinary Gazette No. 6,507, published on January 29, 2020.



1.7 Thin Capitalization Rules

In February 2007 a partial amendment of the IT Law was published²⁶, said amendment establishes that the interest paid to entities considered as related parties shall be deductible only so far as the amount of the debt obtained with related and independent parties does not exceeds the net equity of the taxpayer.

For purposes of determining whether the amount of the debts exceeds the net equity of the taxpayer, the annual average balance of debts held by the taxpayer with independent parties will be subtracted from the annual average balance of the net equity of the taxpayer. In addition, the amount of debts that exceeds the net equity of the taxpayer will be characterized as net equity for all purposes of the IT Law.

1.8 Carryforward Losses from Previous Years

Operating losses from Venezuelan source may be carried forward for three (3) years, but the attribution may not exceed twenty five percent (25%) of income obtained in subsequent periods. No carry-back is permitted.

Offsetting of losses against gains between different sources (foreign and local source income) is not allowed.

IT is calculated using the accounting information prepared in accordance with Venezuelan General Accepted Accounting Principles; said principles establish the obligation of registering the entries and all accounts in Venezuelan currency.

1.9 Investment Tax Credits

From the most recent amendment of the IT Law approved in 2015, new investments tax credits were eliminated.

1.10 Final and Estimated Income Tax Returns

Entities must file an annual final IT return within the three (3) months following the end of the fiscal year. They may choose the calendar year as the fiscal year or any other twelve-month period. Taxpayers are under the obligation to file an estimated return at the sixth month of a fiscal year, when the net taxable income of the prior year, exceed one thousand five hundred tax units (1,500 T.U.).

To determine the estimated tax, eighty percent (80%) of taxable net income from the previous year must be considered and seventy five percent (75%) of the tax resulting from such calculation must be fractionated and paid in six (6) monthly installments.

1.11 Tax on Dividend Income

The taxable base for dividend income established in the Venezuelan IT law is represented by the difference between the payer's net financial income (not exempt nor exonerated) and its net taxable income.

That income approved by the Shareholders' Meeting based on the Financial Statements prepared in accordance with Generally Accepted Accounting Principles (VENGAAP) is considered "net financial income". While the "net taxable income" is that on which IT is levied.

Dividend income is subject to IT at a thirty four percent (34%) flat rate and is subject to withholding by the company paying such dividend at the time of the payment is made or when credited to account.

Dividends received by Venezuelan entities or individuals from companies incorporated abroad will be subject to a proportional tax of thirty four percent (34%), with the beneficiary of the dividend being able credit IT paid abroad on such income.

²⁶ Official Gazette No. 38,628, published on February 16, 2007.

Lastly, with regard to the dividends paid in shares, these will be subject to an advance tax of one percent (1%) of the value of the deferred dividend. Individuals and entities that receive dividends in shares must declare and pay the IT calculated at the above-mentioned flat rate on the dividend at the time the shares are sold.

1.12 Branch profit tax

Foreign companies with permanent establishment in Venezuela are required to pay a thirty four percent (34%) IT on financial income (not exempt or exonerated) that exceeds the net taxable income of the permanent establishment in the fiscal year. Such excess is deemed as a dividend payment at fiscal yearend, regardless of its distribution.

It will not apply on the branch profit tax in those cases where it can be proved, to the satisfaction of the Tax Administration that the difference between net financial income and the net taxable income was reinvested in Venezuela for a five-year period. The reinvestment shall be certified by independent public accountants.

Lastly, the reinvestment must be made within the first six (6) months of the fiscal year following that in which the profit was caused.

1.13 Income Tax Withholdings

The IT Law establishes the obligation for the debtor and payers of certain concepts of income, to withhold IT when payment is made or when credited to account²⁷. IT withheld shall be remitted to the tax administration within the first three (3) business days of the calendar month following the month in which payment or credit to account was made. The IT withholding rates vary depending on the type of taxpayer (individual or corporate entity) and its residence status.

Please, consider that the IT withholding rates established in the Venezuelan IT Legislation could be reduced depending on the dispositions established in the Double Taxation Treaty (DTT) signed between Venezuela and the country of residence of the beneficiary of the payment.

The IT withheld is an advance payment of the taxpayer's final IT liability.

2. Individuals Income Tax

Individuals whose physical presence in Venezuela extend for a continuous or discontinuous period of more than one hundred and eighty-three (183) days during the current or previous calendar year²⁸, will be considered as tax residents in Venezuela, and will be subject to IT on their worldwide income obtained during the full fiscal year²⁹.

Venezuelan tax residents (individuals) are subject to a progressive tax rate, ranging from 6% to 34%³⁰, as detailed below:

Exceeding (X) T.U.	Not exceeding (X) T.U.	Rate	Deduction
0	1,000	6%	0
1,000	1,500	9%	30
1,500	2,000	12%	75
2,000	2,500	16%	155
2,500	3,000	20%	255
3,000	4,000	24%	375
4,000	6,000	29%	575
6,000	-	34%	875

Currently the value of the Tax Unit is Bs. 9, equivalent to USD 0.24.

Furthermore, to calculate the income subject to IT the following concepts should be considered:

²⁷ According to Article 82 of the general regulations to the IT Law, deposits to account are constituted of all those amounts that the debtors of income credit in their accounting records to their creditors as they are credits legally callable at the time of their entry. (Official Extraordinary Gazette No. 5,662, published on September 24, 2003).

²⁸ Article 30 of the Master Tax Code.

²⁹ Note that the tax treatment may differ in case of a Treaty to Avoid Double Taxation and Prevent Tax Evasion.

³⁰ Article 50 of the IT Law.

- i. **Salary:** income earned in cash or in kind for personal services rendered in Venezuela is considered territorial and, therefore, subject to IT, regardless of where the employee receives the wage. In addition, income received by a tax-resident in Venezuela as a result of working outside of Venezuela (extraterritorial income) shall be subject to IT. Salaries and wages do not allow deduction of costs and expenses in order to calculate IT liability.
- ii. **Professional fees:** Income obtained in cash or in kind from services performed in Venezuela as non-commercial professions performed in Venezuela, is considered of territorial source regardless of the place where payment is received. Those normal and necessary costs and expenses incurred in the country and linked to the services rendered shall be deducted from total income to determine the taxable income liability.
- iii. **Other income:** Income earned by individuals from foreign loans, capital gains, rental income, sale of real estate and other income, is levied in Venezuela with IT, whether territorial or extraterritorial income, depending on the individual's tax residence status.

Non-resident taxpayers (individuals) are subject to a proportional tax rate of thirty four percent (34%) on their Venezuelan sourced income, without deductions or reductions as it is provided for Venezuelan tax residents.

2.1 Income tax return

With respect to IT returns note that fiscal year for individuals is the calendar or civil year. In this sense, individuals must file their IT return before the Tax Administration within the first three (3) months following the end of the fiscal year, meaning until March 31 of the following taxable year. However, note that individuals who develop commercial or professional activities as freelancers may choose a twelve-month fiscal year other than civil or calendar year.

Final IT may be paid in three (3) portions; the first one should be filed with the IT Return, the second and third ones must be filed in the following twenty (20) and forty (40) days respectively. For late IT Returns, payment should be made in one portion.

In addition, individuals with annual net income exceeding one thousand tax units (1,000 T.U.) or gross income exceeding one thousand five hundred tax units (1,500 T.U.) should file and estimated IT Return. The final payment of Estimated IT Return is an advance made to the Tax Administration that results in the Final Annual Tax Return.

In order to determine the net taxable income, Venezuelan taxpayers are allowed to make certain personal deductions and rebates as we explained below.

In this regard, note that in the case of spouses with no separation of community property the IT return must be filed jointly, unless they decide to file separately income from wages, salary and professional fees. In this case, they may not use the rebate of ten tax units (10 T.U.) for spouses, but divide the rebates of their mutual dependents, as well as personal deductions regarding education expenses and medical insurance premiums.

2.2 Personal deductions

Tax residents may consider the following deductions in order to determine net IT liability, if the expenses were incurred in Venezuela during the taxable year and properly supported with receipts that meet the Tax Administration requirements:

- i. **Interest on loans:** payment of interest on loans by the taxpayer for the acquisition of a main residence in Venezuela. This deduction is limited to one thousand tax units (1,000 T.U.).

ii. **Education expenses:** expenses related to the education of the taxpayer and her/his descendants up to twenty five (25) years of age, in exception on special education in which cases there is not limitations in age. This deduction has not amount limitations.

iii. **Medical insurance premiums:** Insurance Premiums paid by the employee to Venezuelan insurance companies for surgery, hospitalization and maternity. No amount limitations.

iv. **Medical and dental expenses:** this category includes medical, dental and hospitalization expenses incurred by the taxpayers, and/or their dependents, taxpayer in Venezuela, without amount limitations; those amounts assumed by the employer or reimbursement from insurance company should not be considered as deductions.

v. **Housing rent expenses:** Rental payment for the taxpayer's principal residence in Venezuela; this deduction is limited to eight hundred tax units (800 T.U.).

vi. **Standardized deduction:** Tax residents have the option to opt for a standardized deduction of seven hundred and seventy four tax units (774 T.U.), instead of all itemized deductions mentioned above.

2.3 Tax Credit (Rebates)

Per year, tax residents are entitled to personal tax credit of up to ten tax units (10 T.U.). Also, they are allowed to have a tax credit (rebates) of ten tax units (10 T.U.) for their spouses without separate community property, ten tax units (10 T.U.) for each dependent ascendant in the country and for each dependent descendent up to twenty-five (25) years of age or in those cases where such dependent is unable to work.

In addition to the foregoing, and in order to determine the territorial source taxable income, other than salaries and wages, note that costs and expenses incurred in Venezuela shall be considered as long as these are deemed normal, necessary and linked to the activity rendered.

Note that when determining the net IT of the fiscal year, resident taxpayers shall not compensate territorial or extraterritorial losses with income from a different source; for this reason, taxpayer are solely obliged to pay taxes for positive income, either from national or foreign source.

With respect to losses, note that according to the Venezuelan IT Law net losses arising from Venezuelan or foreign source may only be compensated for up to three years from the year in which losses were caused, with income derived from the same source.

In regard to tax credit, note that tax residents in Venezuela may credit against Venezuelan IT for extraterritorial income purposes, the IT effectively paid offshore only up to the concurrence with the amount of the Venezuelan IT that such foreign income would generate in the country.

In these cases where the taxpayer has excess foreign tax actually paid and not credited, such amount may be treated as a tax credit for the following tax year. After such period, taxpayers shall no longer be allowed to use the foreign tax credits in Venezuela.

3. International Tax Treaties

Currently, Venezuela has signed thirty-three (33) bilateral IT Treaties (ITT)³¹.

The ITT provisions prevail over those contained in internal legislation, as established in the Constitution and the Master Tax Code.

³¹However, some of these Agreements are not yet in force because they have not been ratified by the signatory. Such is the case for Mexico. The in-force ITT signed by Venezuela, are the followings: Austria, Barbados, Belarus, Belgium, Brazil, Canada, China, Cuba, Czech Republic, Denmark, France, Germany, Indonesia, Iran, Italy, Korea, Kuwait, Malaysia, Netherlands, Norway, Portugal, Qatar, Russia, Saudi Arabia, Spain, Sweden, Switzerland, United Arab Emirates, United States of America, United Kingdom and North Ireland, Trinidad and Tobago, and Vietnam.

4. Value Added Tax (VAT)

Taxable events subject to this tax are the sale of tangible property, the final import of goods, the rendering of services in exchange for payment, the export of tangible property and the export of services. It also includes the rendering of independent services executed or used in the country, including those from abroad.

Currently the VAT rate is 16%.

4.1 VAT Taxpayers and Responsible Parties

Frequent importers of goods, factories and companies engaged in the trade of goods, businessmen, service providers and, in general, all individuals and entities that as part of their business carry out the activities that constitute taxable events qualify as VAT ordinary taxpayers.

Importers of services are responsible for payment of the VAT levied on such transaction. The recipients of the services are obligated, as responsible parties, to declare, report and pay the tax on the importation, once paid it will represent a VAT credit for the importer, who may use it to offset its VAT debits.

4.2 VAT Withholdings

The taxpayers qualified as “special” will act as withholding agents for the VAT invoiced by their suppliers of goods or services.

VAT withholding agents shall withhold seventy five percent (75%) of the VAT levied in the relevant transaction, and one hundred percent (100%) in the event the supplier does not comply with VAT requirements.

The VAT withheld will constitute a payment in advance for the supplier that can be discounted from the tax quota for the respective period in which the VAT withholding voucher was received. If after three consecutive monthly periods there is an excess of VAT withholdings non-credited, the taxpayer may opt to request the recovery of such amount with the Tax Administration.

5. Equity Tax

In 2019, the Equity Tax was created, through the Equity Tax Law³². Its purpose is to tax the net equity of individuals and entities qualified as special taxpayers by the National Tax Administration, whose equity annually has a value equal to or greater than one hundred and fifty million tax units (150,000,000 T.U.).

This tax will be caused annually on the value of the net equity as of September 30 of each year and shall be filed and paid during November each year, considering the dates established by the Tax Administration in the respective calendar of tax obligations.

the Equity Tax Law establishes in Article 4 that the taxpayers of this Tax will be those individuals and entities, national or foreign, qualified as Special Taxpayers by the National Tax Administration which may be residents or not in the country.

Regarding the taxable base, Article 15 of the Constitutional Law establishes that the taxable base of the Equity Tax will be that resulting from adding the total value of the property and rights which the taxpayer owns, excluding the liabilities, charges and encumbrances, as well as exempt or exonerated property and rights.

For the purpose of determining the value of those assets and rights which compose the equity of the taxpayer, the Constitutional Law establishes a series of valuation criteria between Articles 16 to 22, among which we highlight the value attributed to immovable property in the country, which will be the highest resulting from applying (i) the value assigned at the municipal land registry, (ii) market value, or (iii) the value resulting from updating the acquisition price; and the value attributed to shares and participations, which will be valued according to its price at September 30 of each year.

Tax rate: 0.25%

³² Official Gazette No. 41,667, published on July 3, 2019.

6. Municipal Taxes

Depending on the Municipal jurisdiction in which the economic activities will be rendered shall be subject to municipal taxes in Venezuela. Municipal taxes are calculated on the gross income of the taxpayer derived from economic activities, as well as distribution, manufacture and the rendering of services. Therefore, if such activities are carried out in more than one municipality, the entity will be subject proportionally to tax in every municipality it carries out its activities.

Determination of the municipal tax is through application of a percentage (%) to the taxable base. The applicable rate varies depending on the activity and the municipality in which the activity is conducted. Rates may vary between one and seven percent (1% and 7%).

There are also other taxes levied by Municipalities and fees charged for the granting of licenses, as well as from taxes on real estate, vehicles, public shows, gambling, and commercial advertising.

7. Stamp Tax

Performance of certain legal acts triggers Stamp Tax, usually this tax is levied at the moment of incorporating a company, or registering a branch, the subscription of its initial capital is subject to a tax that ranges between one and ten percent (1% and 10%) stamp tax calculated on the capital contribution amount³³.

The same treatment applies to future capital increases, the taxable base would be the amount representing the increase.

8. Tax on Large Financial Transactions (TLFT)

Tax on Large Financial Transactions Law establishes as a taxable event of this tax, among others:

(i) any payment made by legal entities qualified as special taxpayers with or without the intermediation of the Venezuelan financial system, including the equivalent payment in means such as, compensation, novation, debt forgiveness, among others;

(ii) any payment made by individuals or legal entities in currencies other than legal tender or crypto-assets other than the Petro, within the domestic financial system, without intermediation of the foreign banking correspondent; and

(iii) any payment made by individuals or legal entities in currencies other than legal tender or crypto-assets other than the Petro to legal entities qualified as Special Taxpayers, without the mediation of domestic financial institutions (cash, transfer through foreign banks, platforms such as Zelle, Paypal, Venmo, among others).

- ▶ 2% tax rate: Any payment made by legal entities qualified as special taxpayers with or without the intermediation of the Venezuelan financial system, including the equivalent payment in means such as compensation, novation, debt forgiveness, among others.
- ▶ 3% tax rate: Any payment made by individuals or legal entities in currencies other than legal tender or cryptoassetsother than the Petro, within the national financial system, without intermediation of the foreign banking correspondent.
- ▶ Any payment made by individuals or legal entities in currencies other than legal tender or cryptoassetsother than the Petro to legal entities qualified as special taxable persons, without the mediation of domestic financial institutions (cash, transfer through foreign banks, platforms such as Zelle, Paypal, Venmo, among others).

³³ For operations made in Capital District the stamp tax is equivalent to 2% over the amount of the capital contribution or the capital increased.



Labor Regime

1. Labor Law

The Venezuelan Labor Law establishes a minimum monthly salary, as well as minimum salary benefits that have to be considered by the employers.

Therefore, employers are entitled to establish more favorable conditions, but they need to comply at least with the minimum benefits established by Law.

Under the Venezuelan Labor Law, companies that hire more than ten employees are allowed to (i) hire a maximum number of foreign personnel, represented by ten percent (10%) of the total employees; and (ii) the remuneration of foreign personnel shall not exceed twenty percent (20%) of the total remuneration paid to all employees.

Accordingly, the IT Law establishes that the company will not be entitled to deduct the amount of salary paid to foreign personnel that exceeds the maximum aforementioned percentage established in the Labor Law.

► Profit sharing

In accordance with the Venezuelan Labor Legislation, companies must distribute among their employees, at least, fifteen percent (15%) of the benefits obtained in the annual period.

In this regard, each employee will receive a minimum of thirty (30) days of salary and a maximum of four (4) months' salary. If the employee has not been with the employer for a full year, the profit-sharing benefit will be reduced to the proportion that corresponds to the months worked.

Workers who are not entitled to profit-sharing but to year-end bonus, shall receive a minimum payment of thirty (30) days of salary.

► Vacations

After one year of uninterrupted work, the workers have the right to at least fifteen (15) business days of remunerated vacations. This benefit will be increases by one day for each additional year of service up to a maximum of fifteen (15) additional business days. The remuneration corresponding to the vacations must be paid in advance.

Likewise, in addition to the vacation payment, the employer must pay a Vacation Bonus equivalent to a minimum of fifteen (15) days of salary plus one day for each year of service up to a maximum of thirty (30) days of salary.

► Severance Benefits

The calculation base for the payment of severance benefits and indemnities on labor relationship termination will be the last salary earned, including the aliquots corresponding to vacation bonus and profit sharing. Where salary is paid per work unit, piece, free-lance labor, and on commissions, the calculation basis will be the average salary earned during the last six (6) months of service.

Once the labor relationship has terminated, the employee will have the right to payment of severance benefits for the time of service rendered, based on the following concepts (seniority payment):

- i. The employer shall deposit to the name of each employee the equivalent to fifteen-day benefits per three-month period, based on the last salary earned by the worker, including vacations and vacation bonus. In case of variable salary, the calculation base for payment of severance benefits will be the average salary earned during the immediately preceding six (6) months

At the discretion of the worker, severance benefits might be deposited in an individual trust fund or in the National Fund for Severance Benefits.

In addition to the above benefit and after the first year of service: two (2) days salary for each year of service up to a maximum of thirty (30) days of salary.

The seniority indemnity will be administered by the employer and credited on a monthly basis to the employees account. Such amounts will generate the payment of interest calculated based on the average between the interest rate charged and paid by commercial banks published by the CBV.

The accumulated amounts must be paid to the employee at the time of termination of the labor relationship. The interest generated by the amounts accumulated by the seniority benefit will be paid annually to the employee, unless the employee requests in writing that the interest is capitalized.

The seniority indemnity will be calculated based on the salary received by the employee during the immediate prior month to the date in which the amount is credited or deposited. For purposes of determining the calculation for seniority corresponding to employees that receive variable salary calculated based on produced, sold units, etc., the calculation base will be the average monthly wages received by the employee during the immediate prior year.

The calculation of severance benefits upon termination of employment for all workers who were active before the entry into force of this new Labor Law shall be based on a comparison of the previous regime and the regime established by such new Law, as noted above, for purposes of applying the more favorable to the worker.

2. Taxes levied on wages

Social Contributions Responsibility of the Employer

► Meal Bonus Ticket

Employers are obligated to provide employees meal tickets in order to protect and improve their nutritional condition.

The granting of this legal benefit may be implemented, at the employer's discretion, through any of the following mechanisms:

- i. By installing dining rooms in the company, operated by the company or third parties, in the workplace or nearby areas.

- ii. By contracting a meal service from companies specialized in the administration and management of social benefits.

- iii. By providing employees with coupons, tickets or electronic cards for meals, issued by companies specialized in the administration and management of social benefits, from which employees may obtain food or meals in restaurants or establishments providing food or prepared meals.

In this case, the employer must supply one (1) coupon or ticket, or one (1) charge to the electronic card for each work day, the value of which must be twelve tax units (12 T.U.) per day it cannot be greater than three hundred and sixty tax units (360 T.U.) per month.

- iv. By providing or handing over to the employee an electronic meal card, issued by a company specialized in the administration of social benefits, which shall be used to buy meals and foodstuffs, and may be used solely in restaurants, shops or establishments selling foodstuffs, for which purpose the company has an agreement directly or through a specialized service company.
- v. By various companies installing common dining rooms close to the workplaces, for use of employees.
- vi. By using the services of dining rooms administered by the agency with competence in nutritional matters.
- vii. By paying in cash, but the possibility to pay this benefit in cash is very restrictive.

Employers receiving a regular salary in excess of three (3) minimum wages shall be excluded from this benefit, but the meal ticket may also be extended to those employees receiving remuneration higher than the stipulated limit.

Lastly, the meal ticket will not be deemed salary in accordance with the Labor Law, except when the collective conventions, agreements or individual labor contracts so stipulate.

► Payroll Taxes

Employees that work in the country are subject to Venezuelan payroll taxes and it is mandatory to contribute with: National Institute for Social Education and Training (hereinafter “INCES”), Social Security Institute (hereinafter “IVSS”), and in some cases, with the Housing Program Contribution³⁴. Therefore, employers also have to contribute to the aforementioned labor institutes.

According to Venezuelan legislation on social security, both the employees and the employers must contribute to the social security system according to the rates and salary base detailed in the executive summary.

In addition, the Venezuelan Labor Law establishes that Human Resources Managers or Directors must be Venezuelan citizens

According to Venezuelan legislation covering social security, both the employees and the employers must contribute to the social security system in the following way:

Social Security ⁽ⁱ⁾ contributions based on the employee's monthly salary, up to a maximum of five minimum salaries. Contribution paid by:	
► Employer ► Employee	10%, 11% y 12% 4%
Unemployment (ii) and training contributions based on the employee's monthly salary, up to a maximum of five minimum salaries. Contribution paid by:	
► Employer ► Employee	2% 0.5%
Housing policy contribution(iii)based on the employee's monthly salary. Contribution paid by: (if applicable)	
► Employer ► Employee	2% 1%
Contribution to the National Institute for Social Education and Training (INCES) (iv), required if the employer has five or more employees; paid by:	
► Employer, based on the employee's aggregate compensation. ► Employee, based on any participation in benefits received from the employer at the end of the year.	2% 0.5%

³⁴ Never theless, regarding any special regime for expatriate, the individual will not be subject to the Housing Policy Contribution, since article 252 of the Housing Policy Regime Law establishes that it only will be beneficiaries of the housing solutions the foreign individuals that are legally residents, condition issued by the Bolivarian Republic of Venezuela and that have been in the Venezuelan territory for a continuous period of time not less than five (5) years.



Financial Reporting

The following are the main requirements and regulations for the preparation and presentation of financial information:

Publicly traded companies

The application of IFRS, as issued by the IASB, is mandatory in the financial statements of entities included in the Public Offering Regime and in the stock market.

Other considerations.

The companies in Venezuela must prepare their financial statements according to the following accounting frameworks:

- ▶ In accordance with the Generally Accepted Accounting Principles in Venezuela for Small and Medium-sized Entities, VEN-NIF PYME, which are based on the International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs) version Book 2015, issued by the International Accounting Standards Board (IASB) approved by the Federation of Colleges of Public Accountants of Venezuela (FCCPV) in February 2016, as well as the Application Bulletins called AB VEN-FRS, issued and approved by said Federation, or
- ▶ in accordance with Accounting Principles Generally Accepted in Venezuela for Large Entities, denominated VEN-FRS LE, which include International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), and the Interpretations of the International Financial Reporting Interpretations Committee (IFRIC), or the former Standing Interpretations Committee (SIC), adopted by the International Accounting Standards Board (IASB) up to January 1, 2019 (2019 Book), and approved by the Federation of Certified Public Accountants of Venezuela (FCCPV), as well as the Application Bulletins denominated AB VEN-FRS, issued and approved by said Federation.

The Venezuela companies must present their financial statements in bolivars (Bs.) in accordance with the provisions of the Commercial Code, an instrument that governs accounting for legal purposes in Venezuela.

In addition, from a mercantile perspective, according to Article 304 of the Venezuelan Mercantile Code, it is an obligation of a company's administrators to file before the Commissioner the General Balances of the company, stating (i) the existing share capital, and (ii) made and delayed allocations.

Then, the Commissioner must present a report regarding the analysis of the General Balances before the mandatory yearly Shareholders' Meeting, in which such General Balances must be approved or not.

The Shareholders' Meeting that resolves upon the General Balances must be duly registered before the Mercantile Registry in which the company is registered.





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- Tax managed services
- Legal managed services

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Contacts

EY Latin America



Manuel Solano

Regional Managing Partner
manuel.solano@mx.ey.com



Eduardo Valente

Markets Leader
EY Latin America
eduardo.valente@cl.ey.com

EY Chile



Macarena Navarrete

Country Managing Partner
macarena.navarrete@cl.ey.com



Cristián Lefevre

Country Market Leader
cristian.lefevre@cl.ey.com

EY Paraguay



Anxgéllica Schomburgk

Country Managing Partner
angelica.schomburgk@py.ey.com



Luis Ayala

Country Market Leader
luis.ayala@py.ey.com

EY Argentina



Fernando Paci

Country Managing Partner
Country Market Leader
fernando.paci@ar.ey.com

EY Colombia



Ximena Zuluaga

Country Managing Partner
Country Market Leader
ximena.zuluaga@co.ey.com

EY Mexico



Manuel Solano

Country Managing Partner
manuel.solano@mx.ey.com



Víctor Soulé

Country Market Leader
victor.soule@mx.ey.com

EY Bolivia



Javier Iriarte

Country Managing Partner
Country Market Leader
javier.iriarte@bo.ey.com

EY Ecuador



Javier Salazar

Country Managing Partner
Country Market Leader
javier.salazar@ec.ey.com

EY Uruguay



Alejandro Barboni

Country Managing Partner
Country Market Leader
alejandro.barboni@uy.ey.com

EY Brazil



Luiz Sérgio Vieira

Country Managing Partner
luiz.s.vieira@br.ey.com



Víctor Guelman

Country Market Leader
victor.guelman@br.ey.com

EY Peru



Paulo Pantigoso

Country Managing Partner
paulo.pantigoso@pe.ey.com



Fernando Núñez

Country Market Leader
fernando.nunez@pe.ey.com

EY Venezuela



Alberto Afiuni

Country Managing Partner
Country Market Leader
alberto.afiuni@ve.ey.com

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