



Doing Business in Latin America 2025 - 2026

Investment Guide



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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 the region as an excellent alternative for nearshoring, thanks to its geographical location 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.



Population

643,794,000 representing 8.2% of the world's population¹ (2023)

Urban: 81.8%²

Rural: 18.2% (2023).



Area²

20,042,088 km² representing 15.5% of the world's surface area.



Main languages³

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.



Climates³

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 ocean. Therefore, the climate in Latin America widely varies from tropical and subtropical to alpine, subpolar and desert.





Time Zones⁵

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



GDP current prices¹

USD \$6,760.5 Bn. representing 6.1% of the world's GDP (2024).



GDP per capita (PPP)¹

USD \$21,832 (2024).



Currency⁶

Over 30 currencies. Some of the most important are: Argentine peso, Boliviano (Bolivia), Brazilian real, Chilean peso, Colombian peso, US dollar (Ecuador), Mexican peso, Paraguayan guarani, Peruvian sol, Uruguayan peso, Bolivar (Venezuela).



Key sectors⁷

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, coastlines 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, comprising industries such as automotive, food processing, and textile.

The services sector is crucial, and particularly tourism 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 almost 20% of the world's oil reserves, at least 25% of many strategic metals and over 30% of the world's virgin forest area. It also has vast agricultural lands and energy sources⁸.

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 their key resources and the region's 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 land⁹.

1. World Economic Outlook, April 2025, IMF.
2. DataBank, The World Bank Group.
3. Country information, DatosMundial.com.
4. Government - Politics, CountryReports.com.
5. World Time Directory, 24timezones.com.
6. Historical exchange rates, ExchangeRates.com.
7. Country information, Encyclopedia Britannica.
8. Natural Resources Outlook in Latin America and the Caribbean, 2023, ECLAC, United Nations.
9. Development Bank of Latin America, 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.

Table 1
Economic outlook, Latin America and the Caribbean

	2022	2023	2024	2025 Projections
GDP growth (% change)	4.2	2.4	2.4	2.0
Consumer prices (% change)	14.9	17.2	12.1	5.8
Current account balance (as % of GDP)	-2.2	-1.1	-0.9	-1.1
Real per capita output (% change, in constant 2021 international dollars, PPP)	3.5	1.6	1.6	1.3
Market Exchange Rate Weights (% change)	3.9	2.2	2.2	1.9

Source: World Economic Outlook Database (April 2025), IMF; World Economic Outlook, April 2025: A Critical Juncture amid Policy Shifts, IMF.

Economic growth in Latin America has been slowing down, driven by tighter monetary policies aimed at controlling inflation and a weaker global outlook. Added to this is the growing impact of geopolitical tensions—such as trade disruptions, conflicts, and shifting global alliances—which add uncertainty and volatility to the region's external environment. High interest rates in developed countries further compound the challenge by increasing financing costs for emerging economies.

The region saw a rapid response from its central banks to the surge in prices following the post-pandemic recovery and related imbalances. These measures

initially helped curb inflation, prompting a downward trend in many countries and allowing several central banks to begin reducing interest rates. However, inflation has proven to be more persistent than expected, and its deceleration has varied significantly across countries. As a result, in some cases, central banks have paused or slowed the pace of rate cuts in response to renewed inflationary pressures.

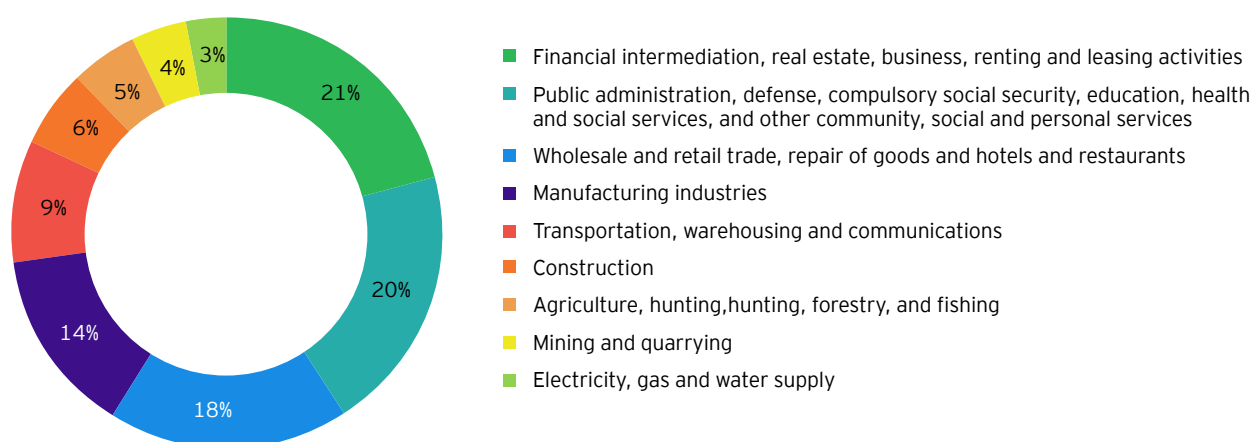
In its April 2025 World Economic Outlook Update, the International Monetary Fund (IMF) projects 2% growth in Latin America and the Caribbean during 2025, down from 2.4% in 2024. However, it is expected to return to 2.4% in 2026 (see table 1).

Table 2
Main economic indicators per country

Country	GDP current prices USD Bn. (2024)	GDP growth, constant prices % change (2024)	Gross domestic product per capita, current prices (PPP), international dollars (2024)	Inflation, year- end consumer prices % change (2024)
Argentina	632.1	-1.7	29,263.1	117.8
Bolivia	48.4	1.3	11,292.7	10.0
Brazil	2,171.3	3.4	22,271.9	4.8
Chile	330.2	2.6	33,756.4	4.5
Colombia	418.5	1.7	21,493.7	5.2
Ecuador	121.7	-2.0	15,996.1	0.5
Mexico	1,852.7	1.5	25,074.2	4.2
Paraguay	44.0	4.0	18,593.0	3.8
Peru	289.1	3.3	17,879.2	2.0
Uruguay	81.0	3.1	35,173.1	5.5
Venezuela	119.8	5.3	8,556.8	47.2
Central America	539.4	3.9	18,431.9	1.8
The Caribbean	151.8	12.1	12,547.0	6.1
Latin America and the Caribbean	6,760.5	2.4	21,832.3	12.1

Source: World Economic Outlook Datasets (April 2025), IMF.

Figure 1
Share of gross domestic product by economic sector in 2023 (current prices in USD)



Source: CEPALSTAT, United Nations ECLAC.

Latin America's economy is well diversified. Financial services, the public sector and personal services, wholesale and retail trade 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 transportation, construction, agriculture, mining and power and water supply, which also make substantial contributions and highlight the region's diverse economic landscape (see figure 1). This variety provides Latin America with robust opportunities for sustainable growth and development across multiple fronts.

Table 3
International trade of goods 2024 - Projected value and annual value growth (USD billion)

Country	Exports		Imports	
	Value	Growth	Value	Growth
Argentina	80.8	21%	56.0	-20%
Bolivia	9.0	-16%	8.5	-20%
Brazil	354.4	3%	286.3	9%
Chile	97.6	3%	74.4	-6%
Colombia	52.0	-1%	58.4	-2%
Ecuador	34.8	10%	27.0	-8%
Mexico	605.1	2%	618.8	3%
Paraguay	16.4	1%	15.9	3%
Peru	71.3	6%	49.3	-1%
Uruguay	16.7	11%	12.4	-5%
Venezuela	9.4	38%	9.7	-5%
Central America	58.6	1%	111.6	2%
The Caribbean	57.8	23%	71.2	6%
Latin America & The Caribbean	1,473.3	4%	1,409.3	2%

Source: International Trade Outlook for Latin America and the Caribbean 2024, United Nations ECLAC.

In terms of trade, in 2023 the region experienced a decline in exports (-1.6%) and imports (-6.8%) consistent with global trends. However, both recovered in 2024 (see table 3).

Since the beginning of 2025, international trade has been going through a complex period marked by heightened uncertainty, driven by factors such as geopolitical tensions, supply chain disruptions, and

shifting trade policies. Latin America is not immune to these dynamics, as many of its economies are deeply integrated into global markets. These challenges have prompted a downward revision of growth prospects globally, and particularly among the region's main trading partners—the United States and China—adding pressure to Latin America's external demand and export performance.

Table 4
Foreign direct investment, inflows (current USD billions)

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	240
Brazil	68,885	78,184	69,174	38,270	46,441	74,606	62,442
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	16,794
Ecuador	631	1,389	980	1,106	649	882	409
Mexico	33,115	37,857	29,946	31,528	35,420	39,124	30,214
Paraguay	607	246	430	326	358	745	576
Peru	7,413	5,873	4,775	663	7,142	11,201	3,918
Uruguay	2,687	1,727	1,467	973	5,165	8,677	(548)
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 Caribbean	202,978	209,583	197,987	152,176	184,811	235,401	238,852

Sources: DataBank, The World Bank Group; Foreign Direct Investment in Latin America and the Caribbean 2024, United Nations ECLAC.

After a sharp decrease in 2020, Foreign direct investment (FDI) inflows in Latin America and the Caribbean experienced a strong growth in 2021 and 2022. However, 2023 saw little growth (see table 4).

According to UNCTAD (January 2025), foreign direct investment (FDI) in Latin America and the Caribbean fell by 9% in 2024, with Brazil registering a 5% decline in inflows. However, greenfield investment showed

signs of recovery in Brazil, Argentina, and Colombia, pointing to a potential rebound. Mexico stood out with an 11% increase in FDI, despite a regional slowdown in project announcements. This regional decline is in line with the broader trend observed among developing countries, where FDI fell by 2% in 2024—marking the second consecutive annual drop, according to UNCTAD's latest Global Investment Trends Monitor.



Table 5
Latin American debt rating - As of May 2025

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	Baa3	BB+	BB+
Brazil	Ba1	BB	BB-
Ecuador	Caa3	B-	B-
Venezuela	C	B-	WD
Bolivia	Ca	CCC+	B-
Argentina	Caa3	CCC	C

Source: Ratings for country debt, Expansión / Datosmacro.com.

While some Latin American countries have achieved credit rating upgrades thanks to stronger fiscal and economic policies, others face more challenges. The region continues to display a diverse range of credit profiles, reflecting the varying economic and political realities of each nation (see table 5).

Table 6
2025 Index of Economic Freedom

Position	Country	Score
18	Chile	73.2
29	Uruguay	70.2
54	Peru	65.9
60	Paraguay	65.2
80	Mexico	61.3
89	Colombia	59.8
113	Ecuador	55.8
117	Brazil	55.1
124	Argentina	54.2
164	Bolivia	44.1
175	Venezuela	27.6

Source: Index of Economic Freedom, The Heritage Foundation.

Table 7
World Competitiveness Ranking 2024 Overall Results

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

Source: World Competitiveness Ranking 2024 Overall Results, International Institute for Management Development.

During recent decades, the countries of Latin America have waged to improve their international competitiveness indexes, even though the last few years have been highly challenging for the region. Economic freedom varies significantly between countries, reflecting the diverse scenarios (see tables 6 and 7).



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

Last year Argentina opened a new chapter, experiencing a great transformation in the right direction.

The current administration is driving 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.

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, energy and a skilled workforce driving the key sectors of agriculture (soybeans, corn, wheat, meat), automotives, food industry, mining (gold, silver, lithium), and energy (hydrocarbons, renewables). Despite economic challenges like inflation, Argentina is seeking innovation and economic diversification, participating in trade agreements to drive sustainable growth.



Population

46,655,000¹ (2023)

Urban: 92.5%²

Rural: 7.5%² (2023).



Official language³

Spanish.



Area²

2,780,400 km².



System of government⁴

Federal 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 climate.

**International Time⁵**

GMT-3 (All of Argentina).

**Currency⁸**

Argentine Peso

US\$1 = ARS 1,205 (June 30, 2025).

**GDP current prices¹**

USD \$632.1 Bn. (2024).

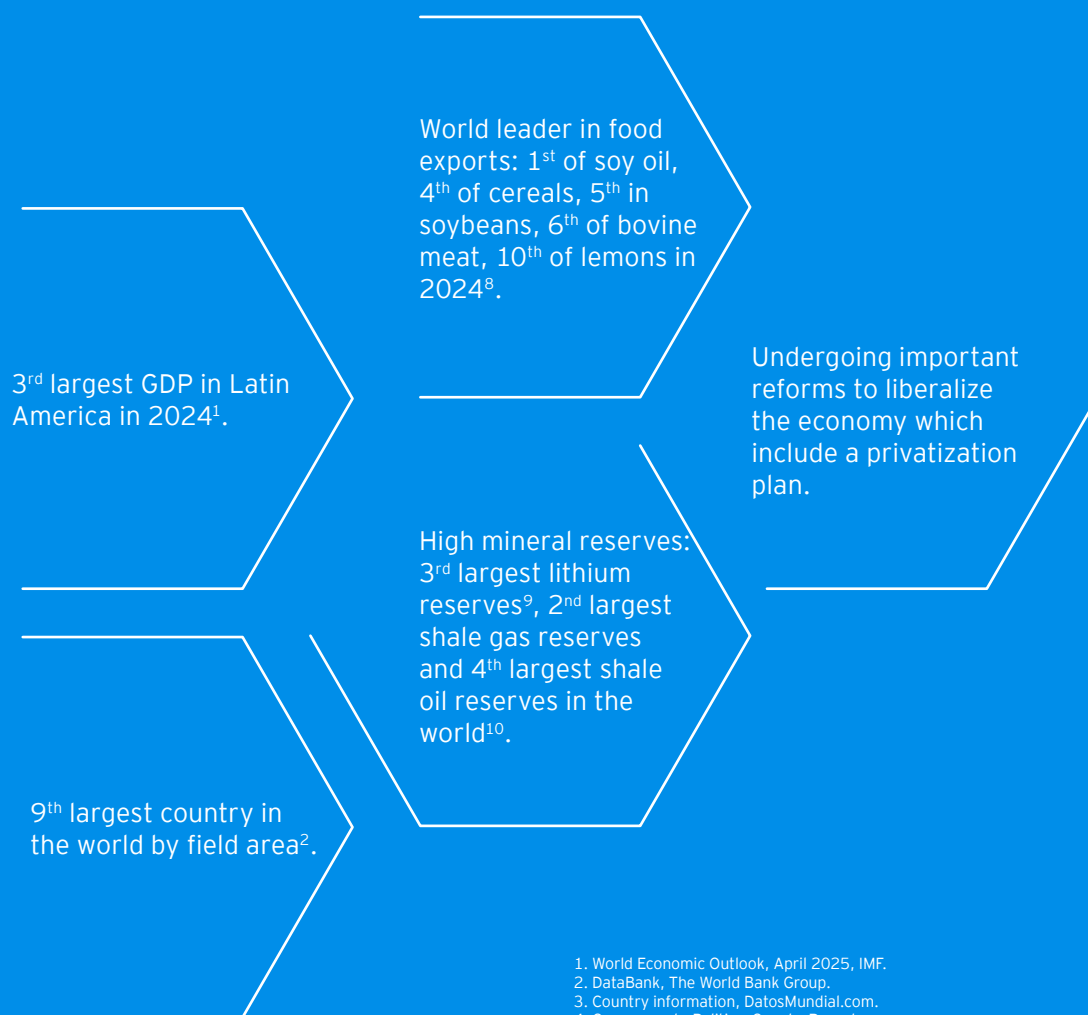
**GDP per capita (PPP)¹**

USD \$29,263 (2024).

**Key sectors⁷**

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

Why invest in Argentina?



1. World Economic Outlook, April 2025, IMF.

2. DataBank, The World Bank Group.

3. Country information, DatosMundial.com.

4. Government - Politics, CountryReports.com.

5. World Time Directory, 24timezones.com.

6. Historical exchange rates, ExchangeRates.com.

7. Country information, Encyclopedia Britannica.

8. Comtrade Database, United Nations.

9. U.S. Geological Survey, Mineral Commodity Summaries 2024.

10. 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.

After years of economic crisis and persistently high inflation, Argentina has begun to recover macroeconomic stability. Since mid-2024, growth has returned and inflation has slowed significantly, largely due to the strict fiscal discipline implemented by President Javier Milei's administration, which took office in December 2023. Following a contraction of 1.6% in 2023 and further decline in 2024 due to the short-term effects of economic adjustments, the economy is forecasted to rebound strongly in 2025, with growth projected to reach up to 5.5% (see figure 2).

Inflation, which peaked at 211.4% in 2023 –its highest level in six years– dropped to 117.8% in 2024 and it's expected to reach 20% in 2025 (see figure 5).

Argentina recently secured a USD 20 billion agreement with the IMF as part of a broader economic reform program aimed at restoring macroeconomic stability according to a IMF press release. The 48-month Extended Fund Facility includes an immediate USD 12 billion disbursement, with a first review scheduled for June 2025. The deal focuses on rebuilding international reserves and reinforces the government's commitment to tighter fiscal and monetary policies, along with exchange rate reforms.

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.

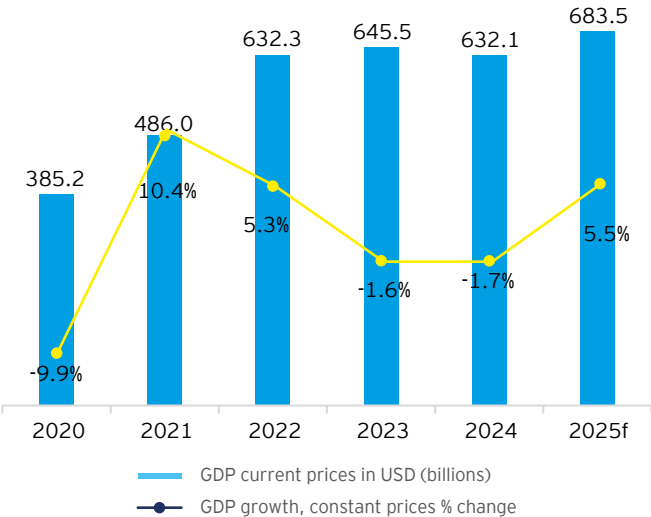
It has the fourth largest shale oil reserve, the second largest shale gas reserve, and the third largest lithium reserve in the world. The latter has taken on an increasingly vital role due to its contribution to the development of electric transportation and the storage of energy generated from renewable sources. Additionally, it is used in industrial development for cars, pharmaceuticals, chemicals, petrochemicals, and biotechnology.

Table 1

Main Indicators	Values
GDP current prices USD bn. (2024)	\$632.1
GDP growth, constant prices % change (2024)	-1.7%
Gross domestic product per capita, current prices USD, PPP (2024)	\$29,263.1
Inflation, year-end consumer prices (2024)	117.8%
Fiscal balance (net lending (+) or net borrowing (-) of general government; % of GDP) (2024)	0.9%
Public debt (General government gross debt, % of GDP) (2024)	85.3%
Current account, % of GDP (2024)	1.0%
Investment, % of GDP (2024)	14.4%
Poverty headcount ratio at \$6.85 a day (2017 PPP, % of population) (2022)	10.9%

Sources: World Economic Outlook Database (April 2025), IMF; DataBank, The World Bank Group.

Figure 1
Gross domestic product, levels and growth

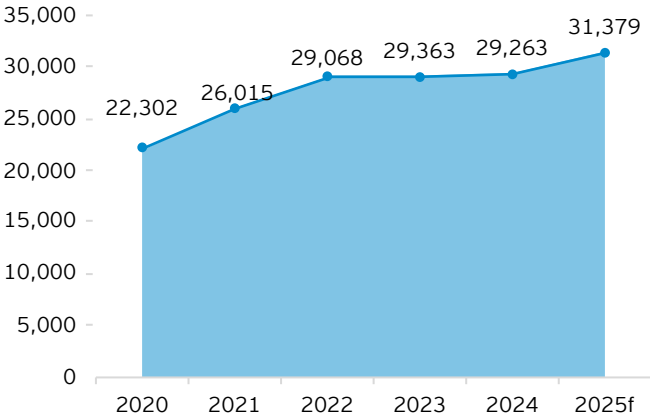


Source: World Economic Outlook Database (April 2025), IMF.

In 2024, the Argentine economy contracted by 1.7%, reflecting both the recession that began in late 2023—driven by a severe drought and deep macroeconomic imbalances—and the initial impact of the stabilization program launched in early 2024.

However, economic activity began to recover in the second half of the year and it’s expected to rebound to 5.5% in 2025 (see figure 1).

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



Source: World Economic Outlook Database (April 2025), IMF.

Argentina’s GDP per capita in terms of purchasing power parity (PPP) decreased from USD 29,363 in 2023 to USD 29,263 in 2024, reflecting the impact of ongoing economic adjustments. However, a strong rebound is expected in 2025, with GDP per capita projected to rise to USD 31,379, signaling renewed growth momentum (see figure 2).

Figure 3
Share of gross domestic product by economic sector in 2024 (current prices in USD)

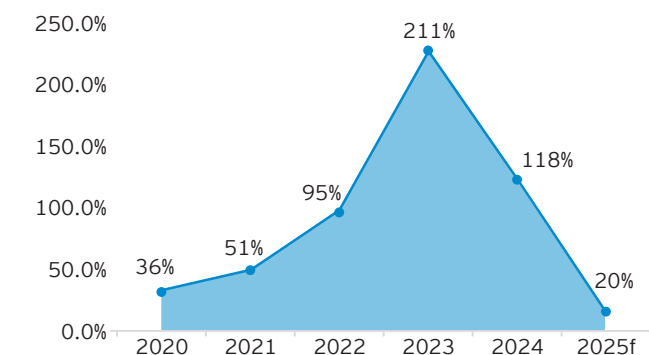


Source: CEPALSTAT, United Nations ECLAC.

The public and personal services sector, along with wholesale and retail trade and hospitality, contribute the most to the GDP. The country also has a mature manufacturing sector, accounting for 18% of its GDP. Other sectors relevant to the economy include finance and agriculture (see figure 3).

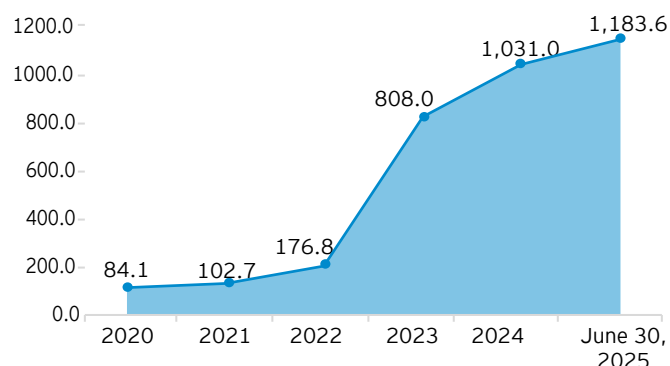
Figures 4 and 5:

Inflation (end of period consumer prices, % change)



Source: World Economic Outlook Database (April 2025), IMF.

Exchange rate of foreign currency (USD/ARS, end of period)



Source: exchange-rates.org.

After several years of continuously rising inflation, Argentina began to see a significant slowdown in 2024, especially since the second semester. Thanks to tighter fiscal and monetary policies, inflation has started to come under control, and it is expected to fall to around 20% in 2025 (see figure 4).

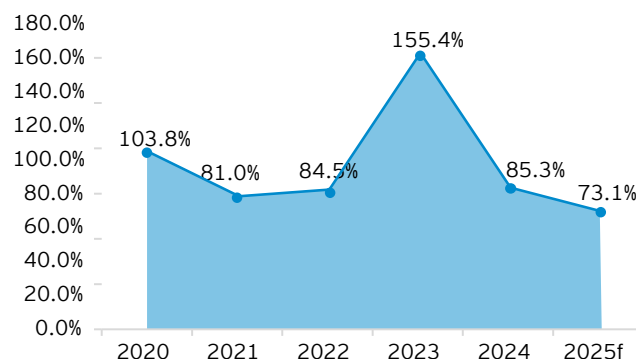
The Argentine peso has experienced significant volatility for years, and in addition to the official exchange rate, several alternative exchange rates have appeared in the foreign exchange market.

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 a trend that has continued (see figure 5).

On Friday, April 11, 2025, the Argentine government announced a significant shift in its economic policy by lifting most of the country's longstanding currency controls. Effective April 14, the Central Bank implemented a managed floating exchange rate regime, allowing the peso to fluctuate within a band of 1,000 to 1,400 pesos per U.S. dollar.

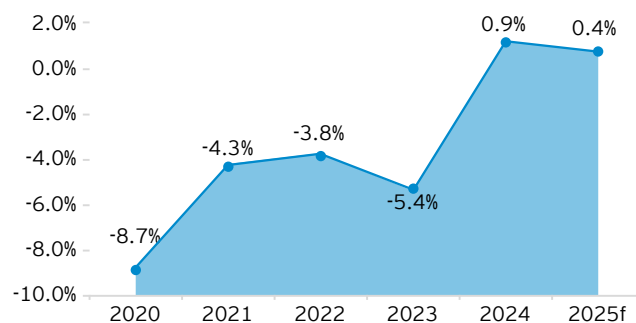
Figures 6 and 7:

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



Source: World Economic Outlook Database (April 2025), IMF.

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

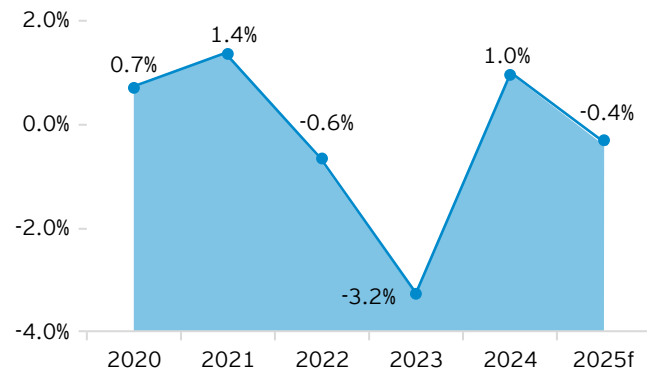


Source: World Economic Outlook Database (April 2025), IMF.

The Argentine government’s measures have begun to show results. Public debt dropped sharply from 155.4% of GDP in 2023 to 85.3% in 2024, with projections indicating a further decline to 73.1% in 2025 (see figure 6).

Additionally, Argentina recorded a fiscal surplus in 2024—the first in many years—with the fiscal balance improving significantly from a deficit of -5.4% in 2023 to a surplus of 0.9% last year (see figure 7).

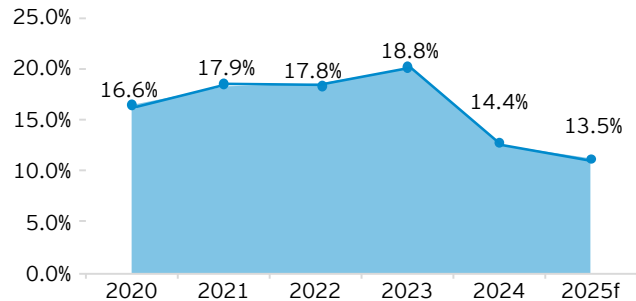
Figure 8:
Current account (% of GDP)



Source: World Economic Outlook Database (April 2025), IMF.

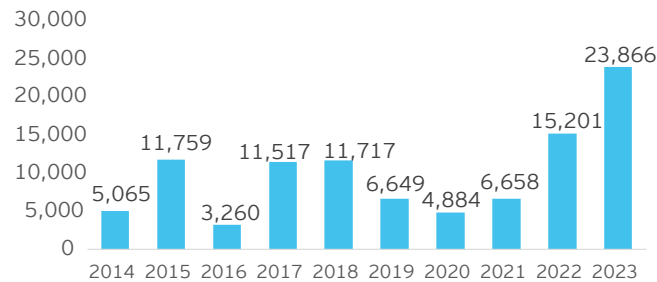
In 2024, the surplus of Argentina’s current account as a percentage of GDP reached 1% according to the IMF. Meanwhile, INDEC announced that Argentina recorded a current account surplus of USD 1.029 billion in the fourth quarter of 2024. Over the course of the year, the country posted a total current account surplus of USD 6.285 billion (see figure 8).

Figure 9:
Investment (% of GDP)



Source: World Economic Outlook Database (April 2025), IMF.

Figure 10:
FDI inflows to Argentina (USD millions)



Source: DataBank, The World Bank Group.

Argentina’s government spending restraint has caused its total investment as a percentage of GDP to fall to 14.4% in 2024 and is expected to reach 13.5% in 2025 (see figure 9).

Foreign direct investment (FDI) inflows grew strongly in 2022, surpassing pre-pandemic levels. In 2023, Argentina recorded its highest FDI inflows since 1999, amounting to US\$ 23.866 billion (see figure 10). This represented 10% of the region’s total FDI and this growing trend is expected to continue for the next years.



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:

- ▶ 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.

- ▶ 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.

- ▶ 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.

- ▶ 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.

- ▶ 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. There is also an Incentive Regime for Large Investments (known as "RIGI" in Spanish) applicable to certain industries for projects involving an investment of at least USD 200 million.

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. 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 for prior fiscal years up to 2024, but it will not be required for 2025 and onwards. 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 as of December 31st 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 June 2025, the minimum mandatory monthly salary for all employees is of ARS \$313,400 (equal to USD 261,16). 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

1.7.1. 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.

1.7.2. 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.

2.3. Entry Procedures

Life insurance must be presented upon entering Argentina, and a sworn statement of entry must be signed specifying the tasks to be performed in the country.

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 \$3.335.458,18 as of June 2025 (updated Monthly). Therefore, compensation in excess of such limit shall not generate additional Employee Social Security Contributions.

▶ Employer Contributions

The percentage of employer contributions is 18% for the minimum and 20.40% for the highest, depending on the company's activity. (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

1. Publicly traded companies

The application of IFRS® Accounting Standards, as issued by the International Accounting Standard Board (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 Accounting Standards, may apply full IFRS Accounting Standards or IFRS for SMEs® Accounting Standards, as approved by the IASB, as an option in relation to the application of Argentine Professional Accounting Standards (NCPAs) issued by the FACPCE.

In 2024, effective as of 2025, the FACPCE completed the codification of the NCPAs that were in force into what is known as the Argentine Unified Accounting Standards (NUA). The NUA entails a closer alignment with IFRS Accounting Standards in some aspects of measurement, presentation and disclosure, as well as optional differential standards (mostly simplifications) for small and medium-sized entities.

Notwithstanding that established by the FACPCE, the possibility of optional application of full IFRS Accounting Standards or IFRS for SMEs Accounting Standards must be approved by the corporate control agency corresponding to each entity. These agencies are government entities that establish the accounting standards that must be applied by the entities under their control when preparing their financial statements.

Some of these government entities incorporate as statutory accounting standards the NCPAs (including the possibility of applying IFRS Accounting Standards or IFRS for SMEs Accounting Standards); such is the case of the General Inspection of Justice of the Autonomous City of Buenos Aires (IGJ CABA), and the equivalent Provincial Inspections.

However, despite the possibility of presenting financial statements in accordance with IASB® accounting standards, in practice, the vast majority of entities subject to oversight by the IGJ CABA or the Provincial Inspections, opt to apply the NCPA issued by the FACPCE.

3. Other considerations

Pursuant to the General Corporate Law, stock companies, and limited liability companies with share capital equal to or greater than ARS 2,000 million, must deliver to the IGJ CABA and the equivalent Provincial Inspections 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

Over the past decade, Bolivia has emerged as a dynamic player in South America's economic landscape, driven by key sectors such as infrastructure, energy, and mining are at the forefront of this growth, with a particular emphasis on exploiting energy resources.

As Bolivia navigates a restructuring phase, businesses are preparing for the implementation of new fiscal and monetary policies that will arise from the upcoming presidential elections. Regardless of what party is elected, a common challenge of all the candidates will be, mainly, the fiscal policy adjustment and the funding to restructure the economy. This restructuring phase is expected to unveil new investment opportunities, particularly in lithium, iron, natural gas, and renewable energy sectors.

We are deeply convinced that investing in Bolivia will not only contribute to the development of our economy but also generate significant growth and profitability for its investors. Our dedicated team stands ready to assist you in seizing the abundant opportunities our country presents.

Our dedicated local team is committed to guiding investors through the landscape of opportunities, ensuring a smooth transition into the market.

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.



Population

12,130,000¹ (2023)

Urban: 71%²

Rural: 29%² (2023).



Official languages³

The three main languages are: Spanish, Quechua, Aymara.



Area²

1,083,300 km².





System of government⁴

Democratic and unitary republic

President: Luis Arce

Next elections: August 2025.



Climate³

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



International Time³

GMT-4 (All Bolivia).



Currency⁶

Bolivianos

US\$1 = BOB 6.91 (June 30, 2025).



GDP current prices¹

USD \$48.4 Bn. (2024).



GDP per capita (PPP)¹

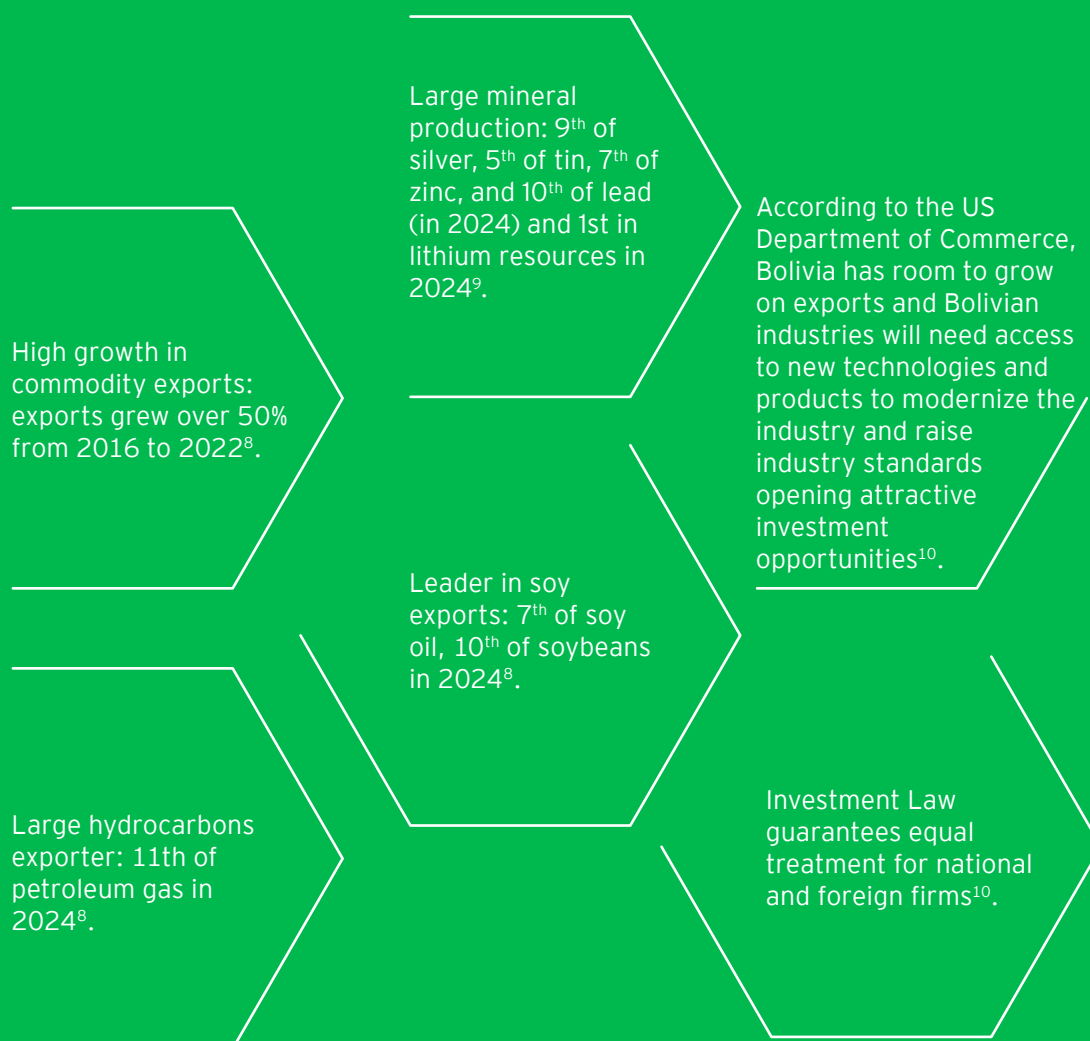
USD \$11,293 (2024).



Key sectors⁷

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, April 2025, IMF.

2. DataBank, The World Bank Group.

3. Country information, DatosMundial.com.

4. Government - Politics, CountryReports.com.

5. World Time Directory, 24timezones.com.

6. Historical exchange rates, ExchangeRates.com.

7. Country Information, Encyclopedia Britannica.

8. Comtrade database, United Nations.

9. U.S. Geological Survey, Mineral Commodity Summaries 2024.

10. Bolivia Market Overview, International Trade Administration.



Country's economic outlook

Bolivia's economy presents a unique tapestry of opportunities woven from its diverse natural resources and strategic location.

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.

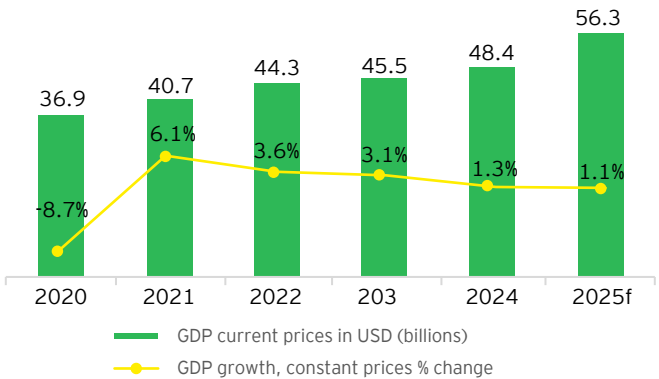
In recent years, Bolivia's economic growth has been slowing down following the post-pandemic rebound. The high level of public debt, along with declining natural gas production and shrinking international reserves, has limited the government's ability to stimulate growth and has placed pressure on the foreign exchange market, leading to the emergence of a parallel exchange rate.

Table 1:

Index	Bolivia
GDP current prices USD bn. (2024)	\$48.4
GDP growth, constant prices % change (2024)	1.3%
Gross domestic product per capita, current prices USD, PPP (2024)	\$11,292.7
Inflation, year-end consumer prices (2024)	10.0%
Fiscal balance (net lending (+) or net borrowing (-) of general government; % of GDP) (2024)	-10.3%
Public debt (General government gross debt, % of GDP) (2024)	95.0%
Current account, % of GDP (2024)	-4.3%
Investment, % of GDP (2024)	15.6%
Poverty headcount ratio at \$6.85 a day (2017 PPP, % of population) (2022)	15.2%

Sources: World Economic Outlook Database (April 2025), IMF; DataBank, The World Bank Group.

Figure 1:
Gross domestic product, levels and growth

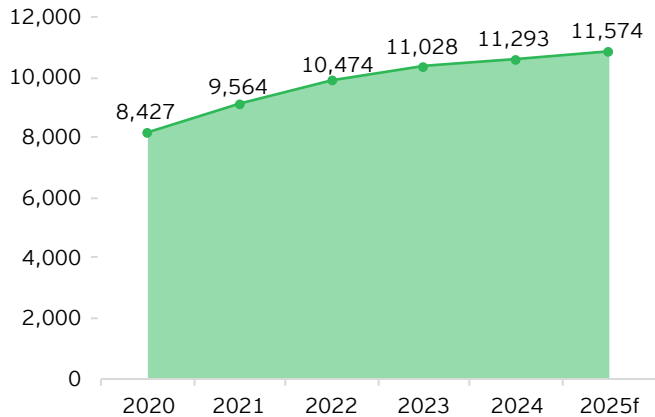


Source: World Economic Outlook Database (April 2025), IMF.

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 growth of 3.6% in 2022 and 3.1% in 2023.

However, due to persistent fiscal, monetary, exchange rate, and financial imbalances, economic growth slowed significantly to 1.3% in 2024 and is expected to decline further to 1.1% in 2025, according to the IMF (see figure 1).

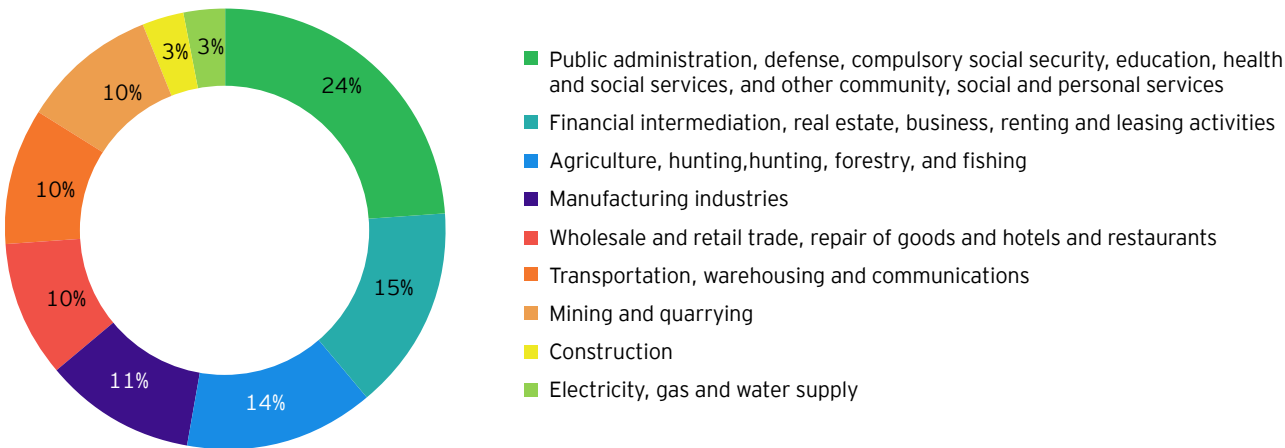
Figure 2:
Gross domestic product per capita
(current prices in USD, PPP)



Source: World Economic Outlook Database (April 2025), IMF.

After the decline registered during the pandemic, Bolivia's GDP per capita in terms of purchasing power parity (PPP) has gradually increased. It is estimated at USD 11,293 in 2024 and is projected to reach USD 11,574 in 2025 (see figure 2).

Figure 3:
Share of gross domestic product by economic sector in 2023 (current prices in USD)

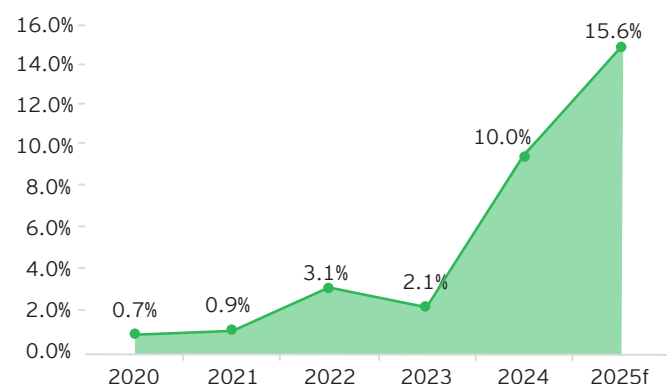


Source: CEPALSTAT, United Nations ECLAC.

The most significant sector in Bolivia is the public and personal services sector, followed by financial, real estate and renting, and agriculture. Other sectors as manufacturing, wholesale and retail trade, mining and transportation contribute a similar share in terms of GDP percentage (see figure 3).

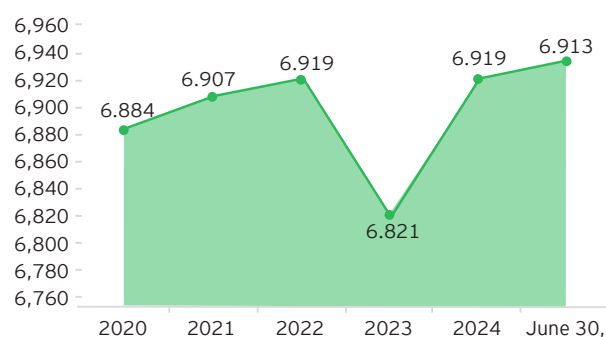
Figures 4 and 5:

Inflation (end of period consumer prices, % change)



Source: World Economic Outlook Database (April 2025), IMF.

Exchange rate of foreign currency (USD/BOB, end of period)

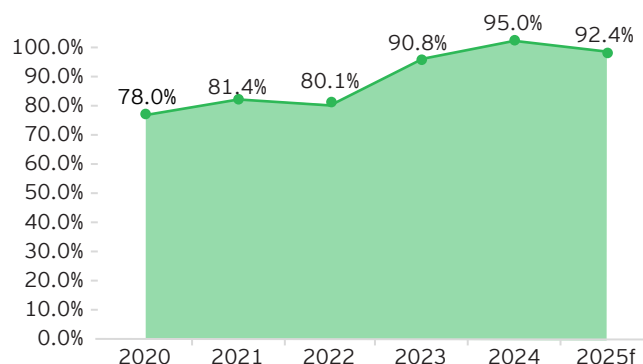


Source: exchange-rates.org.

After a decade of having one of the lowest inflation in South America, Bolivia has experienced a sharp shift, now ranking among the three countries with the highest inflation in the region, behind only Venezuela and Argentina. As of April 2025, year-on-year inflation reached 15%, and the IMF projects it will rise to 15.6% by the end of the year (see figure 4). This surge has been accompanied by an ongoing shortage of U.S. dollars, prompting the emergence of an informal foreign exchange market, where the informal dollar rate is nearly double the official rate (see figure 5).

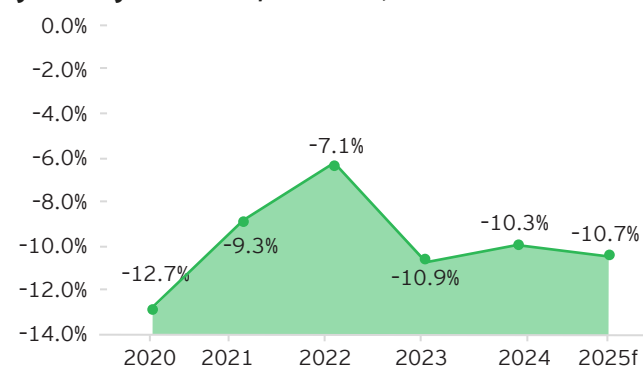
Figures 6 and 7:

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



Source: World Economic Outlook Database (April 2025), IMF.

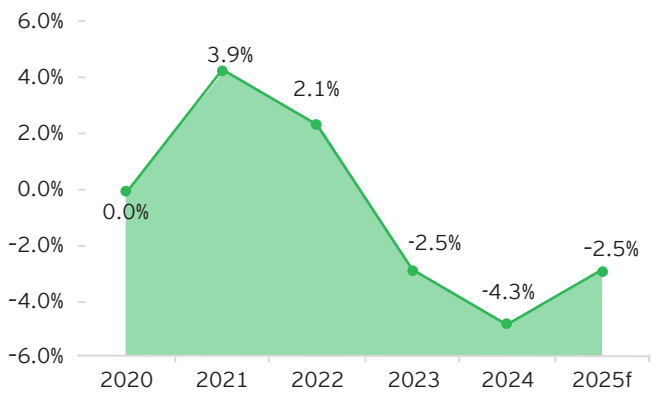
Fiscal balance (net lending (+) or net borrowing (-) of general government, % of GDP)



Source: World Economic Outlook Database (April 2025), IMF.

Bolivia's public debt reached 90.8% in 2023, continued to grow in 2024 and it's expected to reach 92.4% in 2025. Most of this debt is financed through domestic sources (see figure 6). The fiscal deficit improved from -12.7% in 2020 to -7.1% in 2022, but dropped in 2023, closing 2024 at -10.3% (see figure 7).

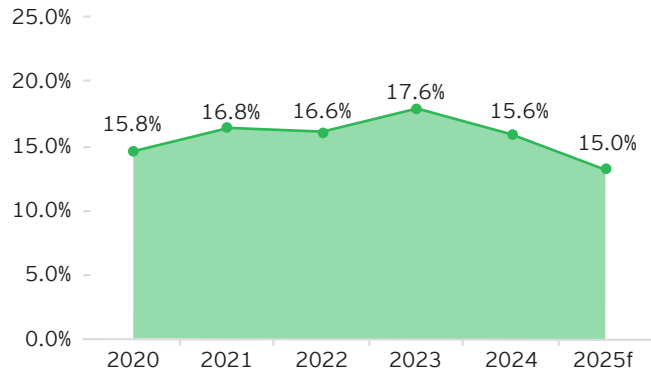
Figure 8:
Current account (% of GDP)



Source: World Economic Outlook Database (April 2025), IMF.

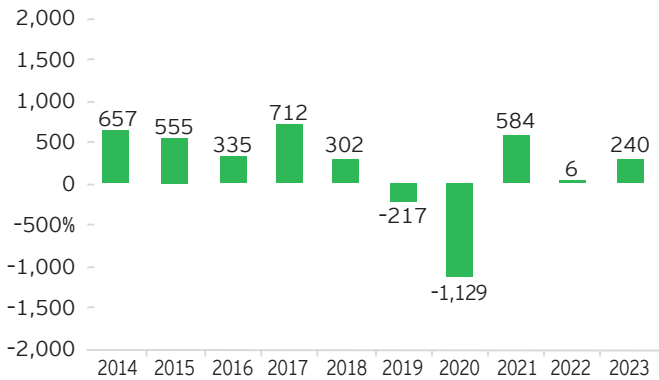
The current account recorded a surplus of 3.9% GDP in 2021 but began to decline in 2022 reaching -4.3% in 2024. It is expected to reach - 2.5% in 2025 (see figure 8).

Figures 9 and 10:
Investment (% of GDP)



Source: World Economic Outlook Database (April 2025), IMF.

FDI inflows to Bolivia (USD millions)



Source: DataBank, The World Bank Group.

Investment peaked at 17.6% in 2023 but returned to 16.5% in 2024. It's expected to decline to 15% in line with other indicators (see figure 9).

After a sharp decline in 2020, Foreign Direct Investment (FDI) inflows has shown positive figures since 2021, amounting to 240 million dollars for 2023, but has not yet fully recovered (see figure 10).



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 listed below.

2.1. 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.

2.2. 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:

- ▶ Greater than BOB15 million (USD2,155,172), a transfer-pricing study and Informative Tax Form must be filed.
- ▶ Between BOB7,500,000 (USD1,077,586) and BOB15 million (USD2,155,172), only informative Tax Form must be filed.
- ▶ 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:

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

- 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

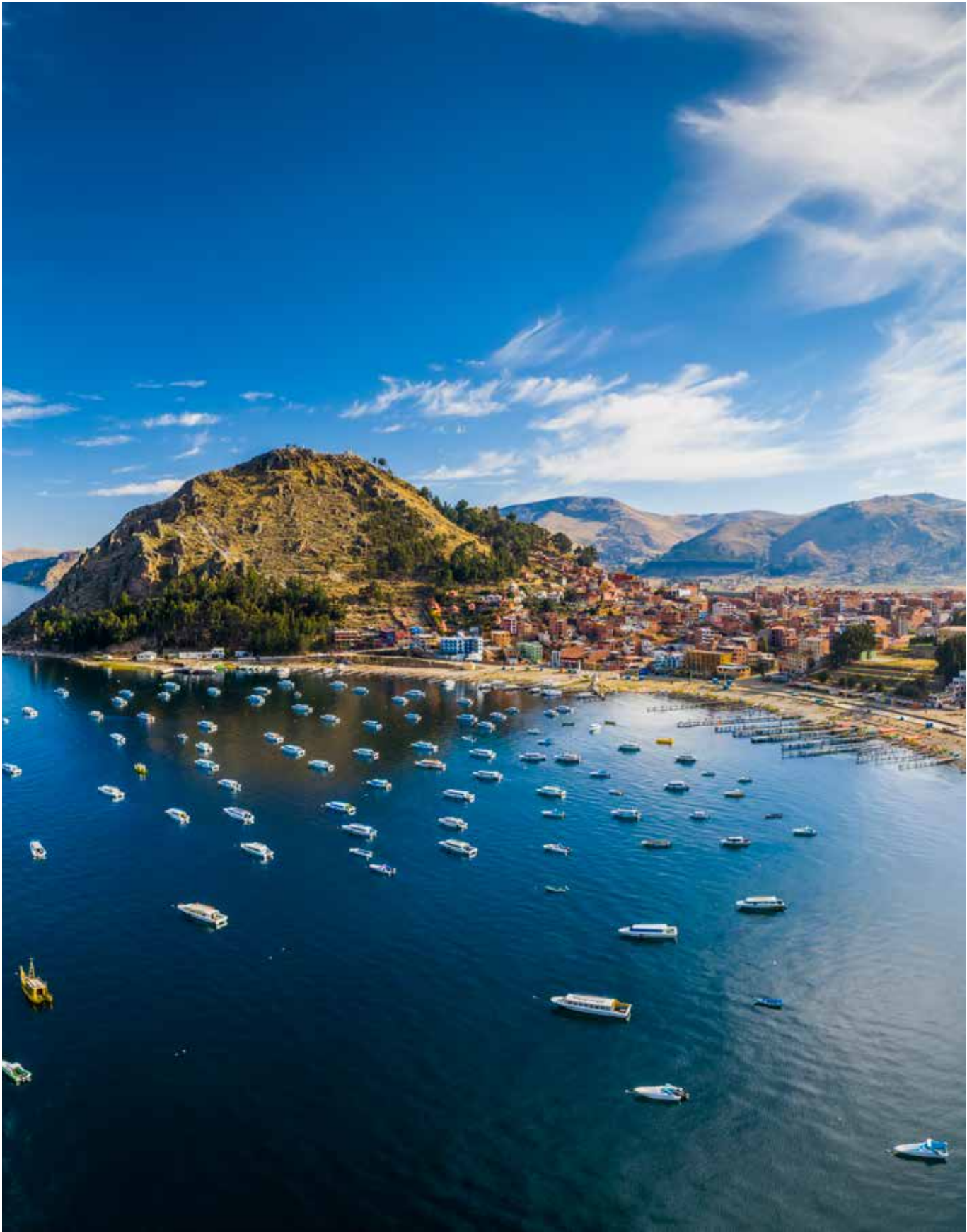
Other entities regulated by the competent authority, depending on the industry to which they correspond, except for certain entities that operate in financial services, are also required to publish financial information in accordance with the Generally Accepted Accounting Standards in Bolivia issued 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

It is with great enthusiasm that we present the new edition of "Doing Business Latam 2025-2026" that reflects the dynamics and opportunities of the business environment in Brazil and Latin America. In a constantly evolving economic landscape, where Brazil stands out as the largest economy in the region, it is essential that we pay attention to the transformations that are shaping our future.

In 2024, Brazil continued to show resilience, with a GDP growth of 3.4% and a macroeconomic environment that, despite challenges, remains solid. We are confident that, with a proactive and collaborative approach, we can turn these challenges into opportunities, ensuring a prosperous future for all. Brazil also ranks among the top countries for foreign direct investment worldwide. According to UNCTAD's World Investment Report 2024, it placed fifth globally. In 2024, Brazil saw a significant influx of foreign direct investment, totaling US\$71.07 billion.

In this context of growth and investment attraction, Tax Reform, a central topic in current discussions, promises to significantly impact companies' strategies. With the expectation of simplification and greater equity in the tax system, businesses will have the opportunity to optimize their operations and direct resources toward innovation and growth. This change will not only facilitate the business environment but also contribute to Brazil's competitiveness on the global stage.

Additionally, the responsible adoption of Artificial Intelligence is a priority for all CEOs globally and locally. Technology has the potential to reimagine all

businesses, driving efficiency and personalization of services. However, it is crucial that this adoption is carried out ethically and sustainably, ensuring that the benefits are widely shared and that we respect the rights of all stakeholders.

As we navigate this complex landscape, we find ourselves at a defining moment. Geopolitical uncertainty, supply chain disruptions, and rising stakeholder expectations are reshaping how we operate and compete. This moment presents both significant challenges and unprecedented opportunities. For EY, and for all of you, navigating this complexity requires a proactive, strategic approach. We believe this is a time not just to respond, but to lead.

Brazil is a country of immense potential and opportunity. The dynamics of our economy are transforming where we procure, where we invest, and how we grow. With an increase in digital adoption and a focus on sustainability, Brazil stands at a strategic crossroads, uniquely positioned to lead in green investment and responsible growth.

As we look ahead, we should embrace this moment with conviction. Together, we can unlock the full potential of this extraordinary market and shape a sustainable, inclusive future for all.

With that said, I invite you to explore the insights and opportunities presented in this edition of "Doing Business Latam 2025-2026."

Thank you very much.

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 and the fifth largest city in the world; 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.



Population

211,695,000¹ (2023)

Urban: 88%²

Rural: 12%² (2003)



Official language³

Portuguese.



Area²

8,358,140 km².





System of government³

Federal 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).



Currency⁶

Brazilian Real
US\$1 = BRL 5.4 (June 30, 2025).



GDP current prices¹

USD \$2,171.3 Bn. (2024).



GDP per capita (PPP)⁴

USD \$22,272 (2024).



Key sectors⁷

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

Why invest in Brazil?

10th largest GDP in the world and largest in Latin America in 2024¹.

6th largest country in the world by field area².

4th recipient of foreign direct investment in 2023².

World leader in food exports: 1st largest exporter of soy, meats (includes all categories), sugars, pulp & cellulose and coffee in 2024⁸.

World leader in other exports: 3rd of raw tobacco, 3rd of ores slag and ash among others in 2024⁸.

World leader in mineral production: 2nd largest of iron, 3rd of magnesite, 4th of bauxite, 5th of tin, 6th of lithium in 2024⁹.

1. World Economic Outlook, April 2025, IMF.
2. DataBank, The World Bank Group.
3. Country information, DatosMundial.com.
4. Government - Politics, CountryReports.com.
5. World Time Directory, 24timezones.com.
6. Historical exchange rates, ExchangeRates.com.
7. Country information, Encyclopedia Britannica.
8. Comtrade database, United Nations.
9. U.S. Geological Survey, Mineral Commodity Summaries.



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 is among the ten largest economies in the world. Following the pandemic, growth rebounded to 4.8% in 2021 and has remained strong exceeding 3%. Looking ahead, real GDP growth is projected to slow to 2.0% in 2025, reflecting the impact of higher interest rates and challenging global conditions (see figure 1). Inflation is expected to increase in the short term but gradually decline to 4.2% by 2027, aligning with the Central Bank’s target range.

Brazil maintains strong macroeconomic fundamentals, including substantial international reserves, low levels of external debt, a credible and independent Central Bank, a stable financial system, and a flexible exchange rate regime.

The country 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 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.

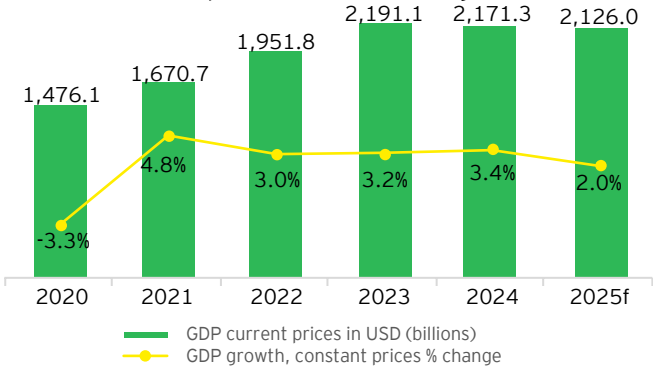
Table 1:

Main Indicators	Value
GDP current prices USD bn. (2024)	\$2,171.3
GDP growth, constant prices % change (2024)	3.4%
Gross domestic product per capita, current prices USD, PPP (2024)	\$22,271.9
Inflation, year-end consumer prices (2024)	4.8%
Fiscal balance (net lending (+) or net borrowing (-) of general government; % of GDP) (2024)	-6.6%
Public debt (General government gross debt, % of GDP) (2024)	87.3%
Current account, % of GDP (2024)	-2.8%
Investment, % of GDP (2024)	16.9%
Poverty headcount ratio at \$6.85 a day (2017 PPP, % of population) (2022)	23.5%

Sources: World Economic Outlook (April 2025), IMF; DataBank, The World Bank Group.



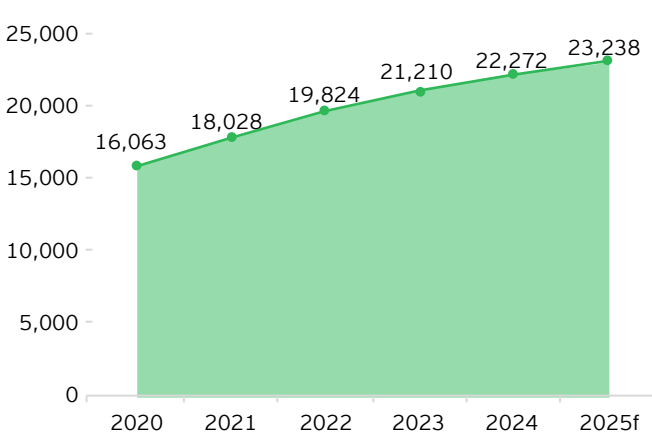
Figure 1:
Gross domestic product, levels and growth



Source: World Economic Outlook Database (April 2025), IMF.

Brazil's economy has shown resilience in recent years, from 2021 to 2024, GDP increased annually over 3.0%. Robust private consumption, supported by social assistance programs, was the primary factor behind demand growth, while the services and agriculture sectors significantly contributed on the supply side. Improvements in the labor market also helped lower poverty and inequality levels. However, looking ahead, tighter monetary policy combined with less favorable global conditions is expected to slow Brazil's economic growth to around 2% in 2025 (see figure 1).

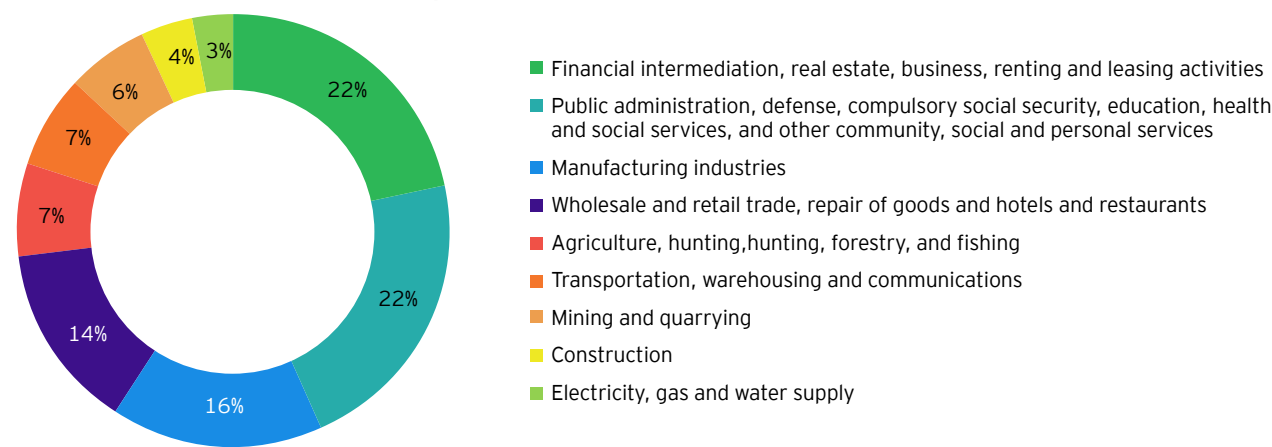
Figure 2:
Gross domestic product per capita, current prices (in USD, PPP)



Source: World Economic Outlook Database (April 2025), IMF.

The GDP per capita in terms of purchasing power parity (PPP) has increased substantially over the last years reaching USD 22.272 in 2024 and is expected to maintain this trend (see figure 2).

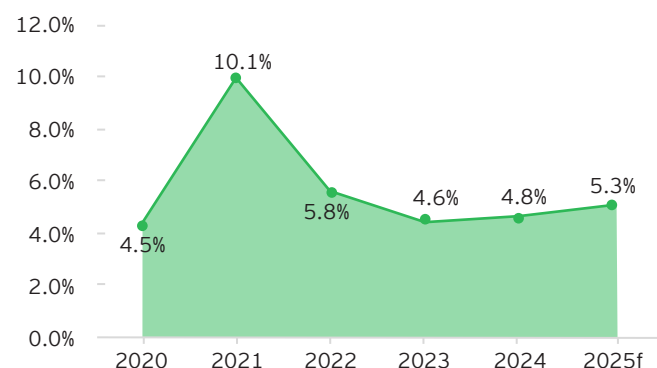
Figure 3:
Share of gross domestic product by economic sector in 2022 (current prices in USD)



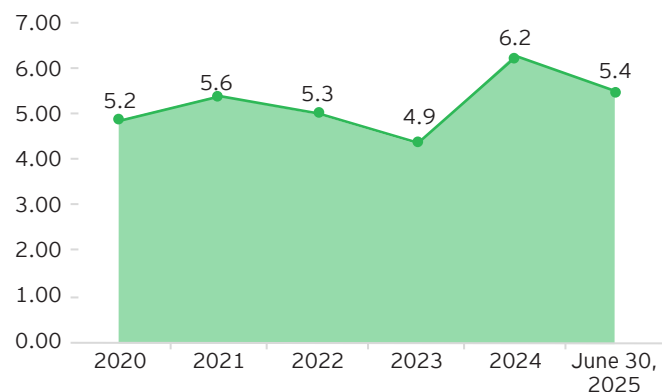
Source: CEPALSTAT, United Nations ECLAC.

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 and wholesale and retail trade. Other sectors such as agribusiness, transportation and communications, and mining are also important contributors.

Figures 4 and 5:**Inflation (end of period consumer prices, % change)**

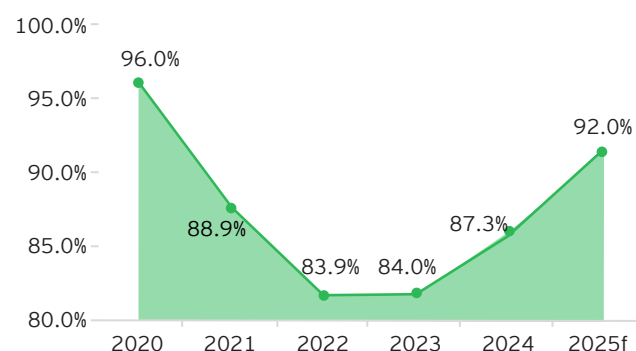
Source: World Economic Outlook Database (April 2025), IMF

Exchange rate of foreign currency (USD/BRL, end of period)

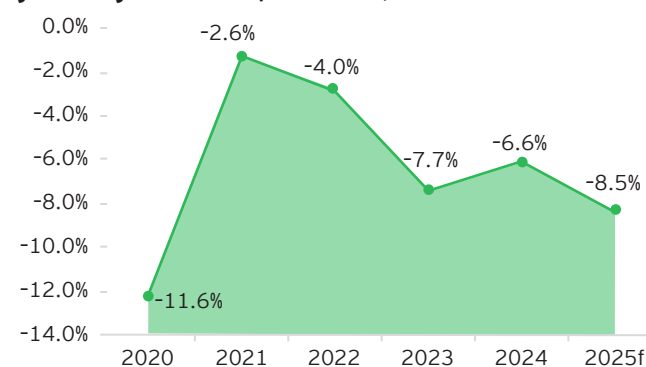
Source: exchange-rates.org.

After a significant decline in inflation following the 2021 peak, Brazil's inflation has begun to rise again. In 2024, it closed at 4.8%, exceeding the Central Bank's target, and is projected to increase further to 5.3% in 2025, according to the IMF (see figure 4). In response, the Central Bank of Brazil has raised its policy rate to 14.75%, its highest level since August 2006.

Although the Brazilian real appreciated in 2022 and 2023, it suffered a steep depreciation in 2024, falling from 4.9 to 6.2 BRL/USD, but it is expected to recover in 2025 (see figure 5).

Figures 6 and 7:**Public debt (General government gross debt, % of GDP)**

Source: World Economic Outlook Database (April 2025), IMF

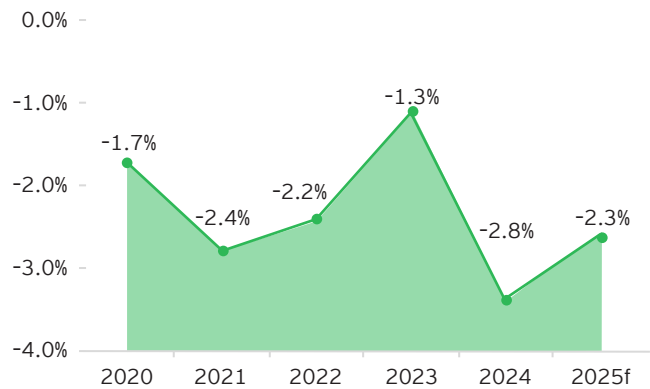
Fiscal balance (net lending (+) or net borrowing (-) of general government, % of GDP)

Source: World Economic Outlook Database (April 2025), IMF

Public debt is estimated to continue growing. In 2024 it reached 87.3% and the IMF expects it to rise to 92.0% in 2025 (see figure 6).

The fiscal balance improved in 2024; however, it is projected to deteriorate, reaching a deficit of 8.5% in 2025 (see figure 7).

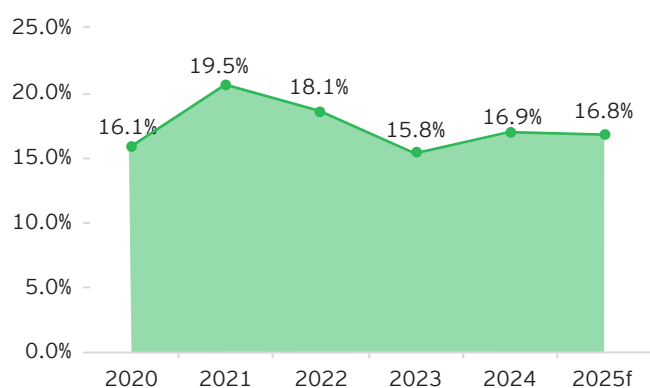
Figure 8:
Current account (% of GDP)



Source: World Economic Outlook Database (April 2025), IMF

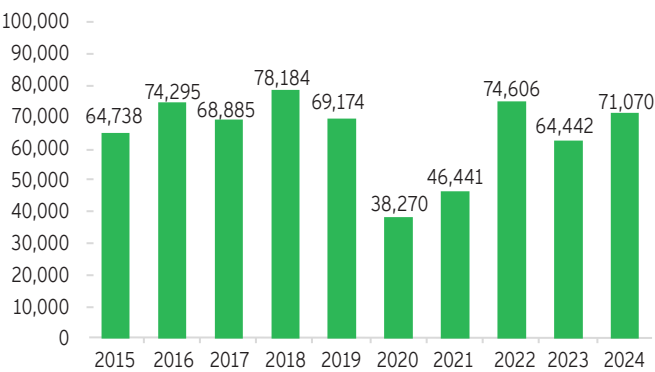
The current account deficit rose to 2.8% of GDP in 2024, mainly due to increased imports of goods and services. However, it is expected to improve in 2025, narrowing to -2.3% (see figure 8).

Figure 9 and 10:
Investment (% of GDP)



Source: World Economic Outlook Database (April 2025), IMF.

FDI inflows to Brazil (USD millions)



Source: DataBank, The World Bank Group.

Brazil ranks among the top recipients of foreign direct investment worldwide. According to UNCTAD's World Investment Report 2024, it placed fifth globally. In 2024, Brazil saw a significant influx of foreign direct investment, totaling US\$71.07 billion. This represents a 13.8% increase compared to the US\$62.442 billion received in 2023, further solidifying Brazil's position as a top global destination for FDI (see figure 10).

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 opportunity 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	A minimum of 2 shareholders is required*, whether individuals or legal entities, Brazilian or foreign. There are two main types of corporations: 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). 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. * Exception: “Subsidiária Integral” - wholly-owned subsidiary.	May be incorporated by 1 or more partners, individuals, or legal entities, whether Brazilian or foreign. 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.
Liability	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.	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.
Meetings	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.	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.

	Corporation	Limited Liability Company
Management	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. 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. 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. 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. 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.	The management is performed by one or more persons, residents in Brazil or not, called “administrator” or “director”. 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. 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. 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.) 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.

	Corporation	Limited Liability Company
Profit Distribution and Reserves	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. 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). 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. 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.	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. 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. Constitution of any reserves is not mandatory. However, a Limited Liability Company can constitute reserves by dispositions of the Articles of Association.





Tax Regime

1. General Overview

1.1. Corporate Income Tax Rate:

34% combined rate.

1.2. Capital Gains Tax Rate:

For resident companies, suggest making IRPJ/CSLL to be consistent with references below.

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), at a rate of 0.38% until May 22, 2025, and 3.5% starting May 23, 2025 (please refer to “5.1. Recent changes to tax law” comments below).

- ▶ 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. The import of services should also be subject to PIS/COFINS-import at the rate of 9.25%

- ▶ 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%.

2.2.1. Pillar Two: In December 2024, the Brazilian Government published Federal Law 15,079/2024, which implemented the Pillar Two rules in Brazil, introducing the Qualified Domestic Minimum Top-up Tax (QDMTT) top-up tax through an additional rate over the CSLL. The Brazilian QDMTT rules are largely aligned with the Global anti-Base Erosion (GloBE) Model Rules and are effective for fiscal years starting on or after 1 January 2025. It remains unclear whether Brazil plans to implement the Income Inclusion Rules (IIR) or the Undertaxed Payments Rule (UTPR) in the future.

2.3. Dividends

Tax exempt

Note that in March 2025, the Brazilian Government presented to Congress a bill of law that would reintroduce withholding taxes on dividends paid to nonresident shareholders (both foreign individuals and legal entities). Thus, if the proposed bill is approved, nonresidents would become subject to a 10% withholding income tax and if the profits that generate the dividends (computed together with the 10% withholding) exceeds the 34% combined corporate income tax rate, the nonresident may claim a credit equal to the positive difference. If enacted this year, the new rule would take effect on 1 January 2026. Both chambers of the National Congress (the Chamber of Deputies and the Senate) still need to discuss and approve the bill through multiple voting rounds and this typically takes time, and the current wording of the bill may be amended during subsequent stages.

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, the 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.

Note that the IOF-FX has historically been used as a means of currency control. Unlike changes to many taxes and contributions in Brazil, changes to the IOF rate can be introduced by Decree with immediate effect. Therefore, at the time of the remittance, the current rate should be confirmed.

3.3. Transfer pricing

New transfer pricing rules came into effect (optional for FY 2023 and mandatory for FY 2024), 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. Recent changes to tax law

Federal Government has recently introduced changes to the tax law in Brazil that will have broad implications across multiple sectors:

- ▶ On 22 May 2025, the Brazilian Government published Decree 12,466/2025, introducing changes that significantly increase tax rates applicable to credit transactions (IOF-credit) as well as many foreign exchange transactions (IOF-FX). The changes also roll back previous attempts to effectively remove IOF-FX by 2 January 2029. The changes have very broad impact and most of them will produce effects immediately from May 23. Although not all cross-border transactions have been impacted, the general rates of IOF-FX for outbound transactions have been increased and significant rate increases will apply to certain items. As such, it is important for companies performing credit and cross-border transactions to carefully consider whether their operations are impacted. On 11 June, the Government published Decree No. 12,499/2025, effectively reverting some of the recent changes to the Tax on Financial Operations (IOF) legislation introduced in May 2025. These changes are effective immediately from 12 June 2025 and included a reduction to 0% on the return of foreign investment, which represents a significant relief for foreign investment. These changes are currently subject to ongoing discussion and therefore may be subject to change prior to publication.

- Also on 11 June 2025, the Brazilian Government published Provisional Measure No. 1,303/2025 (the PM), which introduces increases in the taxation of Interest on Net Equity (INE) payments, certain financial investments and corporate income tax for financial institutions, among other provisions. These changes should take effect from 1 January 2026. The PM also includes increases in the taxation of online betting operations, effective 1 October 2025.

Note that a Provisional Measure is a provisional law issued by the executive branch of the Brazilian Government that has the authority of law until it is acted upon (amended or converted) by the Congress within a prescribed 60-day period (extendable by one additional 60-day period). If Congress does not act within this period, then the measure expires. Therefore, it is important for companies investing in Brazil to monitor the legislative and political environment in the next following months.

5.2. Green taxes:

Although Brazil does not yet have a specific carbon tax, the country has taken a significant step forward with the enactment of Law No. 15,042, dated December 11, 2024, which established the Brazilian Greenhouse Gas Emissions Trading System (SBCE - Sistema Brasileiro de Comércio de Emissões). This legislation lays the foundation for a regulated carbon market in the country, introducing mandatory emissions limits for specific sectors and enabling the trading of carbon credits. In parallel, Brazil also maintains an active voluntary carbon market, where companies can generate and trade credits through certified environmental projects.

In addition, a selective tax is currently under consideration as part of Brazil's tax reform, which will impose a single-phase incidence on the production, commercialization, extraction, or importation of products harmful to health and the environment. This measure aims to discourage the use of such products while generating revenue for public health and environmental initiatives.

5.3. Customs duties

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

5.4. Stamp Duties: N/A

5.5. Other taxes: N/A

5.6. 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 1,518 (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 is due.

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

1.6.1. 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%.
- Please note that there is no ceiling associated to the employer's social security contribution in Brazil.

▶ Employee contribution

Progressive rates variable according to the monthly compensation capped at BRL 951.62/month (applicable in 2025).

1.6.2. Employee's Severance Fund - FGTS

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

1.6.3. 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.

Please note that certain deductions on the income tax calculation basis are allowed by tax law (i.e. dependents, employee's social security contribution, private pension plan - PGBL, etc).

1.7. Foreign workers

1.7.1. 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 limited to 30 days, instead of 90 days.

1.7.2. 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. (some requirements associated to the split salary arrangement are recommended to be taken into consideration in order to avoid risks/ labour exposures in Brazil).
- ▶ 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).

- ▶ Considering the scenarios where the compensation of an international assignee is paid both in Brazil and in the host country (split payment arrangement), although the collection of social security and labour charges on the portion of income received abroad is not expressly provided in the legislation, there is also no provision allowing the non-collection of such charges over the employee's worldwide gross compensation. This understanding is reinforced by the following regulations:

Regarding the Severance Fund (FGTS), Article 15 of Law #8,036/90 (FGTS Law) states that the compensation received by regular employees ("celetista") should be subject to the FGTS, without distinguishing whether it is due on Brazilian or global income. Furthermore, Normative Instruction #02/2021 (which revoked IN #144/2018 but kept the same provisions), issued by the Ministry of Labour and Employment (Ministério do Trabalho e Emprego - MTE), provides guidelines for labour auditors to audit Companies that do not collect the FGTS on professionals in international assignments global gross compensation.

The Social Security (INSS) Law #8,212/91 states in Article 28 that any income received by the employee will be considered as basis for social security contributions. In addition, paragraph 8 of this legal provision sets out an exhaustive list of exempt income, which does not include the portion of remuneration received abroad and paid through foreign payroll.

- ▶ 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, payroll and ancillary obligations 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.

1.7.3. 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%.
- ▶ Unlike most countries, from a Brazilian tax standpoint, the source of payment is defined according to the place where the payer is physically located, regardless of the country in which the services are provided. Therefore, income paid by a Brazilian entity is considered local-sourced, while income paid abroad is considered of foreign sourced.

- ▶ 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").
- ▶ Non-residents are subject to the collection of income tax only over local sourced income (Brazilian source) at a 25% flat income tax rate (no deductions allowed).
- ▶ 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 collected via tax voucher DARF 0190 - Carnê-Leão) 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. Although the tax collection is annual through the Annual Income Tax Return, it is essential to carry out a monthly assessment of any gains throughout the calendar year for the purposes of (i) reporting and accurate calculation of the tax due and (ii) financial planning for the payment of the total tax due on an annual basis. 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	No legal provision in the Brazilian legal system, even though holding is not prohibited. 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”). 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.	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%. 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). 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.
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. There is a possibility to offset losses against gains obtained and it is also possible (if legal requirements are met) to use income tax paid abroad as a tax credit in Brazil.

Topic description	Up to December 31, 2023	Law 14,754/2023 (starting January 1, 2024)
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.	
Controlled entities (offshore companies)	Deferral of taxation until the moment the resources are effectively made available to the individual residing in Brazil. 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).	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%. 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).

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.

- 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

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.

4. 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, together with the highest human capital in the region and a strong and growing sector services, make 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, it stands out in industries such as mining (mainly copper and lithium), agriculture (grapes, apples, berries, cherries), forestry, and fishing (including aquaculture). 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.



Population

19,961,000¹ (2023)

Urban: 88%²

Rural: 12%² (2003).



Official language³

Spanish.



Area²

743,532 km².





System of government⁴

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).



Currency⁶

Chilean peso
US\$1 = CLP 931.5 (June 30, 2025).



GDP current prices¹

USD \$330.2 Bn. (2024).



GDP per capita (PPP)¹

USD \$33,756 (2024).



Key sectors⁷

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 have 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 and current prices) in 2024¹.

World leader in mineral production: 1st of copper, 6th of silver among others in 2024. 19% of copper reserves and 31% of lithium reserves in 2024¹¹. World's largest exporter of lithium carbonate and lithium sulfate, accounting for 79% and 40% of total global exports by 2023, respectively¹².

World leader in food and forestry exports: 4th exporter of wines, 6th of fruit and nuts, 4th of pulp and cellulose, 3rd of fish & seafood, 2nd of ores, slag and ash, among others in 2024¹³.

35 international trade agreements and double taxation treaties signed with over 65 countries in 2024⁸.

1st South American country to become a member of the OECD⁸.

1st in Global Talent Competitiveness Index in South America in 2023⁹.

Developed infrastructure: Ranking 1st in Latin America¹⁴.

1st in Renewable energy country attractiveness in the region and 3rd in the world in normalized ranking 2024¹⁰.

1. World Economic Outlook, April 2025, IMF.

2. DataBank, The World Bank Group.

3. Country information, DatosMundial.com.

4. Government - Politics, CountryReports.com.

5. World Time Directory, 24timezones.com.

6. Historical exchange rates, ExchangeRates.com.

7. Country information, Encyclopedia Britannica.

8. Country commercial guide, Privacy Shield Framework.

9. Global Talent Competitiveness Index 2023 rankings, Insead.

10. Renewable Energy Country Attractiveness Index, 63 edition, EY.

11. U.S. Geological Survey, Mineral Commodity Summaries.

12. Under-Secretary for International Economic Relations, Chilean Government.

13. Comtrade database, United Nations.

14. Infrastructure by country 2025, World Population Review.



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 the International Monetary Fund (IMF) estimates, the country closed 2024 with a GDP per capita in current dollars at purchasing power parity of USD 33,756 surpassing the \$31,000 mark, a goal achieved by only one in every 3 countries around the world (see figure 2).

In 2023, Chile’s economy slowed significantly, growing by just 0.5% as it continued to adjust following the imbalances caused by the pandemic. In 2024, growth rebounded to 2.6%, and the IMF projects a slight adjustment in 2025, with an expected growth of around 2% (see figure 1).

Inflation closed last year at 3.9%, is expected to reach 4.5% in 2025 and hit its target of 3.9% in 2026 (see figure 4).

Chile has an open market 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 31% of the world’s reserves. Also, 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.

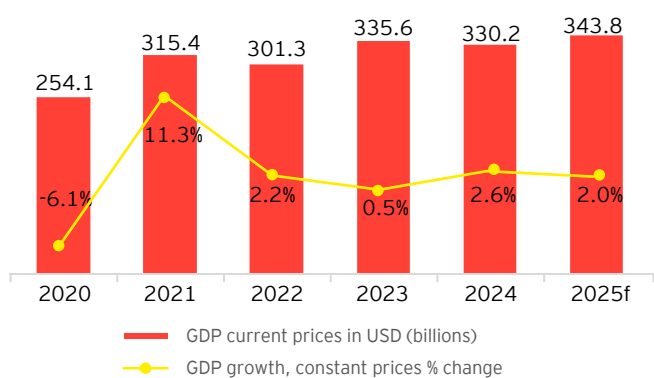
In addition to mining, the country is one of the 15 largest agricultural exporters in the world, according to the Foreign Investment Promotion Agency (InvestChile), and it is a global leader in the export of blueberries, cherries, grapes, prunes, dried apples, salmon, mussels, etc. The financial, personal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

Table 1:

Main Indicators	Values
GDP current prices USD bn. (2024)	\$330.2
GDP growth, constant prices % change (2024)	2.6%
Gross domestic product per capita, current prices USD, PPP (2024)	\$33,756
Inflation, year-end consumer prices (2024)	4.5%
Fiscal balance (net lending (+) or net borrowing (-) of general government; % of GDP) (2024)	-2.7%
Public debt (General government gross debt, % of GDP) (2024)	42.0%
Current account, % of GDP (2024)	-1.5%
Investment, % of GDP (2024)	23.2%
Poverty headcount ratio at \$6.85 a day (2017 PPP, % of population) (2022)	4.7%

Sources: World Economic Outlook Database (April 2025), IMF; DataBank, The World Bank Group.

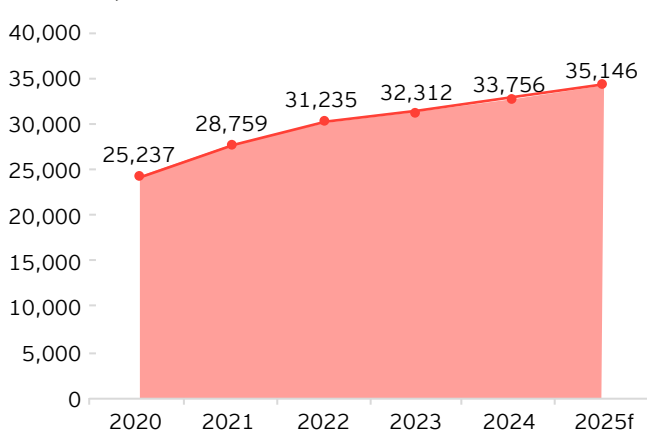
Figure 1:
Gross domestic product, levels and growth



Source: World Economic Outlook Database (April 2025), IMF.

In 2024, growth rebounded to 2.6%, supported by stronger domestic demand and improved external conditions. However, for 2025, the IMF projects a modest slowdown to 2%, reflecting tighter financial conditions, lower global demand, and reduced momentum in investment and consumption (see figure 1). Additionally, risks linked to global trade dynamics could further weigh on the country’s economic performance.

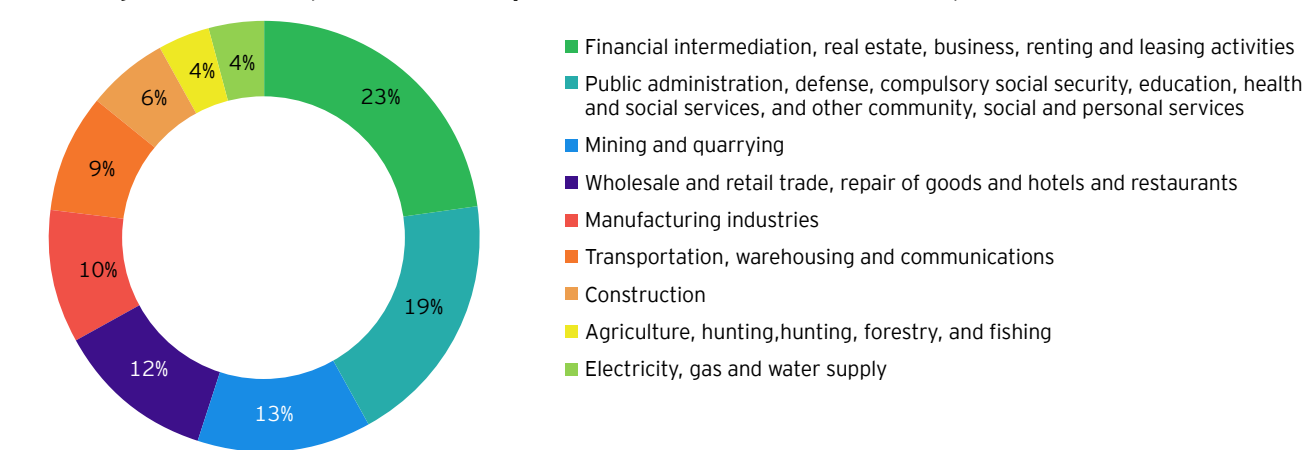
Figure 2:
Gross domestic product per capita (current prices in USD, PPP)



Source: World Economic Outlook Database (April 2025), 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 35.146 in 2025 (see figure 2).

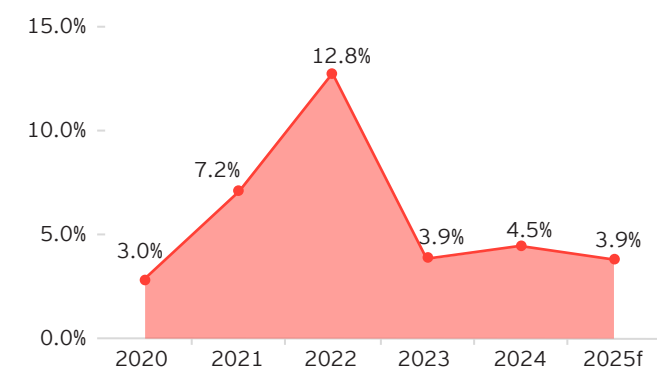
Figure 3:
Share of gross domestic product (GDP) by economic sector in 2024 (current prices in USD)



Source: CEPALSTAT, United Nations ECLAC.

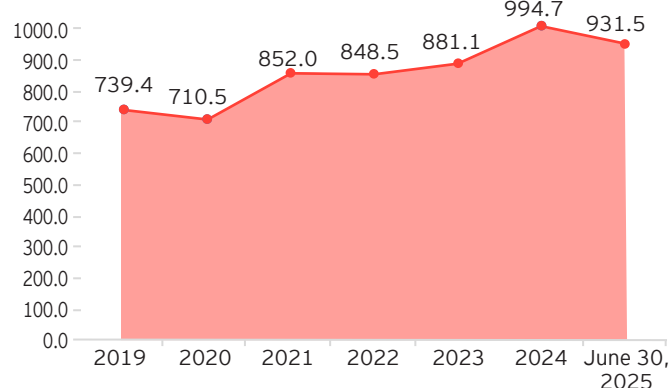
The sectors that contribute most to the Chilean GDP are financial services, real estate and rentals; followed by public administration, defense, healthcare, social security and personal services. Mining, wholesale and retail trade and manufacturing follow in relevance (see figure 3).

Figures 4 and 5:
Inflation (end of period consumer prices, % change)



Source: World Economic Outlook Database (April 2025), IMF.

Exchange rate of foreign currency (USD/CLP, end of period)



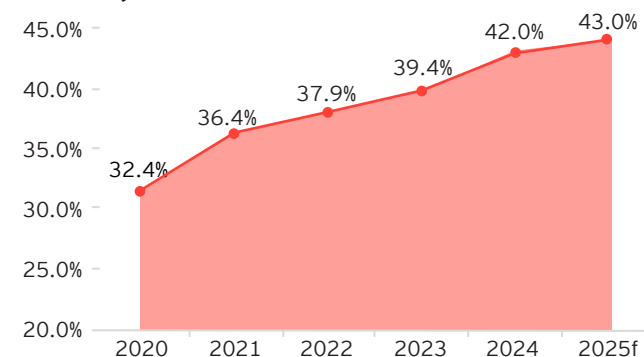
Source: exchange-rates.org.

While Chile had consistently met its ~3% inflation target in previous years, inflation surged in 2021 and 2022 due to pandemic-related imbalances, reaching a peak of 12.8% in 2022. A decisive monetary policy response—marked by one of the most aggressive rate hikes in the region—helped bring inflation down. The Central Bank raised its policy rate to a peak of 11.25% in 2022 to contain price pressures. As a result, inflation gradually declined, closing 2023 at 3.9%. However, inflation edged up again in 2024, reaching 4.5%, and is projected to ease slightly to 3.9% in 2025 (see figure 4). The Central Bank expects inflation to return to its 3% target by 2026. These figures remain

above the IMF's forecast of 3% for the next two years, highlighting persistent inflationary pressures despite a gradual easing in interest rates throughout 2024 and early 2025.

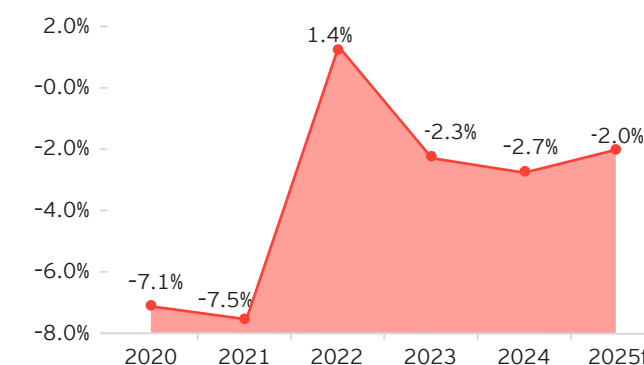
Meanwhile, the Chilean currency depreciated continuously since 2021, closing 2024 with an exchange rate of 994,7 Chilean pesos = 1 USD, but has shown signs of recovery since then (see figure 5).

Figures 6 and 7:
Public debt (General government gross debt, % of GDP)



Source: World Economic Outlook Database (April 2025), IMF.

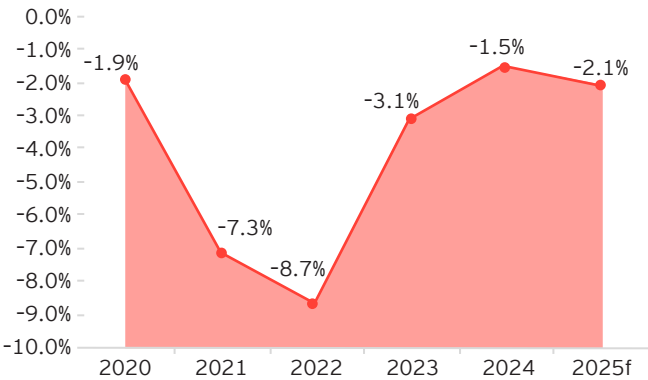
Fiscal balance (net lending (+) or net borrowing (-) of general government, % of GDP)



Source: World Economic Outlook Database (April 2025), IMF.

Following an upward trend in recent years, the IMF estimates that public debt in Chile will reach 43% of the GDP in 2025, remaining low compared to the average of Latin America (70%) and emerging and developing economies (70%) (see figure 6). In terms of fiscal deficit, after a fiscal surplus in 2022, a deficit of -2.3% was recorded in 2023 and -2.7% in 2024 (see figure 7).

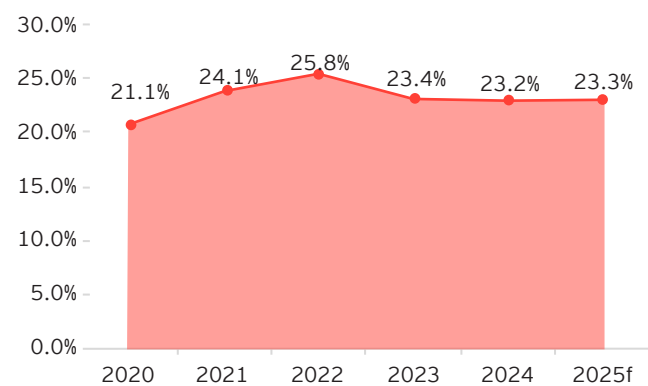
Figure 8:
Current account (% of GDP)



Source: World Economic Outlook Database (April 2025), IMF.

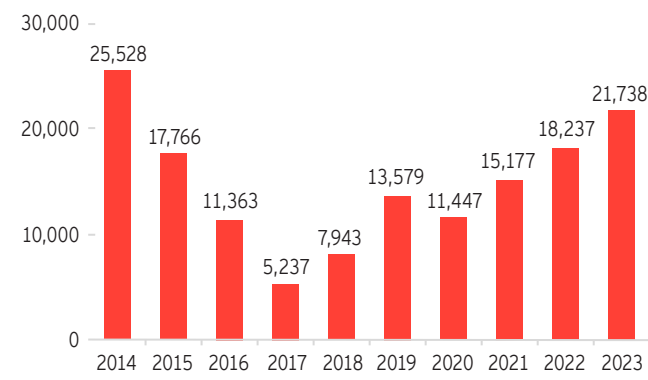
In 2024, Chile’s current account recorded a deficit of US\$4.853 billion, equivalent to 1.5% of the country’s GDP, according to the Central Bank. For 2025, IMF expects a current account of -2.1% (see figure 8).

Figure 9:
Investment (% of GDP)



Source: World Economic Outlook Database (April 2025), IMF.

Figure 10:
FDI inflows to Chile (USD millions)



Source: DataBank, The World Bank Group.

For 2025, investment in Chile as a percentage of GDP is projected to remain at 23%, similar to 2023 and 2024, according to IMF estimates (see figure 9).

According to data from the Central Bank, through December 2024, Chile registered a foreign direct investment (FDI) inflow of US\$15.3 billion. This marks the third-largest annual FDI inflow in the past nine years, following the high levels of US\$21.7 billion in 2023 and US\$18.2 billion in 2022 (see figure 10). In 2023, FDI in Chile represented 9% of the region’s total FDI inflows.



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:

- ▶ **Shareholders:** Formed by a minimum of 2 shareholders, with no maximum number of shareholders.
- ▶ **Types:** Stock corporations can be classified as open or closed.
- ▶ **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).
- ▶ **Closed Stock Corporations:** All other stock corporations that do not meet the criteria to be Open Stock Corporations (S.A.A.).

- ▶ **Liability:** The liability of the shareholders is limited to the amount of their shares.
- ▶ **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.
- ▶ **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.
- ▶ **Transfer of shares:** There is no legal limitation to the transfer of shares.
- ▶ **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:

- ▶ **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.
- ▶ **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.
- ▶ **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.).

- ▶ 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:

- ▶ 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.
- ▶ Liability: The liability of the shareholders is limited to the amount of their shares.
- ▶ Administration: The administration of an SpA can be freely agreed upon by its shareholders in its bylaws.
- ▶ Oversight: In the same manner as closed stock corporations, SpAs are not subject to oversight by the CMF.
- ▶ 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:

- ▶ Proof that the company is legally established abroad.
- ▶ Certification that the company exists.
- ▶ An authentic copy of the company's current bylaws.
- ▶ 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:

1.4.1. 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.

1.4.2. 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.

1.4.3. 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.

1.4.4. 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.

1.4.5. 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.

1.4.6. 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.

2.1.1. 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 Global Income Tax (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 (Coproación 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 CORFO'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. For the year 2025, SMEs will have a 25% tax rate.

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 WHT 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 GIT). 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
- ▶ Income obtained by foreign controlled entities from transactions made with Chilean related parties and provided some requirements are met.

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. The Chilean tax authority update the list of countries deemed as preferential jurisdiction based on the above.

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

5.5.1. 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.

5.5.2. 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.

5.5.3. 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:** As of May 1, 2025, the minimum monthly wage is CLP 529.000. From January 1, 2026, it will be CLP 539.000.
- ▶ **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 2025, there is a monthly cap on such contributions of 87,8 units of account (Unidad de Fomento, UF) .

Additionally, there is a mandatory contribution for disability and survivors' insurance equivalent to 1.78% 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 87.8. Additionally,

according to a recent pension reform (Law N° 21.735) , contributions made by the employer will be gradually raised during a period of 9 to 11 years.

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 2025, the gross monthly remuneration that serves as the basis for these contributions has a monthly limit of UF 131.9.

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

1.7.1. 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.

1.7.2. 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 considerations

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's strategic geographic location, with access to both the Atlantic and Pacific Oceans, has positioned the country as a natural hub for connection within Latin America. Its privileged location has been recognized by multiple international companies that have chosen to establish their regional operations centers in Colombia. This geographic connectivity, along with an expanding logistics infrastructure, drives global trade and enhances the country's appeal as a competitive destination for foreign investment.

Adding to this is Colombia's wealth of natural resources, which not only represents a comparative advantage in sectors such as agriculture and mining but also offers enormous potential for the development of green businesses. Colombia is emerging as a key player in the energy transition and the sustainable economy, with growing opportunities in carbon markets, renewable energy, and nature-based solutions, essential pillars of the global sustainability agenda.

Colombia has also become a prime location for the development of service-related activities, particularly in the digital financial services and technology sectors. Startups and fintech companies have played a leading role in energizing the economy. In cities such as Bogotá, Medellín, and Cali, innovation ecosystems are gaining strength, attracting investment, and connecting talent with forward-looking solutions.

Despite global challenges, Colombia has demonstrated resilience. The country faces important fiscal and public debt challenges, but the boost to the private sector has

yielded results and will remain essential. According to the World Bank, the economy is projected to grow by 3% in 2025, placing Colombia among the six fastest-growing economies in Latin America. Currently, more than 1.5 million active companies represent 85% of GDP, generate over half of all formal employment, and contribute more than 95% of national tax revenues.

The sectors with the strongest growth prospects in 2025, above the national average, include agriculture, financial services, the creative and entertainment industries, and construction, along with a sustained recovery in trade. Colombia offers competitive conditions for investment: access to qualified talent, balanced operating costs, and a diversified supply of raw materials, all within an environment that fosters value creation in strategic sectors.

Additionally, Colombia has developed a solid network of double taxation treaties, bilateral investment protection and promotion agreements, and free trade agreements. It is a member of the Pacific Alliance, formed by Colombia, Chile, Mexico, and Peru, one of the most significant regional integration initiatives of recent decades, collectively making up the world's eighth-largest economy. This alliance is strengthened by the Latin American Integrated Market (MILA), which connects the stock exchanges of the member countries. Colombia is also a member of the World Trade Organization (WTO) and the Andean Community, alongside Bolivia, Ecuador, and Peru.

The year 2025 is a pre-election year. Presidential elections will be held in May, and the new President, elected by popular vote, will begin a four-year term on August 7, 2026. In the meantime, discussions around ambitious legislative reforms promoted by the Government, such as labor and healthcare reforms, are expected to continue throughout the year.

This guide provides an overview of how to invest and do business in Colombia and has been prepared to support both foreign and domestic investors interested in contributing to the country's future and benefiting from the opportunities it offers.

Kind regards,

Ximena Zuluaga

Country Managing
Partner,
EY Colombia





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.



Population

52,216,000¹ (2023)

Urban: 82%²

Rural: 18%² (2023).



Official language³

Spanish.



Area²

1,109,500 km².





System of government⁴

Presidential Republic
President: Gustavo Petro
Next elections: 2026.



Climate³

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



International Time⁵

GMT-5 (All Colombia).



Currency⁶

Colombian Peso
US\$1 = COP 4,079.6 (June 30, 2025).



GDP current prices¹

USD \$418.5 Bn. (2024).



GDP per capita (PPP)¹

USD \$21,494 (2024).



Key sectors⁷

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, April 2025, IMF.

2. DataBank, The World Bank Group.

3. Country information, DatosMundial.com.

4. Government - Politics, CountryReports.com.

5. World Time Directory, 24timezones.com.

6. Historical exchange rates, ExchangeRates.com.

7. Country information, Encyclopedia Britannica.

8. Why invest in Colombia, investincolombia.com.co.

9. Comtrade Database, United Nations.



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.

After a strong rebound in 2021 and 2022, Colombia's economic growth began to decelerate in 2023, closing the year with a modest expansion of 0.7%. In 2024, the economy showed signs of recovery, with GDP growing by 1.7%, driven mainly by private consumption and investment. Looking ahead, the IMF projects that growth will accelerate to 2.4% in 2025 (see figure 1).

Inflation in Colombia has followed a downward trajectory after peaking in 2022. In 2023, it closed at 9.3%, still elevated but significantly below the previous year's level. Throughout 2024, disinflation continued, with the rate falling to 5.2%. For 2025, inflation is expected to moderate further, reaching 4.1%, approaching the Central Bank's target range and allowing for a more accommodative monetary stance.

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, wholesale and retail trade 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.

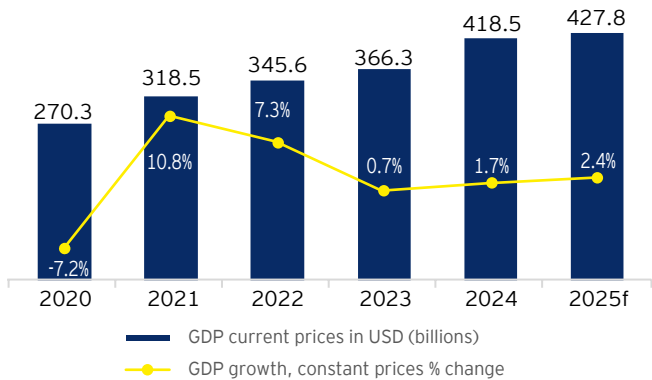
Table 1:

Main Indicators	Value
GDP current prices USD bn. (2024)	\$418.5
GDP growth, constant prices % change (2024)	1.7%
Gross domestic product per capita, current prices USD, PPP (2024)	\$21,493.7
Inflation, year-end consumer prices (2024)	5.2%
Fiscal balance (net lending (+) or net borrowing (-) of general government; % of GDP) (2024)	-4.7%
Public debt (General government gross debt, % of GDP) (2024)	61.3%
Current account, % of GDP (2024)	-1.8%
Investment, % of GDP (2024)	17.1%
Poverty headcount ratio at \$6.85 a day (2017 PPP, % of population) (2022)	34.8%

Sources: World Economic Outlook Database (April 2025), IMF; DataBank, The World Bank Group.



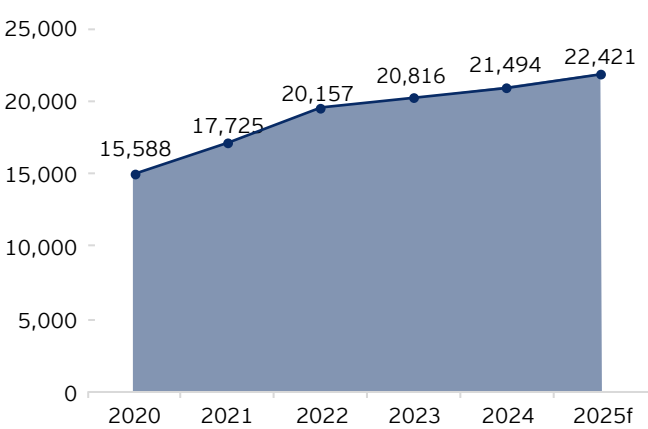
Figure 1:
Gross domestic product, levels and growth



Source: World Economic Outlook Database (April 2025), IMF.

Following a marked slowdown in 2023, Colombia's economy began to recover in 2024, posting a growth rate of 1.7%. This rebound was supported primarily by resilient private consumption and a gradual recovery in investment, amid improved domestic confidence and more stable external conditions. For 2025, the IMF forecasts that the economy will continue to gain momentum, with growth expected to reach 2.4%, although lingering structural challenges and global uncertainty could limit the pace of expansion (see figure 1).

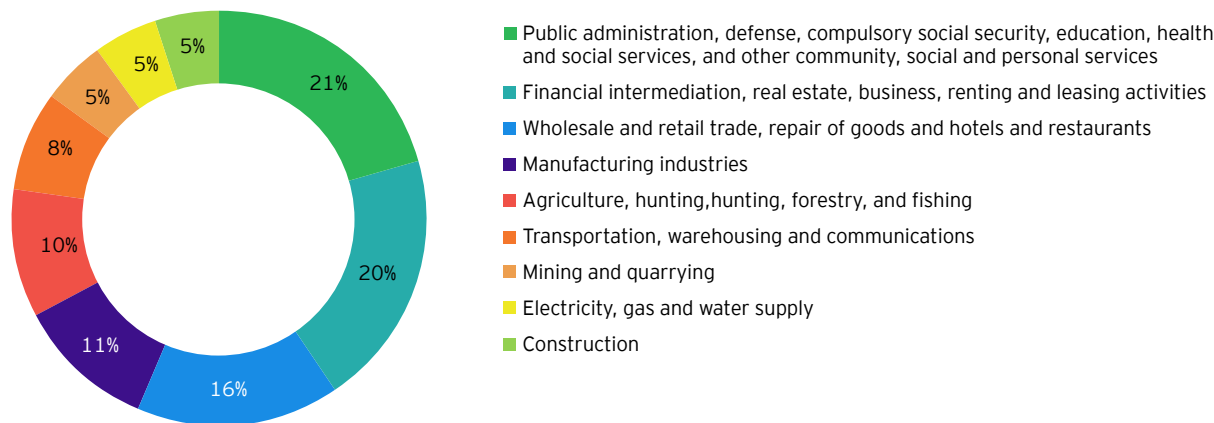
Figure 2:
Gross domestic product per capita
(current prices in USD, PPP)



Source: World Economic Outlook Database (April 2025), IMF.

Colombia's GDP per capita in terms of purchasing power parity (PPP) has shown steady growth since 2020, reaching USD 21,494 in 2024, and is expected to reach USD 22,421 in 2025 (see figure 2).

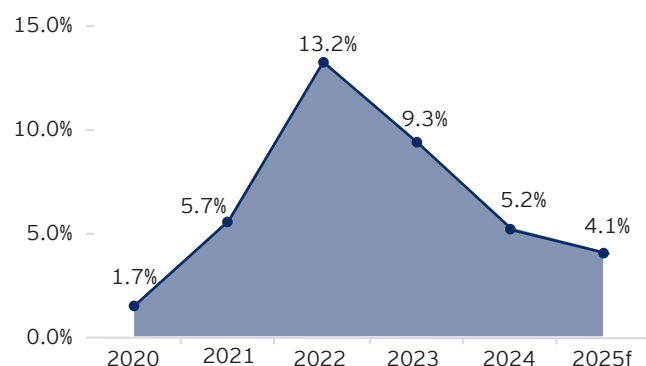
Figure 3:
Share of gross domestic product by economic sector in 2024 (current prices in USD)



Source: CEPALSTAT, United Nations ECLAC.

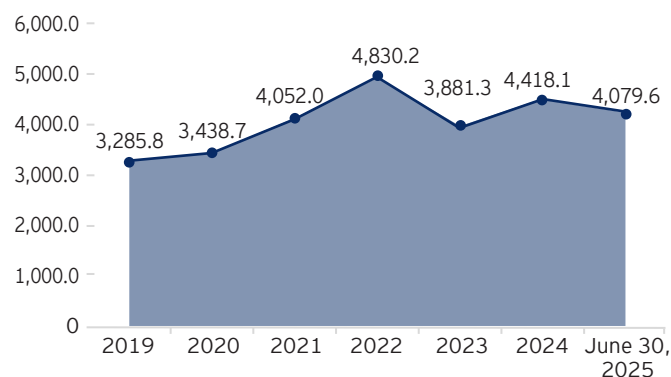
The sectors that contribute most to the GDP are those related to public and personal services, as well as financial and real estate services followed by wholesale and retail trade. Manufacturing and agriculture also play an important role (see figure 3).

Figures 4 and 5:
Inflation (end of period consumer prices, % change)



Source: World Economic Outlook Database (April 2025), IMF.

Exchange rate of foreign currency
(USD/COP, end of period)

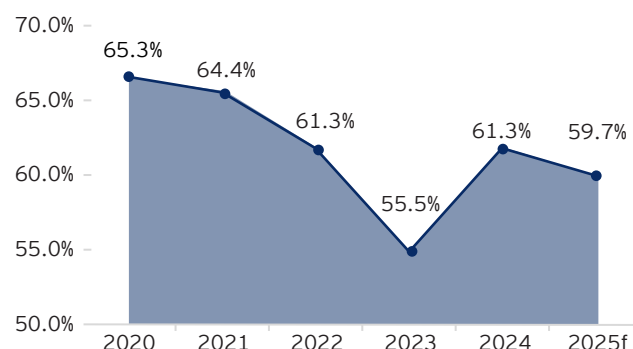


Source: exchange-rates.org.

In April, the IMF estimated that Colombian inflation will drop to 4.1% this year, moving closer to the Central Bank's 3% target and continuing its downward trend heading towards pre-pandemic levels (see figure 4).

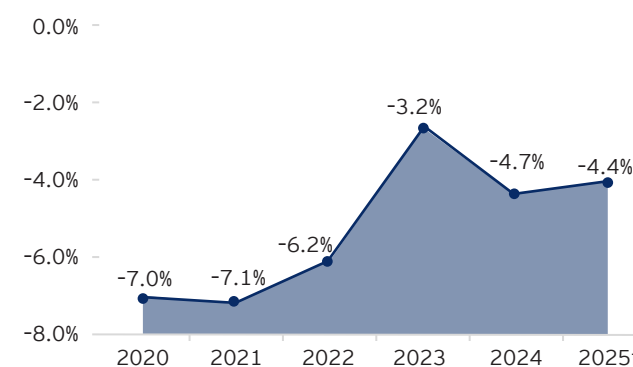
During 2023, the Colombian peso appreciated against the U.S. dollar – a trend that did not continue in 2024, when the exchange rate reached 4,404 COP per USD. During the first months of 2025 it appreciated lightly converging into a more stable scenario (see figure 5).

Figures 6 and 7:
Public debt (General government gross debt, % of GDP)



Source: World Economic Outlook Database (April 2025), IMF.

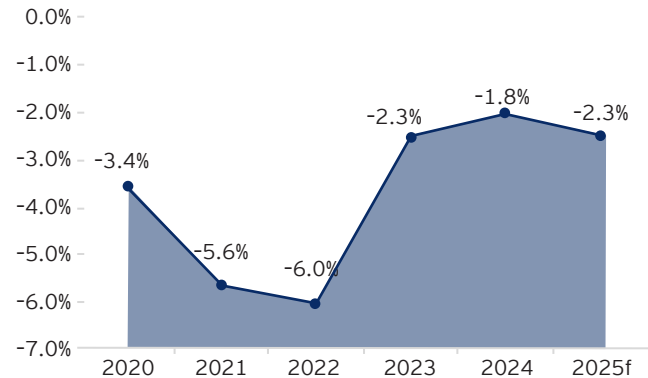
Fiscal balance (net lending (+) or net borrowing (-) of general government, % of GDP)



Source: World Economic Outlook Database (April 2025), IMF.

After showing improvement in 2023, Colombia's public debt rose again in 2024, reaching 61.3% of GDP. A slight decline is projected for 2025 (see figure 6). A similar pattern was observed in the fiscal balance: the deficit narrowed in 2023 but widened once again in 2024, reaching 4.7% of GDP (see figure 7).

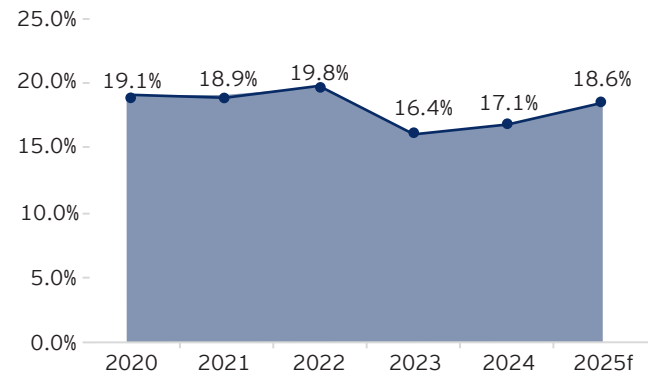
Figure 8:
Current account (% of GDP)



Source: World Economic Outlook Database (April 2025), IMF.

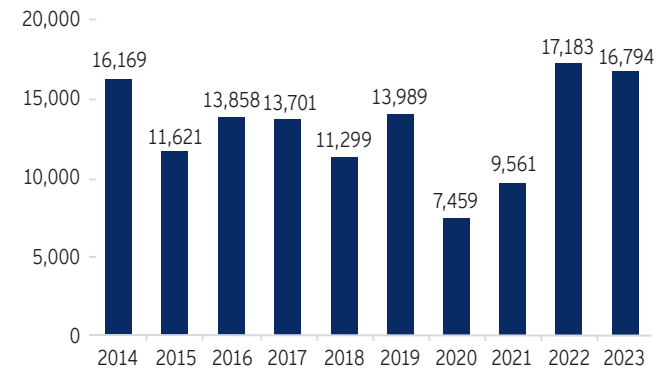
After a widening of the current account deficit in 2022, Colombia saw an improvement in both 2023 and 2024, with the deficit narrowing to 1.8% of GDP in 2024. The IMF projects a slight increase in 2025, with the current account deficit expected to return to the 2023 level of -2.3%.

Figure 9:
Investment (% of GDP)



Source: World Economic Outlook Database (April 2025), IMF.

Figure 10:
FDI Colombia (In millions of USD)



Source: DataBank, The World Bank Group.

Investment as a percentage of GDP recovered slightly in 2024 following a sharp decline in 2023. It is expected to continue improving in 2025, reaching 18.6% (see figure 9).

Colombia's 2023 FDI inflows remained consistent with 2022 figures, the highest in the last 10 years and representing 7% of the region's total FDI inflows.



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 to 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 incorporating 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, customs and tax 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 an 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 may 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 if the non-resident obtains a Tax ID ("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. Financial transactions tax (FTT)

The FTT tax rate 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

This tax applies over ultra-processed sugary beverages, as well as concentrates, syrups, powders which, after being mixed or dissolved, result in sugary beverages.

2.6. Tax on ultra-processed foods

Some ultra-processed foods are 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 Turnover 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 TAX.

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 2024, 2025 and 2026 income tax returns 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 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.

2.13. Colombian Government establishes temporary taxes amid State of Internal Unrest

Based on the special powers granted under the State of Internal Unrest, declared through Legislative Decree 062 of 2025, the Colombian Government issued Decree 175 on 14 February 2025. This decree introduces temporary tax measures effective from 22 February 2025, until 31 December 2025. The main measures from a stand tax point of view are:

2.13.1. VAT on online gaming

Online gambling will be subject to 19% VAT from the 22nd of February 2025, until the 31st of December, 2025. The VAT will apply to deposits made into the player's account held by the online gambling operator and enabling the player to place bets. For the VAT to apply, the player must be a Colombian resident or should be domiciled or have a permanent establishment or economic activity in Colombia. Foreign online gambling operators are also

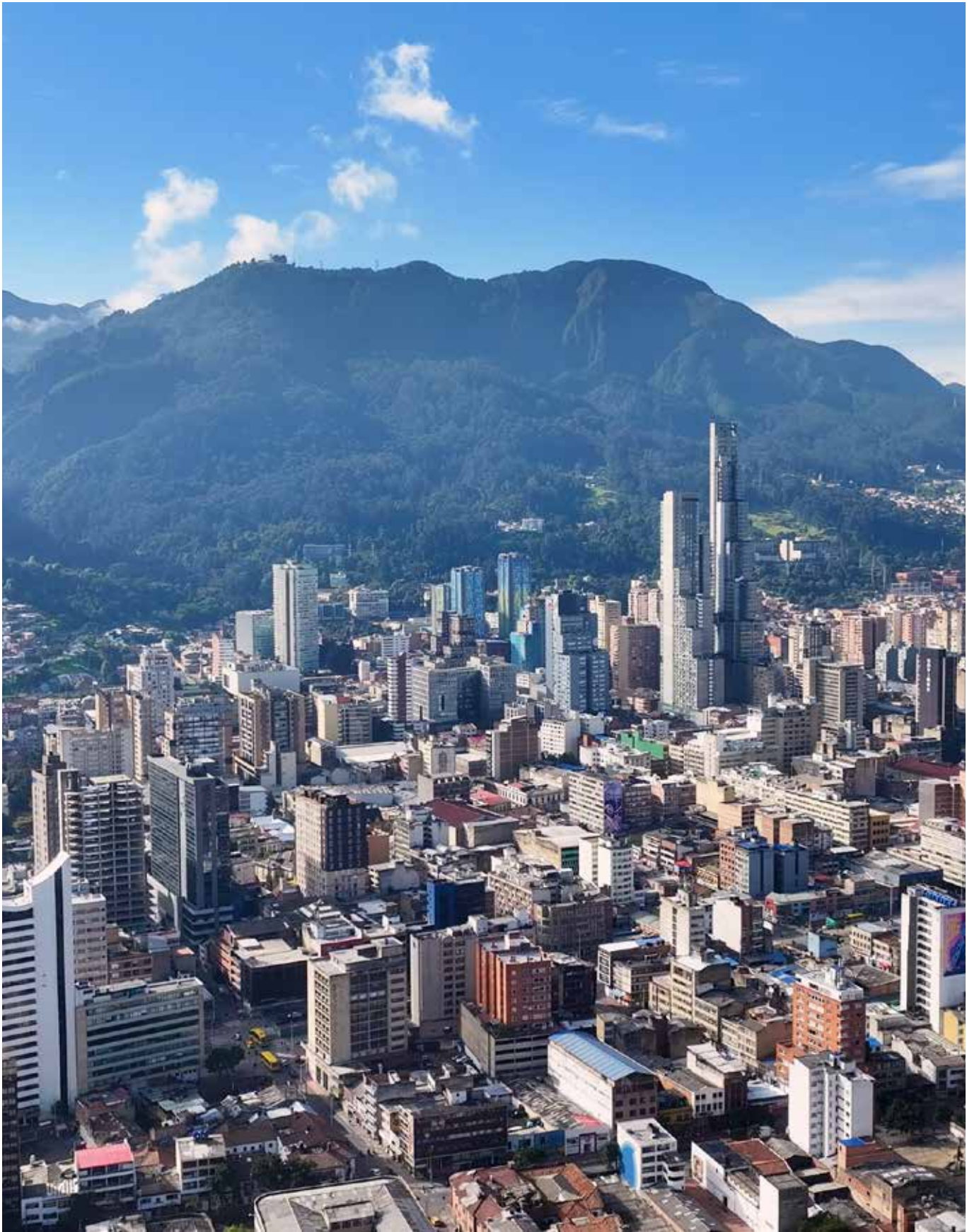
required to collect this VAT, adhering to the VAT regulations for foreign service providers.

2.13.2. Tax on certain sales of hydrocarbons and coal

The first sale or export of hydrocarbons or coal classified under tariff headings 27.01 and 27.09 will be charged with a 1% tax. If the producer is also the exporter, the tax will be charged only once at the time of the export. Hydrocarbons under tariff heading 27.09 used for in-kind royalty payments to the Colombian Hydrocarbons Agency (ANH) will be taxed only when the export takes place. The taxable base will be the transaction value, with the free-on-board (FOB) value applicable for exports. The exchange rate on the date of the export authorization request should be used for the calculation of the base.

2.13.3. Stamp Tax

A 1% stamp tax will apply to the value of public and private documents (including contracts) exceeding 6,000 tax units (approx. USD\$72,000) that are subscribed, modified or extended and that are (1) granted or accepted in Colombia or; (2) granted abroad but executed or generate obligations in Colombia. This tax is in place in Colombia, with a 0% tax rate since 2010 and now it is passing to 1%.





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 be 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

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 that are part of an economic group, where the parent or controlling company is domiciled abroad and there is a situation of control, must prepare Combined 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:

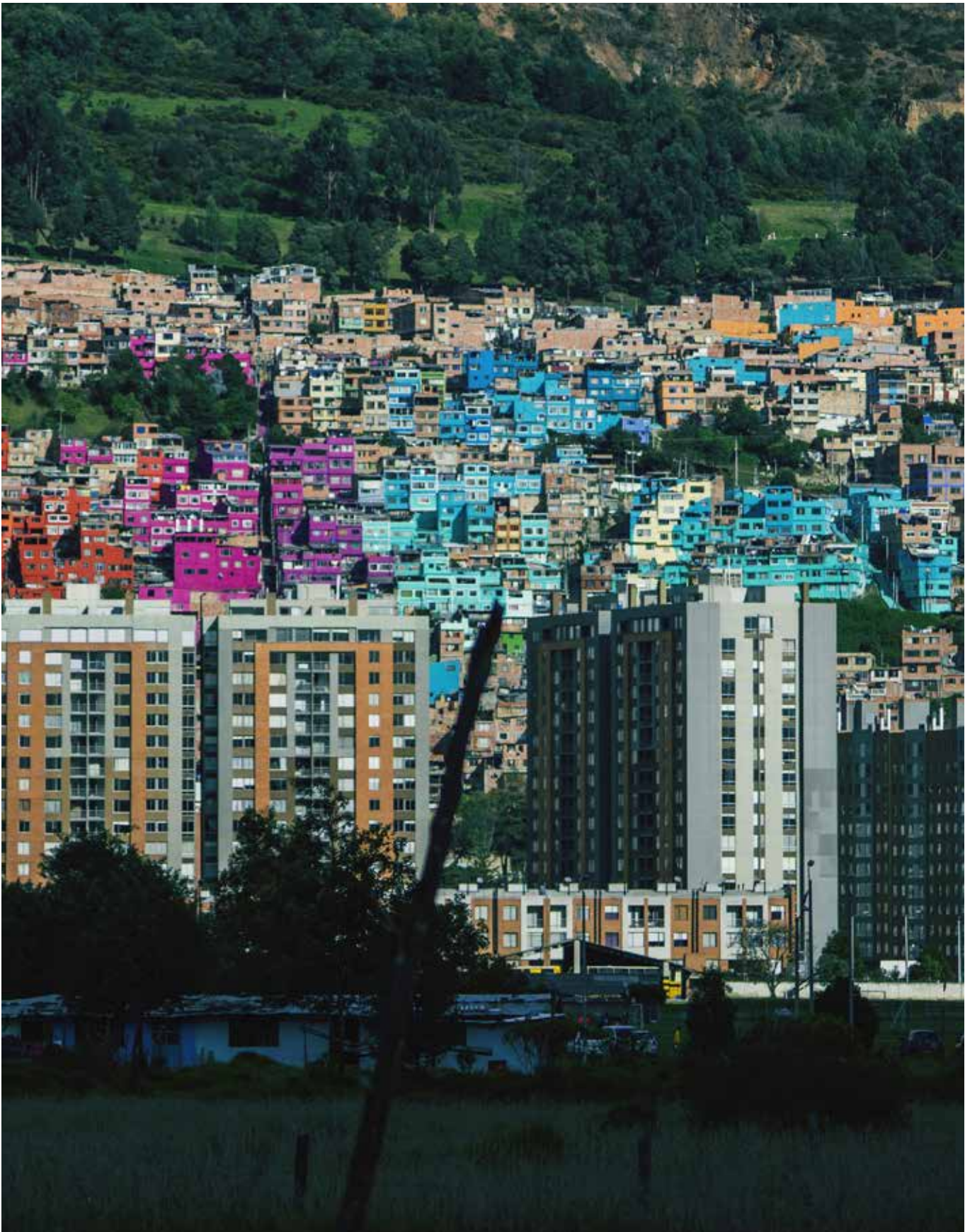
- ▶ Superintendence of Companies, National Superintendence of Health, Superintendence of Finance, Superintendence of Transportation.

- ▶ Financial Statement for Companies that do not meet the going concern must be prepared under the bases contained in Decree 2101 of 2016.
- ▶ Companies that are not required by any Superintendence must deposit their financial statements with the Chamber of Commerce in their jurisdiction within one month following the date of approval of the financial statements.
- ▶ 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 1,512,000).
- ▶ A Company with gross income, during the year, equal to or greater than 3,000 SMMLV (approx. USD 907,000).
- ▶ 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. Its capital 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 its Free Trade Agreement with the European Union and bilateral treaties with China and the United States.



Population

17,835,000¹ (2023)

Urban: 65%²

Rural: 35%² (2023).



Official language²

Spanish.



Area²

248,360 km².





System of government⁴

Presidential Republic
President: Daniel Noboa
Next elections: 2029.



Climate³

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



International time⁵

GMT-5 (All Ecuador).



Currency

US Dollar.



GDP current prices¹

USD \$121.7 Bn. (2024).



GDP per capita (PPP)¹

USD \$15,996 (2024).



Key sectors⁶

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, flowers and coffee and processed by-products), construction, and hospitality.

Why invest in Ecuador?

Multiple tax and tariff incentives through investment contracts⁷.

Dollarized economy: low inflation and exchange rate risk⁷.

11 trade agreements with various regions and is working to sign more agreements⁷. Tax treaties with 23 countries⁸.

Clean energy generation, with more than 97% coverage of electricity service throughout the country⁷.

Leader in tropical fruit exports and seafood: 1st in bananas, 1st in crustaceans, 1st in cocoa beans and powder, 4th of pineapples and other categories in 2024⁹.

High growth in commodity exports: exports grew 110% from 2016 to 2022⁹.

1. World Economic Outlook, April 2025, IMF.
2. DataBank, The World Bank Group.
3. Country information, DatosMundial.com.
4. Government - Politics, CountryReports.com.
5. World Time Directory, 24timezones.com.
6. Country information, Encyclopedia Britannica.
7. Why invest in Ecuador?, Ministry of Tourism of Ecuador.
8. Fiscalidad internacional, Servicio de Rentas Internas
9. Comtrade database, United Nations.



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.

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 drives 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.

In 2024, economic activity contracted by approximately 2%, reflecting the impact of several challenging factors, including energy shortages and political uncertainty. The most severe drought in six decades led to nationwide power outages and electricity rationing, affecting production and services. While the homicide rate declined, security concerns remained elevated in certain regions. Despite these difficulties, the country has shown resilience and the groundwork is being laid for a more stable outlook moving forward.

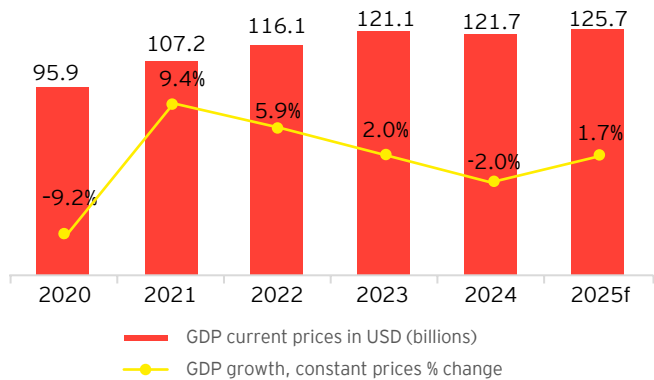
In May 2024, the IMF Executive Board approved a new 48-month Extended Fund Facility (EFF) arrangement for Ecuador, providing access to approximately USD 4 billion. This loan is intended to assist Ecuador in stabilizing its economy. According to the IMF, Ecuadorian authorities have taken decisive and prompt measures to address the fiscal and security challenges.

Table 1:

Main Indicators	Values
GDP current prices USD bn. (2024)	\$121.7
GDP growth, constant prices % change (2024)	-2.0%
Gross domestic product per capita, current prices USD, PPP (2024)	\$15,996.1
Inflation, year-end consumer prices (2024)	0.5%
Fiscal balance (net lending (+) or net borrowing (-) of general government; % of GDP) (2024)	-1.3%
Public debt (General government gross debt, % of GDP) (2024)	55.0%
Current account, % of GDP (2024)	5.8%
Investment, % of GDP (2024)	18.2%
Poverty headcount ratio at \$6.85 a day (2017 PPP, % of population) (2022)	29.9%

Sources: World Economic Outlook Database (April 2025), IMF; DataBank, The World Bank Group.

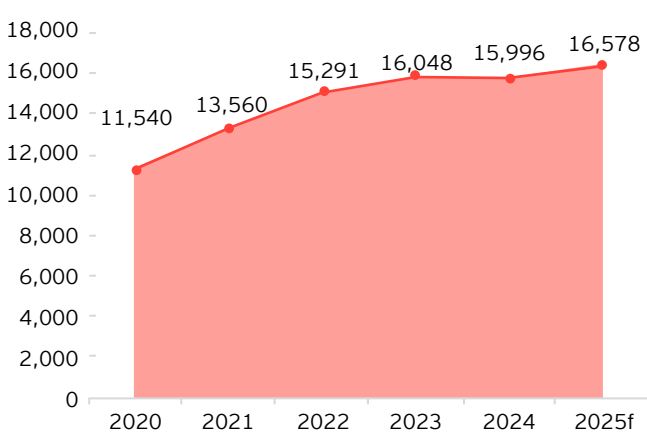
Figure 1:
Gross domestic product, levels and growth



Ecuador’s economic growth experienced a sharp decline in 2024 due to political uncertainty, a security crisis, energy shortages due to droughts, and exogenous shocks to oil revenue and interest rates (see figure 1).

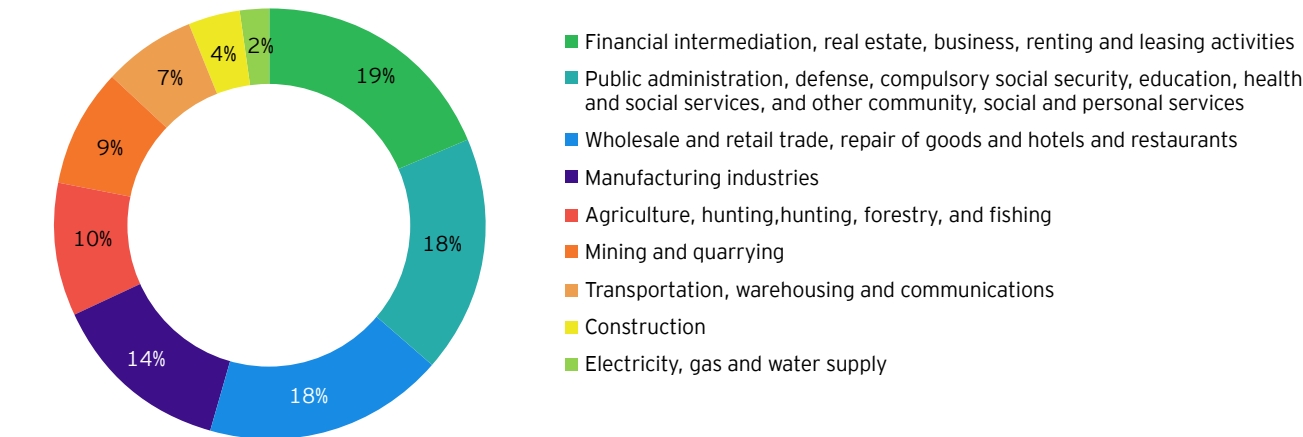
In 2025, GDP is expected to rebound, with growth projected at around 1.7%, supported by a more stable energy supply and reduced political uncertainty following the April presidential elections.

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



In 2021, Ecuador’s GDP per capita in terms of purchasing power parity (PPP) surpassed its pre-pandemic level growing steadily until 2024 when it showed a slight retraction. It is expected to continue its growth and reach USD 16.578 by the end of 2025 (see figure 2).

Figure 3:
Share of gross domestic product by economic sector in 2024 (current prices in USD)

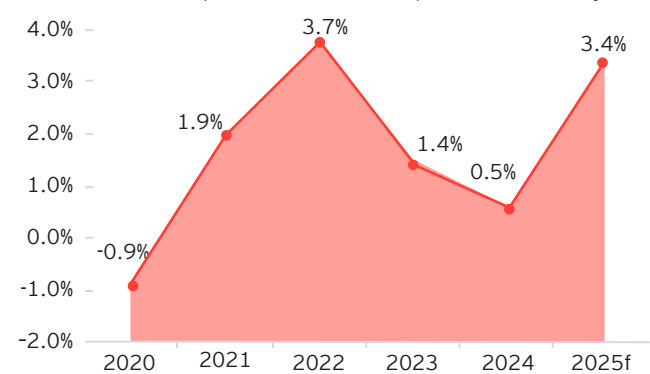


Source: CEPALSTAT, United Nations ECLAC.

In Ecuador, the sectors that contribute most to the GDP are those related to financial and real estate services, public and personal services, and wholesale and retail trade.

Manufacturing is also a key sector which is followed by agriculture, mining and transportation the other main sectors of the economy (see figure 3).

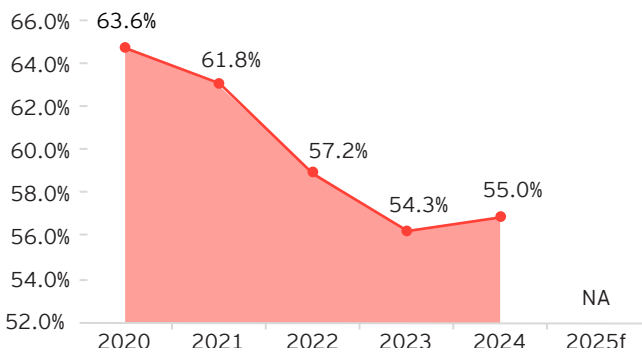
Figure 4:
Inflation (end of period consumer prices, % change)



Source: World Economic Outlook Database (April 2025), IMF.

Ecuador, with its dollarized economy since 2000, experienced a lower inflation rate compared to the rest of the region. Inflation ended 2024 with a 0.5% increase and is expected to reach 3.4% in 2025 (see figure 4).

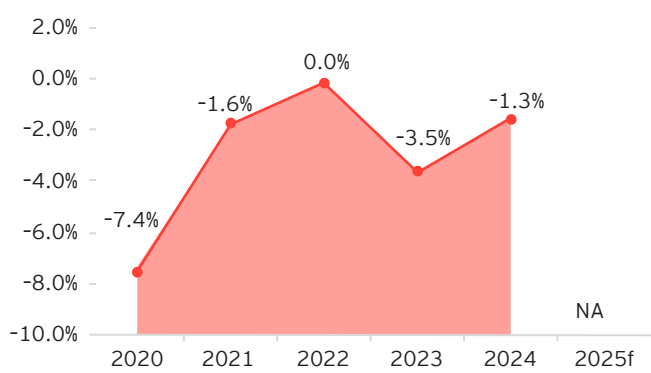
Figure 5:
Public debt (General government gross debt, % of GDP)



Source: World Economic Outlook Database (April 2025), IMF.

After a rapid rise from 2014 to 2020, Ecuador's public debt stock has been decreasing since then, reaching 54.3% in 2023. A slight increase was recorded in 2024 (55.0%). The nation reached an agreement with the IMF to access a 48-Month US\$4 Billion Extended Fund Facility Arrangement, to support the government's efforts to stabilize the economy (see figure 5).

Figure 6:
Fiscal balance (net lending (+) or net borrowing (-) of general government, % of GDP)

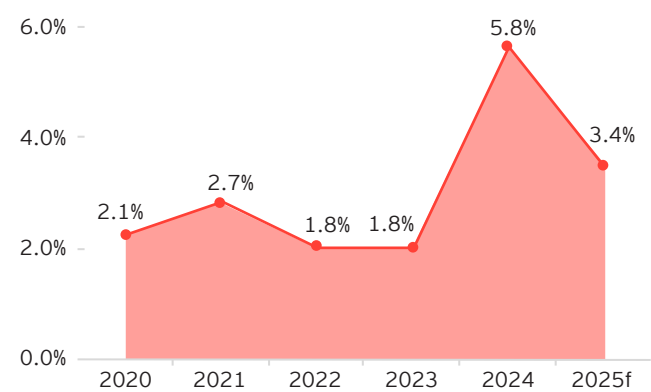


Source: World Economic Outlook Database (April 2025), IMF.

Following a surplus of 0.05% in 2022, the fiscal position worsened in 2023, resulting in a deficit of 3.5% 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.

In 2024, the deficit improved significantly, narrowing to -1.3% of GDP, supported by higher tax revenues and more disciplined public spending (see figure 6).

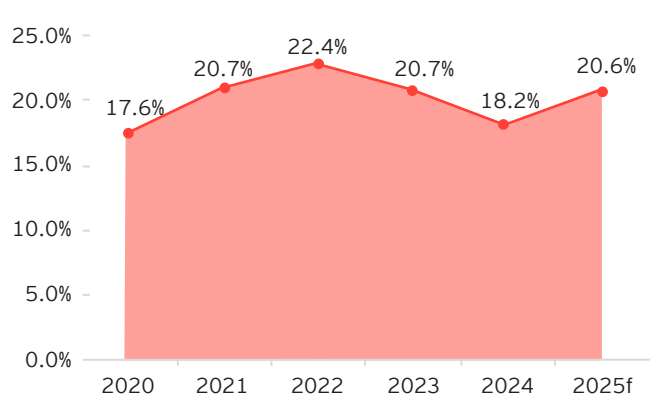
Figure 7:
Current account (% of GDP)



Source: World Economic Outlook Database (April 2025), IMF.

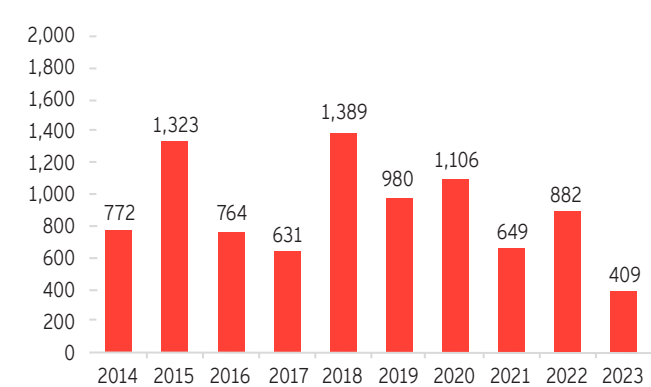
The current account surplus saw a solid increase from 1.8% of GDP in 2023 to approximately 5.8% in 2024. IMF expects it to reach 3.4% in 2025 (see figure 7).

Figure 8 and 9:
Investment (% of GDP)



Source: World Economic Outlook Database (April 2025), IMF.

FDI inflows to Ecuador (USD millions)



Source: DataBank, The World Bank Group.

Investment as percent of GDP grew and recovered to pre-pandemic levels in 2022, but returned to pandemic levels in 2024. However it is expected to reach 20.6% in 2025 (see figure 8).

In line with the global decline in foreign investment, in 2023, Ecuador received USD 409 million in foreign direct investment (FDI) inflows, marking a 57% drop from 2022 and the lowest level of inflows since 2010 (see figure 9). According to Ecuador’s Central Bank, 2024 FDI inflows fell to about USD 232 million.

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.

1.1.1. 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

2.2.1. Sociedad Anónima (S.A.)

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

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

2.2.2. Compañía Limitada (Ltda.)

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

2.2.3. Sociedad por Acciones Simplificadas (S.A.S.)

- ▶ Ownership: At least one shareholder, no maximum limit.
- ▶ Subtypes of Entities: No subtypes; designed for flexibility.
- ▶ Liability: Limited to the amount of capital contributed.
- ▶ Administration: Flexible management structure can have a single manager or a board of managers.
- ▶ Oversight: Subject to fewer regulatory requirements; supervised by the Superintendencia de Compañías, Valores y Seguros.
- ▶ Transfer of Shares: Customizable according to the company's bylaws.
- ▶ Other Important Aspects: Simplified establishment process and reduced formalities.

2.2.4. Sucursal de Empresa Extranjera (Branch of a Foreign Company)

- ▶ Ownership: Not applicable, as it's an extension of the parent company.
- ▶ Subtypes of Entities: Not applicable.
- ▶ Liability: Parent company fully liable for branch's actions and obligations.
- ▶ Administration: Managed by a legal representative of the parent company.
- ▶ Oversight: Registration with the Superintendencia de Compañías, Valores y Seguros required.
- ▶ Transfer of Shares: Not applicable.
- ▶ 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.
- ▶ **Beneficial Owner:** Entities, with no exception, must reveal and disclose the complete corporate composition and designate an individual as beneficial owner.
- ▶ **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: 0% to 25%
- ▶ 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 (except for interest payments).

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

2.1.1. 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.
- ▶ **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.

2.1.2. 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.

2.1.3. 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.

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

New mining supervision and control fees are set in 2025. These fees, calculated as a percentage of basic wage per mining hectare, vary by mining regime and project phase, with a fixed fee for commercialization licenses.

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.

2.1.5. 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.

2.1.6. 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\$ 3,624,300 for the 2025 fiscal year). This amount is increased to 1,000 basic fractions of income tax for individuals (USD\$ 12,081,000 for the 2025 fiscal year) if the transaction does not exceed the 10% of the total share capital.

3. International Tax

3.1. 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.

3.2. 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 remittances to abroad.

3.3. 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.

3.4. Debt-to-equity rules

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.

3.5. 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.

3.6. 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, since 2024, the Ecuadorian government decreed an increase in the VAT rate to 15%, which is still applicable for the 2025 fiscal year. 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

5.1. 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.

5.1.1. Tax for plastic bags

- ▶ Triggering event: transfer of plastic bags
- ▶ Rate: USD\$ 0.08 per plastic bag.

5.1.2. 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.

5.2. 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.

5.3. 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 2025, the maximum amount to be received in incentives for each Investment Agreement is USD \$10.4 million until the coming Presidential Possession. From that point forward, the maximum amount shall be increased to USD \$14.7 million.

5.4. 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.

5.5. 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. The termination of the contract before the expiration of the term by the employer will trigger severance payments.
- ▶ There are other types of contracts that could be used, 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 (no punctuation mark should be included).

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 2025, the monthly minimum wage is USD 470.

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 up to December 24th. The fourteenth remuneration is equivalent to one basic salary, it is payable on a monthly basis or one-time payment up to March 15th for Coast Region or up to August 15th for Andean and Amazonian Regions. Payment methods will depend on employee's choice.
- ▶ **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 or 12 weeks 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 linked to the hydrocarbon sector 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 From April 1st to 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 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, 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.

The remuneration to be applied to calculate this compensation will be the last one received, provided it is the most beneficial to the employee. Thus, preference will be always given to the most recent and best remuneration between the one received in the previous month and the month in which the dismissal occurs. Moreover, 25% eviction bonus must be paid based on the same condition stated for severance compensation.

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 received from local companies 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 (USD 798.31). To apply the deduction, individuals must have local receipts of expenses related to health, education, housing, clothing, food, domestic tourism and pets.

Number of family dependents	Number of BBU	Maximum amount for Personal Expenses	Maximum discount
0	7	5,588.17	1,005.87
1	9	7,184.79	1,293.26
2	11	8,781.41	1,580.65
3	14	11,176.34	2,011.74
4	17	13,571.27	2,442.83
5 o more	20	15,966.20	2,873.92
Catastrophic illnesses	100	79,831.00	14,369.58

- ▶ Third age deduction: individuals who are 65 or older can deduct one basic amount of USD 12,081 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
-	12,081.00	-	0%
12,081.00	15,387.00	-	5%
15,387.00	19,978.00	165.00	10%
19,978.00	26,442.00	624.00	12%
26,422.00	34,770.00	1,398.00	15%
34,770.00	46,089.00	2,650.00	20%
46,089.00	61,359.00	4,914.00	25%
61,359.00	81,817.00	8,731.00	30%
81,817.00	108,810.00	14,869.00	35%
108,810.00	And so on	24,316.00	37%



Financial Reporting

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:

- 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;
- Companies with assets above USD\$500,000. It applies to national corporations, limited by shares and limited liability companies;

- 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

As the global economic landscape continues to evolve, Mexico emerges as a vital hub of opportunity and resilience. In a world marked by geopolitical shifts and economic realignments, Mexico's strategic location and strong trade relationships position it as a key player in Latin America and beyond.



Manuel Solano
Country Managing
Partner
EY Mexico

The recent launch of the "Plan México" by the Mexican government underscores the country's commitment to enhancing its economic framework and attracting foreign investment. This initiative aims to bolster infrastructure, promote sustainable development, and create a more favorable business environment, making Mexico an even more attractive destination for companies looking to expand their operations. These efforts not only bolster Mexico's economic standing but also provide businesses with the tools they need to thrive in a rapidly changing world.

Considering the new global economic dynamics, particularly the implementation of tariffs by the United States, Mexico's close economic ties with its northern neighbor become increasingly significant. As the United States navigates its trade relationships, Mexico stands ready to serve as a strategic partner, offering businesses a competitive edge in accessing North American markets.

However, entering the Mexican market necessitates a comprehensive understanding of the regulatory landscape and compliance requirements. Companies must be well-informed about the legal and tax implications associated with establishing operations in the country.

Our Tax and Legal Services teams have prepared this guide to provide essential insights into the regulatory framework and key considerations for businesses looking to succeed in Mexico.

I invite you to explore the valuable information contained within this guide, and I look forward to discussing how we can support your business endeavors in this dynamic market.

Kind regards,



Overview

Mexico is located in North America and has a diverse geography with beaches, jungles, mountains, and deserts. Its capital, Mexico City, is the 6th largest city in the world. Other cities include 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, gold, and a unique biodiversity, its main sectors include manufacturing (automotive, electronics), oil, tourism, agriculture (all kinds of fruit and beverages), 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.

**Population**131,135,000¹ (2023)Urban: 82%²Rural: 18%² (2023).**Official language³**

Spanish.

**Area²**1,943,950 km².



System of government⁴

Federal Presidential Republic
President: Claudia Sheinbaum
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)
GMT-5 to GMT-8 (Other cities that change during daylight savings time).



Currency⁶

Mexican Peso
US\$1 = MXN 18.7 (June 30, 2025).



GDP current prices¹

USD \$1,852.7 Bn. (2024).



GDP per capita (PPP)¹

USD \$25,074 (2024).



Key sectors⁷

Mexico is a strong player in industries such as manufacturing (automotive, electronics, textiles, apparel, consumer durables), oil, iron and steel, mining (silver and gold), agriculture (crops and tropical fruits), food and beverages, tobacco, chemicals, and tourism.

Why invest in Mexico?

13th largest GDP in the world and 2nd largest in Latin America in 2024¹.

15th largest country in the world by field area².

13th recipient of foreign direct investment in 2023³.

Its network of trade agreements gives it privileged access to 52 countries. Uniquely positioned to take advantage of nearshoring opportunities, thanks to its geographic location, business opportunities, and participation in the USMCA treaty⁸.

World leader in manufacturing: 3rd largest exporter of automatic data processing machines (computers, readers, etc), 3rd largest of vehicles in 2024 (in trade value)⁹.

World leader in mineral production: 1st of silver, 6th of gold, 7th of zinc and 8th of lead in 2024¹⁰.

World leader in food exports: 3rd exporter of fresh fruits, 3rd exporter of fruits and nuts, 2nd exporter of beverages in 2024 (in trade value)⁹.

1. World Economic Outlook, April 2025, IMF.
2. DataBank, The World Bank Group.
3. Country information, DatosMundial.com.
4. Government - Politics, CountryReports.com.
5. World Time Directory, 24timezones.com.
6. Historical exchange rates, ExchangeRates.com.
7. Country information, Encyclopedia Britannica.
8. Trade agreements, Economic Secretariat, Government of Mexico.
9. Comtrade database, United Nations.
10. U.S. Geological Survey, Mineral Commodity Summaries 2024.



Country's economic outlook

Mexico is the third largest country in Latin America. 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 13th in the world.

After strong growth in 2023, Mexico's economy slowed in 2024, posting a growth rate of 1.5%. For 2025, the IMF projects a slight contraction, mainly due to the impact of new tariffs on international trade, and the United States economic slowdown (see figure 1).

However, Mexico has so far managed to weather the effects of the new tariffs imposed by its main trading partner (U.S.), better than initially expected and more effectively than other U.S. trade partners.

Inflation eased to 4.66% in 2023, and to 4.2% in 2024 and the IMF expects a further decline to 3.4% in 2025 (see figure 4).

It's economy is closely tied to that of its North American trade partners, particularly the United States. The United States-Mexico-Canada Agreement (USMCA), known as T-MEC in Mexico, replaced NAFTA in 2020 after being signed by the three countries in 2018. This agreement has supported Mexico's economic growth and its shift toward a more manufacturing-driven economy. However, with a scheduled review set for 2026, there is growing attention on how upcoming negotiations could shape the future of regional trade integration.

However, strategic sectors such as manufacturing and nearshoring continue to offer long-term potential.

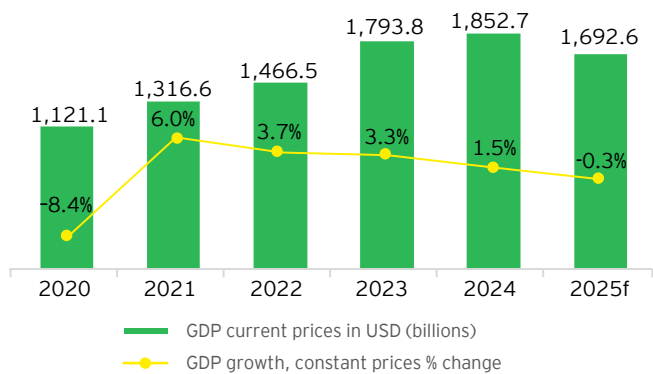
Mexico has a diversified activity, with major exports including automobiles, consumer electronics, oil, minerals, and food. Services, industry, and agriculture are among the economy's primary sectors. Tourism also plays a significant role, with Mexico being one of the world's top tourist destinations.

Table 1:

Main Indicators	Values
GDP current prices USD bn. (2024)	\$1,852.7
GDP growth, constant prices % change (2024)	1.5%
Gross domestic product per capita, current prices USD, PPP (2024)	\$25,074.2
Inflation, year-end consumer prices (2024)	4.2%
Fiscal balance (net lending (+) or net borrowing (-) of general government; % of GDP) (2024)	-5.7%
Public debt (General government gross debt, % of GDP) (2024)	58.4%
Current account, % of GDP (2024)	-0.3%
Investment, % of GDP (2024)	24.2%
Poverty headcount ratio at \$6.85 a day (2017 PPP, % of population) (2022)	21.8%

Sources: World Economic Outlook Database (April 2025), IMF; DataBank, The World Bank Group.

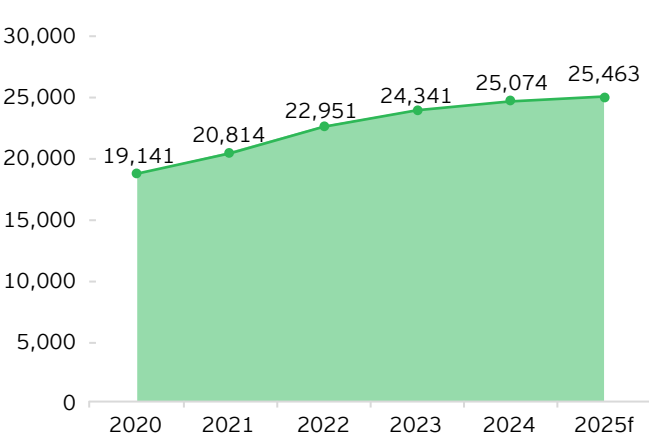
Figure 1:
Gross Domestic Product, Levels and Growth



Source: World Economic Outlook Database (April 2025), IMF.

Mexico’s economic growth is expected to stall in 2025, with the IMF projecting a slight contraction of -0.3% (see figure 1). A gradual recovery is anticipated thereafter, reaching 1.4% by 2026, still below the average growth rate of the past three years. The slowdown observed in 2024 and the expected contraction in 2025 are largely driven by increasing uncertainty over potential changes in trade policy, the upcoming 2026 review of the USMCA (T-MEC), and a weakening U.S. economy, which continues to affect external demand.

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



Source: World Economic Outlook Database (April 2025), IMF.

The sustained growth in recent years has allowed the GDP per capita to grow steadily in Mexico. In terms of purchasing parity power (PPP), the IMF estimated that it will reach USD 25,463 in 2025 (see figure 2).

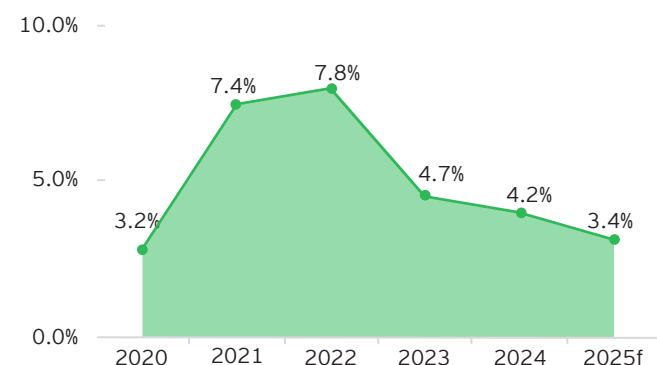
Figure 3:
Share of gross domestic product by economic sector in 2024 (current prices in USD)



Source: CEPALSTAT, United Nations ECLAC.

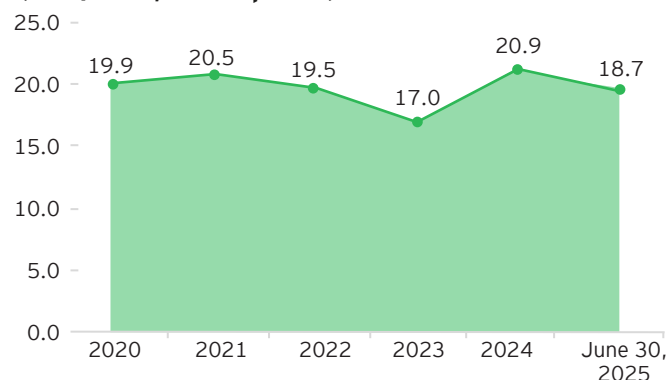
The sectors that contribute the most to Mexico's GDP include wholesale and retail trade -which encompasses hospitality-, and the manufacturing industry. They are followed by financial services, real estate, rental services, and public administration together with personal services and all its derivatives (see figure 3).

Figures 4 and 5:
Inflation (end of period consumer prices, % change)



Source: World Economic Outlook Database (April 2025), IMF.

Exchange rate of foreign currency (USD/MXN, end of period)

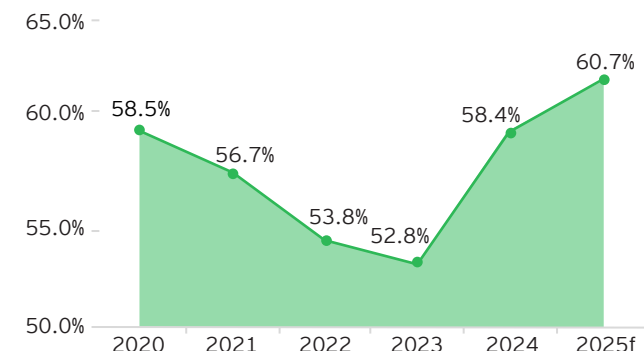


Source: exchange-rates.org.

Inflation in Mexico peaked in 2022 when it reached 7.82%, its highest level in 20 years. Since then, it has showed a significant slowdown closing 2024 at 4.2%, and is expected to decline to 3.4% in 2025 (see figure 4). Over the past three years, the Mexican peso has shown volatility. It appreciated significantly during 2022 and much of 2023, supported by high interest rates, strong capital inflows driven by nearshoring, and overall macroeconomic stability. However, in mid-2024, the trend reversed as political uncertainty

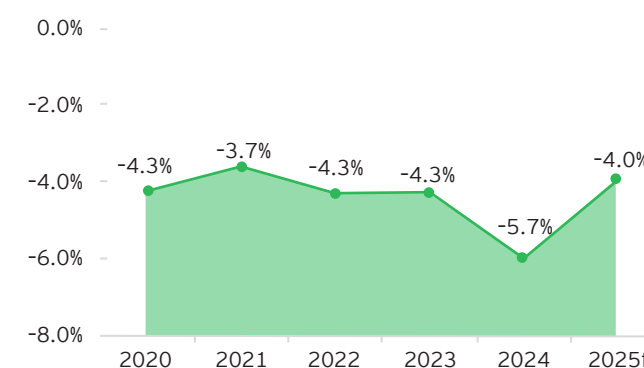
surrounding Mexico's elections and renewed trade tensions with the U.S. led to a depreciation of the peso, which reached 20.9 pesos per dollar by the end of the year. During the first months of 2025 it has appreciated returning to 2022 levels (see figure 5).

Figures 6 and 7:
Public debt (General government gross debt, % of GDP)



Source: World Economic Outlook Database (April 2025), IMF.

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

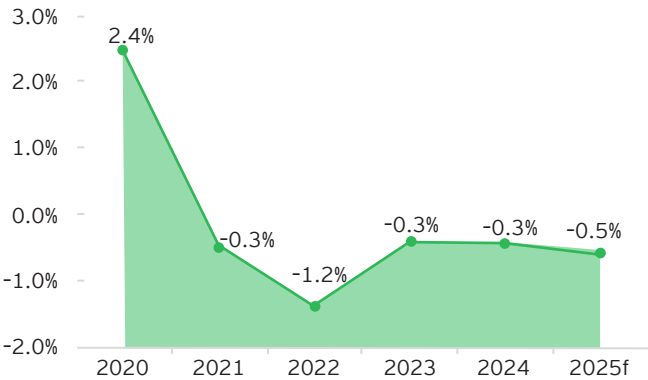


Source: World Economic Outlook Database (April 2025), IMF.

Government debt as percentage of GDP rose substantially in 2020, but later decreased reaching its previous levels of 52%-53% in 2023. However, according to the IMF's April 2025 report, Mexican public gross debt rose again in 2024 reaching 58.4% of GDP and it is expected to increase to 60.7% in 2025 (see figure 6).

Similarly, the fiscal balance declined to -5.7% in 2024, but is projected to improve in 2025, reaching -4.0% (see figure 7).

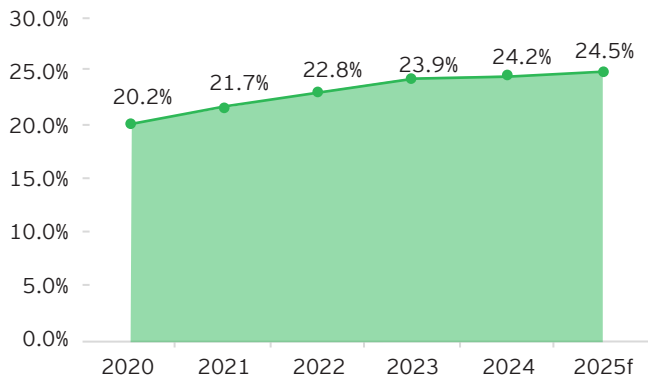
Figure 8:
Current account (% of GDP)



Source: World Economic Outlook Database (April 2025), IMF.

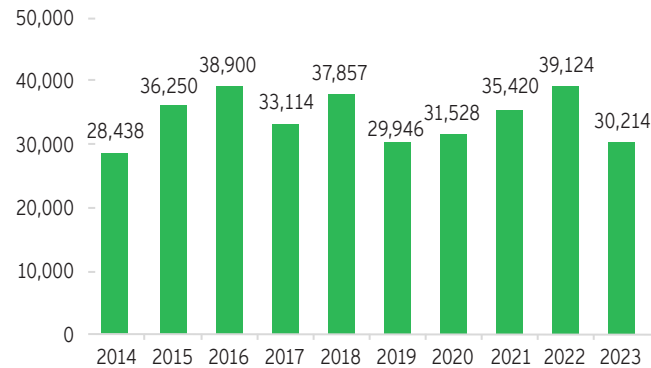
The Mexican current account has been relatively stable during the past years, closing 2024 at -0.3% and is expected to reach -0.5% of the GDP in 2024 (see figure 8).

Figure 9 and 10:
Investment (% of GDP)



Source: World Economic Outlook Database (April 2025), IMF.

FDI inflows to Mexico (USD millions)



Source: DataBank, The World Bank Group.

Investment as a percentage of GDP continues to improve steadily since the pandemics and is expected to reach 24.5% in 2025 (see figure 9).

In 2023, Mexico was the second-largest recipient of FDI inflows in Latin America and the Caribbean, capturing 13% of the region's total inflows with US\$ 30.214 billion (see figure 10). According to the Mexican government FDI grew 2.3% in 2024.



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.

- ▶ 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.
- ▶ Mechanism for immediate deduction in income tax prepayments, which benefits the companies' cash flows.
- ▶ With regard to creditable VAT, the immediate deduction will be considered as a fully deductible expense.
- ▶ 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:

- ▶ A tax credit equivalent to 100% of income tax.
- ▶ 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.
- ▶ For such purpose, taxpayers must obtain the certificate of compliance with the requirements and guidelines established in the PODEBI Decree.

- ▶ 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.
- ▶ 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: Lacking distinct legal personality from its head office, it operates as an extension thereof, with the head office assuming full responsibility for its obligations and 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

Since 2010 Mexico has a comprehensive data protection legal framework, 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.

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.

On March 2025 a new Federal Law on the Protection of Personal Data Held by Private Parties was formally issued and entered into force. Although the new law maintains the conceptual essence of its predecessor, there are some relevant differences that entail the need of revisiting and, if necessary, adjusting the data protection compliance program of Mexican companies. Resulting from recent amendments to Mexican legislation related to data protection, including the enter into force of the referred law, the Mexican authority currently in charge of the enforcement of the legislation on data protection applicable to private parties is the Ministry of Anticorruption and Good Governance (Secretaría de Anticorrupción y Buen Gobierno). It is noted that up to this date secondary legislation on data protection, such as the regulations of the aforementioned new law, is yet to be issued, discussed and approved.

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, as well as revisiting already implemented data protection programs to ensure compliance with the new applicable legislation.

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 in Spanish) 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

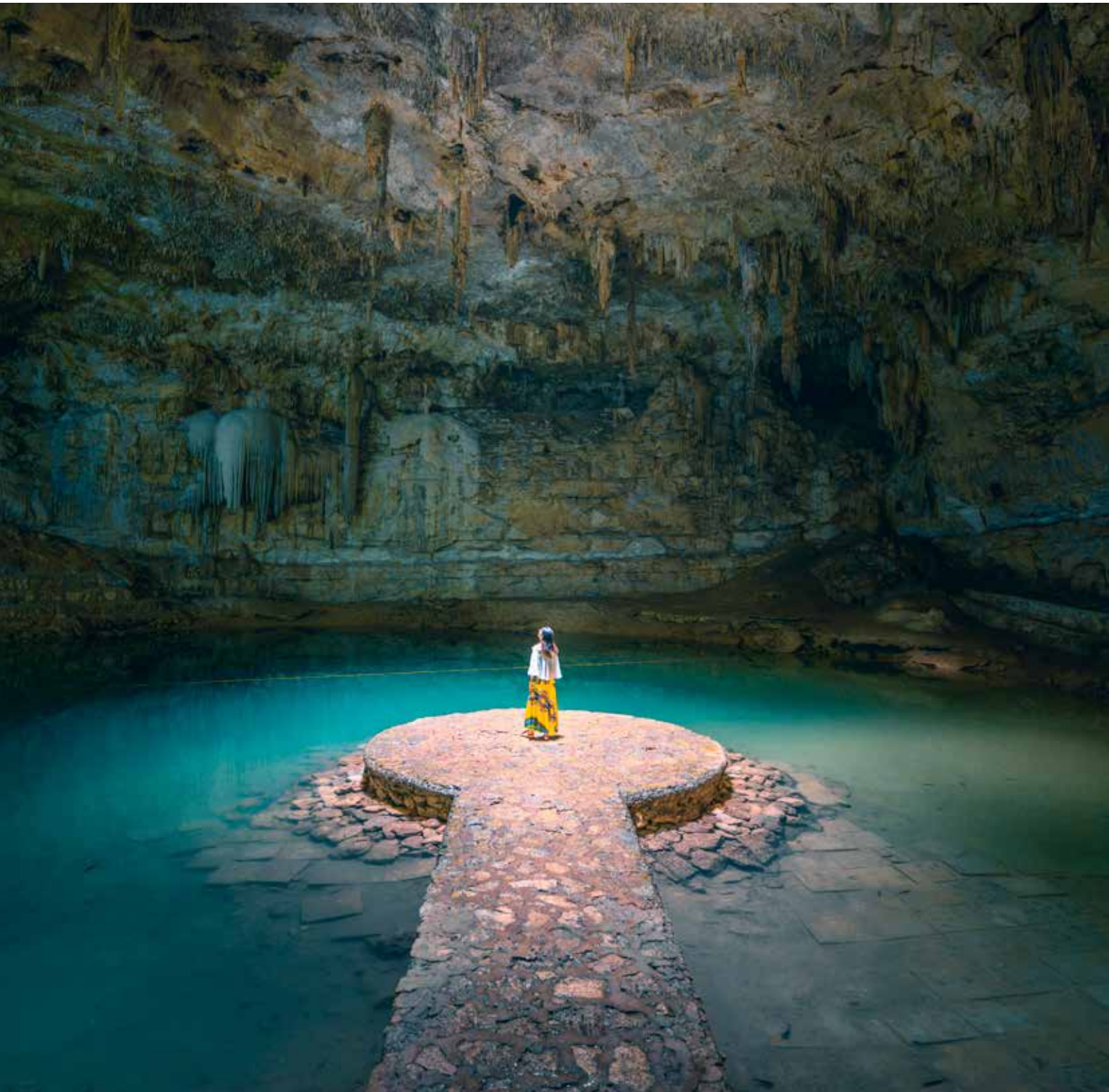
In order to obtain a Taxpayers Registry in Mexico, the subsidiary/branch will need to provide a tax domicile located in Mexico and the legal representative must be a Mexican resident for tax purposes and have a valid Taxpayers Registry in Mexico.

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. Non-resident corporations in Mexico are subject to corporate income tax on income earned from carrying on business through a permanent establishment in Mexico or, in the absence thereof, on Mexican-source income. Income tax framework is divided in three main regimes: corporate income tax, individual income tax and a withholding mechanism for non-residents.

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 maintains an extensive tax treaty network, currently encompassing 60 treaties in force. On June 7, 2017, Mexico signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (MLI), which has since been ratified and entered into effect on January 1, 2024. Mexico's MLI position included 61 jurisdictions; to date, the MLI provisions have effectively amended 48 of these, with an additional 7 jurisdictions pending amendment upon completion of their respective ratification processes.

Mexico has already incorporated changes into its domestic law to address specific Base Erosion and Profit Shifting (BEPS) practices, with the latest revisions effective from January 1, 2020. Furthermore, its adherence to the MLI ensures coverage of BEPS recommendations.

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

Mexico does not impose a separate branch tax. Profits attributable to a permanent establishment are subject to the standard corporate income tax rate of 30%, under the regulations applicable to Mexican resident companies, with certain specific provisions.

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%

2.4. Pillar two

Mexico has signed an agreement to implement a two-pillar solution addressing the fiscal implications of the digitalized global economy. This framework ensures that large multinational enterprises (with revenues exceeding EUR 750 million based on the previous four years) pay a minimum tax on income in each jurisdiction (known as Pillar Two), with the Global Anti-Base Erosion (GloBE) rules imposing a top-up tax where the effective tax rate is below 15%. While Mexico has not yet integrated these provisions into its domestic tax system, the adoption of Pillar Two is anticipated in the near future.

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, 2025. 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.

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 2024 acronym in Spanish):** 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 \$1,062.7 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 \$1,940 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 (required for some taxpayers):** 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.

*Out-of-scope activities are not subject to VAT, giving rise to similar crediting consequences as exempt activities.

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.

In certain cases, withholding VAT obligations apply (freights, services rendered by individuals, acquisition of goods from foreign residents).

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%
- ▶ High-caloric food 8%
- ▶ 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: 9.7551 cents per liter
- Butane: 12.6241 cents per liter
- Gasoline and gas-jet: 17.1107 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 since 2025 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.



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 \$278.80 pesos daily on the general Mexican territory and \$419.88 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.

1.5. Compliance with the Seating Reform (Ley Silla)

On December 18, 2024, the Chair Law mandates that employers provide seats with backrests to employees to prevent prolonged standing during work hours.

The law provides that employers must:

- ▶ Provide sufficient chairs with backrests for employees.
- ▶ Allow employees to take periodic seated breaks during their work shifts.
- ▶ Update internal work regulations to include mandatory rest periods and guidelines for chair use.
- ▶ Educate employees about the health risks associated with prolonged standing.

Penalty for noncompliance of 250 to 2,500 UMAs (\$27,142.5 MXN to \$271,425 MXN).

1.6. Compliance with the Reform on Human Trafficking

On June 7, 2024, an amendment to the General Law for Human Trafficking was published which includes an addition to article 21, regarding working hours that exceed the legal limits established as a form of labor exploitation.

To comply employers should:

- ▶ Performing an analysis of current working hours to ensure that they do not exceed the legal maximums allowed (the law provides overtime may worked, no more than 3 hours per day, more than 3 times a week).
- ▶ Obtain the employee's written request or acceptance for any overtime.
- ▶ Ensure the corresponding payment for overtime worked.
- ▶ Evaluate and review clock-in and clock-out systems for accurate control of working hours.
- ▶ Train hierarchical personnel on new regulations and their implications.

In case of noncompliance Penalties of 3 to 10 years imprisonment and sanctions of 5,000 to 50,000 day fines are established.

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 any:
 - In a calendar year, more than 50% of their income is derived from Mexican source of wealth,
 - 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	Retirement and old age insurance
INFONAVIT	Housing Fund

3.2. Cost of social security

- ▶ Employer: The approximate cost contributed by the employer ranges from 17% to 24% in 2025 based on contributions (salaries, bonuses, etc.) and the assessed risk of workplace accidents.
- ▶ Worker: Will contribute an average of 2% of the same contribution base as mentioned above.

Payments must be made on a monthly and bimonthly basis, as applicable to each Institute, no later than the 17th day of the following month.

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:

- ▶ If the company voluntarily pays the missed contributions, no fine will be imposed.
- ▶ 40% (most common) up to 100% 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.

In addition to the obligation to pay payroll tax as a direct taxpayer, there is an obligation in 25 states to withhold payroll tax from service providers, each state has its own rules for withholding tax.

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.

For further information regarding payroll tax in Mexico, please visit: https://www.ey.com/content/dam/ey-unified-site/ey-com/es-mx/services/tax/documents/ey_matrizisn2025_vf.pdf

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.

Hiring a foreign national for local employment requires the person to obtain Temporary Resident with permission for work status, which is a 3-part process involving the following steps:

- ▶ File the sponsorship petition with the local immigration authority. This can take from a few days to 4 weeks of processing time depending on the location of the immigration office.
- ▶ Attend an interview at the nearest consulate of Mexico, which the applicant must do personally.
- ▶ After entry to Mexico, the applicant must obtain the Temporary Resident ID through an appointment at the local immigration office.

This immigration category is granted for an initial period of one year and is subject to extension for up to three additional years.

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 in advance of any trip.



Financial statements

1. Public interest entities and regulated financial and insurance entities

Public interest entities that do not belong to the financial or insurance sector must report their financial statements in compliance with International Financial Reporting Standards (IFRS), as well as a sustainability report in accordance with International Sustainability Standards (Sustainability 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, nonregulated 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.

2. 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.

3. Special cases (with sector specifications)

Non-profit entities in Mexico report under MFRS.

Governmental entities apply governmental accounting.

4. Other considerations

Mexican Financial Reporting Standards (MFRS) have a high degree of convergence with 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, MFRS contemplate the supplementary application of IFRS.

Additionally, MFRS include sustainability standards that require entities presenting financial statements under the MFRS framework, to report 30 basic sustainability indicators related to environment, social and governance.



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. Its capital is Asunción, 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). 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
6,109,903
Urban: 69%
Rural: 31% (2023).



Official language²
Spanish and Guaraní.



Area³
396,012 km².





System of government⁴

Presidential Republic
President: Santiago Peña
Upcoming elections: 2028.



Climate²

Subtropical, with warm summers and cool winters. High humidity variation between the eastern and western regions.



International Time⁵

GMT-3 (All Paraguay).



Currency⁶

Guaraní
US\$1 = PYG 7,979.9 (June 30, 2025).



GDP current prices⁷

USD \$44.0 Bn. (2024).



GDP per capita (PPP)⁷

USD \$18,593 (2024).



Key Sectors^{8,11}

Paraguay's key economic activities include agriculture, livestock, forestry, mining and energy. Its main products include soy, electricity, meat, corn, rice, timber, oils, wheat, yerba mate, tobacco, manioc derivatives, sugar, textiles, cement, and lime.

Why invest in Paraguay?

Lowest tax rates in the region and extensive tax investment incentives⁹.

Solid economy, macroeconomic discipline and low public debt⁹.

Best business climate in the region in 2024¹⁰.

High renewable energy potential which allows it to be the largest exporter of electrical energy in the region and 15th globally in 2024¹¹.

Large food exporter: 3rd of soy, 5th of soy oil, 12th in corn, 11th in bovine meat in 2024¹¹.

The international rating agency Moody's Ratings awarded Paraguay investment grade status in 2024¹².

1. Nacional Statistics Institute.
2. Country information, DatosMundial.com
3. DataBank, The World Bank Group.
4. Government - Politics, CountryReports.com.
5. World Time Directory, 24timezones.com.
6. Historical exchange rates, ExchangeRates.com.
7. World Economic Outlook, April 2025, IMF.
8. Country information, Encyclopedia Britannica.
9. Investment and Export Network (REDIEX), Ministry of Industry and Commerce.
10. Economic Climate Indicator, Gertulio Vargas Foundation.
11. Comtrade database, United Nations.
12. Paraguay, Research and Ratings, Moody's.

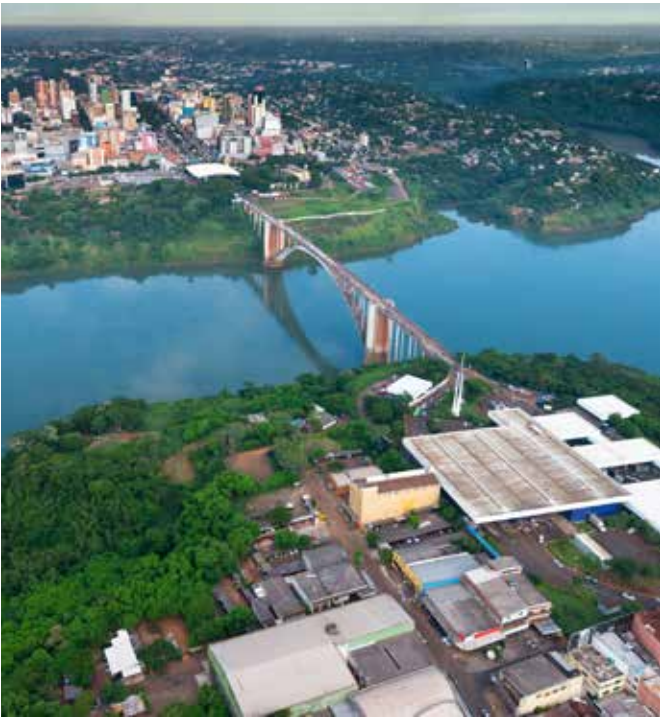


Country’s economic outlook

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.

Paraguay has exhibited robust economic growth in recent years, outpacing several regional peers. In 2024, GDP expanded by 4%, and projections for 2025 indicate continued strong performance (see figure 1). Robust macroeconomic management has contributed to economic expansion, underpinned by institutional reforms like the adoption of inflation targeting and the enactment of fiscal discipline law.



Inflation in Paraguay has been stable since 2023, following a period of external and domestic pressures. Monetary policy measures, improved macroeconomic management and anchoring of inflation expectations were among the main contributors to price stabilization. It is expected to converge toward the central bank’s target range of 3.5%.

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.

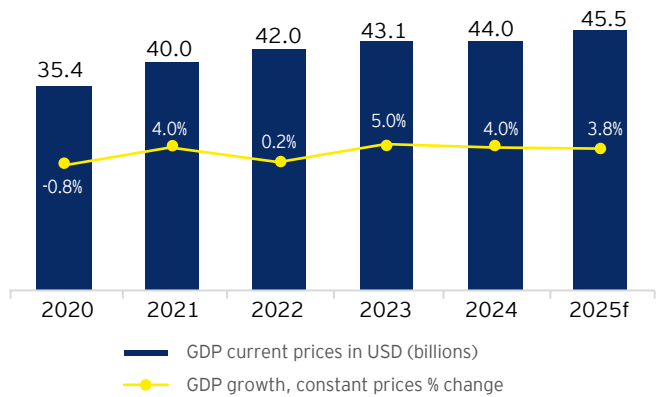
Finally, as mentioned before, in 2024 the international rating agency Moody’s Ratings awarded Paraguay investment grade status.

Table 1:

Main Indicators	Values
GDP current prices USD bn. (2024)	\$44.0
GDP growth, constant prices % change (2024)	4.0%
Gross domestic product per capita, current prices USD, PPP (2024)	\$18,593.0
Inflation, year-end consumer prices (2024)	3.8%
Fiscal balance (net lending (+) or net borrowing (-) of general government; % of GDP) (2024)	-2.1%
Public debt (General government gross debt, % of GDP) (2024)	45.2%
Current account, % of GDP (2024)	-3.9%
Investment, % of GDP (2024)	23.24%
Poverty headcount ratio at \$6.85 a day (2017 PPP, % of population) (2022)	19.9%

Sources: World Economic Outlook Database (April 2025), IMF; DataBank, The World Bank Group.

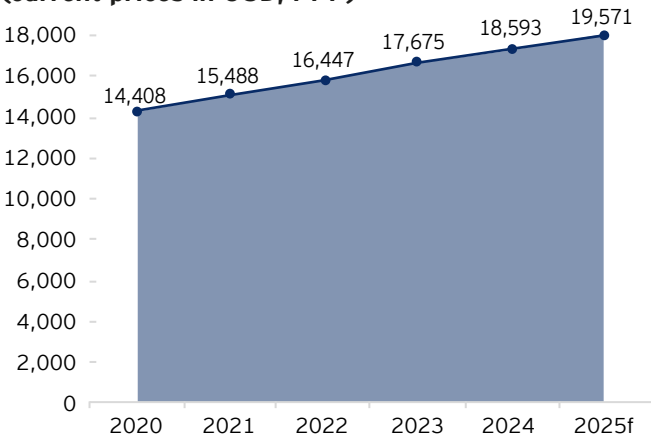
Figure 1:
Gross domestic product, levels and growth



Source: World Economic Outlook Database (April 2025), IMF.

Paraguay’s economy has shown a strong performance in recent years. In 2024, GDP expanded by 4%, driven by solid activity in construction, services, manufacturing, and livestock. This momentum is expected to continue into 2025, reflecting the resilience and diversification of key productive sectors (see figure 1).

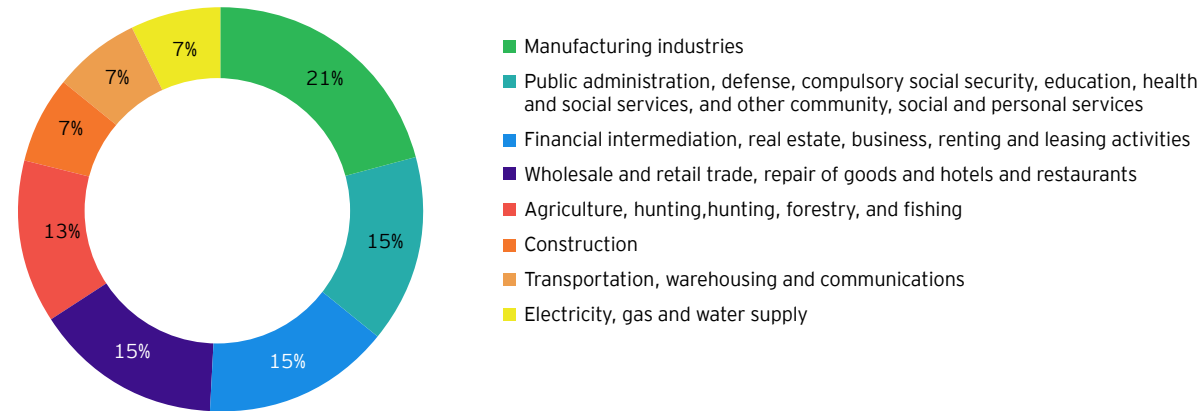
Figure 2:
Gross domestic product per capita (current prices in USD, PPP)



Source: World Economic Outlook Database (April 2025), IMF.

Paraguay’s GDP per capita in terms of purchasing power parity (PPP) has risen steadily in recent years. According to the IMF, it is projected to reach USD 19,571 in 2025 (see figure 2).

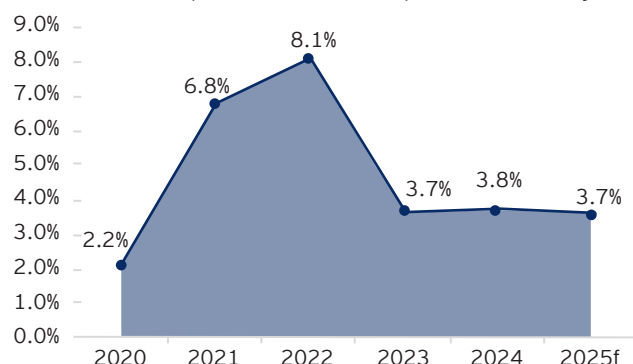
Figure 3:
Share of gross domestic product by economic sector in 2023 (current prices in USD)



Source: CEPALSTAT, United Nations ECLAC.

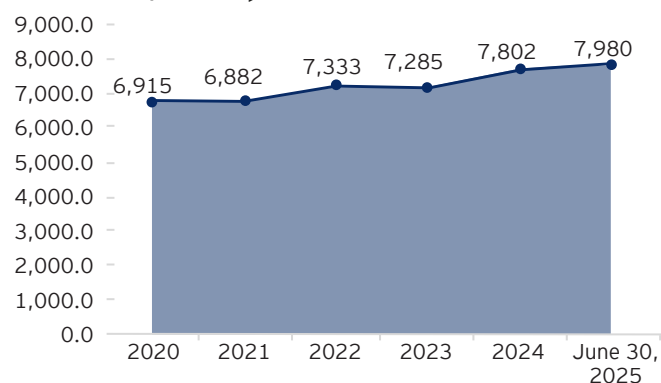
The main economic sectors contributing to Paraguay’s GDP are as follows: Manufacturing industries; public administration and personal services; financial intermediation and real estate; wholesale and retail trade, and hospitality; and Agriculture, hunting, forestry, and fishing (see figure 3).

Figures 4 and 5:
Inflation (end of period consumer prices, % change)



Source: World Economic Outlook Database (April 2025), IMF.

Exchange rate of foreign currency
(USD/PYG, end of period)

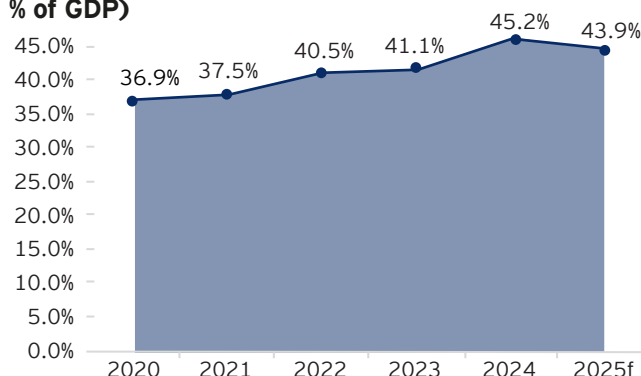


Source: exchange-rates.org.

Paraguay has the advantages of a strong inflation targeting structure, supported by an open and adaptable currency exchange regime. It concluded 2024 with an inflation rate of 3.8% and is expected to close 2025 with 3.7% (see figure 4).

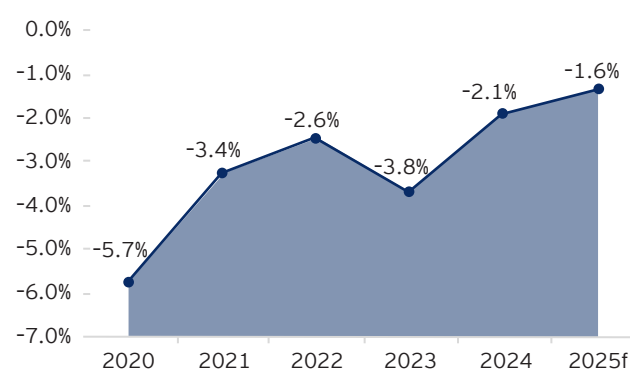
The Paraguayan guaraní has slowly but steadily weakened against the U.S. dollar over the past two years. This moderate depreciation reflects broader external influences, including shifts in U.S. interest rates, regional economic trends, and changes in global commodity markets (see figure 5).

Figures 6 and 7:
Public debt (General government gross debt, % of GDP)



Source: World Economic Outlook Database (April 2025), IMF.

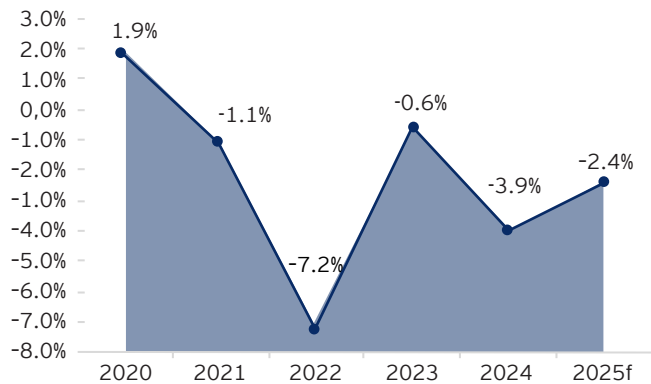
Fiscal balance (net lending (+) or net borrowing (-) of general government, % of GDP)



Source: World Economic Outlook Database (April 2025), IMF.

Paraguay's public debt has been rising over the past years, reaching 45.2% of GDP by 2024 but still remaining healthy and low in comparison to similar economies. For 2025, a decline to 43.9% is projected (see figure 6). The fiscal balance deteriorated in 2023 but improved in 2024, a trend that is expected to continue in 2025 (see figure 7).

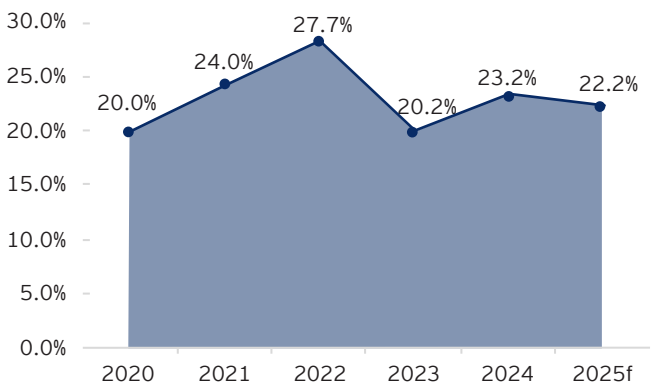
Figure 8:
Current account (% of GDP)



Source: World Economic Outlook Database (April 2025), IMF.

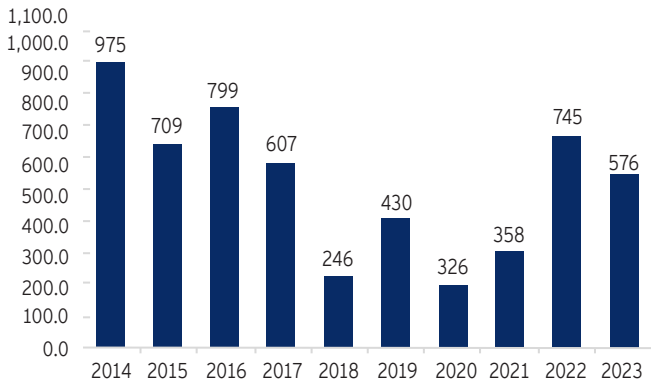
The country’s current account has shown volatility over the past years closing 2024 at -3.9% while projections for 2025 center around -2.4% (see figure 8).

Figures 9 and 10:
Investment (% of GDP)



Source: World Economic Outlook Database (April 2025), IMF.

FDI inflows to Paraguay (USD millions)



Source: DataBank, The World Bank Group.

Investments in Paraguay as a percentage of GDP decreased to 20.2% in 2023 after peaking 27.7% in 2022 but improved in 2024 reaching 23.2% (see figure 9).

Foreign direct investment (FDI) inflows to Paraguay reached USD 745 million in 2022, its highest since 2016, but declined in 2023 (see figure 10). 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	▶ 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.	▶ 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.	▶ 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.	▶ 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	▶ 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.	▶ 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	▶ 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	▶ 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. * 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.	▶ 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.	▶ No minimum capital threshold for the incorporation of a Branch.	▶ 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	▶ The capital of S.A. is represented by shares. ▶ The Bylaws may create different types of shares establishing preferential voting or economic rights.	▶ 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	▶ 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	▶ 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.	▶ 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	▶ 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.

2.1.1. Rate

The tax rate is 10%.

2.1.2. 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. In year 2024, the Spanish Kingdom and the Republic of Paraguay signed a Double Tax Treaty that is also in force, from January 1st, 2025.

2.1.3. 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.

2.1.4. 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:

- ▶ Income and capital gains; and
- ▶ 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

3.1.1. 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.

3.1.2. 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:

- ▶ Customs duties;
- ▶ Tax on selected consumer items, if applicable; and
- ▶ 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

5.1. Free Trade Zone Regime

The following activities performed in the established Free-Trade Zone areas are considered covered by this regime:

- ▶ Business
- ▶ Industries
- ▶ Services

5.2. 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.

5.3. 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.

5.4. 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. 2.899.048 = USD 363 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:

- ▶ **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.
- ▶ **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.
- ▶ **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 that stands out for its macroeconomic stability, which is one of the nation's most important pillars of competitiveness.



Paulo Pantigoso

Country Managing
Partner
EY Peru

Almost uninterrupted economic growth over the past 25 years has contributed to the improvement of infrastructure, development of human capital, the adoption of new technologies and the standard of living of all Peruvian citizens. Additionally, a policy of being open to the international market through multiple commercial agreements complements legislation that is favorable to private domestic and foreign investment.

The recognition of Peru's solid economy is based on low inflation (at the close of 2024, there were 27 consecutive years of single-digit inflation), international reserves equivalent to 27.3% of GDP, a controlled fiscal deficit (an average of 2.6% of GDP over the past ten years), and public debt that does not exceed 32.7% of GDP at the end of 2024, well below the average of the rest of emerging countries in the world (69.9%) and in the region (69.4%). Additionally, 2024 closed with a trade surplus record-breaking of USD23.8 billion.

Peru's economic prospects for 2025-2026 forecast an average GDP growth of 3.0%, propelled by dynamic investment and robust export performance. Strategic mining investments, bolstered by new projects and streamlined regulations, alongside non-mining initiatives in infrastructure, will drive economic diversification. Peru stands out as a resilient and innovative hub for investors seeking opportunities in a vibrant emerging market.

We firmly believe that Peru offers great opportunities for favorable investment, as well as an ideal business climate for investment. Through the Doing Business Latam 2025, we commit to supporting Peru and the region in their development by helping businesses get started, grow, and thrive. We hope this guide will be useful in discovering new initiatives, and we are at your disposal for any assistance you may require.

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, iron and zinc), petroleum, fishery, agriculture (coffee, grapes, fruits), 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.



Population

33,731,000¹ (2023)

Urban: 79%²

Rural: 19%² (2023).



Official languages³

Spanish, Quechua, Aymara.



Area²

1,280,000 km².





System of government⁴

Democratic and presidential republic

President: Dina Boluarte

Next elections: 2026.



Climate³

Mostly tropical, with no significant differences between seasons. The warmest and at the same time rainiest region is the Amazon Basin. The coldest is the Southern Sierra and Altiplano.



International Time⁵

GMT-5 (All Peru).



Currency⁶

Peruvian Nuevo Sol

US\$1 = PEN 3.54 (June 30, 2025).



GDP current prices¹

USD \$289.1 Bn. (2024).



GDP per capita (PPP)¹

USD \$17,879 (2024).



Key sectors^{7,11}

Peru stands out in various sectors that include mineral extraction and refinery of copper, gold, iron, zinc and other metals, steel and metal manufacturing, oil extraction and refinery, natural gas and natural gas liquefaction, fruits, agriculture and food processing, fishing and fish processing, cement, and textile.

Why invest in Peru?

1st place in country reputation in the region in 2025⁸.

22 trade agreements, 28 bilateral investment treaties and 10 double taxation avoidance agreements⁹.

Investment incentives including anticipated tax refunds, tax credits and 4 Special Economic Zones (ZEE)⁹.

World leader in mineral production: 3rd of zinc and silver, 4th of copper, 4th of tin, and 5th of Lead⁶ in 2024¹⁰.

Large fruit exporter: 1st largest exporter of grapes, cranberries, bilberries and others, 3rd exporter of avocados, dates, figs, pineapples, avocados, guavas, mangoes and mangosteens in 2022 (in tradevalue)¹¹.

1st largest exporter of fishmeal in the world, 4th of ores, slag and ash in 2022 (in tradevalue)¹¹.

1. World Economic Outlook, April 2025, IMF.
2. DataBank, The World Bank Group.
3. Country information, DatosMundial.com.
4. Government - Politics, CountryReports.com.
5. World Time Directory, 24timezones.com.
6. Historical exchange rates, ExchangeRates.com.
7. Country information, Encyclopedia Britannica.
8. RepCore Nations 2025, Corporate Reputation Lab.
9. Reasons to Invest in Peru, Invest Peru.
10. U.S. Geological Survey, Mineral Commodity Summaries, January 2024.
11. Comtrade database, United Nations.



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.

Over the last years, economic growth slowed down as a result of weakened institutions and external shocks, including the pandemic and extreme weather events, culminating in a recession of -0.4% in 2023. However, by 2024, the economy rebounded with a 3.3% expansion, driven by more stable weather conditions, higher public spending, and a boost in business sentiment (see figure 1).

By the end of 2024, inflation had settled within the central bank's target range of 2% ±1 percentage point, and it is expected to remain at similar levels throughout 2025 (see figure 4).

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.

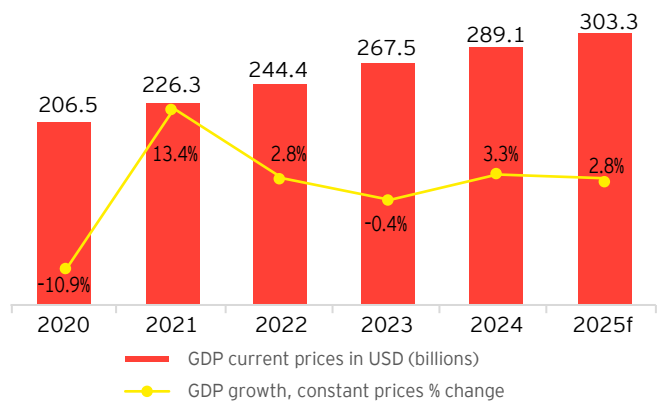
Additionally, Peru has a growing tourism sector thanks to its rich cultural history, biodiversity, and world-renowned archaeological sites.

Table 1:

Main Indicators	Values
GDP current prices USD bn. (2024)	\$289.1
GDP growth, constant prices % change (2024)	3.3%
Gross domestic product per capita, current prices USD, PPP (2024)	\$17,879.2
Inflation, year-end consumer prices (2024)	2.0%
Fiscal balance (net lending (+) or net borrowing (-) of general government; % of GDP) (2024)	-3.6%
Public debt (General government gross debt, % of GDP) (2024)	32.8%
Current account, % of GDP (2024)	2.2%
Investment, % of GDP (2024)	18.1%
Poverty headcount ratio at \$6.85 a day (2017 PPP, % of population) (2022)	32.2%

Sources: World Economic Outlook Database (April 2025), IMF; DataBank, The World Bank Group.

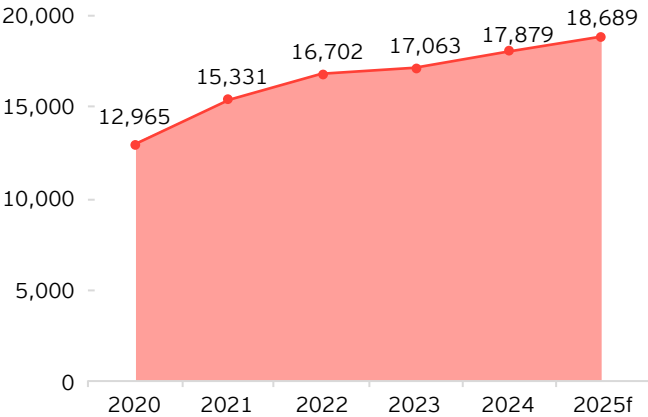
Figure 1:
Gross domestic product, levels and growth



Source: World Economic Outlook Database (April 2025), IMF.

In 2024, the economy rebounded from a swift recession, posting a 3.3% growth rate, driven by several key factors—including stronger exports, a rise in private investment, robust domestic demand, and the normalization of weather conditions. IMF expects a 2.8% growth in 2025 (see figure 1).

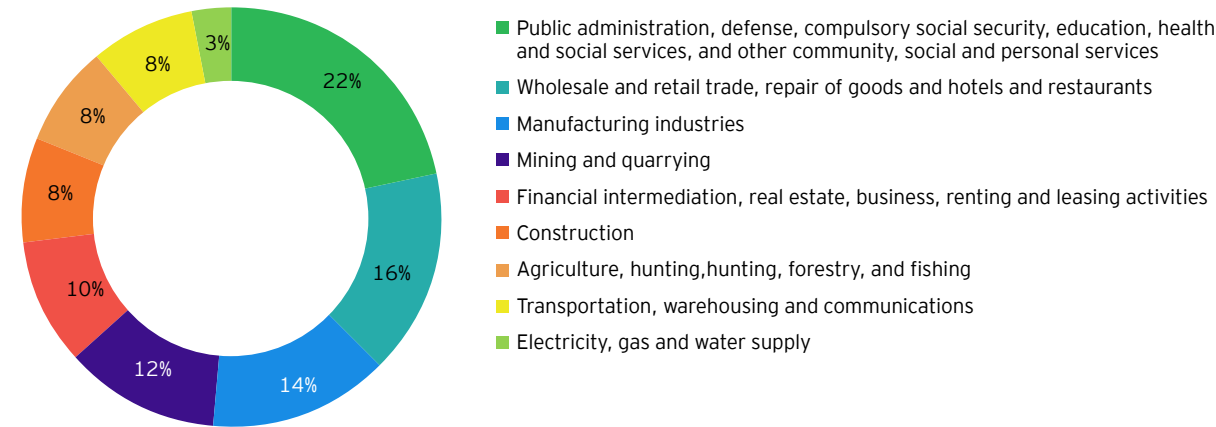
Figure 2:
Gross domestic product per capita
(current prices in USD, PPP)



Source: World Economic Outlook Database (April 2025), IMF.

Peru’s years of growth have led to a steady increase in its GDP per capita in terms of purchasing power parity (PPP). It is expected to reach USD 18.689 in 2025 (see figure 2).

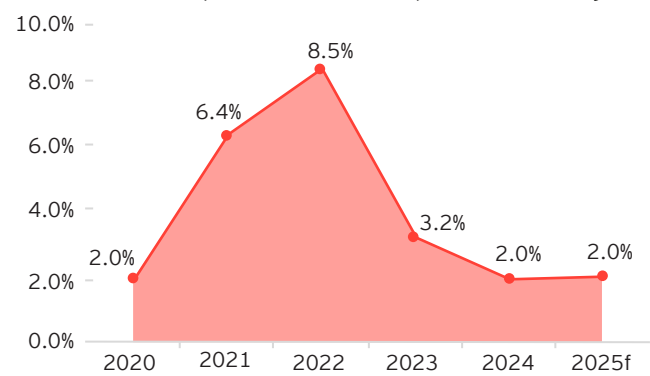
Figure 3:
Share of gross domestic product by economic sector in 2023 (current prices in USD)



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

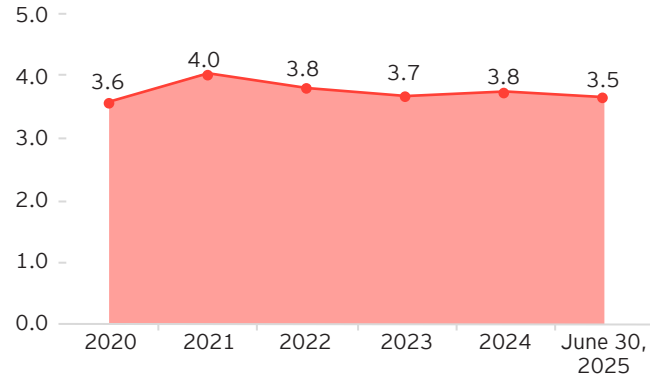
In Peru, the sectors that contribute most to the GDP are public and personal services, wholesale and retail trade, including hospitality (hotels and restaurants), the manufacturing industry and mining. These are followed by financial intermediation, construction, agriculture and fishing and transportation (see figure 3).

Figures 4 and 5:
Inflation (end of period consumer prices, % change)



Source: World Economic Outlook Database (April 2025), IMF.

Exchange rate of foreign currency (USD/PEN, end of period)

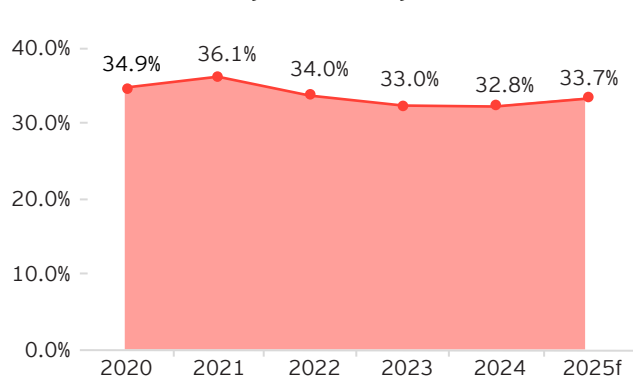


Source: exchange-rates.org.

Peru successfully brought inflation back within the central bank’s target range, reaching 2% by the end of 2024. This achievement reflects a combination of prudent monetary policy, improved supply conditions, and a gradual easing of external cost pressures. The International Monetary Fund (IMF) projects that inflation will remain at this same level in 2025, signaling continued macroeconomic stability and effective policy management (see figure 4).

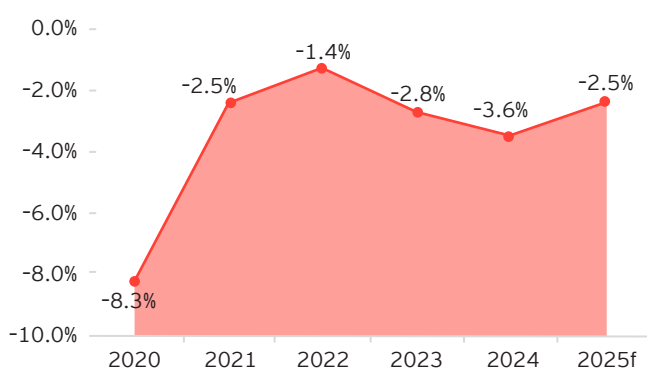
The exchange rate remained stable between 2022 and 2024, fluctuating between 3.7 and 3.8 soles per U.S. dollar (see figure 5), but has appreciated since then (see figure 5).

Figures 6 and 7:
Public debt (General government gross debt, % of GDP)



Source: World Economic Outlook Database (April 2025), IMF.

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

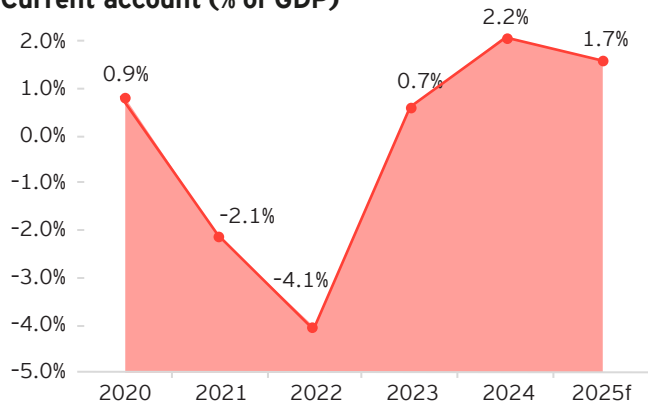


Source: World Economic Outlook Database (April 2025), IMF.

Peru’s public debt has remained stable at around 33% of GDP, underscoring the country’s solid fiscal foundations (see figure 6).

In 2024, the fiscal deficit reached 3.6% of GDP, surpassing the 2.8% ceiling set by the fiscal rule. Nevertheless, the International Monetary Fund (IMF) expects a gradual fiscal consolidation, with the deficit projected to narrow to 2.5% in 2025 (see figure 7).

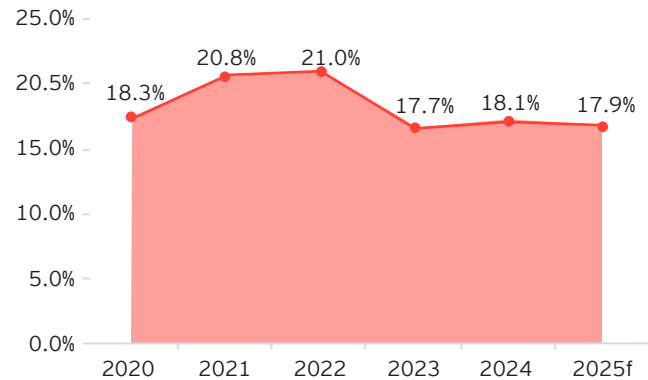
Figure 8:
Current account (% of GDP)



Source: World Economic Outlook Database (April 2025), IMF.

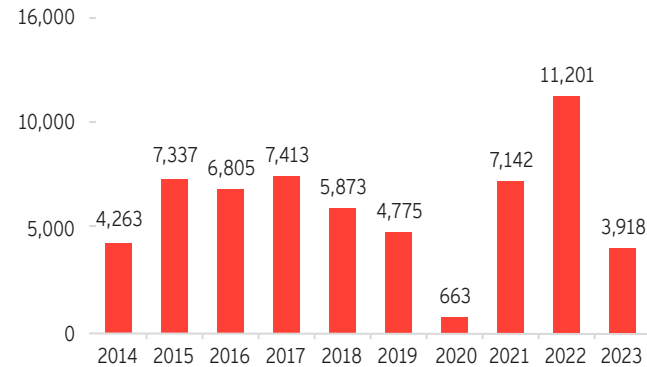
After 2 years of negative figures, Peru’s current account rebounded in 2023 and closed 2024 with a 2.2% surplus. The IMF forecast indicates that in 2025, the current account is likely to show a surplus again, though smaller than in 2024 (see figure 8).

Figure 9 and 10:
Investment (% of GDP)



Source: World Economic Outlook Database (April 2025), IMF.

FDI inflows to Peru (USD millions)



Source: DataBank, The World Bank Group.

Investment as a share of GDP has remained relatively stable in Peru in recent years, closing 2024 at 18.1%. It is expected to reach 17.9% in 2025, reflecting a moderate adjustment (see figure 9).

After two years of receiving considerably high foreign direct investment (FDI) inflows compared to previous years, the inflows fell by 65% in 2023, totaling USD 3.918 billion (see figure 10). The Central Bank of Peru, projected strong FDI growth for 2024 and 2025.



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	▶ General Shareholders Meeting ▶ Board of Directors ▶ Management		▶ General Shareholders' Meeting ▶ Board of Directors (optional) ▶ Management	▶ 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 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

2.1.1. 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

2.4.1. 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.

2.4.2. 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 9,050,000 or approx. USD 2,458,108), 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.

3.7. Double Tax Treaties

Peru has in force Double Tax Treaties (DTT) with the following countries: Brazil, Canada, Chile, Japan, Korea, Mexico, Portugal, Switzerland and the Andean Community (Bolivia, Ecuador and Colombia).

Additionally, Peru has signed the Multilateral Agreement Instrument which it is expected that enter into force on January 1st, 2026. Likewise, Peru and the United Kingdom has signed a DTT. Some procedures are pending. The provisions of this DTT will take effect from 1st January of the calendar year immediately following the year in which the DTT enters into force, which could mean as early as 1st, January 2026.

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. 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.

5.4. Stamp Duties

There are no Stamp Duties in the Peruvian Tax System.

5.5. Other taxes

5.5.1. 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.

5.5.2. 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.

5.5.3. 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.

1.1.1. 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.

1.1.2. 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.

1.1.3. 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

1.1.4. 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 the 6 or 12 month extension of the probationary period, a written agreement is mandatory.

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 legislation in Peru.

1.4.1. Principle of Equal Opportunities

Advocates non-discrimination in the workspace, regardless of gender, origin, or religion, thereby promoting an equal and unbiased environment.

1.4.2. Compensation

Workers are entitled to fair salary that provides them a decent living for themselves and their families.

1.4.3. Limitation on Working Hours

The maximum working hours in Peru is 8 hours per day or 48 hours per week.

1.4.4. Unlawful dismissal

Workers are protected against unjustified dismissal.

1.4.5. Social Security

Workers have the right to social security protection, which includes health insurance and pension benefits.

1.4.6. Right to Organize

Workers have the right to form and join trade unions, engage in collective bargaining and participate in strikes.

1.4.7. Health and Safety

Employers must ensure the health and safety of workers by providing a safe and healthy work environment.

1.4.8. Rights concerning Maternity, Paternity, and Family Responsibilities

Workers have the right to protection and assistance in the event of pregnancy, childbirth and lactation, among others. Furthermore, certain provisions are established for parental leave and childcare.

1.5. Types of remuneration and minimum monthly income

As of January 1, 2025, the minimum wage in Peru is 1130.00 Peruvian Soles (PEN) per month. This applies to all workers, regardless of occupation or industry. 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: Fishing 10%, Telecommunications 10%, Manufacturing 10%, Mining 8%, Wholesale, retail and restaurants 8%, agriculture 7.5% until 2026, other activities 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 50% based on the days actually worked, and 50% depending of the salary of each worker. This benefit has a limit of 18 monthly salary.

1.7. Absences: holidays, vacations, pregnancy

Anchored in the Peruvian Constitution is the 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 or 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, PEN 37 450 annually for 2025, 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 PEN 26 750.00	8%
More than PEN 26 750 to PEN 107 000.00	14%
More than PEN 107 000.00 to PEN 187 250.00	17%
More than PEN 187 250.00 to PEN 240 750.00	20%
More than PEN 240 750.00	30%

(*) applies only during 2025. The amount are subject to change in 2026 according to Peruvian tax regulation



Financial Statements

1. 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 (PEN12,305,000) 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 (PEN802,500) and lower than 2,300 UITs (PEN12,305,000) 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 - PEN802,500) that establishes a simplified accrual accounting framework for this business segment.

2. 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.

3. 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).

4. 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 established itself as an attractive emerging market due to its location and economic stability. Its PIB has grown thanks to innovative sectors such as technology and renewable energy. Furthermore, its commitment to sustainability and social development creates a favorable environment for investors seeking positive impact.

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 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, forestry, grains) and dairy. Uruguay has initiated several trade agreements, seeking more openness to global trade. With a highly skilled workforce, focus on innovation, especially in technology and renewable energy, it maintains a stable economy and fosters industrial diversification for long-term sustainable growth.



Population
3,499,000¹ (2023)
Urban: 96%²
Rural: 4%² (2023).



Official language³
Spanish.



Area²
175,020 km².





System of government⁴

Presidential republic
President: Yamandú Orsi
Next elections: 2029.



Climate³

Temperate with well-defined seasons. Warm summers and cool winters.



International Time⁵

GMT-3 (All Uruguay).



Currency⁶

Uruguayan Peso
US\$1 = UYU 39.95 (June 30, 2025).



GDP current prices¹

USD \$81.0 Bn. (2024).



GDP per capita (PPP)¹

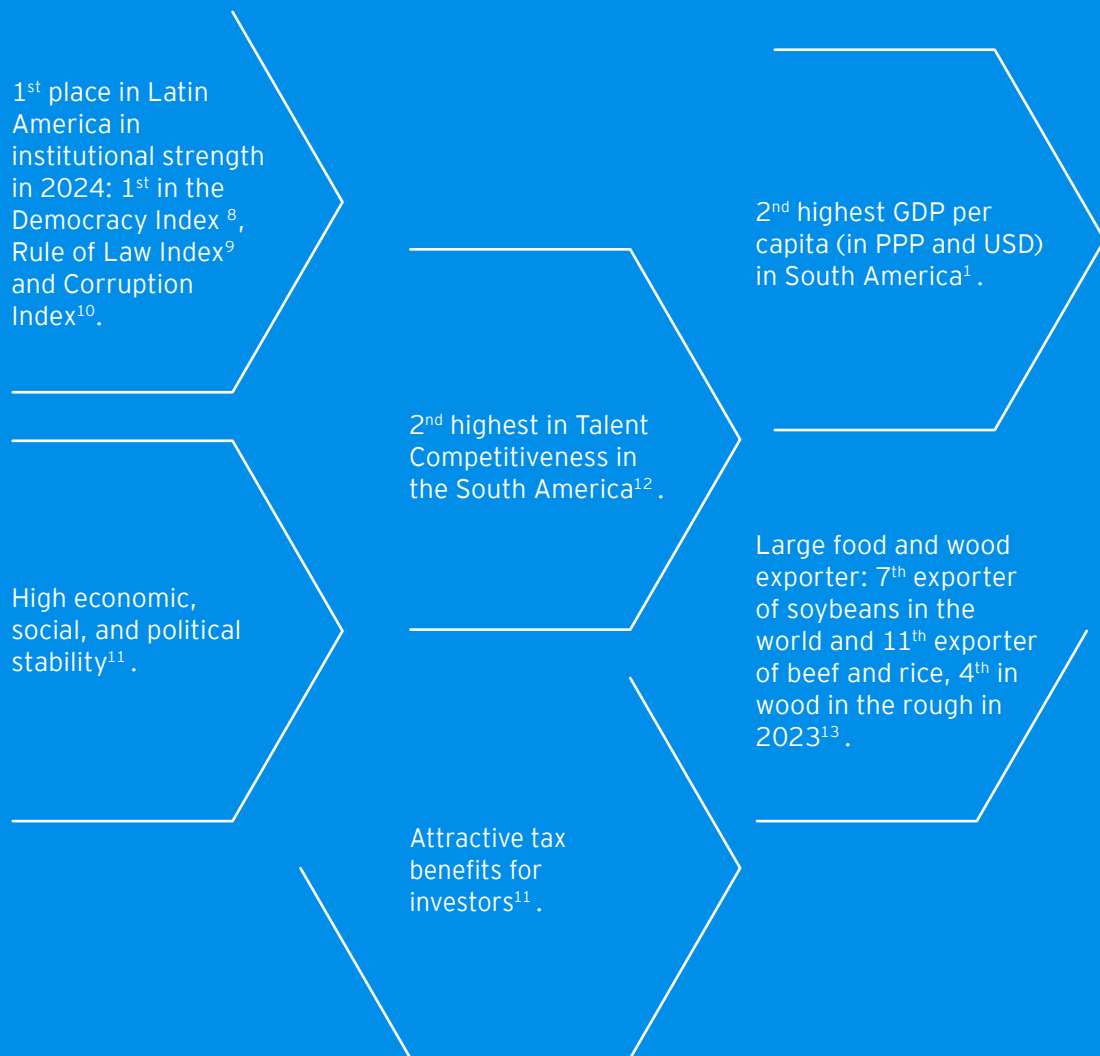
USD \$35,173 (2024).



Key sectors^{7,13}

Uruguay stands out in the agrobusiness and industry sectors. The first focuses on cattle, and sheep, forestry and crops such as soybeans, rice, wheat and malt. Its main industries include meat processing, dairy, textile, paper, cardboard, fertilizers, alcohols, cement, and hydrocarbon refining.

Why invest in Uruguay?



1. World Economic Outlook, April 2025, IMF
2. DataBank, The World Bank Group.
3. Country information, DatosMundial.com.
4. Uruguayan Agency for International Cooperation, Government of Uruguay.
5. World Time Directory, 24timezones.com.
6. Historical exchange rates, ExchangeRates.com.
7. Country information, Encyclopedia Britannica.
8. Democracy Index, The Economist Intelligence Unit.
9. Rule of Law Index, World Justice Project.
10. Corruptions Perception Index, Transparency International.
11. UruguayXXI, Government of Uruguay.
12. Global Talent Competitiveness Index 2023 rankings, Insead.
13. Comtrade database, United Nations.



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.

After a challenging 2023, Uruguay’s economic performance improved notably in 2024, posting a 3.1% growth rate. The main drivers of this recovery were robust export activity and increased household spending, both supported by a healthier job market and inflation staying within the Central Bank’s target. For 2025, forecasts suggest the country will continue on a path of steady, though moderate, economic expansion, underpinned by a stable macroeconomic framework (see figure 1).



In 2023, inflation showed a downward trend and since then has stayed within the Central Bank’s target range (3% and 6%), reflecting tighter monetary policy and easing external pressures. Looking ahead to 2025, inflation is expected to stay under control (see figure 4).

In March 2025, Yamandú Orsi assumed the presidency of Uruguay, marking the return of the center-left Broad Front coalition after a five-year hiatus. His administration aims to address pressing issues such as inequality, high living costs, and public security, while maintaining investor confidence and avoiding abrupt policy shifts.

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.

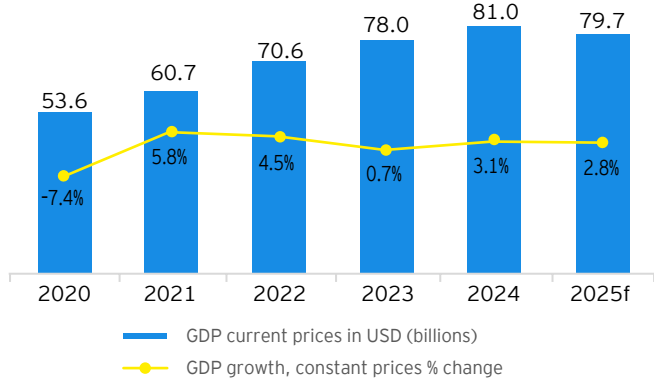
Among its key sectors, the country is known for producing high-quality food, especially meat, dairy and grains (soy, wheat, barley). The forestry sector has experienced significant development, with substantial investments in eucalyptus and pine plantations. The ICT sector has grown in recent years, 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:

Main Indicators	Values
GDP current prices USD bn. (2024)	\$81.0
GDP growth, constant prices % change (2024)	3.1%
Gross domestic product per capita, current prices USD, PPP (2024)	\$35,173.1
Inflation, year-end consumer prices (2024)	5.5%
Fiscal balance (net lending (+) or net borrowing (-) of general government; % of GDP) (2024)	-3.2%
Public debt (General government gross debt, % of GDP) (2024)	68.7%
Current account, % of GDP (2024)	-1.0%
Investment, % of GDP (2024)	15.6%
Poverty headcount ratio at \$6.85 a day (2017 PPP, % of population) (2022)	6.4%

Sources: World Economic Outlook Database (April 2025), IMF; DataBank, The World Bank Group.

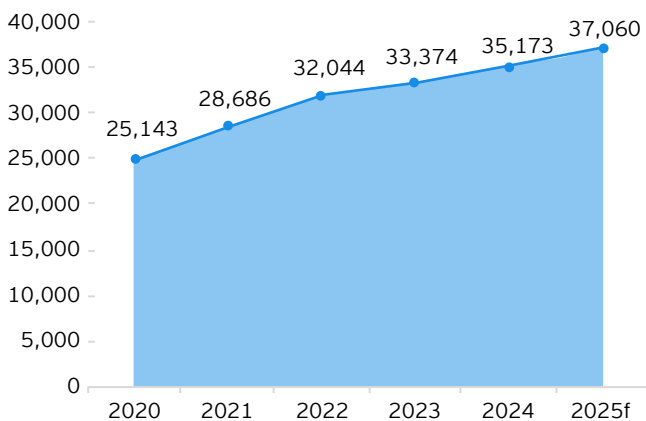
Figure 1:
Gross domestic product, levels and growth



Source: World Economic Outlook Database (April 2025), IMF.

The economy witnessed a rebound of 3.1% in 2024, following a modest expansion of just 0.7% in 2023, primarily attributed to the drought-induced decline in the agricultural sector. According to the IMF, the growth rate in 2024 marked a clear turnaround, reflecting a recovery from the contractionary effects of the drought and other disruptions that weighed on economic performance in 2023. This rebound was supported by improved weather conditions, stronger external demand, and a recovery in private consumption and investment. According to the IMF, Uruguay's economic growth will reach 2.8% in 2025 (see figure 1).

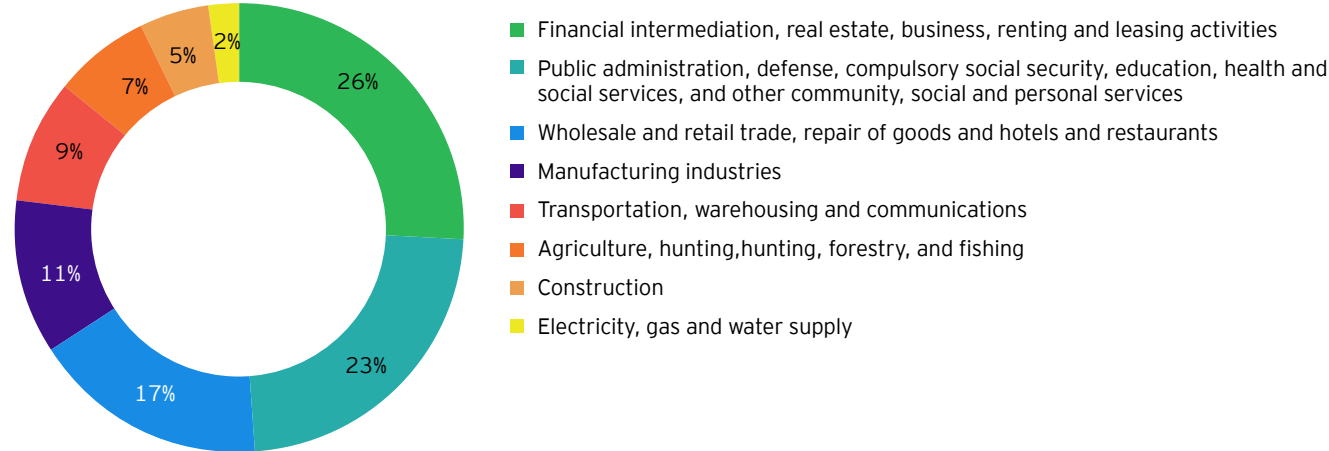
Figure 2:
Gross domestic product per capita (current prices in USD, PPP)



Source: World Economic Outlook Database (April 2025), IMF.

Uruguay is renowned in Latin America for its high per capita income in terms of purchasing power parity (PPP), that reached USD 35,173 in 2024. Relatively speaking, it boasts the most substantial middle class in the Americas and the Caribbean, according to the World Bank (see figure 2).

Figure 3:
Share of gross domestic product by economic sector in 2023 (current prices in USD)

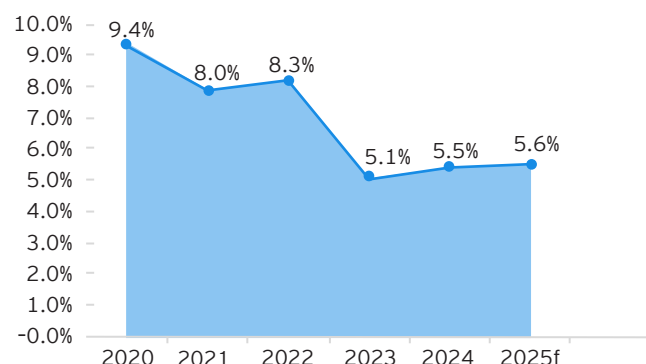


Source: CEPALSTAT, United Nations ECLAC.

The sectors that contribute the most in terms of GDP are: Financial intermediation and real estate, followed by public administration and personal services; wholesale

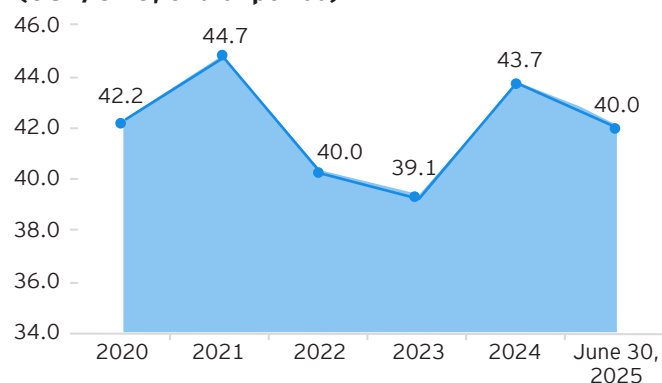
and retail trade and hotels and restaurants; and manufacturing. Other key sectors include transportation, agriculture and construction (see figure 3).

Figures 4 and 5:
Inflation (end of period consumer prices, % change)



Source: World Economic Outlook Database (April 2025), IMF.

Exchange rate of foreign currency
(USD/UYU, end of period)

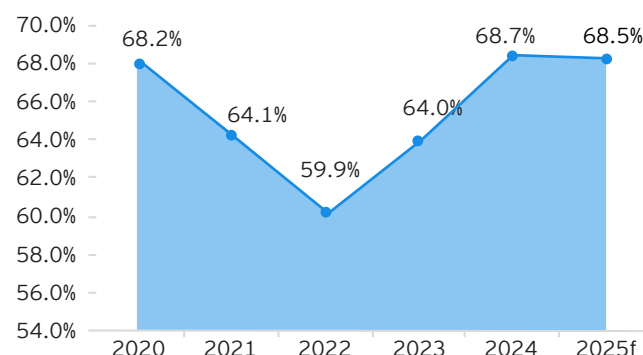


Source: exchange-rates.org.

Inflation in Uruguay decreased from 8.3% in December 2022 to 5.1% in December 2023, marking the lowest year-end rate since 2005. In 2024, inflation rose slightly to 5.5%, remaining within the Central Bank's target range. According to the IMF, a mild increase is expected in 2025, with inflation projected to reach 5.6%, still consistent with a stable macroeconomic environment (see figure 4).

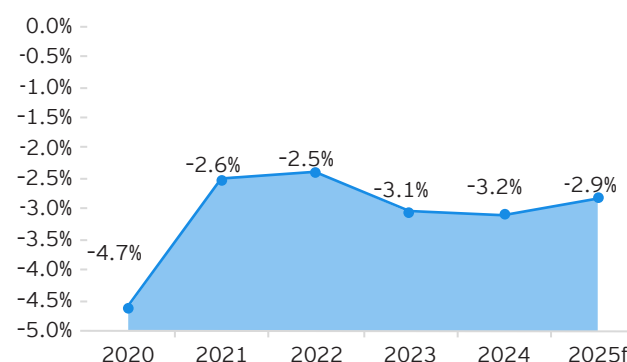
The Uruguayan peso appreciated against the US dollar between 2022 and 2023, followed by a slight depreciation in 2024, closing in 43.7 UYU per USD remaining fairly stable (see figure 5).

Figures 6 and 7:
Public debt (General government gross debt, % of GDP)



Source: World Economic Outlook Database (April 2025), IMF.

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

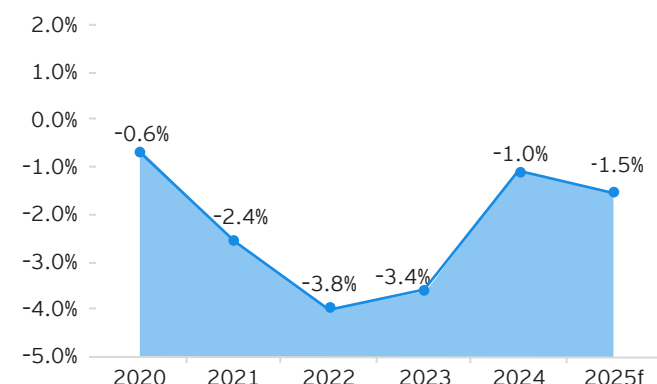


Source: World Economic Outlook Database (April 2025), IMF.

In recent years, Uruguay's public debt has generally increased, though with occasional variations. By the end of 2024, the debt reached 68.7% of GDP, rising from 64% in 2023. A slight moderation is expected for 2025 (see figure 6).

Uruguay's fiscal deficit widened slightly in 2023 and 2024 but is expected to narrow to 2.9% of GDP in 2025, according to the IMF (see figure 7).

Figure 8:
Current account (% of GDP)

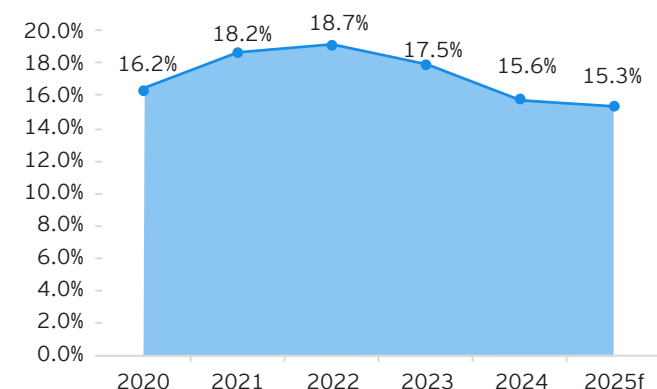


Source: World Economic Outlook Database (April 2025), IMF.

The aftermath of the pandemic and the subsequent severe drought in 2023 led to a weakening of its current account, ending 2022 and 2023 with a -3.8% and 3.4% deficit respectively.

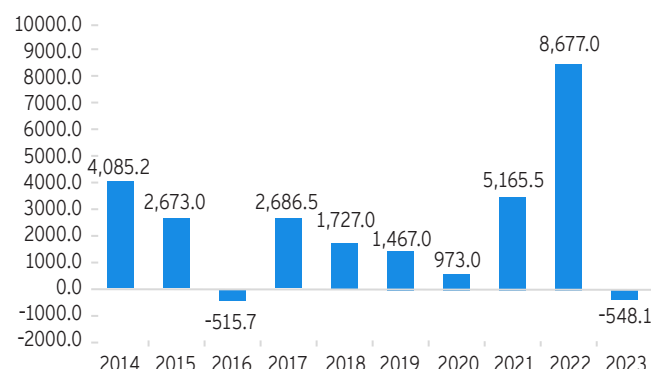
Uruguay's current account deficit in 2024 stood at 1% of GDP, showing a notable improvement from the deficit recorded the previous year (see figure 8).

Figures 9 and 10:
Investment (% of GDP)



Source: World Economic Outlook Database (April 2025), IMF.

FDI inflows to Uruguay (USD millions)



Source: DataBank, The World Bank Group.

Investment as percentage of GDP reached 15.6% in 2024, marking a decline compared to previous years (see figure 9).

In terms of inflows, FDI peaked at USD 8,677 million in 2022, but decreased steeply in 2023, reaching - USD 548 million, its lowest point in decades (see figure 10). However, despite these figures, Uruguay saw USD 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):

- ▶ 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).

- ▶ Insurance activities: These activities are mainly governed by Law 19,678 and require registration with the BCU.
- ▶ 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.
- ▶ 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.
- ▶ 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).
- ▶ 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.
- ▶ 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.

- ▶ 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.
- ▶ 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.
- ▶ 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.
- ▶ 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:

2.1.1. 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)

2.4.1. Direct transfer:

- ▶ 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.
- ▶ Direct transfer 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.
- ▶ Direct transfer of Uruguayan shares 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%.

2.4.2. Indirect transfer

Indirect transfer of 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:

2.5.1. 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.

2.5.2. 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; and electronic surveillance services carried out by operators that provide or are capable of providing telecommunications services.

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.*

2.5.3. 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.

2.5.4. 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.

2.5.5. 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 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, Guam, Guyana, Honduras, Cocos Island (Keeling Island), Christmas Island, Saint Helena Island, Norfolk Island, Pitcairn Island, Pacific Islands, Fiji Islands, Falkland Islands, Palau Islands, Solomon Islands, United States Virgin Islands, Jordan, Kiribati, Labuan, Liberia, Niue, French Polynesia, Puerto Rico, Kingdom of Tonga, Republic of Yemen, Saint Martin (former member of the Netherlands Antilles), Saint Pierre and Miquelon, Svalbard, Swaziland, Tokelau, Tristan da Cunha, Tuvalu, Djibouti.

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 4,5 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 23,604 (approximately USD 559,19) per month, UYU 944 (approximately USD 22.4) per day and UYU 118 (approximately USD 2.8) per hour on January 1st, 2025. 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 13,086). 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 28,041) 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 272,564 for year 2025 (approx. USD 6,400). 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 272,564 for year 2025 (approx. USD 6,400). 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:

- ▶ 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 3.940.000 approximately, values from FY2025); or
- ▶ Companies that obtain income above 4,000,000 Indexed Units (USD 600.000 approximately, values from FY2025) 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) The maximum deadline for submitting the financial statements to the AIN is 6 months after the closing date of the fiscal year.

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:

- ▶ Preparation of the FFSS with a specific AIN's format (including FFSS and Notes).
- ▶ Online submission of the required documents.
- ▶ Online signing of the documents by a legal representative of the company (*)
- ▶ 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.
- ▶ 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, Venezuela's unstable political, economic and social situation has created a difficult business environment which continues today. However, Venezuela has a huge potential

Venezuela has the world's largest oil reserves and is 5th in natural gas reserves. 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, ranked amongst the best in the world and it is one of the 5 top 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) what means that Venezuela has the potential both to 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 to private capital / venture capital, allowing the increase of 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 on the understanding of the challenges ahead.

We'll be glad to assist as well.

Kind regards

Alberto Afiuni

Country Managing
Partner EY Venezuela





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.



Population

26,740,000¹ (2023)

Urban: 88%²

Rural: 12%² (2023).



Official language³

Spanish.



Area²

882,050 km².





System of government⁴

Federal Presidential Republic

President: Nicolás Maduro (not recognized by the US and European Union)

Next elections: 2030.



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).



Currency⁶

Bolívar

US\$1 = VES 108.2 (June 30, 2025).



GDP current prices¹

USD \$119.8 Bn. (2024).



GDP per capita (PPP)¹

USD \$8,556 (2024).



Key sectors⁷

Venezuela stands out in sectors such as oil, gas, construction materials, agriculture, food processing, textiles, iron, mining, steel, and aluminum.

Why invest in Venezuela?

Largest crude oil reserves in the world and 8th in natural gas reserves in 2023⁸.

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 development⁹.

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 very high⁹.

Venezuela's economy has shown signs of recovery, averaging 5.7% of GDP growth over the last 3 years (2022-2024)¹.

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 Zones⁹.

1. World Economic Outlook, April 2025, IMF.
2. DataBank, The World Bank Group.
3. Country information, DatosMundial.com.
4. Government • Politics, CountryReports.com.
5. World Time Directory, 24timezones.com.
6. Historical exchange rates, ExchangeRates.com.
7. Country information, Encyclopedia Britannica.
8. Country rankings, World Population Review.
9. National Counsel for Investment Promotion (Conapri), Government of Venezuela.



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.

Venezuela has experienced a complex economic and political journey marked by structural challenges and institutional tensions.

After several years of contraction, the Venezuelan economy began to show signs of recovery in 2021. In 2023, GDP grew by 4%, and it expanded by more than 5% in 2024. This rebound is partly attributed to an increase in oil production. However, the International Monetary Fund (IMF) forecasts a 4% contraction in 2025 (see figure 1), along with an estimated inflation rate of 254% (see figure 4).

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 that have been implemented 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.

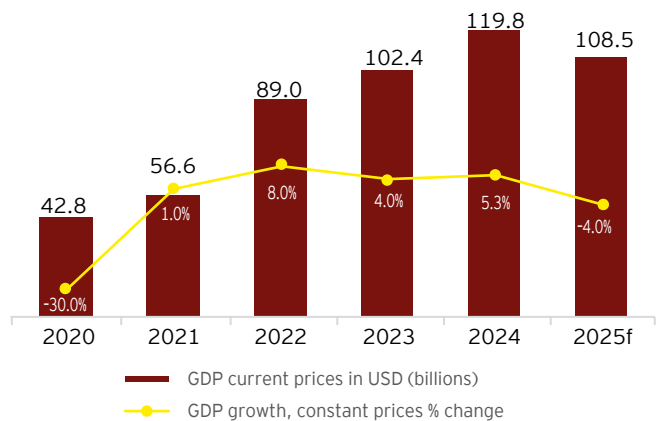
Nonetheless, in the aftermath of the contentious presidential elections process held on July, the United States backed out of the previously granted permission to relax sanctions targeting Venezuela's oil and gold industries.

Table 1:

Main Indicators	Values
GDP current prices USD bn. (2024)	\$119.8
GDP growth, constant prices % change (2024)	5.3%
Gross domestic product per capita, current prices USD, PPP (2024)	\$8,556.8
Inflation, year-end consumer prices (2024)	47.2%
Fiscal balance (net lending (+) or net borrowing (-) of general government; % of GDP) (2024)	-3.6%
Public debt (General government gross debt, % of GDP) (2024)	164.3%
Current account, % of GDP (2024)	2.4%
Investment, % of GDP (2024)	n/a
Poverty headcount ratio at \$6.85 a day (2017 PPP, % of population) (2022)	n/a

Sources: World Economic Outlook Database (April 2025), IMF; DataBank, The World Bank Group.

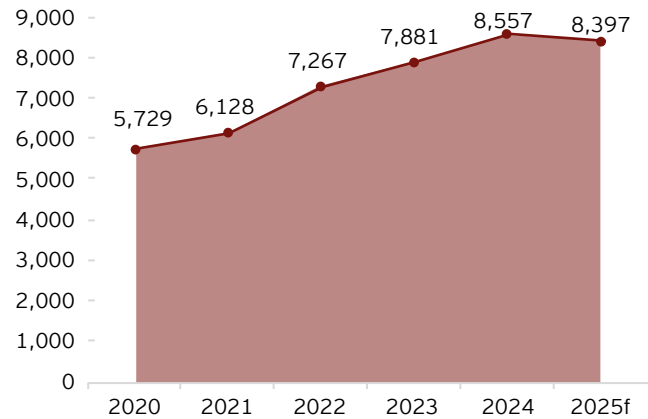
Figure 1:
Gross domestic product, levels and growth



Source: World Economic Outlook Database (April 2025), IMF.

Since 2021, Venezuela registered positive GDP growth following a prolonged and deep recession. However, current forecasts for 2025 suggest a reversal of this trend, with GDP expected to contract once again, falling to -4% (see figure 1).

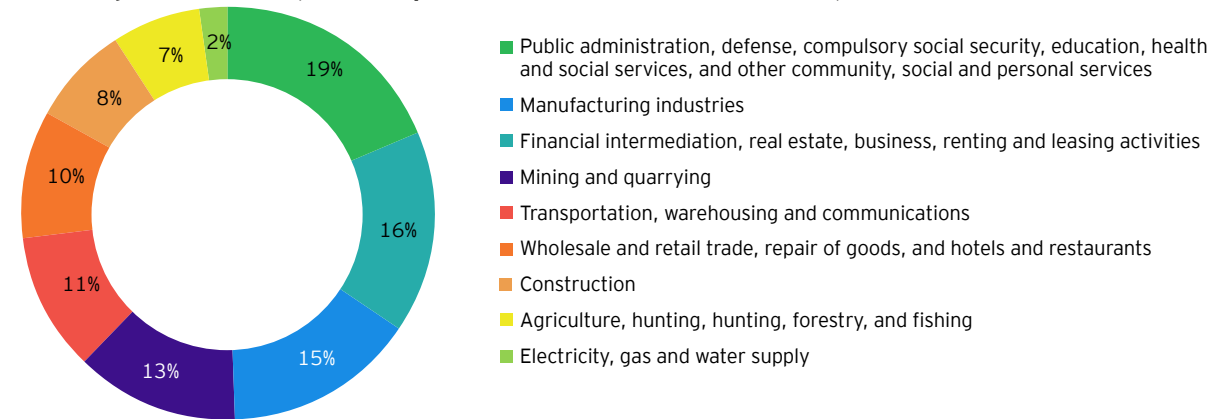
Figure 2:
Gross domestic product per capita, current prices (in USD, PPP)¹



Source: World Economic Outlook Database (April 2025), IMF.

GDP per capita has improved in recent years. However, it is expected to decline in 2025 compared to 2024, reaching USD 8,397 (see figure 2). This downward trend is consistent with the broader economic recession projected for the year.

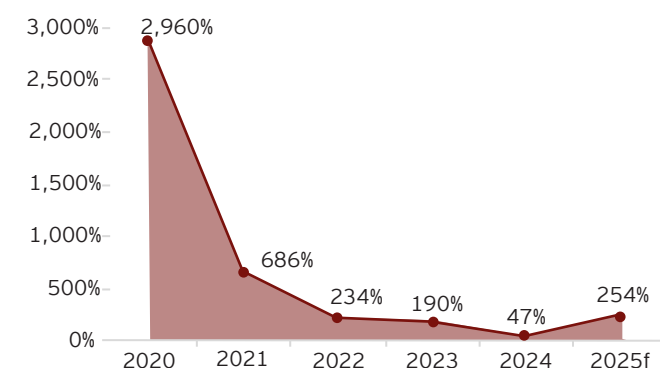
Figure 3:
Share of gross domestic product by economic sector in 2018 (current prices in USD)



Source: CEPALSTAT, United Nations ECLAC.

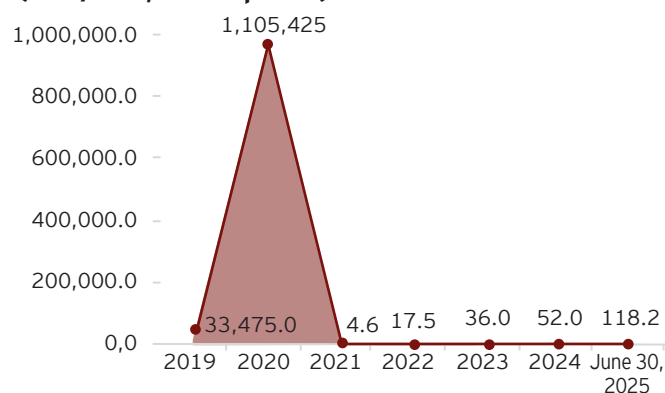
The main sectors in Venezuela are government, its related sectors and personal services; manufacturing industries; financial intermediation and real estate, and mining and quarrying (see figure 3).

Figures 4 and 5:
Inflation (end of period consumer prices, % change)



Source: World Economic Outlook Database (April 2025), IMF.

Exchange rate of foreign currency
(USD/VES, end of period)

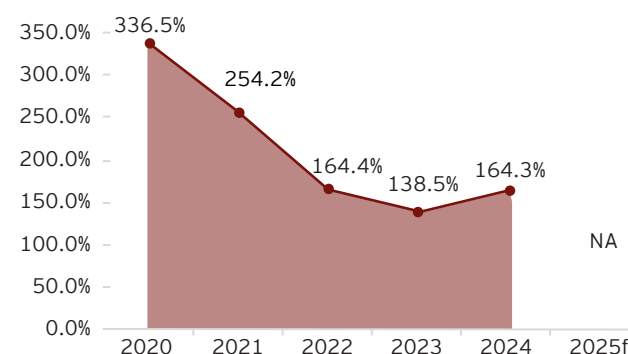


Source: exchange-rates.org.

Venezuela has suffered from severe inflation problems over the past decade, including a period of hyperinflation between 2018 and 2020. In 2023, the consumer price index stood at 190%, slightly below expectations, according to the Venezuelan Finance Observatory (OVF). While still high, this figure marked the fifth consecutive year of declining inflation. In 2024, inflation decreased significantly, closing at 47%. However, this downward trend is expected to reverse in 2025, with inflation projected to surge again to around 254% (see figure 4).

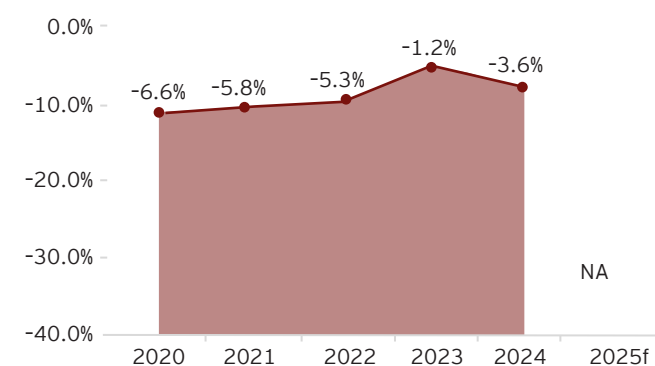
Since 2018, Venezuela's currency has undergone drastic changes due to hyperinflation. The bolívar soberano (Bs.S) circulated from 2018 to 2021, with five additional zeros removed from its value. Starting in February 2019, it was simply called the bolívar (Bs.), without changing its value. On October 1, 2021, it was replaced by the Bolívar digital (Bs.D), though it is still referred to as the bolívar (Bs.) (see figure 5).

Figures 6 and 7:
Public debt (General government gross debt, % of GDP)



Source: World Economic Outlook Database (April 2025), IMF.

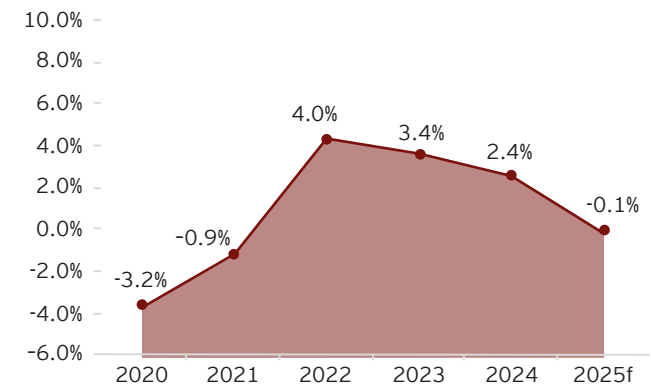
Fiscal balance (net lending (+) or net borrowing (-) of general government, % of GDP)



Source: World Economic Outlook Database (April 2025), IMF.

Public debt as a percentage of GDP decreased from 336.5% in 2020 to 138.5% in 2023 and rose again in 2024 (164.3%) remaining at very high levels (see figure 6). Meanwhile, the fiscal deficit improved in 2023, but widened again closing at -3.6% in 2024.

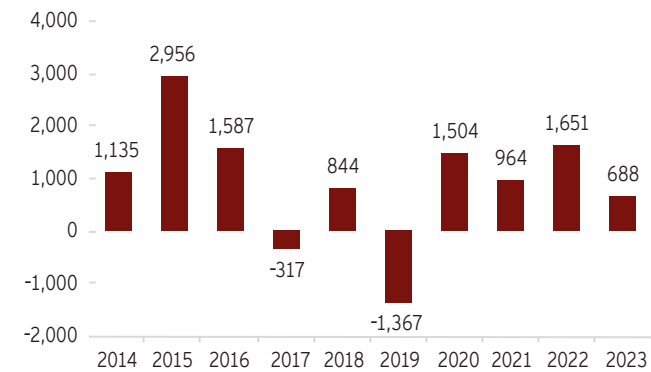
Figure 8:
Current account (% of GDP)



Source: World Economic Outlook Database (April 2025), IMF.

After a 3.2% deficit in 2020, the current account returned to a 4.0% surplus in 2022 and closed at 2.4% in 2024. It is expected to fall to -0.1% in 2025.

Figure 9:
FDI inflows to Venezuela (USD millions)



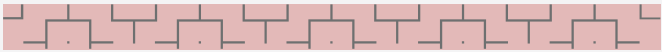
Source: DataBank, The World Bank Group.

After a significant drop in 2019, foreign direct investment (FDI) inflows to Venezuela bounced back in 2020 and have remained positive, closing at USD 688 million in 2023.



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 en Nombre Colectivo)

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 en Comandita Simple)

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 GuillodTroconis, Guillermo

"Consideraciones sobre el tratamiento 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:

- The expenses must be reflected in the financial statements of the permanent establishment;
- 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.

- ▶ 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:

- ▶ Comparable Uncontrolled Price Method;
- ▶ Resale Price Method;
- ▶ Cost Plus Method;
- ▶ Profit Split Method;
- ▶ 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 (VENGAAAP) 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.

- ▶ **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.
- ▶ **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.
- ▶ **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:

- ▶ **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.).

- ▶ 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.
- ▶ Medical insurance premiums: Insurance Premiums paid by the employee to Venezuelan insurance companies for surgery, hospitalization and maternity. No amount limitations.
- ▶ 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.
- ▶ 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.).
- ▶ 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.

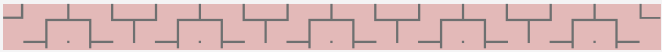
The same treatment applies to future capital increases, the taxable base would be the amount representing the increase.

8. Tax on Large Financial Transactions (TLFT)

Tax on Large Financial Transactions Law establishes as a taxable event of this tax, among others:

- ▶ 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;
- ▶ 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
- ▶ 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).
- ▶ 0% 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.

1.1. 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.

1.2. 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.

1.3. 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):

- ▶ 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:

2.1. 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:

- ▶ By installing dining rooms in the company, operated by the company or third parties, in the workplace or nearby areas.

- ▶ By contracting a meal service from companies specialized in the administration and management of social benefits.
- ▶ 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.

- ▶ 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.
- ▶ By various companies installing common dining rooms close to the workplaces, for use of employees.
- ▶ By using the services of dining rooms administered by the agency with competence in nutritional matters.
- ▶ 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.

2.2. 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

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 and in the stock market.

2. Other considerations.

The companies in Venezuela must prepare their financial statements according to the following accounting frameworks:

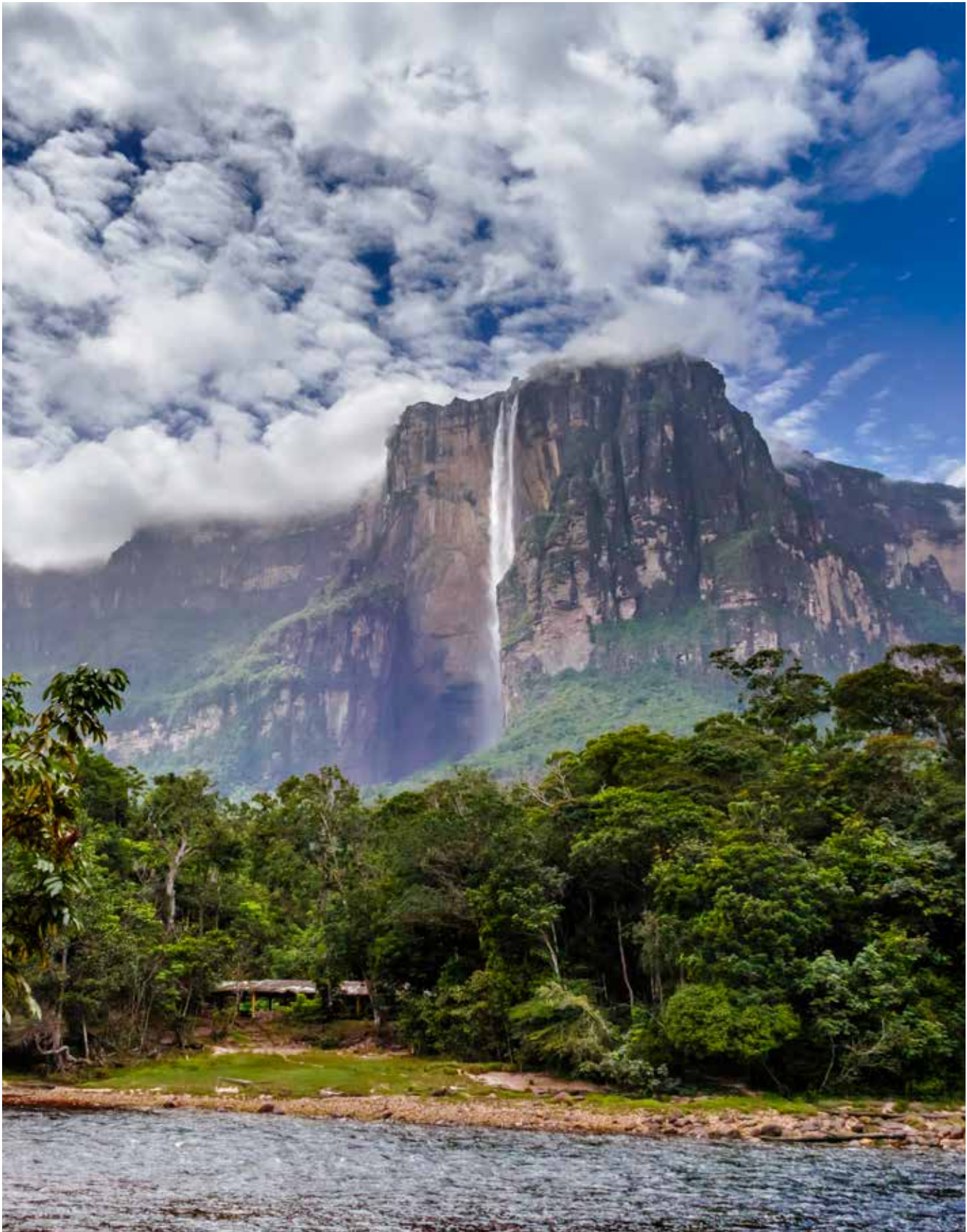
- ▶ In accordance with the Generally Accepted Accounting Principles in Venezuela for Small and Medium-sized Entities, VEN-NIF PYME, which are based on the International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs) version Book 2015, issued by the International Accounting 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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Assurance | Tax | Law | People and workforce

Technology | Managed Services

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4

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with confidence



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