On 30 December 2018, Peru’s Minister of Economics issued Supreme Decree 338-2018-EF, which includes regulations on the thin capitalization rules and indirect transfers of shares. The Supreme Decree went into effect on 1 January 2019.

**Thin capitalization rules**

The new thin capitalization rules extend the interest deduction limit (3:1 debt/equity ratio) to unrelated parties. Under the previous thin capitalization rules, this limitation only applied to interest paid to related parties, but not to unrelated parties.

If, at any time during the tax year, the indebtedness exceeds the maximum amount allowed, the interest deduction is calculated in a proportional manner. The regulations in the Supreme Decree establish the formula for determining the proportional amount of interest to be deducted in such cases.

**Indirect transfers of shares**

Under the regulations, an indirect transfer of Peruvian shares will always be triggered if the amount paid for the nonresident entity’s shares and corresponding to the Peruvian shares is equivalent to or higher than 40,000 Tax Units (approximately US$50.3 million).
The regulations establish the procedure for determining whether the threshold amount is met. In making this determination, taxpayers should consider the sale's price of the shares of the nonresident entity, the fair market value of the shares, the percentage of the fair market value corresponding to the Peruvian shares, and exchange-rate issues, among others.

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