# Doing Business in Latin America 2024

## Investment Guide

February 2024

Building a better working world

# Doing Business in Latin America 2024

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# Contents

# *Manuel Solano*

Regional Managing Partner, EY Latin America

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. More detailed profiles for Argentina, Brazil, Chile, Colombia, Mexico, and Peru are also included, 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.

# 1

# An overview of Latin America

# 1 An overview of Latin America

## Overview

Latin America is a diverse and dynamic region that offers significant potential for growth and profitability, with an abundance of natural resources ranging from minerals to agricultural products. Some countries also boast a strong manufacturing industry, positioning itself as an excellent alternative for nearshoring, thanks to its geographical positioning and educated workforce. With over 600 million people, mostly young, and a growing middle class, it represents a skilled workforce and a massive and growing internal market for various products and services. The region has great appeal, including the opportunities it presents for a low-carbon economy, given that a significant portion of the minerals necessary for the energy transition are concentrated in its territories.

**Population**[1]
659,310,564 representing 8,2% of the world's population
Urban[2]: 82%
Rural: 18% (2022)

**Extension**[3]
20,523,017 km2 representing 14,6% of the world's surface area.

**Main languages**[4]
The main language is 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.

**System of governments**
Mostly democratic and presidential republics.

## Climates

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

## Time Zones

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

## GDP current prices[5]

USD $6,517.251 Bn.  (2023e) representing 6,2% of the world's GDP.

## GDP per capita (PPP)[5]

USD $20,034.39 (2023e).

## Currency

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

**Main sectors**

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

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

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

1. Total population – Latin America and the Caribbean (2022)
2. Urban population (% of total) - Latin America and the Caribbean (2022)
3. Extension (square kilometers) - Latin America and the Caribbean (2021)
4. Main Laguages Latin America and the Caribbean
5. World Economic Outlook, October 2023

# Why

## invest in Latin America?

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

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

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

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

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

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

# 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.

### 1. Economic outlook

| | 2022 estimate | 2023 estimate | 2024 projections | 2025 projections |
|---|---|---|---|---|
| GDP Growth (% change)[1] | 4.2 | 2.5 | 1.9 | 2.5 |
| Consumer Prices (Annual percent change)[2] | 14 | 13.8 | 10.7 | |
| Current Account Balance (Percent of GDP, Annual percent change)[2] | -2.4 | -1.8 | -1.5 | |
| Real per Capita Output (Annual percentage change; in constant 2017 international dollars at purchasing power parity)[2] | 3.3 | 1.5 | 1.4 | |
| Market Exchange Rate Weights (% change)[2] | 3.9 | 2.2 | 2.2 | |

1. World Economic Outlook, January 2024
2. World Economic Outlook, October 2023

After a post-pandemic recovery, economic growth in Latin America has been slowing down, due to stricter monetary policies to control inflation and a weaker international scenario.

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

In its January 2024 World Economic Outlook Update, the International Monetary Fund (IMF) projects 1.9% growth in Latin America and the Caribbean during 2024, down from 2.5% in 2023. However, it is expected to return to 2.5% in 2025.

## Summary of the main economic indicators

| Country | GDP current prices USD Bn. (2023e)[1] | GDP growth, constant prices % change (2023e)[1] | Gross domestic product per capita, current prices (PPP), international dollars (2023e)[1] | Inflation, year-end consumer prices % change (2023e)[1] |
|---|---|---|---|---|
| Argentina | 621.8 | -1.1[2] | 26,510 | 135.7 |
| Bolivia | 46.8 | 1.8 | 10,340 | 3.6 |
| Brazil | 2,126.9 | 3.1[2] | 20,080 | 4.9 |
| Chile | 344.4 | -0.5 | 29,930 | 4.5 |
| Colombia | 363.8 | 1.4 | 19,480 | 8.8 |
| Ecuador | 118.7 | 1.4 | 13,290 | 2.4 |
| Mexico | 1,811.5 | 3.4[2] | 29,480 | 4.5 |
| Paraguay | 44.1 | 4.5 | 15,530 | 4.1 |
| Peru | 264.6 | 1.1 | 15,890 | 4.2 |
| Uruguay | 76.2 | 1.0 | 28,980 | 5.4 |
| Venezuela | 92.2 | 4.0 | 7,990 | 250.0 |
| Central America | 478.0 | 3.8 | 16,000 | 3.4 |
| The Caribbean | 128.2 | 9.8 | 11,440 | 9.6 |
| Latin America & The Carib. | 6,517.3 | 2.5[2] | 20,034 | 13.7 |

1. World Economic Outlook, October 2023
2. World Economic Outlook, January 2024

**Regional international trade – Annual variation (%) (2023 estimates)**[1]

| Country | Exports | | Imports | |
|---|---|---|---|---|
| | Volume | Value | Volume | Value |
| Argentina | -14 | -22 | -3 | -7 |
| Bolivia | -8 | -17 | -8 | -12 |
| Brazil | 13 | 3 | -3 | -10 |
| Chile | 4 | -3 | -11 | -15 |
| Colombia | 3 | -14 | -21 | -20 |
| Ecuador | 1 | -6 | -4 | -9 |
| Mexico | 4 | 2 | 0 | -1 |
| Paraguay | 26 | 21 | -1 | 1 |
| Peru | -8 | -12 | -12 | -16 |
| Uruguay | -17 | -20 | 1 | -5 |
| Venezuela | -9 | 24 | 3 | 6 |
| Central America | 3 | 2 | -1 | -3 |
| The Caribbean | -1 | -6 | -7 | -10 |
| Latin America & The Carib. | 3 | -2 | -3 | -6 |

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

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

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

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

## Foreign direct investment, net inflows (current USD billions)[1]

| Country | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|
| Argentina | 3,260 | 11,517 | 11,717 | 6,649 | 4,884 | 6,903 | 15,408 |
| Bolivia | 335 | 712 | 302 | -217 | -1,129 | 584 | -12 |
| Brazil | 74,295 | 68,885 | 78,163 | 69,174 | 37,786 | 46,439 | 91,502 |
| Chile | 11,363 | 5,237 | 7,943 | 13,579 | 11,447 | 15,933 | 20,865 |
| Colombia | 13,858 | 13,701 | 11,299 | 13,989 | 7,459 | 9,561 | 16,869 |
| Ecuador | 764 | 630 | 1,389 | 979 | 1,095 | 647 | 829 |
| Mexico | 38,899 | 33,114 | 37,857 | 29,906 | 31,519 | 33,477 | 38,932 |
| Paraguay | 6,805 | 7,413 | 5,873 | 4,760 | 791 | 7,420 | 10,848 |
| Peru | 741 | 523 | 218 | 402 | 95 | 207 | 474 |
| Uruguay | -516 | 2,687 | 1,727 | 1,470 | 526 | 3,649 | 9,404 |
| Venezuela | 1,587 | -68 | 886 | -1,278 | -456 | -996 | 941 |
| Central America | 11,330 | 10,494 | 11,641 | 10,263 | 2,000 | 11,799 | 9,915 |
| The Caribbean | 5,503 | 5,875 | 5,683 | 6,922 | 6,241 | 6,334 | 9,946 |
| Latin America & The Carib. | 168,225 | 160,721 | 174,696 | 156,600 | 102,257 | 141,957 | 225,921 |

After the post-pandemic recovery, Latin America and the Caribbean saw a record year in terms of the influx of foreign funds. In 2022, Foreign Direct Investment (FDI) reached USD 225.921 billion, which is 59.1% higher than in 2021 and the highest value on record, according to the Economic Commission for Latin America and the Caribbean (ECLAC).

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

1. IMF, Foreign direct investment, net inflows (BoP, current US$), last 10 years (2022)

## International ranking

### Latin American debt rating

| Country | S&P | Fitch | Moody's |
|---|---|---|---|
| Chile | A | A- | A2 |
| Uruguay | BBB+ | BBB- | Baa2 |
| Peru | BBB | BBB | Baa1 |
| Mexico | BBB | BBB- | Baa2 |
| Colombia | BB+ | BB+ | Baa2 |
| Paraguay | BB+ | BB+ | Ba1 |
| Brazil | BB- | BB- | Ba2 |
| Ecuador | B- | B- | Caa3 |
| Venezuela | B- | WD | C |
| Bolivia | CCC+ | B- | Caa1 |
| Argentina | CCC- | C | Ca |

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

### 2024 Index of Economic Freedom (Heritage.org)

| Position | Country | Score |
|---|---|---|
| 21 | Chile | 71.4 |
| 27 | Uruguay | 69.8 |
| 49 | Peru | 64.8 |
| 68 | Mexico | 62.0 |
| 80 | Paraguay | 60.1 |
| 84 | Colombia | 59.2 |
| 115 | Ecuador | 55.0 |
| 124 | Brazil | 53.2 |
| 145 | Argentina | 49.9 |
| 165 | Bolivia | 43.5 |
| 174 | Venezuela | 28.1 |

### World Competitiveness Ranking 2023 Overall Results (International Institute for Management Development)

| Ranking - 2023 | Country | Ranking - 2022 | Var. |
|---|---|---|---|
| 44 | Chile | 45 | 1 |
| 55 | Peru | 54 | -1 |
| 56 | Mexico | 55 | -1 |
| 58 | Colombia | 57 | -1 |
| 60 | Brazil | 59 | -1 |
| 63 | Argentina | 62 | -1 |
| 64 | Venezuela | 63 | -1 |

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

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

# 2

# Information by country

# *Fernando Paci*

Country Managing Partner, EY Argentina

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

The new recently elected administration is pushing an agenda towards increased free market, free international commerce, free capital flow, and a significant role of international and domestic private capital and entrepreneurship. Pro-capitalism measures and strong deregulation are at the core of this agenda. Relevant investors are already showing concrete interest in Argentina's new chapter, and unlocking value seems to be a key shift in the business landscape as new opportunities are developed and beginning to emerge across several diverse sectors and industries. This new chapter has gathered strong social support despite the efforts it entails, showing a society that understands the immense potential waiting to be awakened. The new administration has shown determination when driving its reforms, helping change the overall state of mind, and bringing about an aura of hope to what is happening. They have faith in the economy, and it is changing for the better.

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

# Argentina

## Overview

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

**Population**[1] 46,235,000
Urban[2]: 92%
Rural: 8% (2022)

**Main language**[3]
Spanish

**Extension**[4]
2,780,400 km2

**System of government**[3]
Presidential Republic
President: Javier Milei
Next elections: 2027

**Climate[3]**
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[3]

**International Time[5]**
GMT-3 (All of Argentina)

**Currency[6]**
Argentine Peso
US$1 = ARS 809.5 (Dec 30, 2023)

**GDP current prices[7]**
USD $621.83 Bn. (2023f)

**GDP per capita (PPP)[8]**
USD $26,506 (2023f)

**Main sectors[9]**
Argentina thrives across different sectors, ranging from agriculture (soy, corn, beef, fishing, dairy, wine, food processing, etc.), forestry, minerals (iron and steel mining, refineries, oil and gas), automotives, and electronics.

1. World Economic Outlook (October 2023), IMF - Population
2. Urban population (% of total) - Latin America and the Caribbean (2022), World Bank
3. Main languages Latin America and the Caribbean, system of government and weather, DatosMundial.com
4. Extension (square kilometers) - Latin America and the Caribbean (2021), World Bank
5. 24timezones.com
6. Exchange rate, Bloomberg
7. World Economic Outlook (October 2023) - GDP, current prices, IMF
8. World Economic Outlook (October 2023) - GDP per capita, current prices, IMF
9. Encyclopedia Britannica

# Why

## invest in Argentina?

8th largest country in the world in area[2]

3rd largest GDP in Latin America in 2023[1]

Large mineral reserves: 3rd largest lithium reserve[4], 2nd largest shale gas reserve, and 4th largest shale oil reserve in the world[5].

World leader in food exports: 3rd in soy, 3rd in corn, 5th in beef, and 7th in wheat in 2022[3]

Undergoing a structural reform/ deregulation process

1. World Economic Outlook (October 2023) - GDP, current prices, IMF
2. The World Fact Book, CIA
3. UN Comtrade
4. U.S. Geological Survey, Mineral Commodity Summaries, January 2024
5. U.S. Energy Information Administration

# Country's economic outlook

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

With the post-pandemic rebound, the Argentinean economy grew by 10.72% in 2021 and 5% in 2022. However, in 2023, it contracted by 2.5%, due to monetary tensions, high inflation, and a severe drought that exacerbated existing macroeconomic imbalances. Inflation hit 135.67% in 2023, the highest level in the last 6 years, from 94.7% in 2022 and 47.1% in the previous 5 years. The exchange rate reached 808.5 at the end of 2023, when it had ended 2022 at 177.1.

For 2024, negative growth is expected again as the government of Javier Milei continues to take significant measures to restore macroeconomic stability. The new administration took office on December 10th and since then has devalued the currency by 54%, lifted price controls, but encouraged an agreement among retail businesses to limit the price increase on basic goods for two months.

In its latest technical visit, the International Monetary Fund (IMF) has highlighted the efforts of the new administration to restore macroeconomic stability through the establishment of a strong fiscal anchor, stating that the initial measures are beginning to yield results, although it emphasized the need to continue working to overcome the remaining challenges. Argentina is currently under a 30-month Stand-By Agreement with the International Monetary Fund (FMI), which began in early 2022.

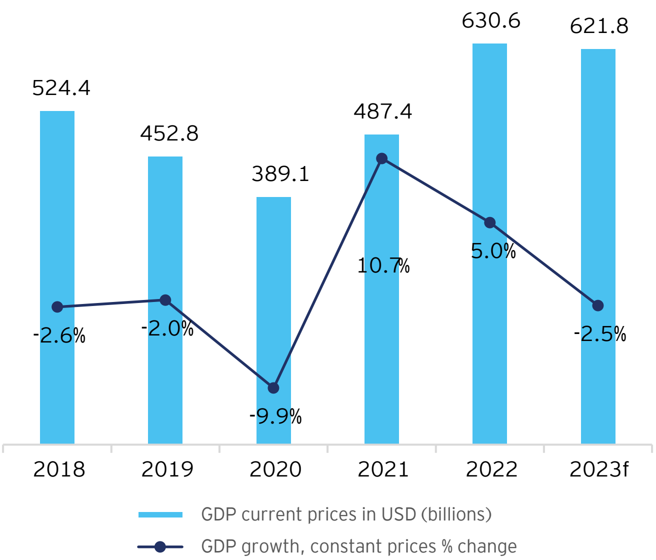
The country has a diversified economy. It is recognized globally for its agricultural production, ranking among the largest producers of soy, corn, beef, and wheat derivative products, among others. It is also rich in energy resources, with a large potential in terms of raw materials.

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

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

| Index | Argentina |
|---|---|
| GDP current prices USD (2023f)[1] | $621.83 |
| GDP growth, constant prices % change (2023f)[1] | -2.5% |
| Gross domestic product per capita, current prices (PPP) (2023f)[1] | $26,506 |
| Inflation, year-end consumer prices (2023f)[1] | 135.67% |
| Fiscal balance (net lending (+) or net borrowing (-) of general government; % of GDP) (2023f)[1] | -3.99% |
| Public debt (General government gross debt, % of GDP) (2023f)[1] | 89.51% |
| Current account (% of GDP) (2023f)[1] | -0.60% |
| Investment (% of GDP) (2023f)[1] | 15.37% |
| Poverty headcount ratio at $6.85 a day (2017 PPP) (% of population) (2021)[2] | 10.6% |

**Gross Domestic Product, Levels and Growth[1]**



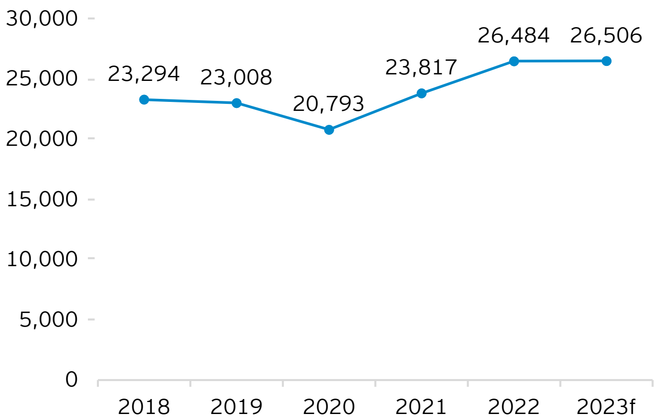

1.-International Monetary Fund, World Economic Outlook Database, October 2023
2.-Poverty headcount ratio at $6.85 a day (2017 PPP) (% of population) - Argentina, Brazil, Chile, Colombia, Mexico, Peru

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

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

For 2024, organizations like the IMF are expecting a new recession of 2.8%, in the context of significant economic policy adjustments by the new government. However, it is expected that these measures will begin to yield results and that the economy will regain strength, with a medium-term growth of 5%.

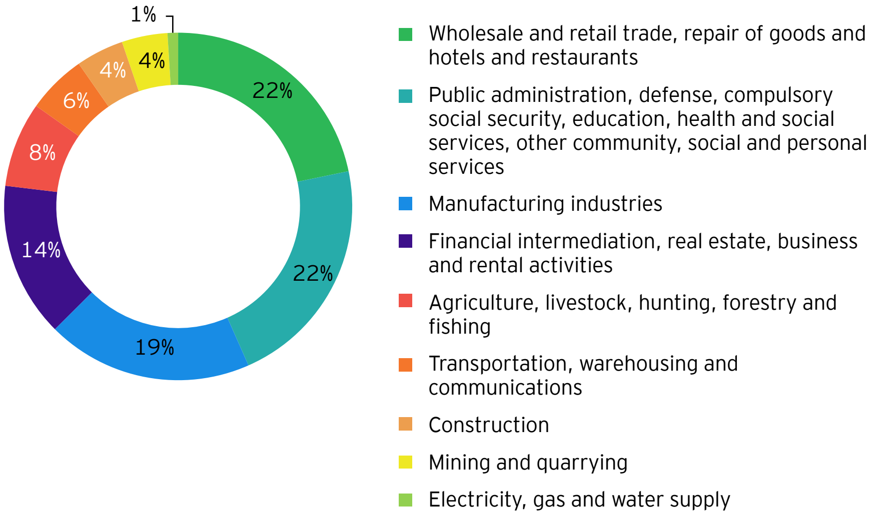
**Gross domestic product per capita, current prices (in USD, PPP)[1]**




It is estimated that in 2023, its GDP reached USD 621.83 billion, and the GDP per capita amounted to USD 26,506 in terms of purchasing power parity (PPP).

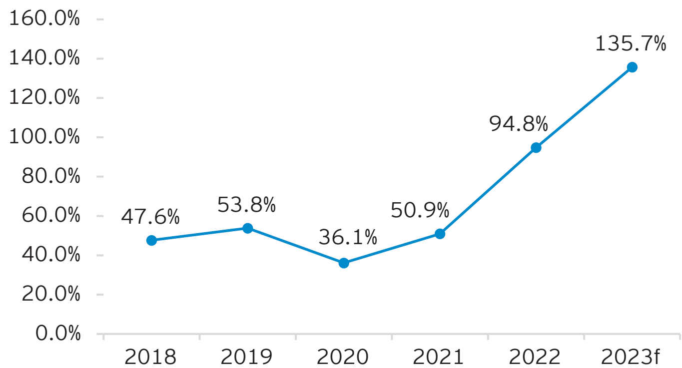
1.-International Monetary Fund, World Economic Outlook Database, October 2023

**Annual gross domestic product (GDP) by economic activity at current prices in dollars[1]**



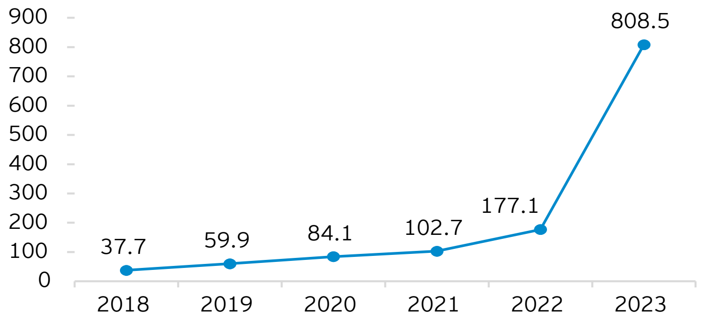

The services sector, along with retail trade, hotels, and restaurants, contributes the most to the GDP. The country also has a mature manufacturing sector, accounting for 19% of the GDP. Other sectors relevant to the economy include finance and agriculture.

**Inflation, end of period consumer prices[2]**




1. Annual gross domestic product (GDP) by economic activity at current prices in dollars (2022), ECLAC
2. International Monetary Fund, World Economic Outlook Database, October 2023

**Exchange rate of foreign currency (USD/ARS)**[1]

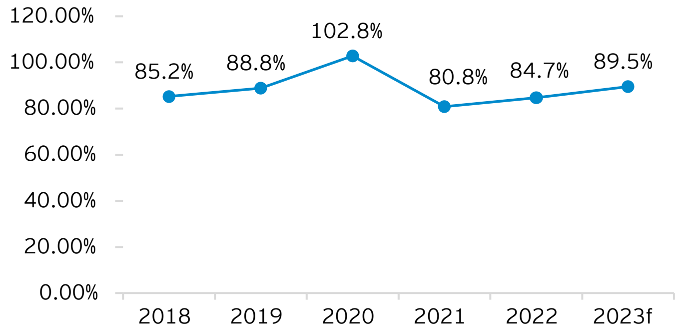



According to official figures from the National Institute of Statistics and Census (INDEC), inflation closed at 211.4% in 2023, the highest in three decades. This figure is significantly higher than the one expected by the IMF in its October estimates (135.7%). It is expected that 2024 will continue to be a year of high inflation in Argentina.

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

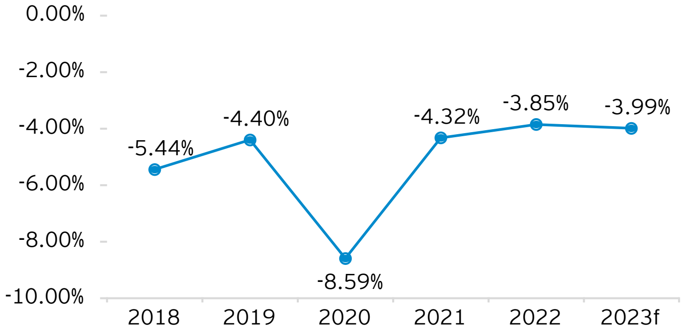
Among the first measures taken by the government of Javier Milei shortly after taking office was the devaluation of the peso by more than 50%, resulting in the currency closing at 808.5 per dollar in 2023, approaching informal exchange rates.

**Public debt (General government gross debt, % of GDP)**[1]




1. Exchange rates of foreign currencies (USD/CLP), Bloomberg

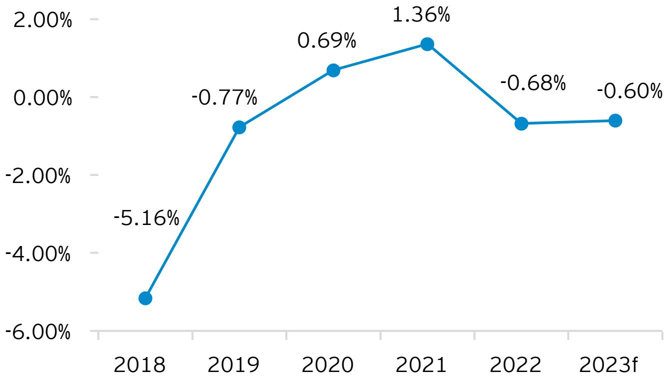
**Fiscal balance (net lending (+) or net borrowing (-) of general government; % of GDP)[1]**




According to the January visit by technical staff from the International Monetary Fund, Argentina's main challenges are to carry out the economic stabilization plan, based on a strong initial fiscal adjustment, along with measures to rebuild reserves, correct relative price imbalances, strengthen the Central Bank's balance sheet, and create a market economy based on clear and predictable rules.

The current administration is focusing its efforts on a macroeconomic stabilization plan; however, conditions are expected to get worse before they get better. Authorities aim to achieve a primary surplus of 2% of GDP this year through a combination of revenue and expenditure measures.

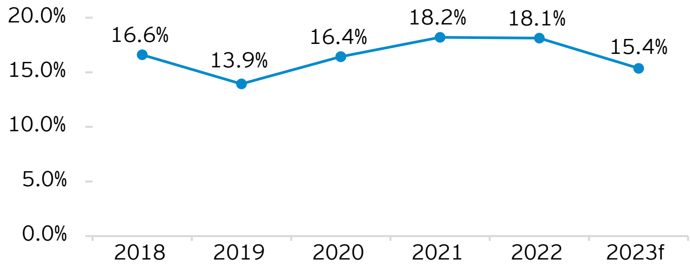
**Current account (% of GDP)[1]**



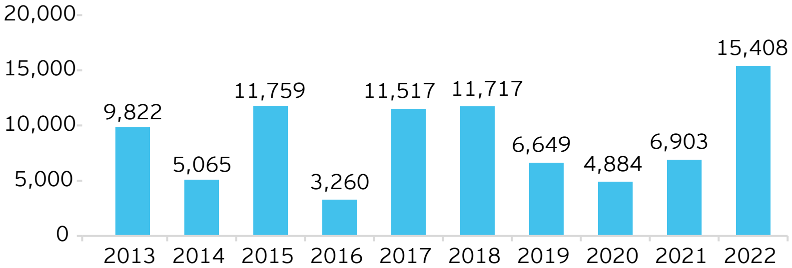

1.-International Monetary Fund, World Economic Outlook Database, October 2023

In 2023, a contraction of Argentina's current account as a percentage of GDP is expected, reaching 0.6% according to the IMF. Meanwhile, INDEC announced that during the third quarter of 2023, the current account showed a deficit of US$6.103 billion.

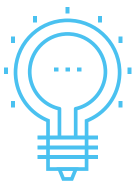
**Investment (% of GDP)[1]**




**FDI Argentina (In millions of USD)[2]**




However, foreign direct investment (FDI) flows began to recover, and in 2022 they surpassed pre-pandemic levels.



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.

1.-International Monetary Fund, World Economic Outlook Database, October 2023

2.-Foreign direct investment, net inflows (BoP, current US$), last 10 years (2022), World Bank

# 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.

## 2. Main Types of business

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

The main descriptions of each type of entity are:

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

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

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

d) **Limited liability corporations (Sociedad de Responsabilidad Limitada, acronym "SRL")**
In Limited liability corporations, partners limit their liability to the par value of the subscribed membership interests. The transfer of membership interests shall be registered with the Public Registry. These entities may be incorporated through either a public or private instrument with certified signatures. An SRL requires between 2 and 50 partners. Management is entrusted to either an individual or a collective body. The rules applicable to the liability of governance and management bodies are similar to those of stock corporations.

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

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

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

# Tax Regime

## 1. General Overview

**1.1 Corporate Income Tax Rate (%):** progressive scale ranging from 25% to 35%

**1.2 Capital Gains Tax Rate (%):** capital gains earned by corporate taxpayers are taxed at the same rate (25% to 35%) as ordinary income. Capital gains earned by foreign residents are also subject to tax, with income resulting from the sale of shares by non-residents subject to a 15% capital gains tax (exemptions apply).

**1.3 Branch Tax Rate (%):** progressive scale ranging from 25% to 35%.

**1.4 Withholding Tax**

- **Dividends:** 7%.
- **Interest:** The general rate is 35%, although a reduced rate of 15.05% may apply under certain circumstances, for instance, when a lender is a foreign bank meeting certain requirements; when the financing of depreciable movable assets is provided by the supplier; when the borrower is an Argentine bank, among others.
- **Royalties from Patents, Trademarks, Formulas and Similar Items:** Either 28% or 31.5%, depending on type of income, contract registration, etc.
- **Technical Services:** payments for technical assistance rendered from abroad are subject to withholding tax at rates of 21%, 28% or 31.5%. If services do not involve technical assistance (such as advise, opinion, etc.) then no withholding applies to services rendered from abroad.
- **Other Fees and Compensation for Services Rendered Abroad:** 17.5% for services involving transmission of images/sounds; 24.5% for artists and professionals acting in the country.
- **Branch Remittance Tax:** 7%.
- **Net Operating Losses (Years)**
  - **Carryback:** Not allowed.
  - **Carryforward:** Allowed for 5 years.

## 2. Tax on rent and corporate income

### 2.1 Corporate income tax

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

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

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

### 2.5 Capital gains (direct and indirect)

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

### 2.6 Administration

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

## 3. International Tax

### 3.1 Foreign tax relief

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

### 3.2 Foreign-exchange controls

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

Exporters must repatriate to Argentina cash derived from the exports of goods and services, among other items, within a specified timeframe; benefits may be granted through specific exchange rate conversions. Funds originating from loans received from abroad must be processed through the Argentine foreign-exchange market to enable repayment through the same mechanism. Debt payments to foreign entities can be processed through the foreign-exchange market, provided certain requirements are met. Payments for imports of goods and services initiated as of December 13, 2023, can be channelled through the foreign-exchange market after specific time periods. The payment of dividends requires the approval of the Central Bank of Argentina. Prior approval from the Central Bank of Argentina is also necessary to access the foreign-exchange market for overseas investments.

**3.3 Transfer pricing**

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

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

**3.4 Debt-to-equity rules:** Not applicable. However, the interest deduction in related party loans may be limited to 30% of EBITDA under certain conditions.

**3.5. Controlled foreign corporations (CFC):** When specific conditions are met, including control over the CFC, a lack of substance, and a low tax rate, CFC income must be immediately taxed in Argentina.

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

## 4. Value-added tax

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

## 5. Other considerations

**5.1. Customs duties:** import duties range from 0% to 35%. Export duties also apply.

**5.2. Tax on personal assets:** 0.5% on net equity at 12/31 owned by foreign residents (and Argentine individuals).

**5.3. Provincial taxes:** Businesses are subject to a turnover tax on gross revenues, which typically ranges from 3% to 5%. Additionally, a stamp tax, averaging 1%, is applied to the economic value of agreements.

**5.4. Other taxes:** tax on credits and debits in bank accounts amount to 0.6% on each debit and 0.6% on each credit.

**5.5. GAAR:** The "economic reality principle" applies.

# Labor Regime

## 1. Labor Law

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

### 1.1 Classification of employment contracts based on their duration nature

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

### 1.2 Working hours and breaks

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

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

### 1.3 Laws on remote work, telework and international labor

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

### 1.4 Principles governing employment

Salaries shall not be discriminatory and the rule "equal pay for equal work" is applicable. As of February 2024, the minimum mandatory monthly salary for all employees is of ARS 152,000 (equal to USD 180). 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. 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.

### 1.6 Protection and rights of the worker

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

### 1.7 Labor unions

- **Incorporation requirements and operations**

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

- **Collective bargaining**

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

## 2. Considerations for foreign workers

### 2.1. Legal considerations regarding foreign workers

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

### 2.2. Immigration regulations.

Under Law 25,871, the following are the three categories of entry:
i) transitory residence; ii) temporary residence; and iii) permanent residence.

- **Transitory residence**

  - ***Technical visa:*** it applies to foreigners who will perform technical or professional activities for a short period of time. It is obtained at the Argentine consulate in the country of residence of the expatriate and is granted for 30 days, which can be extended up to 90 days, at the discretion of the immigration office.

  - ***Business visa:*** it is issued to foreign nationals who were invited by a local corporate entity established in Argentina. This type of visa can be obtained only at the Argentine consulate in the country of residence and is for business purposes only. It can be extended once in-country.

  - ***Transitory Work Authorization:*** it is a short-term, single-entry work permit valid for a period of up to 90 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.

- **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 Requirentes 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 MERCOSUR residence).

- **Permanent residence**
  Any foreigner with two years of continued temporary residence may apply for permanent residence. Direct relatives of Argentinian citizens may also be eligible for a permanent residence visa.

## 3. Taxes levied on wages

### 3.1. Employment income tax

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

- **Individuals who are employees and board members of other companies:**
  - 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%, which is updated once a year.

- **All other employees:**
  - Shall deduct from their monthly gross salaries the personal allowance equivalent to 15 annual minimum living wages (180 for the whole year).
  - Shall apply a progressive tax rate ranging from 27% 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 1,157,112.83 as of February 2024 (updated every March, June, September and December). Therefore, compensation in excess of such limit shall not generate additional Employee Social Security Contributions.

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

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

### 3.3. Withholding System

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

### 4. Other aspects to consider

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

## Financial Reporting

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

### 1. Publicly traded companies

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

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

### 2. Special cases

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

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

Likewise, the FACPCE has established a regulatory hierarchy to resolve issues whose accounting treatment is not provided for in the NCPA, which includes developing accounting policies using IFRS as a supplementary source. Notwithstanding that established by the FACPCE, the possibility of optional application of full IFRS or IFRS for SMEs must be approved by the corporate control agency corresponding to each entity. These agencies are government entities that have been delegated special legislative powers and issue resolutions through which they establish the accounting standards that must be applied by the entities under their control when preparing their financial statements.

## 3. Other considerations

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

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

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

# *Javier Iriarte*

Country Managing Partner, EY Bolivia

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

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

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

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

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

# 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. Although its openness to foreign trade is limited, 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**[1] 12,224,110
Urban[2]: 71%
Rural: 29% (2022)

**Main language**[3]
Spanish

**Climate**[3]
Tropical in the lowlands and temperate in the highlands, with marked seasonal variations[4]

**Extension**[4]
1,098,580 km2

**GDP current prices**[5]
USD $46.80 Bn.
(2023f)

**GDP per capita (PPP)**[6]
USD $10.340
(2023f)

**International Time**[7]
GMT-4 (All Bolivia)

**System of government**[3]
Democratic and unitary republic
President: Luis Arce
Next elections: 2025

**Currency**[8]
Bolivianos
US$1 = BOB 6.92
(Dec. 30, 2023)

**Main sectors**[9]
Bolivia's main 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?

Large mineral production: 5th in tin, 7th in zinc, 7th in silver, and 9th in lead in 2021[11] and 1st in lithium resources[12]

High growth in commodity exports: exports grew 88% from 2016 to 2022[10]

FDI flows in hydrocarbons, manufacturing, industry, and commerce sectors represented 80% of the total in 2021[13]

Investment Law guarantees equal treatment for national and foreign firms

1. World Economic Outlook (October 2023) - Population, IMF
2. Urban population (% of total) - Bolivia, Ecuador, Paraguay, Uruguay, Venezuela (2022); World Bank
3. Main language, system of government and weather Bolivia, DatosMundial.com
4. Extension (square kilometers) - Bolivia, Ecuador, Paraguay, Uruguay, Venezuela, (2021), World Bank
5. World Economic Outlook (October 2023) - GDP, current prices, IMF
6. World Economic Outlook (October 2023) - GDP per capita, current prices, IMF
7. 24timezones.com.
8. Exchange rate, Bloomberg
9. Encyclopedia Britannica
10. UN Comtrade
11. World Mining Data (2021)
12. US Geological Survey (2024)
13. US Department of State (2022)


# *Luiz Sérgio Vieira*

Country Managing Partner, EY Brazil

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

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

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

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

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

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

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

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

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

# Brazil

## Overview

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

**Population[1]**
215,313,000
Urban[2]: 88%
Rural: 12% (2022)

**Main language[3]**
Portuguese

**Climate[3]**
Tropical with stable temperatures throughout the year. In the south, winters are colder and rainy.

**Extension[4]**
8,515,770 km2

**System of government[3]**
Presidential Republic
President: Luiz Inácio Lula da Silva
Next elections: 2026

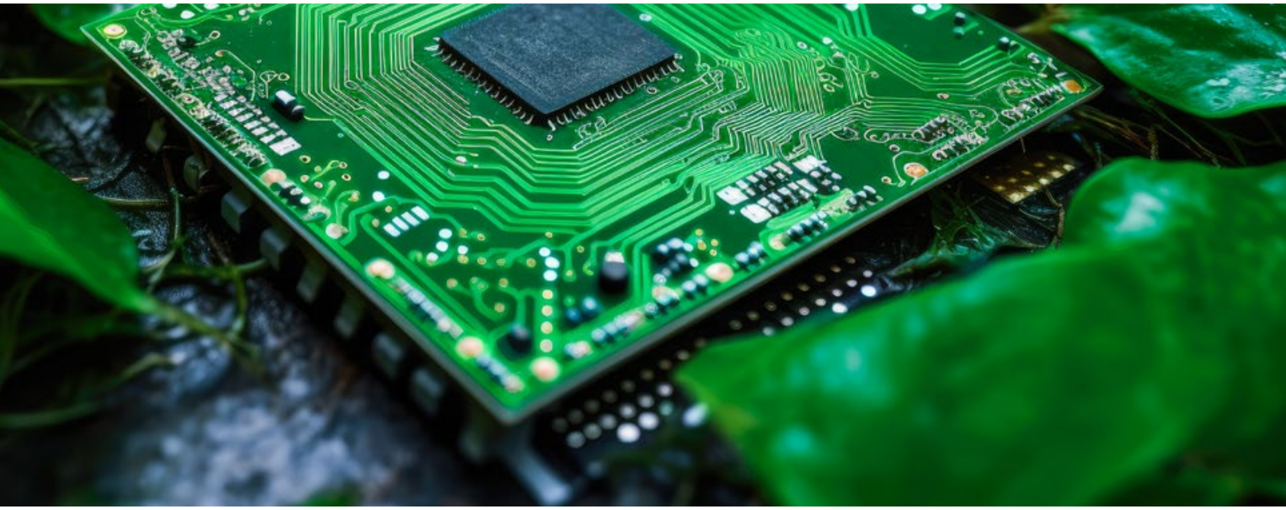
**International Time[5]**
GMT-3 (Brasilia Time)
GMT-2 (Fernando de Noronha Time)
GMT-4 (Amazon Time)
GMT-5 (Acre Time)

**Currency**[6]
Brazilian Real
US$1 = BRL 4.861 (Dec. 30, 2023)

**GDP per capita (PPP)**[7]
USD $20,078 (2023f)

**GDP current prices**[8]
USD $2,126.809 Bn. (2023f)

**Main sectors**[9]
Brazil is a major global player in sectors such as paper, pulp, steel, mining, aeronautics, oil, natural gas, petrochemicals, bioethanol, meat, agriculture, and others.



1. World Economic Outlook (October 2023) - Population, IMF
2. Urban population (% of total) - Argentina, Brazil, Chile, Colombia, Mexico, Peru (2022), World Bank
3. Extension (square kilometers) - Argentina, Brazil, Chile, Colombia, Mexico, Peru (2021), World Bank
4. Main language, system of government and weather Brazil, DatosMacro.com
5. 24timezones.com
6. Exchange rate USD/BRL, Bloomberg
7. World Economic Outlook (October 2023) - GDP per capita, IMF
8. World Economic Outlook (October 2023) - GDP, current prices, IMF
9. Encyclopedia Britannica

# Why

invest in Brazil?

6th largest country in the world in terms of area[2]

9th largest GDP in the world and largest in Latin America in 2023[1]

World leader in food exports: 1st largest exporter of soy, meats (all categories), sugar, and coffee, 2nd in corn and other categories in 2022[4]

Global leader in mineral production: 2nd largest exporter of iron, 3rd in magnesite, 4th in bauxite, 7th in tin, 5th in lithium, and 8th in petroleum in 2021[5]

6th highest recipient of foreign direct investment in 2022[3]

World leader in other exports: 1st in raw tobacco, 2nd in pulp and cellulose, 7th in aircraft and others in 2022[4]

1. World Economic Outlook (October 2023) - GDP, current prices, IMF
2. The World Fact Book, CIA
3. Foreign direct investment, net inflows, World Bank
4. UN Comtrade
5. World mining data

# Country’s economic outlook

Brazil is the largest country in Latin America and fifth largest in the world in terms of area, and the sixth largest in population.
At the economic level, it is estimated that in 2023 it rose in rankings to place ninth among the world's largest economies, after growing by 3.08% in 2023, surpassing Canada.

Following the pandemic, growth rebounded to 5.0% in 2021 and 2.9% in 2022, while remaining strong throughout 2023. Additionally, inflation decreased significantly, closing at 4.62% in 2023. This has allowed the Central Bank to begin a process of easing its monetary policy, which should continue to boost activity.

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

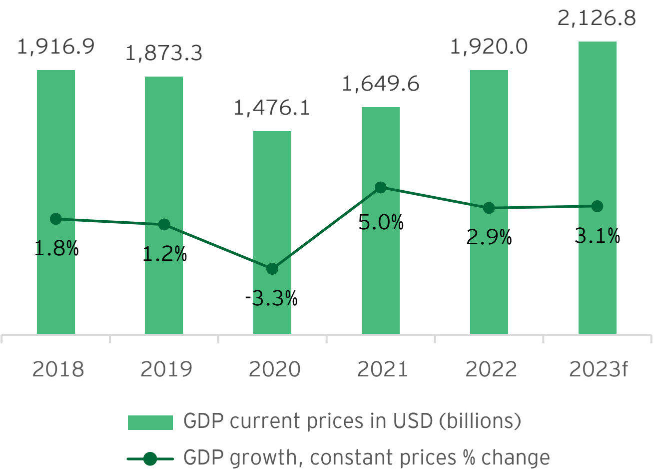
Brazil has a diverse and sophisticated economy with a wide range of industries, from automotive, steel, and petrochemicals to computers, aircraft, and consumer durables. With a growing emphasis on exports, agriculture continues to be a significant component of Brazil's GDP, especially when considering related sectors such as food processing, transportation, and retail.

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

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

| Index | Brazil |
|---|---|
| GDP current prices USD (2023f)[1] | $2,126.81 |
| GDP growth, constant prices % change (2023f)[1] | 3.08% |
| Gross domestic product per capita, current prices (PPP) (2023f)[1] | $20,079 |
| Inflation, year-end consumer prices (2023f)[1] | 4.90% |
| Fiscal balance (net lending (+) or net borrowing (-) of general government; % of GDP) (2023f)[1] | -7.12% |
| Public debt (General government gross debt, % of GDP) (2023f)[1] | 88.08% |
| Current account (% of GDP) (2023f)[1] | -1.91% |
| Investment (% of GDP) (2023f)[1] | 17.77% |
| Poverty headcount ratio at $6.85 a day (2017 PPP) (% of population) (2021)[2] | 28.4% |

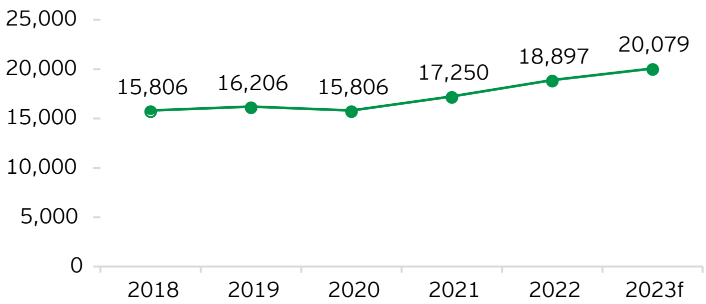
**Gross Domestic Product, Levels and Growth[1]**




Brazil's economy has shown resiliency in recent years, and in 2023, its GDP is estimated to have increased by 3% over 2022. Among other factors, the International Monetary Fund points to a better international context and strong internal demand. The organization expects growth of around 1.7% in 2024 and 1.9% in 2025.

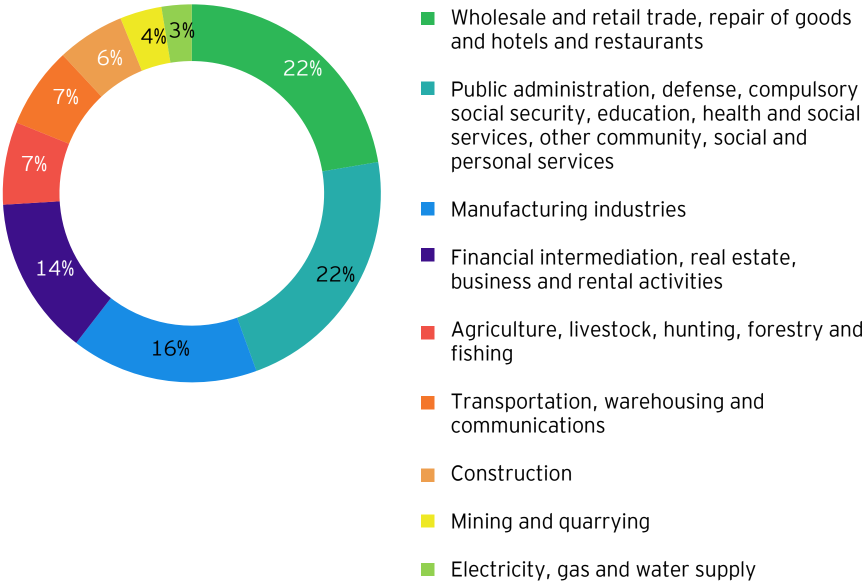
1.-International Monetary Fund, World Economic Outlook Database, October 2023
2.-Poverty headcount ratio at $6.85 a day (2017 PPP) (% of population) - Argentina, Brazil, Chile, Colombia, Mexico, Peru

**Gross domestic product per capita, current prices (in USD, PPP)[1]**




The GDP per capita in terms of purchasing power parity has continued to increase, greatly exceeding pre-pandemic numbers to reach US$ 20,079.

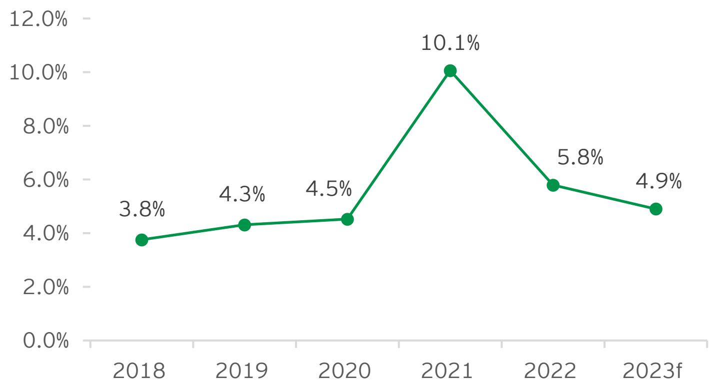
**Annual gross domestic product (GDP) by economic activity at current prices in dollars[2]**



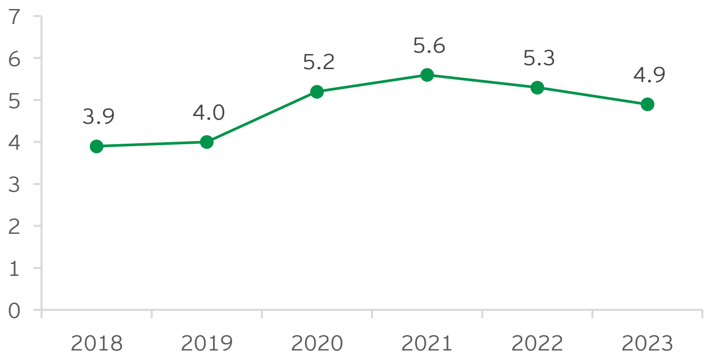

The Brazilian economy is highly diversified. The top sectors that contribute to the GDP are real estate financial and rental services, followed by personal and public services, the manufacturing industry, trade and hospitality (hotels and restaurants), and agriculture.

1. International Monetary Fund, World Economic Outlook Database, October 2023
2. Annual gross domestic product (GDP) by economic activity at current prices in dollars (2022), ECLAC

**Inflation, end of period consumer prices**[1]




**Exchange rate of foreign currency (USD/BRL)**[2]

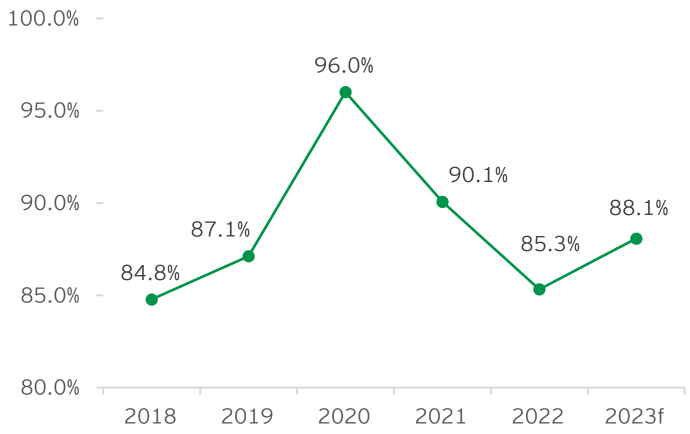



Inflation in Brazil ended 2023 within the target set by the Central Bank, returning to pre-2021 levels. The Broad Consumer Price Index (IPCA), published by the Brazilian Institute of Geography and Statistics (IBGE), showed a variation of 4.62%, which was better than the 4.9% variation forecasted by International Monetary Fund (IMF) estimates.

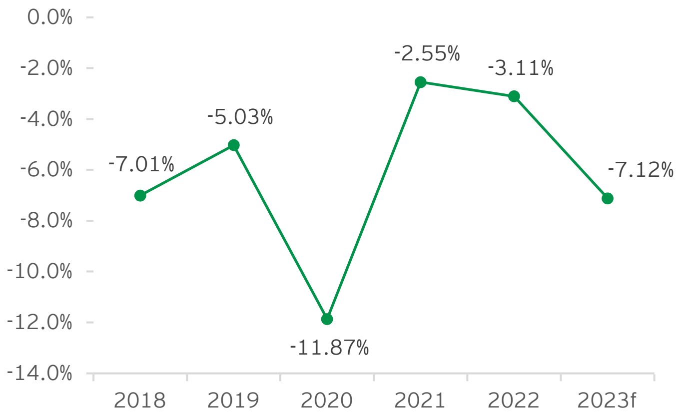
This has allowed for a continuous drop in the monetary policy rate. The decrease began last August, after spending a year at a record high 13.75%. In early 2024, the Central Bank set the rate at 11.25%

1.- International Monetary Fund, World Economic Outlook Database, October 2023
2.-Exchange rates of foreign currencies (USD/BRL), Bloomberg

**Public debt (General government gross debt, % of GDP)[1]**




**Fiscal balance (net lending (+) or net borrowing (-) of general government; % of GDP)[1]**

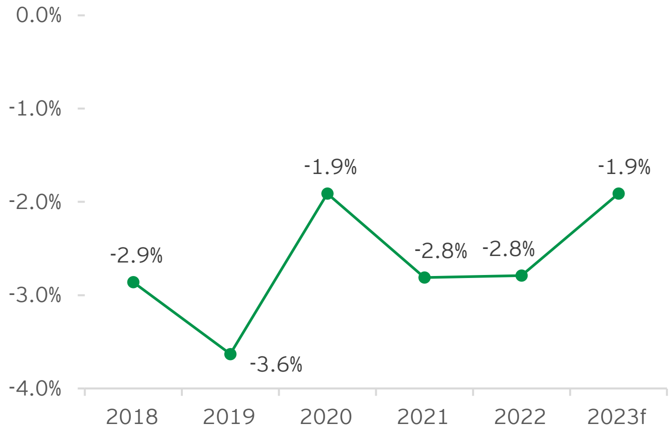



It is estimated that public debt grew in 2023, reaching 88% of the GDP, while the fiscal deficit continued along its negative trend.

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

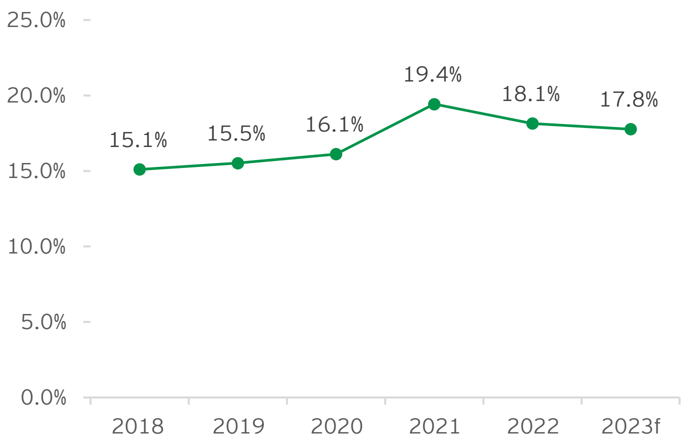
1.- International Monetary Fund, World Economic Outlook Database, October 2023

**Current account (% of GDP)[1]**



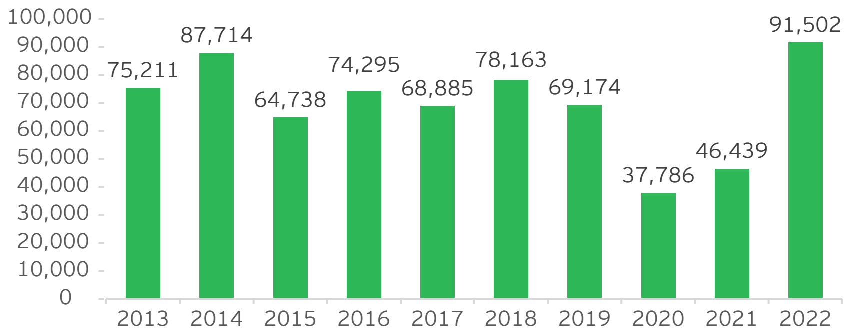

It is estimated that Brazil's current account was in deficit in 2023, reaching -1.91% of its GDP. However, this figure is an improvement over the last two years and is comparable to that of 2020.

**Investment (% of GDP)[1]**




1.- International Monetary Fund, World Economic Outlook Database, October 2023

**FDI Brazil (In millions of USD)**[1]




Investment as a percentage of GDP ended 2023 at 17.8% of GDP according to the IMF, which is lower than that of 2022 but higher than pre-pandemic figures.

Meanwhile, foreign direct investment had a very good year in 2022, with over USD 91.5 billion flowing into the country, according to World Bank statistics. However, a slight drop in this indicator is anticipated for 2023.

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, from agriculture and mining to technology and financial services.

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

1.- Foreign direct investment, net inflows (BoP, current US$), last 10 years (2022), World Bank

## 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.

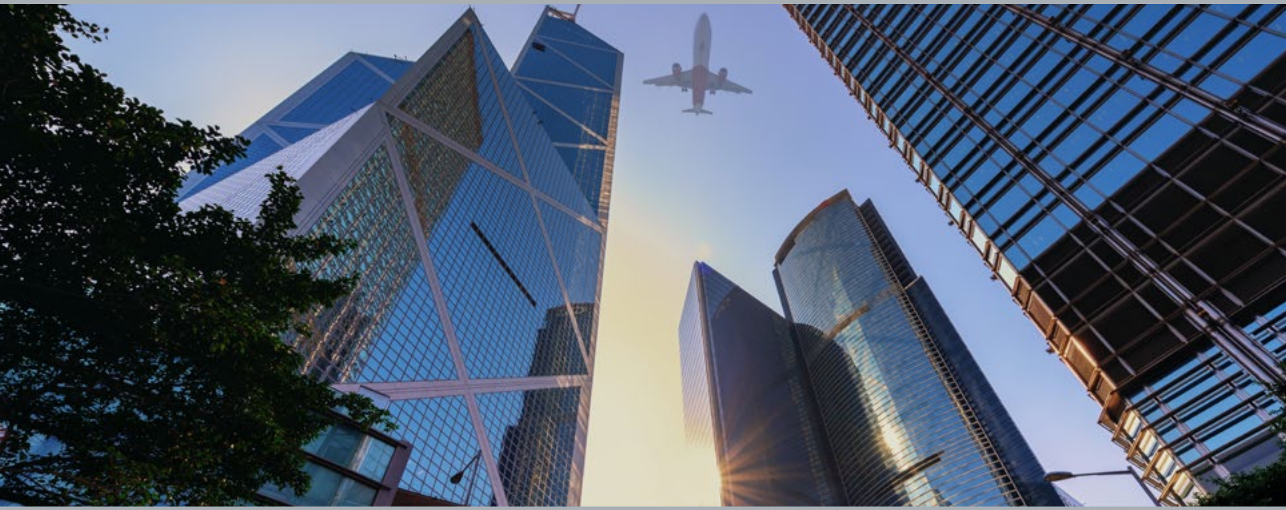
Specific incentives also exist for certain types of industries, such as payroll incentives for some labor-intense industries, as well as R&D benefits.

The most common types of corporate entities in Brazil are Corporations (called Sociedade Anônima or "S.A.") and Limited Liability Companies (called Limitada or "Ltda."). Below we have provided a comparative chart of those two types of corporate entities:

| | Corporation | Limited Liability Company |
|---|---|---|
| **Ownership** | Minimum of two shareholders required, whether individuals or legal entities, Brazilian or foreign. There are two main types of corporations.<br>Publicly-held corporations have its shares traded on the stock or over-the-counter market. They must follow rules set by the Securities and Exchange Commission (CVM) of Brazil, including the obligation to publish financial reports periodically and disclose any information that may influence investors.<br>For closed-held corporation, all shares' transactions are carried out privately and must follow the rules stated in the company's bylaws. | May be incorporated by one or more shareholders (called "quota holder"), individuals, or legal entities, whether Brazilian or foreign. From the corporate perspective, transfer of shares can be freely negotiated by the shareholders, observing the preemptive rights of the remaining shareholders. |

| | Corporation | Limited Liability Company |
|---|---|---|
| **Liability** | The liability of the shareholders is limited to the value of the shares they have subscribed or acquired. | The liability of the shareholder is limited to the value of their shares, but they are all jointly responsible for the payment of the company's share capital. |
| **Meetings** | Annual Shareholders' Meetings shall be held within the first four months after the fiscal year-end, especially for the approval of the balance sheet/financial statements and distribution of profit, if any, among other deliberations. Special Shareholders' Meetings shall be held whenever called by the shareholders or board members, according to the Corporate Law. | Annual Shareholders' Meetings must be held within the first four months after the fiscal year-end, especially for the approval of the balance sheet and distribution of profit, if any, among other deliberations. Other Shareholders' Meeting shall be held whenever called by the partners or board members, according to the Brazilian Civil Code. |
| **Management** | The management of a corporation shall be performed by its Executive Board and its Board of Directors, or only by its Executive Board. The Executive Board is responsible for managing and representing the corporation. 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 term of at least 3 years after the end of the Officer's term of office.<br>Board of Directors: three or more members, Brazilian residents or otherwise, can be appointed to establish the general strategy for the corporation's business. | Management is carried out by one or more persons, Brazilian residents or otherwise, called "administrator". The administrator is responsible for managing and representing the limited liability company.<br>Board of Directors: although this management body is not required under the Brazilian Civil Code in the terms of Limited Liability Company regulations, it is possible for an LLC to establish such structure, if needed. |

| | Corporation | Limited Liability Company |
|---|---|---|
| **Profit distribution** | The Corporate Law requires an annual payment of dividends with reference to the minimum portion established in the Bylaws, except for closely held companies in which such dividend may be established freely. If the Bylaws are silent, 50% must be paid as dividends and future amendments of the Bylaws can reduce the compulsory dividends not less than 25%. Also, after the proper allocation of values in the reserves the remaining profits shall be paid to the shareholders as extra dividends. | The Brazilian Civil Code does not require neither an annual distribution nor a minimum distribution of dividends to the partners. The Brazilian Civil Code expressly mentions that an LLC may execute, based in the Articles of Incorporation, a distribution of dividends in disproportion to the equity ownership of the partners in the corporate capital. There is no compulsory dividend distribution for LLCs. |



# Tax Regime

## 1. General Overview

**1.1 Corporate Income Tax Rate:** 34% combined rate.

**1.2 Capital Gains Tax Rate:** For resident companies, capital gains are treated as ordinary income (CIT standard rates up to 34%).
For nonresident companies and individuals, progressive rates apply ranging from 15% to 22.5%. A 25% rate applies to nonresidents located in a low-taxed jurisdiction (LTJ, list of LTJs provided by the Brazilian Tax Authorities).

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

**1.4 Withholding Tax (%)**

- **Dividends:** Exempt.
- **Interest:** General 15% to non-residents, and 25% to non residents located in LTJ.
- **Royalties from Patents, Trademarks, Formulas and Similar Items:** general 15%, and 25% to nonresidents located in an LTJ.
  Other indirect/transaction taxes should be considered. Including Municipal service tax (ISS) should also apply to certain listed transactions via withholding at rates of 2-5%.

  Also, a 10% Contribution for Intervention in the Economic Domain (Contribuição de Intervenção no Domínio Econômico, or CIDE) is imposed on royalties and on technical and administrative service payments (which is not a withholding tax), as well as financial tax on remittances (IOF), currently at the rate of 0.38%.
- **Technical Services:** same as item "Royalties from Patents, Trademarks, Formulas and Similar Items" above. In addition, the withholding tax rate for technical services should be subject to a 15% rate while increased to 25% for non-residents in LTJs.
- **Other Fees and Compensation for Services Rendered Abroad:** 15% is the general income WHT rate on non-resident income, increased to 25% for LTJ. Services that do not fall within the definition of technical services should be subject to domestic rate of 25%.
- **Branch Remittance Tax:** 0%.

**1.5. Net Operating Losses** (Years)

- **Carryback:** Not allowed.

- **Carryforward:** Indefinitely but can only offset up to 30% of the company's taxable income for a tax period (see subitem "B.e." "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 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 (*Contribuiçao Social sobre o Lucro Líquido*). In view of the IRPJ and the CSLL, the CIT rate in Brazil is generally considered to be 34%.

**2.3. Dividends: tax exempt.**

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

- General exports exemptions apply;
- General tax incentives to entities located in the area of the Agency for the Development of the Northeastern States (SUDENE) and the Agency for the Development of the Amazon (SUDAM);
- Various deductions aimed at mining companies (e.g., accelerated depreciation, amortization, exhaustion, incentivized mineral exhaustion, and financial expenses and contract costs);
- Oil and Gas special customs regimes (e.g., Special bonded warehouse for oil and gas platforms, Temporary admission, different types of drawbacks, REPETRO, REPENEC, and RECAP);
- Automotive R&D Incentive (Rota 2030);
- General R&D incentives (see subitem "B.a.d" "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 rates up to 34%. For nonresident companies and individuals, capital gains on shares and other assets located in Brazil are taxed at progressive rates ranging from 15% to 22.5%. A 25% rate applies to nonresidents located in a LTJ. Brazilian law does not contain provisions for the assessment of capital gains tax with respect to indirect transfers of Brazilian companies. However, Brazilian tax authorities may disregard indirect transfers, based on the argument that the transaction was a simulation/sham aimed exclusively at avoiding Brazilian capital gains tax (e.g., fictitious transactions). In such cases, same comments on nonresident capital gain tax above are applicable.

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

### 2.7. Administration

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

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

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

## 3. International Tax

### 3.1. Foreign tax relief

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

### 3.2. Foreign-exchange controls

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

### 3.3. Transfer pricing

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

### 3.4. Debt-to-equity / thin capitalization rules

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

### 3.5. Preferential tax jurisdictions

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

## 4. Value-added tax

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

- **State VAT (ICMS):** ICMS rates vary among Brazil's 27 states. For supplies made to a customer located in the same Brazilian state as the supplier, rates typically range from 18 to 20%. The ICMS rate on a supply of goods or services made to a taxable person resident in a different Brazilian state from the state where the supplier is resident depends on the type of product and where the customer is located, and may vary between 4%, 7% or 12%.
- **Federal VAT (IPI):** 0% to 300% (depending on the IPI tariff table classification for the goods)
- **Municipal service tax (ISS):** 0% to 5% (depending on municipality and nature of service)
- **Gross receipt contributions (PIS-PASEP and COFINS):** PIS rates are 0.65% (for taxpayers taxed under the deemed corporate income tax method of calculation, under the cumulative system) or 1.65% (for taxpayers taxed under the annual actual income tax method, under the noncumulative system). COFINS rates are 3% (for taxpayers taxed under the deemed corporate income tax method of calculation, under the cumulative system) or 7.6% (for taxpayers taxed under the annual actual income tax method, under the noncumulative system).

### 4.2. Tax reform

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

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

## 5. Other Considerations

**5.1. Green taxes:** N/A

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

**5.3. Stamp Duties:** N/A

**5.4. Other taxes:** N/A

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

# Labor Regime

## 1. Labor Law

### 1.1. Employment contract

In Brazil, there are different types of employment contracts.

- **Indefinite term contract**

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

- **Definite term contract**

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

- **Intermittent contract**

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

- **Apprentice**

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

- **Intern**

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

### 1.2. Work shift

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

### 1.3. Compensation

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

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

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

### 1.4. Unions

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

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

### 1.5. Work contract termination

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

### 1.6. Payroll Taxes

In Brazil, employee compensation is subject to several contributions. It is important to evaluate each Payroll wage type and its nature in order to conclude whether each contribution or tax due.
Contributions and taxes that form part of Payroll, in general, are as follows:

- **Social security contribution**

  - *Employer contribution:*

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

  - *Employee contribution*

    Progressive rates variable according to the monthly compensation

- **Employee's Severance Fund – FGTS**

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

- **Withholding Income Tax**

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

### 1.7. Foreign workers

- **Immigration aspects**

  - A foreign individual may only enter Brazil and be engaged into professional activities under certain types of entrance visas and Residence Permits.

  - It is important to take into consideration the type of professional activity to be performed and the expected length of physical presence in the country to apply for the most suitable visa and Residence Permit.

  - The immigrant who is interested in temporarily establishing in the country must apply for a Residence Permit – abroad (visa collection abroad) or locally (with the Federal Police). If the locally option is chosen, it is necessary to present: non-criminal record certificate from the country where the immigrant resided during the last five years; document including affiliation duly apostilled and declaration under oath of absence of criminal records.

  - Applying for a Resident Permit abroad upon the entrance in Brazil with the appropriate visa, the professional will be required to register before the Brazilian Federal Police within 90 days of their arrival and request the issuance of a CRNM (National Migration Registration Card). If the process is applied in Brazil this period is 30 days, instead of 90 days.

- **Labor, Social Security and Payroll Aspects**

  - Generally, professionals who enter the country with a Resident Permit/ Temporary Visa to be engaged in employment-related activities shall be included in the local Company payroll, have an employment contract with the local entity, while split salary arrangements are a common market practice.

  - The worker's local compensation should be defined based on the local entity's salary structure, since professionals performing similar activities and subject to similar responsibilities are entitled to receive similar salaries and have a remuneration aligned with the amounts informed on the visa request (when applicable).

  - Inbound regular employees are entitled to all the labor and social security rights provided by the Brazilian Law Consolidation of Labor Laws - CLT (please refer to the previous comments on Payroll Tax).

- The incidence of social security and labor charges over the amounts paid abroad is not completely clear under Brazilian legislation, since there is no specific law that clearly establishes which procedures should be adopted in this regard.

- However, local authorities have been issuing assessments related to the lack of such contributions on a global basis with the argument that both Companies (Brazilian and foreign) are part of the same economic group, and the social security authorities are following the same procedure.

- A common market practice to mitigate the risk exposure in relation to the aforementioned scenario is the adoption of a "Shadow Payroll" procedure (although there is no legal basis for the shadow, it is a strong market practice). Shadow payroll must be aligned between both Companies, i.e., home and host, as to avoid incorrect collection of taxes and charges, as well as incorrect reporting.

- Considering all the above-mentioned labor payments associated with employment-related income received by the individual, it is common for the final costs for the company to exceed the expected costs, mainly due to unfamiliarity with Brazilian rules. Therefore, it is essential to become familiar with all the local payments and costs involved in an assignment to Brazil, in order to include such amounts in the overall assignment package / costs.

- The FGTS payment (due by the employer at a flat rate of 8% on the gross remuneration of the assignee) is one of the costs that are usually not considered by the Company prior to the assignment and that ends up raising the assignment costs and amounts received by the assignee.

▸ **Individual Income Tax Aspects**

- The establishment of tax residence for inbound professionals depends on their Resident Permit / visa held in Brazil.

- Individuals who enter Brazil holding a Temporary Visa with a local labor contract, Residence Permits with an employment relationship, or being legal representatives of a company in Brazil, become tax residents in Brazil as of the date of physical entrance in the country. As a tax resident, the professional will be subject to income tax on their worldwide income, at progressive tax rates of up to 27.5%.

- Under a split payment arrangement, the portion of the professional remuneration paid through foreign payroll will be considered as foreign sourced income, subjected to income tax through the "Carnê-Leão" system (i.e., individual obligation), while the portion of remuneration paid through Brazilian payroll will be considered as local sourced income, subject to income tax withholdings at source (i.e., local entity obligation).

- As a tax resident, the individual will be liable to the following additional obligations in Brazil: (i) Annual Income Tax Return; (ii) Central Bank Return – BACEN; and (iii) Monthly income tax calculations ("Carnê-Leão").

- Brazil has signed several treaties for avoiding double taxation between countries. In an inbound scenario in which the individual will enter Brazil to carry out work activities in the country and for a Brazilian entity, in general the right to tax income earned from such activities will belong to Brazil (based on a general understanding of the Treaties). However, the applicability of Tax Treaty provisions shall be in a case-by-case basis.

- Taxation of Foreign Investment Income of Individuals According to Law 14,754/2023 (enacted on 12/12/2023), as of 1 January 2024, investments held abroad by individuals who are tax residents in Brazil, such as financial investments in a broad concept, controlled companies, trusts and closed-end funds, will undergo changes in their form of taxation in Brazil. Below is a comparative table of the changes in the law, including the main impacts:

| Topic description | Up to December 31, 2023 | Law 14,754/2023 (starting January 1, 2024) |
|---|---|---|
| **Tax on income received abroad (dividends, interest, bonds, proceeds from the sale of an asset, etc.)** | Monthly Income Tax Payment calculated using a progressive rate from 0% to 27.5% (income tax) or a progressive rate from 15% to 22.5% (capital gain tax), depending on the nature of the foreign sourced income. | The taxable event for income tax purposes continues to be the moment of effective receipt/availability of the income, which is why the calculation of the tax payable must be performed on a monthly basis. However, income tax is now calculated at a fixed rate of 15% and payment must be made annually in the Individual Income Tax Return. The new Law also provides for the offsetting of losses against profit earned, especially in financial investment transactions. |

| Topic description | Up to December 31, 2023 | Law 14,754/2023 (starting January 1, 2024) |
|---|---|---|
| **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.<br><br>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").<br><br>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%.<br><br>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).<br><br>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.<br>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. |
| **Disposal of financial investments abroad originally contracted in foreign currency** | Taxation according to the progressive table - Capital Gain (15% to 22.5%), with the capital gain determined by the difference between the sale value (in USD) and the acquisition cost (in USD). In short, any exchange difference between the Brazilian currency (BRL) and the foreign currency (USD) perceived in the transaction was not subject to taxation. No possibility of offsetting losses. | |

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

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

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

# Financial Reporting

Requirements and regulations for the preparation and presentation of financial information

Specify requirements for:

- **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.

- **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.

- **Special cases**

- **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 prepared financial statements in accordance with BR GAAP.

# *Macarena Navarrete*

Country Managing Partner, EY Chile

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

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

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

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

# Chile

## Overview

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

**Population**[1]
19,604,000
Urban[2]: 88%
Rural: 12% (2022)

**Main language**[3]
Spanish

**Climate**[3]
Mediterranean climate in the central zone, desert in the north, and oceanic in the south

**Extension**[4]
756,700 km$^2$

**System of government**[3]
Presidential Republic
President: Gabriel Boric
Next elections: October 2025

**International Time**[5]
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)

**Currency**[6]
Chilean peso
US$1 = CLP 884.5
(Dec. 30, 2023)

**GDP per capita (PPP)**[7]
USD $29,935
(2023f)

**GDP current prices**[8]
USD $344.4 Bn.
(2023f)

**Main sectors**[9]
Chile stands out in the mining industry, with copper, lithium, and iodine. Agricultural and livestock production, as well as the export of fruits, vegetables, forestry products, fish, and seafood has experienced significant growth with the opening of markets in Asia and Europe.

1. World Economic Outlook (October 2023) - Population, IMF
2. Urban population (% of total) - Argentina, Brazil, Chile, Colombia, Mexico, Peru (2022), World Bank
3. Main language, system of government and weather Brazil, DatosMacro.com
4. Extension (square kilometers) - Argentina, Brazil, Chile, Colombia, Mexico, Peru (2021), World Bank
5. 24timezones.com
6. Exchange rate, Bloomberg
7. World Economic Outlook (October 2023) - GDP per capita, IMF
8. World Economic Outlook (October 2023) - GDP, current prices, IMF
9. Encyclopedia Britannica

# Why

invest in Chile?

5th highest GDP in Latin America[1] and 2nd highest GDP per capita in South America in 2023[2]

25 international trade agreements and double taxation treaties signed with 64 countries

Global leader in mineral production: 1st in copper, 2nd in lithium, 4th in silver and others in 2021[6], 19% of global copper reserves and 33% of lithium reserves[7]

1st in Renewable energy country attractiveness in the region and 5th in the world (normalized ranking)[4]

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

World leader in food and forestry exports: 3rd in ore, slag, and ash, 4th in wines, 5th in fruit and nuts, 5th in fish and seafood, 5th in wood and its derivatives, among others in 2022 (in trade value)[8]

Developed infrastructure: Ranking 1st in Latin America[5]

1st in Human capital index in the region[3]

1. World Economic Outlook (October 2023) - GDP, current prices, IMF
2. World Economic Outlook (October 2023) - GDP per capita, current prices, IMF
3. Human Capital Index, 2020, World Bank
4. RECAI n°62, EY
5. World Population Review
6. World mining data
7. US Geologial Survey, 2024
8. UN Comtrade

# Country’s economic outlook

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

According to International Monetary Fund (IMF) estimates, the country closed 2023 with a GDP per capita in current dollars at purchasing power parity of more than $29,900, and next year it will surpass the $30,000 mark, a goal achieved by only one in every 3 countries around the world.

In 2023, the economy continued to stabilize after the economic imbalances caused by the pandemic. The country's growth closed at 0.2% according to the Central Bank's National Accounts. The same entity expects expansion in 2024 and 2025 of around 1.25-2.25% and 2-3%, respectively. Inflation closed out last year at 3.9% and is expected to hit its target of 3% around mid-2024.

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

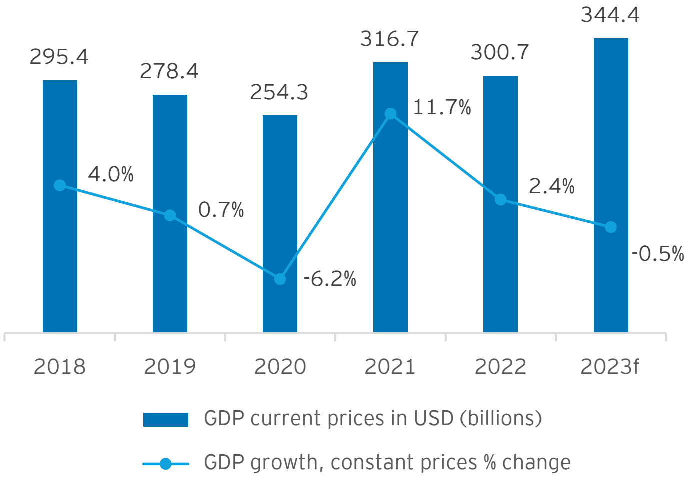
Chile has a market economy oriented around exports with a prominent level of foreign trade. It possesses the largest official foreign exchange reserves in Latin America and traditionally leads the region in business and competitiveness rankings. Additionally, it is the country with the most trade agreements worldwide, and its free trade agreements provide access to 86.3% of the world's GDP under privileged tariff conditions.

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

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. It also has very important services and trade sectors, which contribute the most to the GDP.

| Index | Chile |
|---|---|
| GDP current prices USD Bn. (2023e)[1] | $344.40 |
| GDP growth, constant prices % change (2023e)[1] | -0.53% |
| Gross domestic product per capita, current prices (PPP) (2023e)[1] | $29,935 |
| Inflation, year-end consumer prices (2023e)[1] | 4.50% |
| Fiscal balance (net lending (+) or net borrowing (-) of general government; % of GDP) (2023e)[1] | -1.65% |
| Public debt (General government gross debt, % of GDP) (2023e)[1] | 38.42% |
| Current account (% of GDP) (2023e)[1] | -3.48% |
| Investment (% of GDP) (2023e)[1] | 23.38% |
| Poverty headcount ratio at $6.85 a day (2017 PPP) (% of population) (2020)[2] | 8% |

**Gross Domestic Product, Levels and Growth[1]**



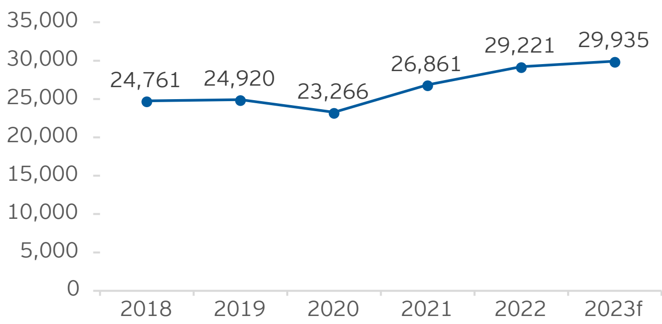

Despite the IMF's expectation of a recession of -0.5%, the Chilean economy was able to avoid such a scenario, ending 2023 with a growth of 0.2% according to the Central Bank's National Accounts published in March 2024.

After a GDP rebound of 11.7% in 2021, its highest annual increase on record, the economy has been readjusting. As pandemic stimuli were withdrawn, the labor market weakened, demand stabilized, and the policy interest rate was raised significantly, among other factors, leading to a sharp deceleration in the

1.- International Monetary Fund, World Economic Outlook Database, October 2023
2.- Poverty headcount ratio at $6.85 a day (2017 PPP) (% of population) - Argentina, Brazil, Chile, Colombia, Mexico, Peru

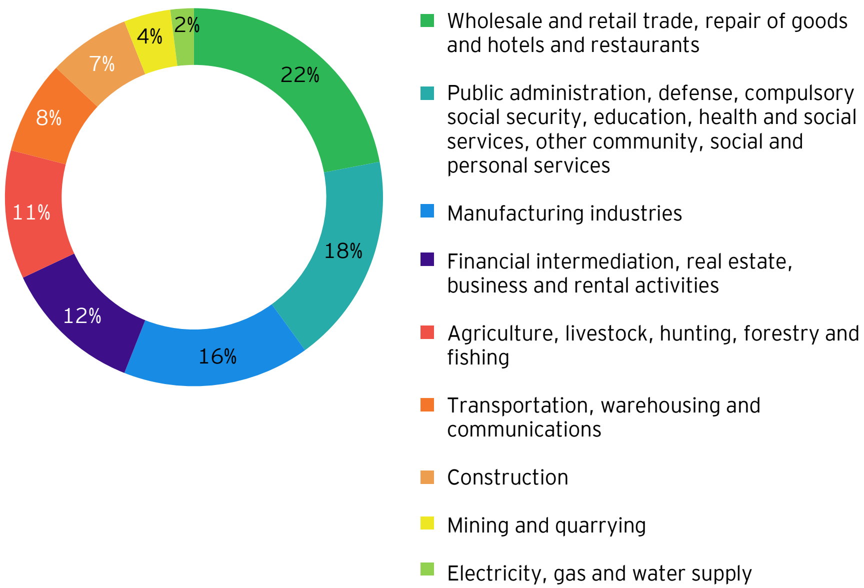
economy. In 2024, growth will range between 1.25% and 2.25%, and in 2025, between 2% and 3%, according to Central Bank of Chile.

**Gross domestic product per capita, current prices (in USD, PPP)**[1]




Chile's growth in recent decades has significantly driven up the country's GDP per capita. The International Monetary Fund estimated that the GDP per capita in terms of purchasing power parity (PPP) was around USD 30,000 in 2023.

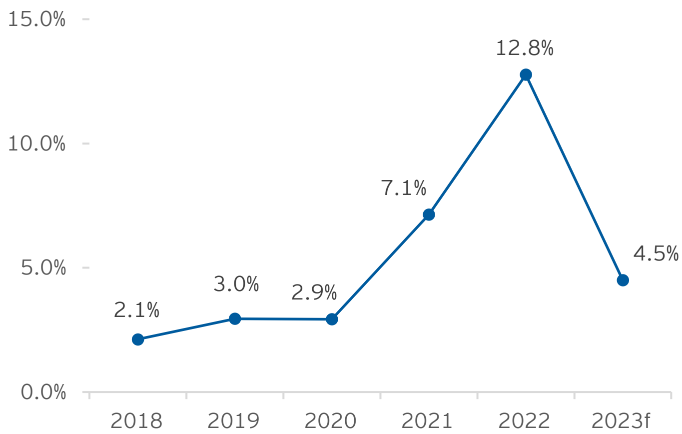
**Annual gross domestic product (GDP) by economic activity at current prices in dollars**[2]



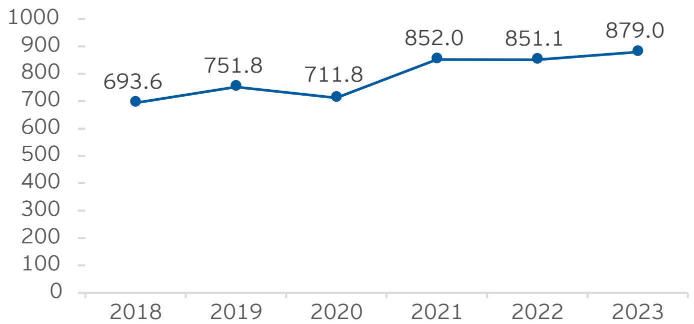

1. International Monetary Fund, World Economic Outlook Database, October 2023
2. Annual gross domestic product (GDP) by economic activity at current prices in dollars (2022), ECLAC

The sectors that most contribute to the GDP in Chile are financial services, real estate and rentals, public administration, defense, healthcare, social security, and mining.

**Inflation, end of period consumer prices**[1]




**Exchange rate of foreign currency (USD CLP)**[2]

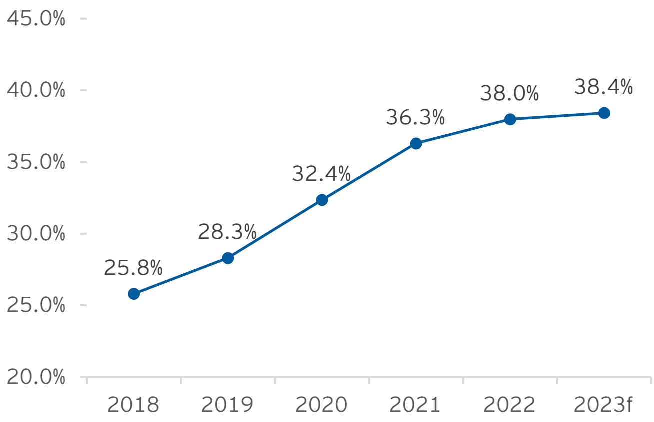



With elevated levels of inflation reached as a result of imbalances produced by the pandemic, a robust monetary policy response and inherent economic adjustments have helped bring down inflation. The year 2023 closed with an annual variation in the total CPI of 3.9%, which is expected to drop to 3% during the second half of 20242. In this scenario, the Central Bank of Chile decided in July to begin lowering the policy interest rate. By January, it had reached 7.25%, down 400 base points since July, and this downward trend is expected to continue.

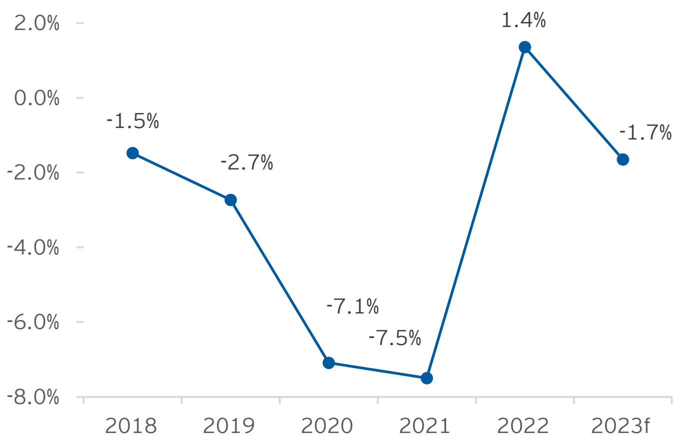
1. International Monetary Fund, World Economic Outlook Database, October 2023
2. Exchange rates of foreign currencies (USD/CLP), Bloomberg

Meanwhile, the Chilean currency depreciated last year, ending with an exchange rate of 879 Chilean pesos = 1 USD.

**Public debt (General government gross debt of GDP)[1]**



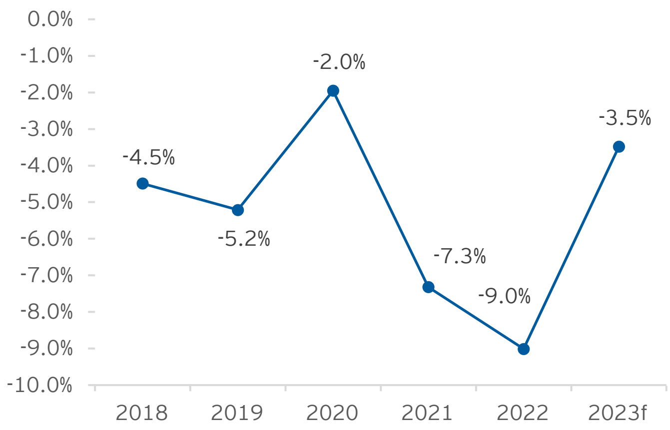

**Fiscal balance (net lending (+) or net borrowing (-) of general government; % of GDP)[2]**




Following an upward trend in recent years, the IMF estimates that public debt in Chile reached 3.42% of the GDP in 2023. While higher than past years, the organization considers this figure to be relatively low and sustainable. In terms of fiscal deficit, after a surplus in 2022, it is expected to close at -1.65 of the GDP.

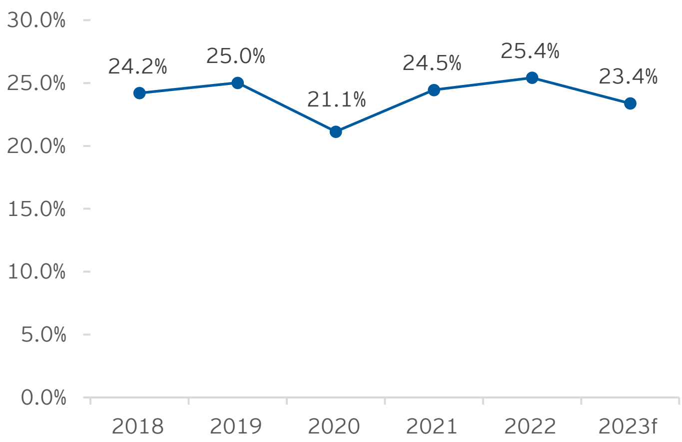
1.-International Monetary Fund, World Economic Outlook Database, October 2023

**Current account (% of GDP)[1]**



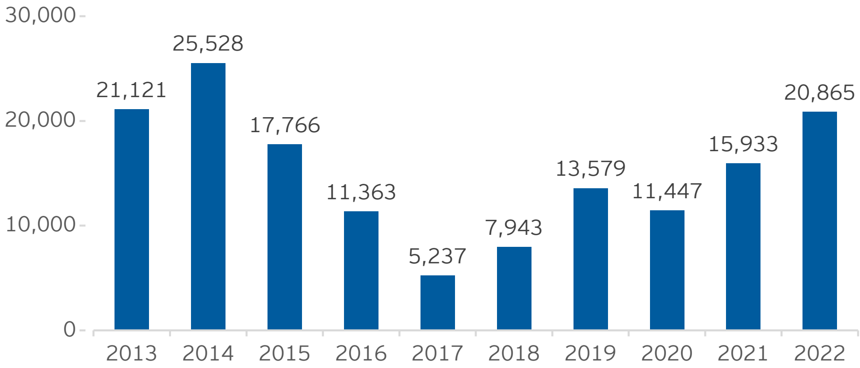

According to the latest figures from the Central Bank of Chile, during the year 2023, the current account posted a deficit of US$11.899 billion, which represents 3.6% of the gross domestic product (GDP), a figure slightly higher than the one estimated by the IMF last October (-3.48%).

**Investment (% of GDP)[1]**




1.-International Monetary Fund, World Economic Outlook Database, October 2023

**Current account (% of GDP)[1]**




For 2023, investment in Chile as a percentage of GDP dropped by 2.04 percentage points, according to IMF estimates.

On the other hand, direct foreign investment in 2023 increased by 19.2%, as demonstrated by the Central Bank's quarterly accounts. This is the third year in which this indicator has posted robust growth.

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.

1.-Foreign direct investment, net inflows (BoP, current US$), last 10 years (2022), World Bank

## Establishing a business in the country

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

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

### 1. Stock Corporations (S.A.)

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

Characteristics:

**1.1 Shareholders:** Formed by a minimum of 2 shareholders, with no maximum number of shareholders.

**1.2 Types:** Stock corporations can be classified as open or closed.

**1.3 Open Stock Corporations (S.A.A.):** Those that (i) offer their shares to the public, (ii) have more than 500 shareholders, or (iii) 10% of their capital is held by a minimum of 100 shareholders (excluding individual shareholders that exceed such percentage).

**1.4 Closed Stock Corporations:** All other stock corporations that do not meet the criteria to be Open Stock Corporations (S.A.A.).

**1.5 Liability:** The liability of the shareholders is limited to the amount of their shares.

**1.6 Administration:** They must have a board of directors, composed of at least three essentially revocable members, that appoint an administrator and the chairman of the board.

**1.7 Oversight:** Open Stock Corporations must register with the Registry of Securities Issuers and are subject to oversight by the Financial Market Commission (CMF - Comisión para el Mercado Financiero). Closed Stock Corporations are not subject to oversight.

**1.8. Transfer of shares:** There is no legal limitation to the transfer of shares.

**1.9. Reserved business:** There are certain businesses that are reserved for stock corporations, and which are overseen by the CMF or another sectorial Superintendency (banks, insurance companies, public works concessionaries, general funds administrators, etc.).

## 2. Limited Liability Companies

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

Characteristics:

**2.1. Partners:** They are formed by a minimum of 2 and a maximum of 50 partners, which can be national or foreign, residents or non-residents, individuals or legal entities.

**2.2. Liability:** The partners limit their liability to the amount of contributions made or up to a higher sum as long as it is expressly established, without any minimum capital requirement.

**2.3. Administration and oversight:** The purpose, administration and oversight of the company can be freely agreed upon by the partners, except for operations reserved by law for Stock Corporations (S.A.).

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

## 3. Individual Limited Liability Company

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

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

## 4. Joint-stock Corporation (SpA)

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

Characteristics:

4.1. Shareholders: minimum of one shareholder. The company must be transformed into a stock corporation and register with the CMF if it meets any of the qualifications to make it an open stock corporation.

4.2. Liability: The liability of the shareholders is limited to the amount of their shares.

4.3. Administration: The administration of an SpA can be freely agreed upon by its shareholders in its bylaws.

4.4. Oversight: In the same manner as closed stock corporations, SpAs are not subject to oversight by the CMF.

4.5. Transfer of shares: There are no legal limitations to the transfer of shares.

## 5. Branch or agency of a foreign branch

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

5.1. Proof that the company is legally established abroad.

5.2. Certification that the company exists.

5.3. An authentic copy of the company's current bylaws.

5.4. A general power of attorney issued by the company to the legal representative that will represent it in Chile.

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

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

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

# Tax Regime

## 1. General Overview

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

**1.2. Capital Gains Tax Rate:** 35%

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

**1.4. Withholding Tax (WHT) Rate:**

- **Dividends:** 35%
  The 35% WHT applies to the amount of the gross dividend.

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

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

  For further details, refer to Section 2.

- **Interest:** 35%

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

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

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

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

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

  - Invention patents

  - Models

  - Industrial drawings and designs

- Layout sketches or layouts of integrated circuits

- New vegetable patents

- Use or exploitation of computer programs (software)

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

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

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

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

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

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

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

- **Branch Remittance Tax:** 35%

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

For further details, refer to Section 2.

**1.5. Net Operating Losses (Years)**

- Carryback - N/A
- Carryforward – Unlimited

## 2. Tax on rent and corporate income (CIT)

### 2.1. CIT

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

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

- Calculation of net taxable income (trading income)

  - *General*

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

    This includes disbursements related to transactions between unrelated parties, either to prevent or settle litigation. Bad debts outstanding for over 365 days between unrelated parties are also deductible.

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

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

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

- *Monetary correction*

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

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

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

- *Depreciation*

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

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

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

- *R&D incentives*

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

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

### 2.3. Dividends

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

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

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

- Mining tax

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

  - ***Ad Valorem Component:*** A 1% tax rate on annual copper sales over 50,000 metric tons of fine copper (TFC), excluding sales from other minerals. This component is adjusted against any negative Adjusted Mining Operational Taxable Income (RIOMA). The sales calculation considers a six-year average, including sales to related parties as defined by the Chilean Tax Code.

  - ***Mining Margin Component:*** This applies to exploiters with at least 50% income from copper sales and over 50,000 TFC in sales. The tax rate varies from 8% to 26% based on the Mining Operating Margin (MOM). Different rates apply to exploiters with less than 50% income from copper, with exemptions and progressive rates based on annual sales.

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

### 2.5. Capital gains (direct and indirect)

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

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

Additionally, there are also exemptional 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 against Chilean income tax (CIT, WHT, and CIT). The tax credit may be claimed up to a limit of 35% of the foreign-source income, depending on the nature of the income and the existence of a DTT.

### 3.2. Foreign-exchange controls

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

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

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

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

### 3.3. Transfer pricing

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

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

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

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

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

### 3.4. Debt-to-equity rules

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

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

- The interest is paid abroad due to related-party (or deemed related-party) debt.
- The interest benefits from a reduced WHT rate (4% under domestic law or tax treaty rate).

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

### 3.5. Controlled foreign corporations

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

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

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

- 50% or more of the capital, profit or voting rights is directly or indirectly owned by a Chilean taxpayer.
- The Chilean taxpayer has a decisive influence on the administration of the foreign entity.
- The foreign entity's tax address is located in a country or territory with a preferential tax regime, unless proven otherwise (that is, a foreign entity is deemed controlled if its tax address is in a tax haven or preferred jurisdiction, unless the Chilean taxpayer demonstrates that it does not control the entity).

### 3.6. Preferential tax jurisdictions

A territory or jurisdiction is deemed to have a preferential tax regime under this law if it satisfies at least two of the following: its effective tax rate on foreign-source income is below 50% of a specified rate; no valid information exchange agreement with Chile; lacks rules for auditing transfer pricing per OECD or UN recommendations; fails to meet OECD standards for transparency and information exchange; maintains tax regimes not complying with international standards; or only taxes income sourced within its territory. This doesn't apply to OECD member countries. The tax authority keeps a list of countries deemed to be tax preferential jurisdictions and will confirm compliance with these criteria upon request.

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 WHT rates, and implications for determining excess indebtedness, among other effects.

## 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 $CO_2$. 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, NOx, and $SO_2$: 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, NOx, or $SO_2$ levels, an additional air quality coefficient is applied to the tax rate.
- For $CO_2$: The tax is USD 5 per ton emitted. However, it exempts sources using non-conventional renewable energy with biomass as the primary source.

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

### 5.2. Customs duties

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

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

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

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

### 5.3. Investment and saving incentives

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

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

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

### 5.4. Stamp Tax (ST)

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

ST is levied on the principal amount established in the corresponding documents. The rates are as follows: (i) 0.066% of the principal for each month or fraction thereof between the issuance of the loan and its maturity, capped at 0.8%; (ii) 0.332% on the principal in case of loans repayable on demand or without a specific maturity date.

ST is paid once per loan, in general.

ST is a permitted expense for CIT purposes.

## 5.5. Other taxes

### ▸ Tax on fuels

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

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

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

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

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

### ▸ Property Tax

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

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

- **Contribution for Regional Development**

  The Contribution for Regional Development, established by Law 21,210, imposes a 1% tax rate on the acquisition value of fixed assets exceeding USD 10 million. This is applicable to taxpayers subject to CIT who operate on actual income determined by complete accounting records and invest in projects involving significant fixed asset acquisitions or constructions.

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

### 5.6. GAAR

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

# Labor Regime

## 1. Labor Law

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

- **Indefinite Contract**

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

- **Fixed term contract**

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

- **Contract for a determined work**

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

**1.2. Working hours and rests**

Since April 26, 2024, there is a limit of 44 working hours per week (42 hours from April 2026 and 40 hours from April 2028), which must be distributed between a minimum of 5 days and a maximum of 6 days (from 2028 the minimum will be 4 days). There are some employees that are exempt from the maximum weekly hours limit mentioned above in accordance with the Labor Code.

Under exceptional circumstances, it is possible to agree on overtime, which cannot exceed 2 hours (generally) per day and must be authorized by the employer only for resolving temporary situations in the company. As a general rule, overtime must be paid at a regular hourly rate with a 50% increase.
In general terms, employees are entitled to different rest periods, which can be summarized as follows:

- **Rest between working hours:** The workday shall be divided into two periods, leaving between them at least 30 minutes per day for lunch.

- **Daily rest:** Employees with established working hours have the right to a rest between one working day and the next with a duration equivalent to at least the period worked.

- **Weekly rest period:** As a general rule, Sundays and  official holidays are rest days.

### 1.3. Law on remote work, telework and international aspects

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

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

### 1.4. Non-waivable employment benefits

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

- **Minimum monthly salary**

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

- **Annual Leave**

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

- **Profit sharing**

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

- **Social security**

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

  Additionally, there is a mandatory contribution for disability and survivors' insurance equivalent to 2.01% of the employee's gross monthly remuneration, a contribution for occupational accidents and diseases insurance with a basic rate of 0.90%, which can be increased up to 3.4% depending on the level of risk of the activities carried out within the company, and a contribution for children accompaniment insurance, also called "SANNA Law", which amounts to 0.03% of the employee's remuneration. All these contributions are borne by the employer and the basis for these contributions has a monthly limit of UF 84.3.

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

### 1.5. Expiration or termination of the employment relationship

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

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

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

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

### 1.6. Employees' rights and protection

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

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

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

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

### 1.7. Labor unions

- **Incorporation requirements and mode of operation**

  Labor unions can exist in a company when they are created by virtue of a voluntary act of the employees (members) in accordance with the respective formalities, procedures and quorums required by law. In general terms, legally constituted unions have the power to bargain collectively according to certain procedural rules. If the union initiates this type of collective bargaining, the employer is obliged to engage in such bargaining. Nonetheless, collective bargaining could also be voluntarily initiated between one or more employers and one or more unions at any time and without restrictions of any nature.

- **Collective Bargaining Agreements ("CBA")**

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

## 2. Considerations for foreign employees

### 2.1. Legal considerations regarding foreign employees

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

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

### 2.2. Immigration regulations

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

The main immigration categories are:

- **Transitory Permanence**

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

- **Temporary Residence**

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

- **Definitive Residence**

  It is a permit to reside in Chile indefinitely, authorizing the execution of any legal activity, with no limitations other than those established by the legal and regulatory provisions.
  The general rule in Chile is that foreigners are not authorized to carry out remunerated activities in the country unless they have a residence permit or special authorization issued by the competent immigration authority.

## 3. Taxes levied on wages

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

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

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

## Financial Reporting

### 1. Publicly traded companies

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

### 2. Publicly and regulated companies

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

### 3. Special cases

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

### 4. Other country-specific aspects

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

# *Ximena Zuluaga*

Country Managing Partner, EY Colombia

Colombia has established itself as one of the most stable countries in Latin America's recent history, both economically and politically; it stands out for its diversity of natural resources and a strategic geographical location that provides us with a direct and efficient connection to multiple destinations, facilitating international trade and business expansion. Since 2020, Colombia has been a member of the OECD, becoming the third member country from Latin America and the Caribbean to join, after Mexico and Chile.

We have consolidated a robust and versatile economy, with solid foundations in industries such as oil, gas, mining, agriculture, textiles, and manufacturing.

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

We are proud to be pioneers in integrating the UN's Sustainable Development Goals into our National Development Plan, as well as being the first country in the region to publish a green taxonomy, reflecting our commitment to sustainability and environmental responsibility. Colombia is also working to fulfill its commitment to achieve carbon neutrality by the year 2050.

Our country offers competitive costs in human talent, raw materials, distribution, and production factors, ensuring a comparative advantage for companies operating in our territory. In addition, we are a significant exporter of fruits, standing out as the world's second-largest coffee exporter, the third in bananas, and the sixth in avocados, among others, according to 2022 commercial value data.

The country has developed a robust network of treaties to avoid double taxation, bilateral investments protection and promotion agreements and free trade agreements. Colombia is a member of the Pacific Alliance formed by Colombia, Chile, Mexico and Peru, one of the most relevant efforts towards regional integration in recent decades and the eight largest economy in the world, which is reinforced by the Latin American Integrated Market (MILA), which is the integration of the member countries' stock exchanges. Additionally, Colombia is member of the World Trade Organization and the Community of Andean Nations integrated by Colombia, Bolivia, Ecuador and Peru.

In this guide for 2024, you can find detailed information on the available opportunities and prospects. This document is designed to establish goals, strategies, and guide investors interested in Colombia. With this guide, we at EY commit ourselves to supporting Colombia's growth by helping companies to start, grow, and succeed. In this way, we fulfill our purpose of "building a better working world".

# Colombia

## 1. 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[1]**
51,874,000
Urban[2]: 82%
Rural: 18% (2022)

**Main language[3]**
Spanish

**Extension[4]**
1,141,749 km2

**System of government[3]**
Presidential Republic
President: Gustavo Petro
Next elections: 2027

**Climate**[3]
Tropical, with stable temperatures throughout the year. There are hardly any seasonal differences in temperature.

**International Time**[5]
GMT-5 (All Colombia)

**Currency**[6]
Colombian Peso
US$1 = COP 3,811.3
(Dec. 30, 2023)

**GDP current prices**[7]
USD $36,835 Bn.
(2023f)

**GDP per capita (PPP)**[8]
USD $19.482
(2023f)

**Main sectors**[9]
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.

1. World Economic Outlook (October 2023) - Population, IMF
2. Urban population (% of total) - Argentina, Brazil, Chile, Colombia, Mexico, Peru (2022), World Bank
3. Main language, system of government and weather, DatosMacro.com
4. Extension (square kilometers) - Argentina, Brazil, Chile, Colombia, Mexico, Peru (2021), World Bank
5. 24timezones.com
6. Exchange rate, Bloomberg
7. World Economic Outlook (October 2023) -GDP, current prices, IMF
8. World Economic Outlook (October 2023) - GDP per capita, IMF
9. Encyclopedia Britannica

# Why

invest in Colombia?

3rd largest population in Latin America[2]

4th highest GDP in Latin America[1]

Competitive costs of human talent, raw materials, distribution, and production factors

1st country to incorporate the UN Sustainable Development Goals into a National Development Plan and the 1st country in the region to publish a green taxonomy[3]

Privileged geographic location enabling short and direct connection to multiple destinations.

Large fruit exporter: 2nd largest exporter of coffee in the world, 3rd in bananas, 6th in avocados and other categories in 2022 (in trade value)[4]

1. World Economic Outlook (October 2023) -GDP, current prices, IMF
2. World Economic Outlook (October 2023) - Population, IMF
3. Why Invest in Colombia, Procolombia
4. UN Comtrade

# Country's economic outlook

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

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

The growth of the Colombian economy saw a strong rebound after the pandemic, reaching 11% in 2021 and 7.26% in 2022. However, growth started to slow in 2023, with a 0.6% increase in GDP, according to the National Department of Statistics (DANE). On the other hand, inflation, which has historically been low, increased to 5.6% in 2021 and 13.1% in 2022. It is expected to land close to its target of 3% by the end of 2025, according to the Final Declaration of the IMF technical team at the end of the 2024 Article IV Consultation.

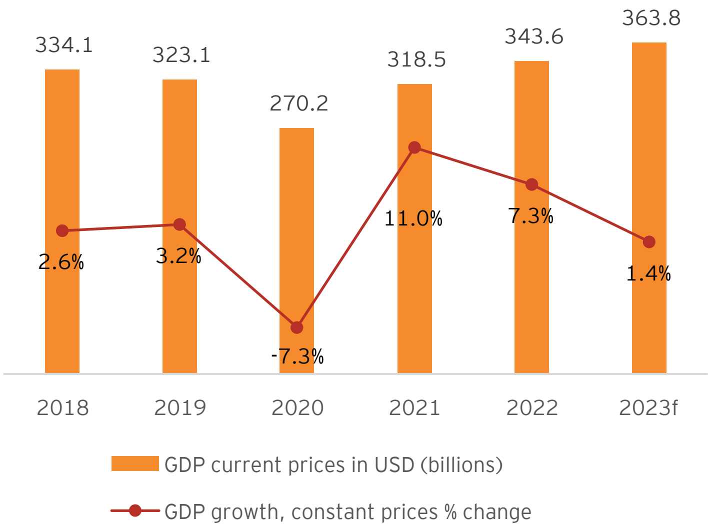
During its latest technical visit to the country, the International Monetary Fund (IMF) praised the progress of the more restrictive macroeconomic policies implemented over the past two years. These policies have led to a significant reduction in the internal and external imbalances that accumulated 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 agriculture, finance, services, manufacturing, and mining.

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.

| Index | Colombia |
|---|---|
| GDP current prices USD (2023f)[1] | $363.84 |
| GDP growth, constant prices % change (2023f)[1] | 1.44% |
| Gross domestic product per capita, current prices (PPP) (2023f)[1] | $19,482 |
| Inflation, year-end consumer prices (2023f)[1] | 8.76% |
| Fiscal balance (net lending (+) or net borrowing (-) of general government; % of GDP) (2023f)[1] | -3.48% |
| Public debt (General government gross debt, % of GDP) (2023f)[1] | 54.97% |
| Current account (% of GDP) (2023f)[1] | -4.90% |
| Investment (% of GDP) (2023f)[1] | 17.09% |
| Poverty headcount ratio at $6.85 a day (2017 PPP) (% of population) (2021)[2] | 39.2% |

**Gross Domestic Product, Levels and Growth[1]**

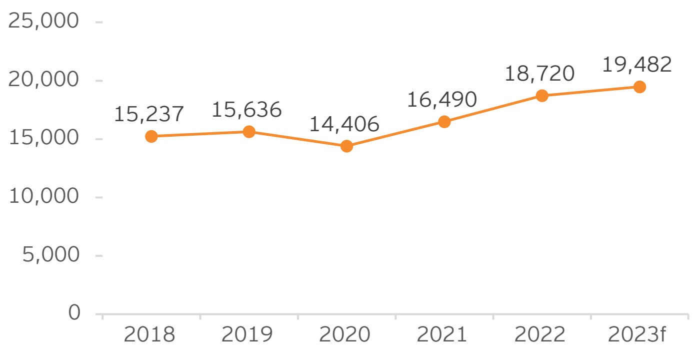



Following the macroeconomic imbalances resulting from the pandemic years, Colombia's economy slowed down in 2023. In October, the IMF expected growth to reach 1.4%, a more sustainable level after the strong rebound seen in 2021 and 2022. However, economic dynamism was significantly lower than expected. High interest rates and the cooling of domestic demand, coupled with a decline in investment, led to a modest increase of 0.6% in 2023 according to the National Department of Statistics (DANE).

1. International Monetary Fund, World Economic Outlook Database, October 2023
2. Poverty headcount ratio at $6.85 a day (2017 PPP) (% of population) - Argentina, Brazil, Chile, Colombia, Mexico, Peru

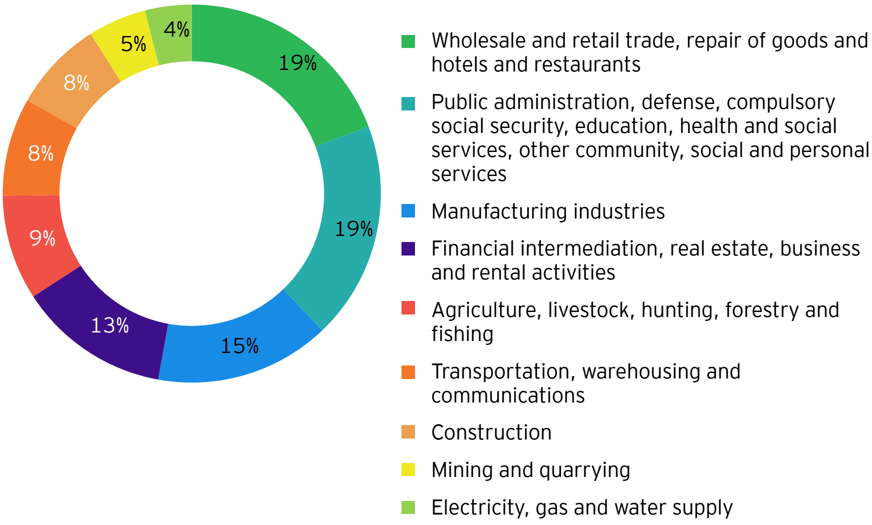
Meanwhile, for 2024, the IMF expects the GDP to increase by 1.3%, with growth reaching 3% in the medium term.

**Gross domestic product per capita, current prices (in USD, PPP)[1]**




Colombia is among the top 10 countries with the highest GDP per capita in the region. In October, the International Monetary Fund estimated that the GDP per capita in terms of purchasing power parity (PPP) would surpass US$ 19,000 in 2023. However, considering the decline in growth seen last year, this figure will likely be lower.

**Annual gross domestic product (GDP) by economic activity at current prices in dollars[1]**

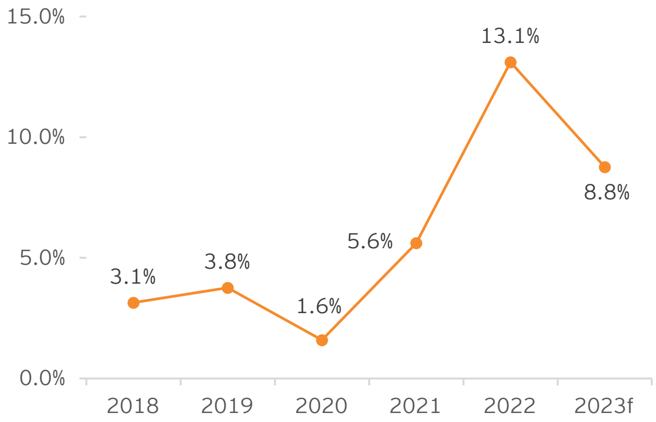



1. International Monetary Fund, World Economic Outlook Database, October 2023
2. Annual gross domestic product (GDP) by economic activity at current prices in dollars (2022), ECLAC

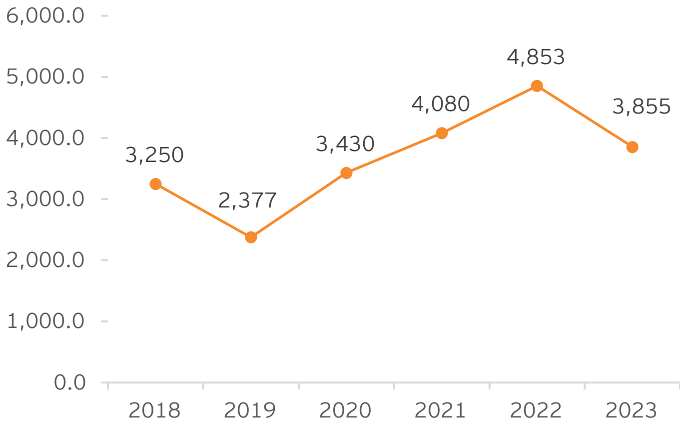
The sectors that contribute most to the GDP are those related to financial and real estate services, as well as public and personal services.

Trade is also highly relevant to the country, as well as manufacturing, agriculture, and mining.

**Inflation, end of period consumer prices[1]**




**Exchange rate of foreign currency (USD/COP)[2]**

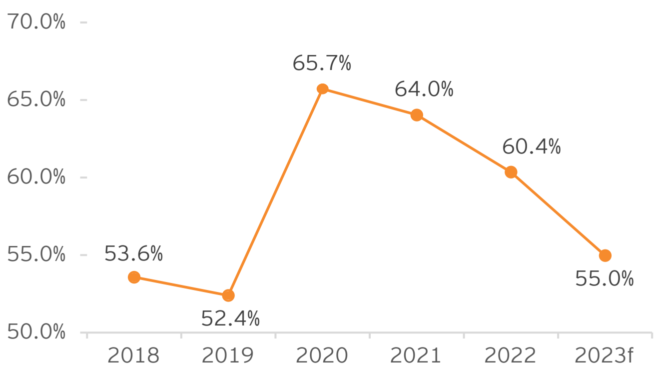



This February, Colombian inflation dropped to 7.7% according to the DANE. This is the tenth month in a row that inflation has gone down, marking the lowest rate since before the pandemic.

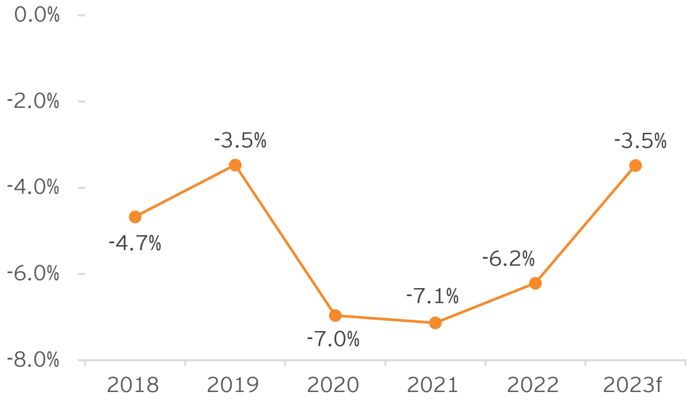
1.- International Monetary Fund, World Economic Outlook Database, October 2023
2- Exchange rates of foreign currencies (USD/CLP), Bloomberg

Inflation is expected to continue above the 3% target during this year, but will likely converge towards its goal in 2025.

**Public debt (General government gross debt, % of GDP)[1]**



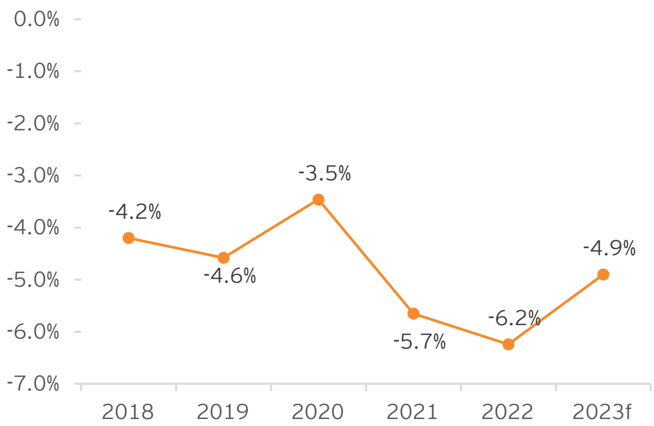

**Fiscal balance (net lending (+) or net borrowing (-) of general government; % of GDP)[1]**




Colombia strengthened its public finances in 2023. The country reached a fiscal deficit of 4.2% of the GDP in 2023 (slightly higher than expected by the IMF in October), below the government target and with an oversupply of the fiscal rule by 0.1% of the GDP, achieving a significant reduction in public debt. This closed at around 52.8%, better than IMF's October forecasts, according to the financial plan for 2024 presented by the Ministry of Finance in early February.

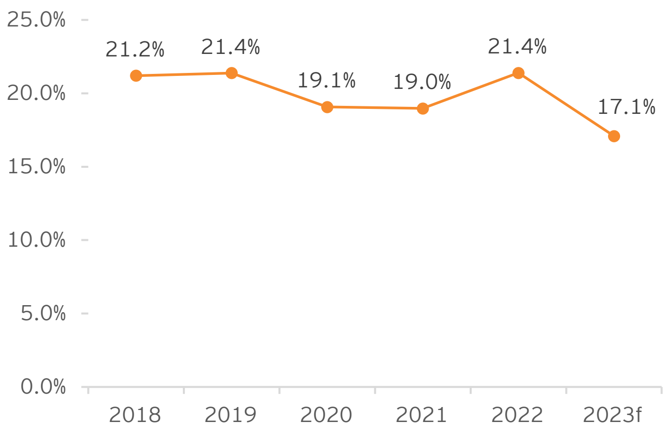
1.- International Monetary Fund, World Economic Outlook Database, October 2023

**Current account (% of GDP)**[1]



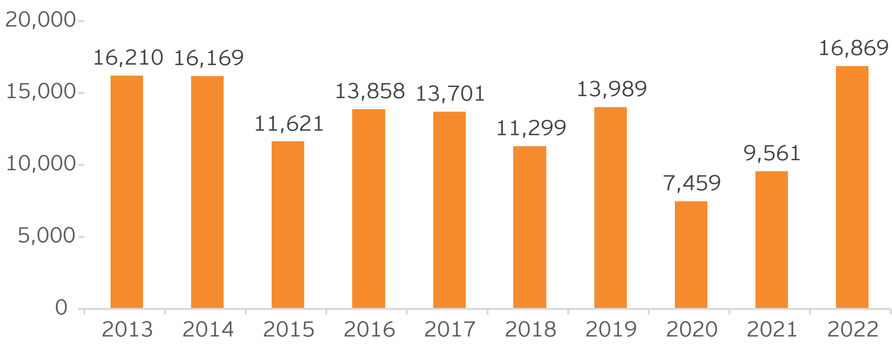

According to the IMF, the 2023 current account was expected to continue at a deficit, although to a lesser degree than in 2022.

**Investment (% of GDP)**[1]



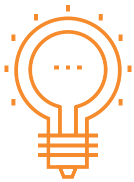

1.- International Monetary Fund, World Economic Outlook Database, October 2023

**FDI Colombia (In millions of USD)**[1]




Investment as a percentage of the GDP declined in 2023. By October, the IMF expected this to decrease from the 21.39% reached in 2022 to the estimated 17.09% for the last year. The decline is anticipated to be due to the high interest rates maintained by the authority to control inflation and a slowdown in the real estate sector.

Meanwhile, foreign direct investment exceeded USD 16.8 billion in 2022, higher than the figure posted before the pandemic, according to the World Bank.



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.

1. Foreign direct investment, net inflows (BoP, current US$), last 10 years (2022)

# 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 commons targets recognized as FDI by the Foreign Exchange Regime
- Domestic companies: capital contribution of a company through the acquisition of shares or quotas.
- Real estate: The acquisition of real estate, directly or through a trust agreement.

- Shares registered before the National Registry of Securities Issuers ("RNVE") declared for permanence purposes.
- Trusts: The acquisition of rights in trust agreements with trust companies supervised by the Superintendence of Finance.

**1.4. Portfolio investments**

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

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

**1.5. Special Foreign Exchange Regime**

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

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

### 1.6. Foreign exchange rights and its protection

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

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

### 1.7. Legal vehicles

Colombian commercial law provides for different types of legal vehicles by means of which investors can establish a permanent business presence in Colombia. Currently, the most common legal vehicles are: Simplified Share Companies (Sociedad por Acciones Simplificada), and branch offices of foreign companies (Sucursal). Traditional legal entities such as Corporations (Sociedad Anónima) and Limited Liability Companies (Sociedad de Responsabilidad Limitada) are still used but have been replaced in general by Simplified Share Companies.

### 1.8 Simplified Share Companies (Sociedades por Acciones Simplificada or "S.A.S.")

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

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

## 1.9. Branch offices of foreign companies (Sucursal)

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

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

# Tax regime

## 1. General overview

**1.1. Corporate income tax rate:** The general corporate income tax rate is 35% in 2024.

**1.2. Capital gains tax:** A 15% rate is generally applied over capital gains.

**1.3. Withholding taxes:** Generally, any payment made abroad that qualifies as Colombian sourced income for the recipient is subject to withholding tax.

**Most relevant withholding taxes on outbound transactions**

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

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

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

### 1.4. Controlled foreign companies ("CFC")

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

### 1.5. Colombian holding company regime ("CHC")

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

### 1.6. Payment of taxes in kind

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

### 1.7. Tax credit for VAT paid on productive fixed assets

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

### 1.8. Foreign tax relief

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

### 1.9. Significant Economic Presence

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

### 1.10 Net Tax Rate – NTR/ minimum tax

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

### 1.11. R&D+I

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

## 2. Other taxes and considerations

### 2.1. Equity tax

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

### 2.2. Debit tax

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

### 2.3. Value added tax – VAT

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

## 2.4. Tax on single-use plastics

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

## 2.5. Tax on sugary beverages

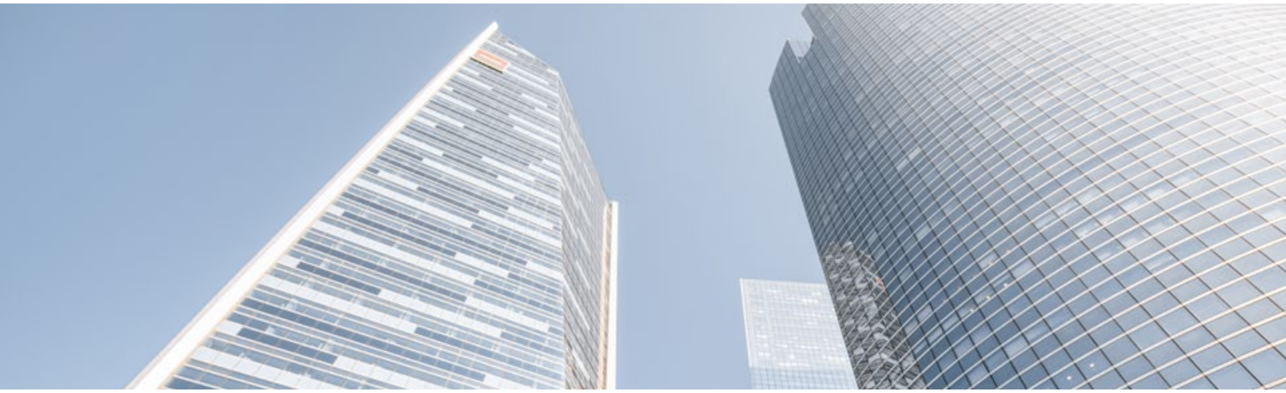
As from November 1, 2023, this tax will apply over ultra-processed sugary beverages, as well as concentrates, syrups, powders which, after being mixed or dissolved, obtained sugary beverages.

## 2.6. Tax on ultra-processed foods

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

## 2.7. Industry and commerce tax / turnover tax

The industry and commerce tax ("ICA") is a municipal tax that is applied on gross revenue earned from industrial, commercial or service activities in any municipality and specific property located therein, regardless of whether the activity is permanent or occasional. The ICA rate varies depending on the municipality, ranging from 0.2% and 1.4%.
The paid Turnover tax can be treated as 100% deduction against the CIT.



### 2.8. SIMPLE regime

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

### 2.9. Registration tax

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

### 2.10. Tax procedural matters

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

### 2.11. Transfer pricing

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

### 2.12. Double taxation treaties

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

# Labor regime

## 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 duration of the legal ordinary workday is eight hours. The maximum number of working hours per week is 48 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 | 1%-2% | N/A | 1%-2% |
| Professional Risk | Salary + 1.41 + 1.4.2 +1.4.4 | 0.348% -8.7% | 0.348% -8.7% | N/A |
| SENA, ICBF, Family Compensation Fund (payroll taxes) | Salary + 1.4.5 | 9% | 9% | N/A |

# Financial reporting

## 1. Accounting standards

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

## 2. Financial statements

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

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

## 3. Simplified accounting for small companies

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

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

## 4. Functional currency

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

## 5. Electronic documents

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

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

## 6. Publicly and Non-publicly traded companies

The following requirements apply to traded companies:

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

- Annual individual Financial Statements report (as at December) with disclosures must be approved at the Annual Shareholders' Meeting and be signed by an accountant certified in Colombia.

- Companies that are under common control or management by one or more parts (Business Groups) must prepare Consolidated Financial Statements.

- Companies must report their financial statements as at December 31 in XML format, when required by the regulatory body or when they reach the threshold defined by each Superintendence.

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

- Public entities, entities of public interest and large companies must report under Full IFRS standards.

- Medium and small enterprises which are not public entities or public interest entities may report under Simplified IFRS.

- Small & Micro entities which are not public entities or public interest entities may report under Simplified IFRS.

## 7. Special cases

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

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

- Financial Statement for Companies that do not meet the going oncern must be prepared under the bases contained in Decree 2101 of 2016.

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

## 8. Other considerations

A Statutory Auditor is required for:

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

# *Javier Salazar*

Country Managing Partner, EY Ecuador

## 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.

# Ecuador

## 1. Overview

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

**Population**[1]
18,001,000
Urban[2]: 65%
Rural: 35% (2022)

**Main language**[3]
Spanish

**Extension**[4]
256,370 km2

**System of government**[3]
Democratic and unitary republic
President: Daniel Noboa
Next elections: 2025

**Climate**[3]
Tropical on the coast, temperate in the highlands, and hot and humid in the Amazon region

**International Time**[5]
GMT-5 (All Ecuador)

**Currency**[6]
US Dollar

**GDP current prices**[7]
USD $11.65 Bn.
(2023f)

**GDP per capita (PPP)**[8]
USD $13,285
(2023f)

**Main sectors**[9]
Ecuador's main sectors include oil and mining, fishing, agriculture and food (including shrimp, bananas and plantains, cocoa and processed by-products, tuna and fish, and coffee and processed by-products), construction, and hospitality.

1. World Economic Outlook (October 2023) - Population, IMF
2. Urban population (% of total) (2022), World Bank
3. Main language, system of government and weather, DatosMacro.com
4. Extension (square kilometers) (2021), World Bank
5. 24timezones.com
6. Exchange rate, Bloomberg
7. World Economic Outlook (October 2023) - GDP current prices, IMF
8. World Economic Outlook (October 2023) - GDP per capita, IMF
9. Encyclopedia Britannica

# Why

## invest in Ecuador?

Tax and tariff incentives through investment contracts

11 trade agreements with various regions and working to sign more new agreements.

Leader in tropical fruit exports and seafood: 1st in bananas, 1st in crustaceans, 3rd in cocoa beans and powder, 4th in pineapples and others in 2022[2]

Clean energy generation, with more than 97% coverage of electricity service throughout the country[1]

Dollarized economy: low inflation

High growth in commodity exports: exports grew 110% from 2016 to 2022[2]

1. Why invest in Ecuador? - Invest Ecuador Tourism (2021)
2. UN Comtrad

# *Manuel Solano*

Country Managing Partner, EY Mexico

## In recent years, Mexico has positioned itself globally as a strategic and attractive place for business, driven primarily by factors such as its geographical position and its consolidation as the United States' leading trading partner.

The effect of nearshoring cannot be ignored, a phenomenon that has made Mexico an ideal option for companies, including those with headquarters in China, looking to relocate their supply chains under the USMCA, along with a series of tax incentives that the government has implemented to motivate and promote investments in the country.

While the scenario for doing business in Mexico is promising, it is crucial for companies interested in starting operations in the country to have a comprehensive understanding of various regulatory compliance issues that need to be addressed from their pre-landing process to the full establishment of their business.

Our Tax and Legal Services teams share this brief guide with key information, covering the main challenges for any organization entering the Mexican market.

I invite you to explore the information in this guide and look forward to discussing the business issues that you may be facing in Mexico.

# Mexico

## 1. Overview

Mexico is located in North America and has a diverse geography with beaches, jungles, mountains, and deserts. Its capital, Mexico City, is also the largest city, followed by Guadalajara, a cultural and technological center, and Monterrey, renowned for its industry. The Mexican population has diverse roots: indigenous, European, and African, and its rich culture is manifested in music, art, gastronomy, and festivities such as the Day of the Dead. With abundant resources such as oil, silver, copper, and a unique biodiversity, its main sectors include manufacturing (automotive, electronics), oil, tourism, agriculture (corn, avocado, tequila), and mining. Mexico seeks integration into global trade through treaties such as the T-MEC and is committed to innovation and technology to strengthen its economy.

**Population[1]**
127,504,125
Urban[2]: 81%
Rural: 19% (2022)

**Main language[3]**
Spanish

**Extension[4]**
1,964,375 km2

**Climate[3]**
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.

**System of government[3]**
Federal Presidential Republic
President: Andrés Manuel López Obrador
President elected: Claudia Sheinbaum
Next elections: 2030

International Time[5]
- GMT-6 (Mexico City, Guadalajara, Monterrey, Leon)
- GMT-5 (Cancun)
- GMT-7 (Mazatlan)

Daylight saving time (summer):
- GMT-5 (Coahuila, Nuevo Leon, Tamaulipas, Chihuahua)
- GMT-7 (Tijuana, Mexicali)

Standard time (winter):
- GMT-6 (Coahuila, Nuevo Leon, Tamaulipas, Chihuahua)
- GMT-8 (Tijuana, Mexicali)

Currency[6]
Mexican Peso
US$1 = MXN 16.97 (Dec. 30, 2023)

GDP current prices[7]
USD $1.810 Bn.
(2023f)

GDP per capita (PPP)[8]
USD $24,975
(2023f)

Main sectors[9]
Mexico has strong industries in manufacturing (motor vehicles), oil, agriculture (crops and tropical fruits), food and beverages, tobacco, chemicals, iron and steel, mining (silver), textiles, apparel, consumer durables, and tourism.

1. World Economic Outlook (October 2023) - Population, IMF
2. Urban population (% of total) - Argentina, Brazil, Chile, Colombia, Mexico, Peru (2022), World Bank
3. Main language, system of government and weather Brazil, DatosMacro.com
4. Extension (square kilometers) - Argentina, Brazil, Chile, Colombia, Mexico, Peru (2021), World Bank
5. 24timezones.com
6. Exchange rate, Bloomberg
7. World Economic Outlook (October 2023) - GDP current prices, IMF
8. World Economic Outlook (October 2023) - GDP per capita, IMF
9. Encyclopedia Britannica

# Why

## invest in Mexico?

11th largest GDP in the world and 2nd largest in Latin America in 2023[1]

15th highest recipient of foreign direct investment in 2022[3]

Its network of trade agreements give it privileged access to 46 countries. Uniquely positioned to take advantage of nearshoring opportunities, thanks to its geographic location, business opportunities, and participation in the USMCA treaty[4]

15th largest country in the world in terms of area[2]

World leader in manufacturing: 2nd largest exporter of automatic data processing machines (computers, readers, etc.), 3rd largest exporter of vehicles in 2022 (in trade value)[5]

World leader in food: 3rd largest exporter of fruits and nuts, 3rd largest exporter of beverages in 2022 (in trade value)[5]

Global leader in mineral production: 1st in silver, 4th in lead, 5th in zinc, 6th in gold, 11th in petroleum in 2021[6]

10. The World Fact Book, CIA
11. Foreign direct investment, net inflows, World Bank
12. Government of Mexico - Foreign Trade
13. World mining data
14. UN Comtrade

# Country’s economic outlook

Mexico is the third largest country in Latin America, after Brazil and Argentina. Mexico City is the country's capital and the most densely populated city in North America, ranking 6th in the world in terms of population.

Mexico is the second largest economy in Latin America, and according to the International Monetary Fund (FMI), it is 12th in the world.

In 2023, the country showed a solid growth of 3.2% compared to 2022, according to information from the National Institute of Statistics and Geography (INEGI), completing the third year in a row of expansion. Inflation also eased, closing at 4.45% and approaching the target range of 2-4%. Additionally, unemployment dropped to 2.7% in the fourth quarter of 2023, according to the statistics office. Meanwhile, authorities have managed to keep public debt under control.

In both political and economic terms, 2024 will be defined by the presidential elections scheduled for June, when Andrés Manuel López Obrador will prepare for a smooth transition for the next president, leaving the office with a considerably high popularity.

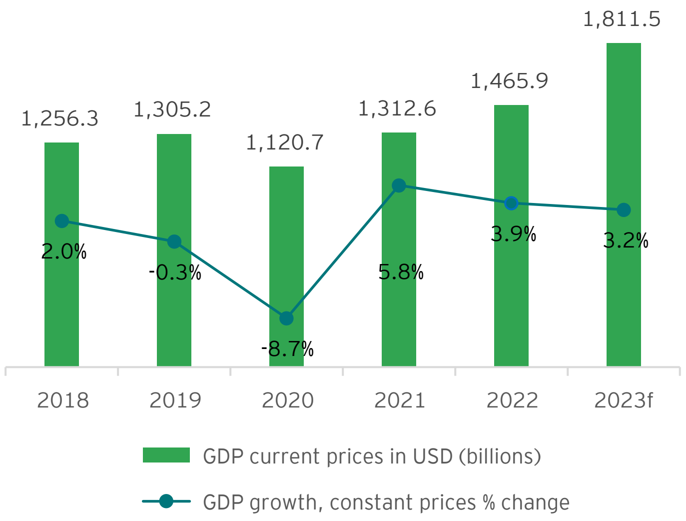
The Mexican economy is closely tied to that of its partners in the North American Free Trade Agreement (NAFTA), especially the United States. The replacement of NAFTA with the United States-Mexico-Canada Agreement (USMCA) in 2020 has favored the country's economic growth and its transition to a manufacturing-centered economy.

Additionally, its proximity and close trade relationship with its northern neighbor make it a strategic destination for locating or relocating production processes near the US market.

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

| Index | Mexico |
| --- | --- |
| GDP current prices USD (2023f)[1] | $1,811.47 |
| GDP growth, constant prices % change (2023f)[1] | 3.18% |
| Gross domestic product per capita, current prices (PPP) (2023f)[1] | $24,976 |
| Inflation, year-end consumer prices (2023f)[1] | 4.50% |
| Fiscal balance (net lending (+) or net borrowing (-) of general government; % of GDP) (2023f)[1] | -3.90% |
| Public debt (General government gross debt, % of GDP) (2023f)[1] | 52.67% |
| Current account (% of GDP) (2023f)[1] | -1.47% |
| Investment (% of GDP) (2023f)[1] | 24.11% |
| Poverty headcount ratio at $6.85 a day (2017 PPP) (% of population) (2020)[2] | 32.5% |

### Gross Domestic Product, Levels and Growth[1]

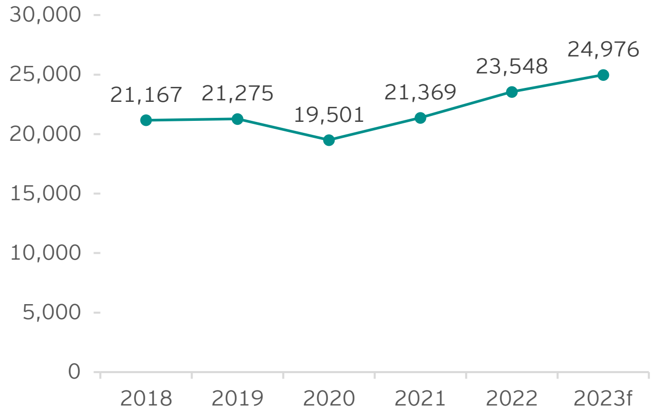



1. International Monetary Fund, World Economic Outlook Database, October 2023
2. Poverty headcount ratio at $6.85 a day (2017 PPP) (% of population) - Argentina, Brazil, Chile, Colombia, Mexico, Peru

The Mexican economy has shown solid expansion in 2023 for the third year in a row, closing at 3.2% compared to 2022, driven by the dynamism of the industrial sector.

For 2024 and 2025, a moderation in economic activity is expected, limited by production capacity constraints, the continuation of restrictive monetary policy, and the slowdown in growth in the United States, according to the International Monetary Fund (IMF). The international organization forecasts a growth rate of 2.7% for this year and 1.5% for 2025, according to the updated World Economic Outlook published in January.

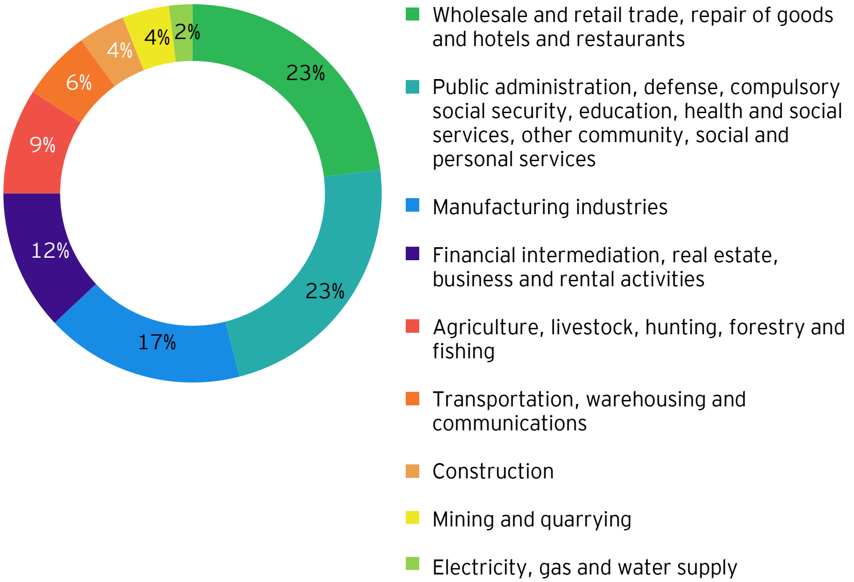
**Gross domestic product per capita, current prices (in USD, PPP)[1]**




The sustained growth in recent years has allowed the GDP per capita to grow in Mexico. In terms of purchasing parity power (PPP), the IMF estimated that this would reach USD 24,976 by the end of 2023.

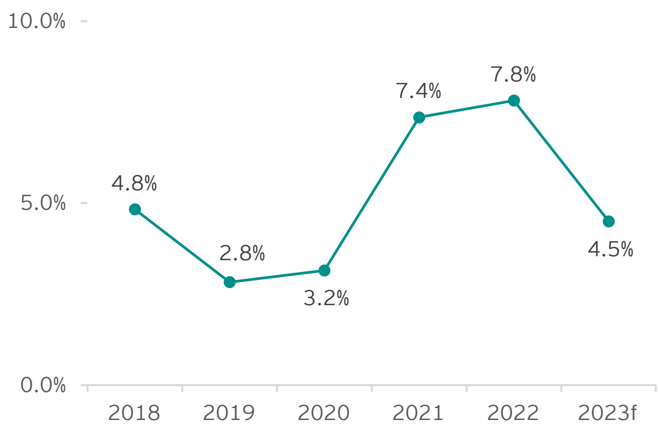
1.International Monetary Fund, World Economic Outlook Database, October 2023

**Annual gross domestic product (GDP) by economic activity at current prices in dollars**[1]



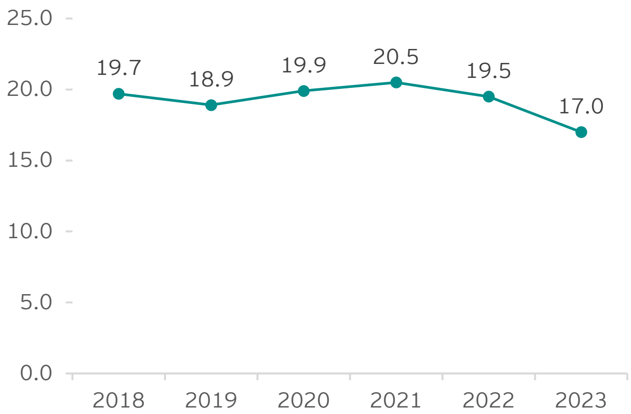

The sectors that contribute the most to Mexico's GDP include trade, which encompasses hospitality, the manufacturing industry, financial services, real estate, rental services, and public administration with all its derivatives.

**Inflation, end of period consumer prices**[2]




1. Annual gross domestic product (GDP) by economic activity at current prices in dollars (2022), ECLAC
2. International Monetary Fund, World Economic Outlook Database, October 2023

**Exchange rate of foreign currency (USD/MXN)[1]**



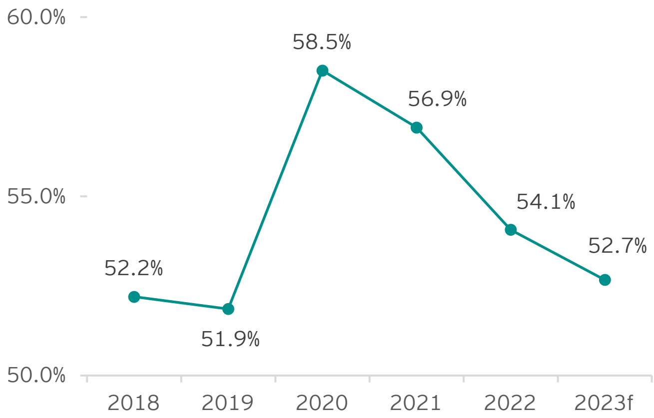

Inflation in Mexico closed at 4.66% according to the National Institute of Statistics and Geography (INEGI). This was slightly above market expectations, including those by the IMF (4.5%), but showed a significant slowdown compared to 2022, when it reached 7.82%, its highest level in 20 years.

At the beginning of the year, the Bank of Mexico (Banxico) kept the rate at 11.25%, unchanged since March of last year, but it is expected to begin cutting this rate soon.

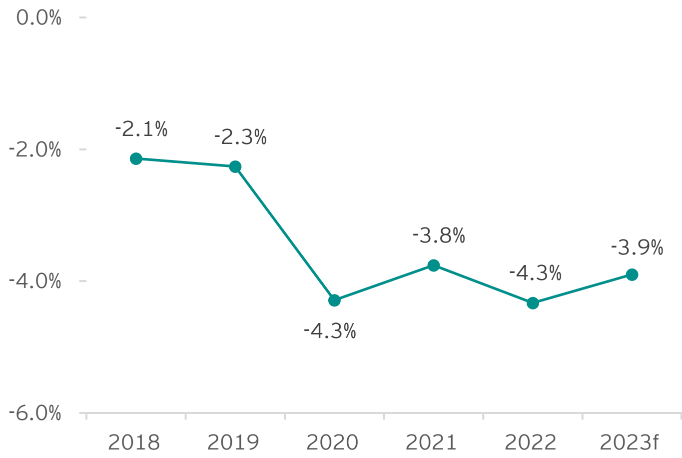
Meanwhile, the exchange rate in 2023 reflected the strength of the Mexican peso, closing at 17 pesos per dollar compared to 19.5 in 2022.

1. Exchange rates of foreign currencies (USD/CLP) (Bloomberg)

**Public debt (General government gross debt, % of GDP)[1]**



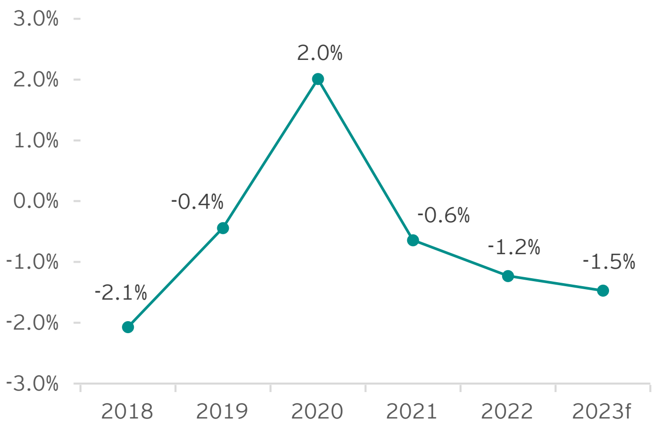

**Fiscal balance (net lending (+) or net borrowing (-) of general government; % of GDP)[1]**




Public finances closed last year with relative stability. According to the IMF's October 2023 estimates, Mexican public debt reached 52.67% of GDP, continuing the downward trend from its peak in 2020 (58.5%), and the fiscal balance remained in deficit, registering -3.9% of GDP.

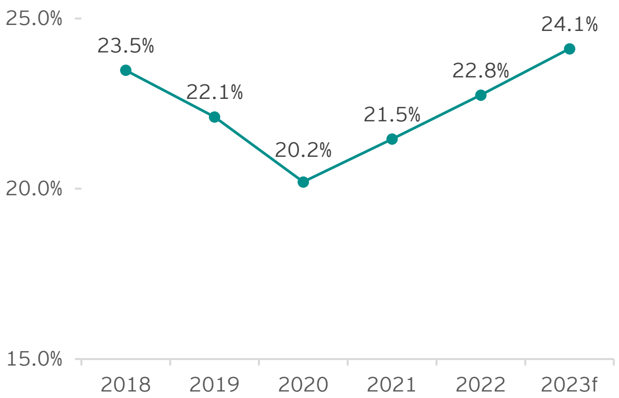
1.-International Monetary Fund, World Economic Outlook Database, October 2023

### Current account (% of GDP)[1]



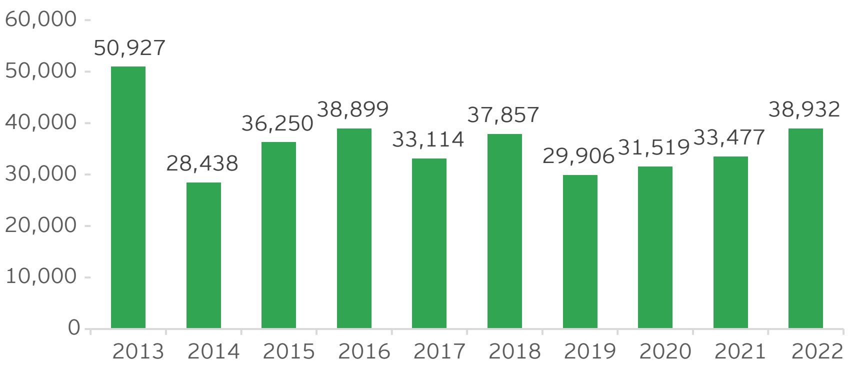

The Mexican current account stood at 0.3% of the GDP, lower than the 1.2% of the GDP posted in 2022, according to the Bank of Mexico (Banxico), significantly below the IMF's estimate of 1.47% in October.

### Investment (% of GDP)[1]




1.International Monetary Fund, World Economic Outlook Database, October 2023

**FDI Mexico (In millions of USD)[1]**




Last year, investment as a percentage of the GDP continued to grow in Mexico and drive activity. The IMF estimates that it reached 24.11% in 2023.

Meanwhile, foreign direct investment continues to strengthen, partly related to expectations of nearshoring (the relocation of operations to nearby destinations). During 2023, foreign direct investment flows into Mexico grew by 2.2% over the previous year, according to figures from the Ministry of Economy.

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.

1. Foreign direct investment, net inflows (BoP, current US$), last 10 years (2022), World Bank

# Establishing a business in the country

Mexico has several benefits and incentives to promote trade and investment.

### 1. Tax benefits for Key Export Sectors

Tax benefits are granted to companies in the general regime or simplified trust regime and to individuals with business and professional activities who are engaged in the production, processing or industrial manufacturing and export in key sectors of the export industry such as semiconductors, automotive sector, pharmaceutical sector, among others.

1.1. Immediate deduction of investments in fixed assets (used for the first time in Mexico): ranging from 86% to 89% depending on the type of 3asset, and from 56% to 88% depending on the activity in which the machinery and equipment are used.

1.2. Mechanism for immediate deduction in income tax prepayments, which benefits the companies' cash flows.

1.3. With regard to creditable VAT, the immediate deduction will be considered as a fully deductible expense.

1.4. Furthermore, eligible taxpayers will be granted a tax benefit consisting of an additional 25% deduction of the increase in training expenses.

### 2. Tax benefits to promote investment by taxpayers who carry out productive economic activities within the Development Poles for the Welfare of the Isthmus of Tehuantepec (PODEBI Decree).

These benefits include:

2.1. A tax credit equivalent to 100% of income tax.

2.2. Immediate deduction of 100% of the original amount of the investment in assets, and tax credits equivalent to 100% of the value added tax (VAT) payable between companies' resident in the PODEBI.

2.3. For such purpose, taxpayers must obtain the certificate of compliance with the requirements and guidelines established in the PODEBI Decree.

2.4. Individuals in the business and professional activities regime, legal entities in the general regime and legal entities in the simplified trust regime who apply the benefits established in the Decree must make prepayments through specific tax returns according to their tax regime.

2.5. VAT incentive may be applied as of the date of issuance of the certificate of compliance and while the benefit is effective.

## 3. Other considerations

The following considerations are important for customs and trade aspects of the business operations including incentives and promotion programs, import duties, trade agreements followed by the value added taxes applicable to transactions within Mexico.

| Incentives & Promotion programs | |
|---|---|
| **IMMEX**<br><br>Intended for companies exporting at least US$500,000 or 10 percent of their production.<br><br>Destined to conduct manufacturing, maquiladora, and export services.<br><br>Allows the temporary importation of goods and provides the benefit of deferring duty payment on imports. | **PROSEC**<br><br>Destined to companies conducting a manufacturing process within 24 listed sectors.<br><br>Allows the importation of goods with reduced tariff rates regardless of their country of origin.<br><br>The finished products can be either exported or sold in domestic market. |
| **VAT & Excise Tax Certification**<br><br>Focused on companies that are compliant with their tax and customs obligations.<br><br>Provides a fiscal credit over the VAT & Excise Tax payable upon temporary importations.<br><br>Available for companies operating under IMMEX program, Automotive Bonded Warehouse and Strategic Bonded Warehouse. | **Strategic Bonded Warehouse**<br><br>Intended for companies that have the legal use of facilities located within a Strategic bonded warehouse.<br><br>Allows the temporary importation of goods for their handling, storage, custody, exhibition, sale, distribution, manufacturing or repair. |

## 4. Legal aspects

Mexico's laws are generally favorable for investors and make it easier for companies to do business in the country. Certain considerations for setting up operations in Mexico are listed below.

### 4.1.Subsidiary or Branch

The common options for doing business in Mexico are through the incorporation of a Mexican entity or the registration of a branch (that may or may not create a permanent establishment (PE)). It is important to determine which is the convenient scheme, considering all applicable perspectives (e.g., legal-corporate, labor, tax, etc.).

- **Branch:** Technically, this vehicle does not have an independent legal personality from its parent company and, therefore, it acts on behalf of such parent company, who is responsible for its obligations/liabilities.

- **Subsidiary:** It is an entity with an entirely independent legal personality from its equity holders and, consequently, it acts on its own behalf.

The most common types of Mexican entities are the Corporation (Sociedad Anónima – "SA") or Limited Liability Company (Sociedad de Responsabilidad Limitada – "SRL"), which require at least 2 shareholders/partners (either Mexican or foreign corporations or individuals).

### 4.2. Annual Corporate Obligations of Subsidiaries

From a strictly legal-corporate perspective, the annual obligations of Mexican companies are as follows:

- Holding an Annual Shareholders'/Partners' Meeting whereby the mandatory annual compliance matters will be addressed, including the discussion and, if applicable, the approval of (i) the report prepared by the Board of Directors/Managers of the company regarding the operations of the same during the prior year; and (ii) he financial statements of the prior year.

- If required under the bylaws of the company, holding an Annual Board Meeting whereby the corresponding annual compliance matters will be addressed.

- In accordance with Article 35 of the Foreign Investments Law, any company with foreign investment shall file the Annual Notice before the National Registry of Foreign Investments, if any of the corresponding thresholds is surpassed.

- Quarterly notices shall also be filed before the National Registry of Foreign Investments, if any of the corresponding thresholds is surpassed during a quarter.

### 4.3. Restrictions on Foreign Investments

Mexican legislation on Foreign Investments allows Mexican entities with foreign investment to engage in most of the sectors and economic activities. Exceptions to the foregoing include the following:

- **Activities reserved to nationals:** (i) national land transportation of passengers, tourism and cargo (excluding courier and parcel services); (ii) development banking; (iii) rendering certain technical and professional services, according to specific Mexican laws.

- **Certain activities within the following strategic sectors are reserved to the Mexican Government:**
  (i) exploration and extraction of oil and other hydrocarbons; (ii) planning and control of the national electricity system, as well as electrical energy activities; (iii) generation of nuclear energy; (iv) radioactive minerals; (v) telegraphs, radiotelegraphy and post mail; (vi) currency issuance and coinage; and (vii) control, monitoring and surveillance of airports, ports and heliports.

  Mexican Foreign Investments Law establishes restrictions on land ownership by foreign investors.

- **Other activities with restrictions:** Among others, (i) manufacture and sale of explosives, fireweapons, cartridges and ammunition; (ii) radio broadcast; (iii) printing and publication of newspapers for exclusive circulation in national territory; (iv) legal services; and (v) private preschool, elementary school, middle high school, high school and upper or combined education services.

### 4.4. Data Protection

Mexico has a comprehensive data protection legal framework that entered into full force and effect within 2010 and 2013, which is aligned to international standards on data privacy and is applicable to the processing of personal data of any individual (e.g., employees, clients, visitors, suppliers, ultimate beneficial owners, etc.), in the understanding that the collection, use, transfer, storage, dissemination and, in general, any action to exploit or dispose of the data is considered processing. The Mexican authority in charge of the enforcement of the legislation on data protection is the National Institute for Transparency, Access to Information and Protection of Personal Data (Instituto Nacional de Transparencia, Acceso a la Información y Protección de Datos Personales).

It is highlighted that said legal framework mainly aims to protect the personal data of individuals by establishing rules for the processing of the same, including the obligation to observe certain general principles during the processing, such as the principles of consent, proportionality, purpose and responsibility.

In virtue of the foregoing, it is important for companies to create and implement a data protection program focused on the compliance of Mexican legislation on data protection.

### 4.5. Ultimate Beneficial Owners

On January 2022 Mexico introduced certain provisions in the tax legislation to regulate a new obligation for companies, trustors, beneficiaries or trustees, in the case of trusts, and contracting parties or members, in the case of any other legal figure/vehicle, mainly consisting on collecting, verifying and keeping updated, reliable and complete information of their respective ultimate beneficial owner(s), as part of their bookkeeping, and to provide it to the Tax Administration Service (Servicio de Administración Tributaria) when requested.

Further, it is highlighted that to fully comply with said new rules it is necessary to perform several actions, such as creating and implementing control procedures for obtaining and keeping the required information and documents; hence, Mexican entities/vehicles shall make efforts to comply with the referred obligations since its incorporation, so as to avoid fines and other types of sanctions.

EY

### 4.6. Taxpayers Registry and Tax Representative

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

Corporations are considered residents of Mexico if their principal place of management is located in Mexico.

### 4.7. Opening Bank Accounts

Branch/subsidiary must open a bank account in Mexico and the legal representative to open bank accounts must be a Mexican or a foreigner resident with a valid migratory visa in Mexico (Mexican residency).

Financial institutions residing in Mexico or abroad with branches in Mexico undertake the procedures to identify foreign accounts or reportable accounts for the Automatic Exchange of Information on Financial Accounts for Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standard (CRS) purposes.

# Tax regime

## 1. Income tax

Mexico has a standard income tax system; Corporations resident in Mexico are taxable on their worldwide income from all sources, including profits from business and property; a nonresident corporation in Mexico is subject to profits tax on income earned from carrying on business through a permanent establishment in Mexico or, in the absence thereof, and on Mexican-source income; divided in three main regimes: corporate income tax, individual income tax and a withholding regime for nonresidents.

**1.1. Income tax rate (corporations):** 30%

**1.2. Income tax rate (individuals):** up to 35%

**1.3. Employees' Profit sharing:** 10% (subject to a cap)

**1.4. Carryforward (net operating losses):** 10 years

**1.5. Carryback (net operating losses):** not allowed

**1.6. Consolidated returns:** Not applicable. Notwithstanding,a special regime allows a group to defer income tax for up to three years.

## 2. International tax

Mexico has a large tax treaty network (60 tax treaties in force and 1 in process of ratification).

Mexico signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (MLI) on June 7, 2017. The MLI has been ratified and entered into effect as of January 1, 2024. Mexico included 61 jurisdictions within its list for the MLI; currently 48 of them are effectively amended by MLI provisions and 7 more of them will be amended after the ratification process.

**2.1. Capital gains tax rate:** 30% on gain if transferred (i.e., sale or disposition of investments) to a buyer by Mexican residents. 25% to gross proceeds if transferred by foreign shareholders or 35% on net gain, provided certain formal requirements are met.

### 2.2. Branch tax rate

30%

### 2.3. Withholding tax rates

- Dividends: 10%
- Interest: 10%-35%
- Royalties and Technical Services: 5%-35%
- Branch profits: 0%
- Other Fees and Compensation for Services Rendered Abroad: 0%

## 3. Foreign tax relief

Mexican corporations are taxed on foreign-source income when earned. Foreign tax credits can be used to reduce, or possibly eliminate, double taxation.

## 4. Payments to Preferential Tax Jurisdictions

International tax provisions increased deductibility limitations and higher withholding taxes on many cross-border transactions. Potentially any payments made by Mexican companies to related parties in jurisdictions subjecting the related parties to a tax rate lower than 22.5% can become non-deductible.

## 5. Controlled foreign corporation rules

Extensive anti-deferral rules are included within Mexican tax law and are based on an effective rate test for controlled foreign corporations or investments. If a Mexican corporation does not distribute its profits of a controlled foreign subsidiary, the tax liability on such profits is deferred until dividends are paid. Companies with investments in vehicles or entities located in a low-tax jurisdiction or income subject to preferred tax regimes (PTRs), in which case income is generally taxable even if no distributions are received from those entities.

## 6. Thin capitalization rules

Interest deductions may be disallowed if the debt-to-equity ratio exceeds 3:1. This restriction only affects interest associated with foreign related parties,even though the debt-to-equity ratio calculation takes all interest-bearing debt of a company into account.Thin capitalization rules would be dissabled 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 limitated to 30% of taxpayers' adjusted taxable income or "Tax EBITDA". This provision is applicable to interest expenses arising from debts exceding MXN 20M, of the Mexican entities that are part of the same Group.

## 8. Corporate Income Tax

Mexican resident companies are subject to a 30% corporate income tax (CIT) rate on their taxable income (revenues less expenses).

In the North and South border zone certain taxpayers who receive income exclusively in the northern and Southern border region are entitled to a 20% CIT; this benefit will be applied until December 31, 2024. For companies initiating activities in the region, the taxpayer must show the use of new assets in the region for the qualified activities. The taxpayers planning to take advantage of the Decree incentives (published on December 31, 2018; December 30, 2020 and the modification on December 30, 2020) should review the requirements and prepare the authorization request or file the required notice to claim the benefits.

As of 2019, tax authorities released a simulator that preloads the data for taxable income, withholding taxes and certain payments such as payroll CFDI information.  In case if the preloaded information is not correct, the amended returns must be submitted.

## 9. Main formalities

**9.1. Corporate tax return:** annually, no later than March 31 of the following year.

**9.2. Tax Situation Information Return (ISSIF 2023):** annually, no later than March 31 of the following year. It is applicable, among other situations, when the taxpayer had taxable income in the previous fiscal year that exceed $974.6 Million pesos; the taxpayer has been transactions with related parties that must comply with tax opinion issued by Public Accountant registered; the taxpayer made payments to foreign entities that exceed $100 Million pesos.

**9.3. Tax opinion:** annually, no later than May 15 of the following year, this fiscal obligation is applicable, among other situations, when the taxpayer had taxable income in the previous fiscal year that exceed $1,779 Million pesos.

**9.4. Estimated monthly payments and withholdings:** monthly, no later than the day 17 of the following month.

**9.5. Electronic Accounting Record (EAR):** monthly, during the next 3 business days of the second following month.

**9.6. Local and master file returns:** annually, no later than May 15 of the following year.

**9.7. Informative return regarding the loans with foreign resident:** annually, no later than February 15 of the following year.

**9.8. Informative return regarding the transactions with foreign related parties:** annually, no later than May 15 of the following year.

**9.9. Report of significant transactions:** quarterly, May 31, August 31, November 30, February 28.

**9.10. Disclosure of reportable tax planning schemes:** following 30 working days from implementation.

## 10. Transfer pricing requirements in Mexico

Mexican taxpayers entering into transactions with foreign and domestic related parties should comply with the local transfer pricing rules which are largely in line with the OECD guidelines.

### 10.1. Annual Transfer Pricing Report

As per articles 76 sections IX of the MITL, taxpayers conducting related parties abroad are required to prepare and maintain contemporary transfer pricing documentation for the intercompany transactions carried out with foreign and domestic related parties.

### 10.2. Exhibit 9: Mexico's transfer pricing information tax return form

Appendix 9 of the tax return (DIM Appendix 9) fully discloses the results of transactions held with related parties.

Exhibit 9 must be filed no later than May 15 of the following year.

### 10.3. BEPS Returns

Article 76-A of the MITL establishes the obligation to submit the BEPS returns (Master File / Local File / CbCR) before 31 December for Master File and before 15 May for Local File of the following year when the following conditions are met:

- Revenues equivalent or greater than the amount sated 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 3rd parties |
| + | VAT withheld to 3rd parties |
| = | PAYABLE VAT (FAVORABLE VAT) |

### 11.3. VAT Rates

The following rates apply:

- Standard 16%.
- Reduced 8% rate on activities performed in the border region per tax incentive.
- 0% on specific activities- i.e., exported goods, patented medicines, unprocessed food.
- Exempt – i.e. housing, land, financial, educational and medical services, public events.

### 11.4. VAT Returns

VAT Return is filed electronically through the tax authority's website, monthly, by the 17th day of the following month.

Informative return known as DIOT per its acronym in Spanish, which must contain information of transactions with suppliers,filed electronically, monthly, through the tax authority's website, by the last day of the following month.

### 11.5. Special Tax on Production and Services

Business entities and individuals that carry out, in Mexican territory, any of the taxable activities as described below are subject to IEPS:

- Transfer of goods. (i.e., alcoholic beverages,beers, tobacco products, fossil fuels, energy, and flavored drinks.)
- Rendering of independent services. (i.e., gaming and lottery, telecommunications networks.)

### 11.6. IEPS Determination

IEPS is an indirect tax that is determined and triggered on a cash-flow basis. (i.e., deposit or payments).

IEPS is paid without being able to credit any amounts, except in certain cases such as IEPS paid on the acquisition alcoholic beverages, fossil fuels, energy and flavored drinks, pesticides, and high-calorie food, subject to the fulfillment of certain requirements.

### 11.7. IEPS Rates and Fees

The most relevant transactions subject to IEPS are:

- Energy drinks 25%
- Telecommunications 3%
- Gambling games and lottery 30%

- Alcoholic beverages and beer Up to 14° - 26.5%

- Cigars and other tobacco products: 160%

- Fossil fuels:

  - Propane: 5.91 cents per liter
  - Butane: 7.66 cents per liter
  - Gasoline and gas-jet: 10.38 cents per liter

**11.8. IEPS Return**

IEPS Return is filed electronically through the tax authority's website, monthly, by the 17th day of the following month.

# Labor regime

## 1. Labor law

In Mexico, employment relationships are regulated by the Federal Labor Law, which sets forth the rights and obligations of employers and employees. The employees in Mexico are entitled to the following rights and protections:

**1.1. General Conditions**
In general, employment relationships must abide by the following:

- Set forth an employment term defined as either:
  - Indefinite
  - Definite
  - By Season
  - By trial or training period

- A weekly work shift of maximum 48 hours

- Maximum of 9 extra hours per week

- Provide employees with a copy of their written employment agreement

- In case the employee works more than 40% of their weekly work shift from home, abide by the NOM 037 teleworking regulations

- Grant payment on a weekly or biweekly schedule

**1.2. Benefits**
Employers must grant employees at least:

- Minimum Salary of $248.93 pesos daily on the general Mexican territory and $374.89 pesos daily on the border region

- Yearly vacation period with full salary (see table)

- Vacation premium of 25% of the salary paid during the vacation period

- Year-end bonus equivalent to 15 days' salary

- Employee profit sharing:

  - Employee profit sharing is paid in May of each year and is calculated as 10% of the net profit reported by the Mexican entity for the previous fiscal year.

  - Profit sharing is allocated among the employees according to the days worked and salaries earned by each during the fiscal year.

| Year | Vacation Days |
|---|---|
| 1 | 12 |
| 2 | 14 |
| 3 | 16 |
| 4 | 18 |
| 5 | 20 |
| 10 | 22 |
| Two additional days for every 5 years of seniority | |

### 1.3. Union Rights

Employees have the right to freely organize, to join the Union of their election, to switch from one Union to another or to not be a part of a Union.

If at least 30% of the employees choose to be represented by a Union, the Employer shall negotiate a Collective Bargaining Agreement (CBA) with such Union.

The CBA should be revised every year regarding salaries and every other year regarding benefits. For a CBA revision to be valid, it should be approved by the majority of employees.

### 1.4. Employment Termination

Employment relationships can end either by:

- **Acts of no responsibility to the employer:**

  Mutual consent, acts against company values, violent acts against employer or company personnel, abandonment, negligence, immoral acts/harassment/ or sexual acts against employer or company personnel, revealing company's secrets, 3 or more absences in a period of 30 days, amongst others.

This is a special procedure that needs to be activated, it's not automatic.

Employer must give "finiquito" or termination payment which consists of vacation, vacation premium, holiday bonus, seniority bonus, pending salaries and any other benefit accrued by the employee.

- **Unjustified dismissal:**

  If the employer decides to terminate the labor relationship unilaterally and without any of the causes for termination having actually occurred, then it will be an unjustified dismissal.

  Employer must give unwarranted termination payment which consists of vacation, vacation premium, holiday bonus, seniority bonus, missing salaries, interest over such salaries, constitutional compensation, restitution to the workplace, and under certain circumstances 20 days salary for each year served at the company.

## 2. Individual tax compliance

Individuals should pay taxes in Mexico if they are considered Mexican tax residents or if they are considered foreign tax residents receiving income from a Mexican source of wealth.

### 2.1. Mexican Tax Residency definition

- Individuals who establish their home in Mexico, regardless of whether they own that home or rent it.
- If individuals also have a home in another country, they are considered Mexican tax residents if:
  - More than 50% of their income is derived from working in Mexican territory during a calendar year.
  - The center of their professional activities is in Mexico.
- If applicable, tax treaty with the home country could be reviewed to solve double tax residency issues.

**Note:** As from 2022 tax year individuals that end assignment in Mexico, must confirm they will be considered as tax residents of another country to break Mexico tax residency.

If the individual does not file the change of residency notice, it will be considered that he / she has not moved his/her tax residency to another country and would be obligated to file an annual a Mexican annual tax return reporting worldwide income.

### 2.2. Mexican Non-Tax Residents

- Individuals who do not meet the circumstances to be considered Mexican tax residents in terms of the local law or the tax treaty if it is applicable.

- Each type of income has a Mexican source of wealth definition and triggers different obligations.

  Non-tax residents receiving salary income could be tax exempt if:

  - Spend less than 183 days in Mexico in a 12-month period.

  - Individuals' salary is paid by the foreign entity with no charge back to the Mexican entity.

  - Foreign entity that pays the salary should not have a permanent establishment in Mexico, and if so, the services performed by the individuals must not be related with such permanent establishment.

- 2.2.3. 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 ina payroll, the Mexican entity is responsible to withhold and pay the income tax otherwise, individuals are responsible to pay through an electronic monthly tax return.

- Only Mexican tax residents are allowed to report personal deductions.

### 2.4. Foreign Non – resident individual Tax Obligations

- Not subject to file an electronic annual tax return. Monthly payments are definitive.

- Taxable on Mexican source income (days worked in Mexico for salary income purposes).

- If applicable, taxpayers are required to submit electronic monthly tax returns no later than 15 days after the salary is collected.

## 3. Social Security

### 3.1. Social security contributions

Social security in Mexico is mainly divided into two Institutes, one of them is the Mexican Institute of Social Security (IMSS) in charge of medical coverage, cash benefits in case of disabilities, as well as retirement plans, in second place we have the Institute of the National Housing Fund for Workers (INFONAVIT) and its main function is to grant cheap loans for the purchase of a house. The employer must ensure that his workers are registered with social security in order to obtain the benefits of both Institutes.

Coverage in each Institute: (Benefits in kind and money)

| IMSS | Illness |
|---|---|
| 1 | Motherhood |
| 2 | Occupational accidents |
| 3 | Disability and death |
| 4 | Childcare centers for children |
| 5 | Retire |
| INFONAVIT | Housing |

### 3.2. Cost of social security

- Employer: The approximate cost they contribute amounts to 17% in 2024 based on contributions (salaries,  bonuses, etc.)

- Worker: Will contribute an average of 2% of the same contribution base as the previous point.

  Payments must be made on a monthly and bimonthly basis as appropriate to each Institute.

### 3.3. Violations and penalties for non-compliance

If social security contributions are not paid as provided for by law, you may be exposed to the following infractions and fines:

- 40% of the omitted amount in case of non-payment

- 20 to 350 times the UMA for not registering as an employer with the authorities, as well as its employees, others.

### 3.4. Local Contributions (Payroll Tax)

Mexico is made up of 32 states, each of which imposes local taxes within its own law, in addition to federal taxes. One of the most well-known state taxes is the Payroll Tax (ISN), each state imposes a percentage % on the total payroll paid that could range from 2% to 4.25% in 2024.

Do not lose sight of the fact that both social security authorities and local contributions authorities could oblige employers to review the correct fulfillment of their obligations, through an authorized public accountant.

### 3.5. Immigration

| | |
|---|---|
| Locally incorporated companies are required to obtain sponsor license before being eligible to hire foreign nationals. | Foreigners can be in Mexico under one of the following immigration categories: |
| | Visitors (encompassing Tourists and Business Travelers) |
| | Temporary Residents |
| | Permanent Residents |

The applicability of any of these categories to a specific assignment depends on a combination of factors, including nationality, source of income, required time of stay in Mexico, family ties to Mexicans or other foreigners and sponsoring entity.

Some nationalities are approved to enter Mexico as visitors upon arrival, while others require a visa. Permissibility for visa-free arrival can change based on government policy. Visa issuance can take between a few days and up to a few weeks or months, based on availability of consular appointments, so it is advisable to review inadvance of any trip.

# Financial statements

### 1. Non-publicly traded companies

Companies that are not considered to be of public interest or regulated, may present their financial statements under: Mexican Financial Reporting Standards (MFRS), International Financial Reporting Standards (IFRS), Generally Accepted Accounting Principles in the United States (US GAAP), at their choice. Generally, both MFRS and IFRS are applied.

### 2. Public interest and regulated companies

Public interest entities that do not belong to the financial or insurance sector must report their information under IFRS. On the other hand, regulated financial entities report under the provisions of the National Banking and Securities Commission (CNBV Criteria) and in the absence of a criterion, they apply the Mexican Financial Reporting Standards (MFRS). Additionally, non-regulated financial entities generally report under either MFRS or IFRS, depending on their choice. Finally, insurance entities report under the Criteria of the National Insurance and Bonding Commission.

### 3. Special cases (with sector specifications)

Non-profit entities in Mexico report under MFRS.
Governmental entities apply governmental accounting.

## 4. Other considerations

The Mexican Financial Reporting Standards (MFRS) have a high degree of convergence with the IFRS, maintaining certain differences mainly in relation to inflationary accounting, recognition of certain employee benefits and valuation models for fixed assets, intangible assets or investment properties.
In the absence of a specific Mexican standard, the MFRSs contemplate the supplementary application of IFRS.


# *Angélica Schomburgk*

Country Managing Partner, EY Paraguay

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.

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.

# Paraguay

## 1. Overview

Paraguay, located in South America, is characterized by its inland location and extensive plains. The capital of Asunción is the political and cultural center of the country. Other important cities are Ciudad del Este, a trade and border center, and Encarnación, known for its Carnival and the Jesuit Reductions of Jesus and Trinidad (Reducciones Jesuíticas de Jesús y Trinidad), declared a World Heritage Site by UNESCO7. The Paraguayan population is diverse. Traditional music such as the Paraguayan polka, guarania, and folklore reflect the country's cultural identity. Paraguay's natural resources include fertile land, rivers such as the Paraguay and Paraná, as well as abundant biodiversity. Its main industries include agriculture (especially soybean, corn, and wheat production), livestock, hydropower, food manufacturing, and timber. Paraguay has sought out trade agreements to strengthen its economy.

**Population**[1]
6,109,903
Urban: 69%
Rural: 31.0% (2022)

**Main language**[2]
Spanish and Guaraní

**Extension**[3]
406,752 km2

**System of government**[2]
Presidential Republic
President: Santiago Peña
Upcoming elections: 2028

### Climate[2]
Subtropical, with warm summers and cool winters. High humidity variation between the eastern and western regions

### International Time[4]
Daylight saving time (summer):
- GMT-3 (All Paraguay)

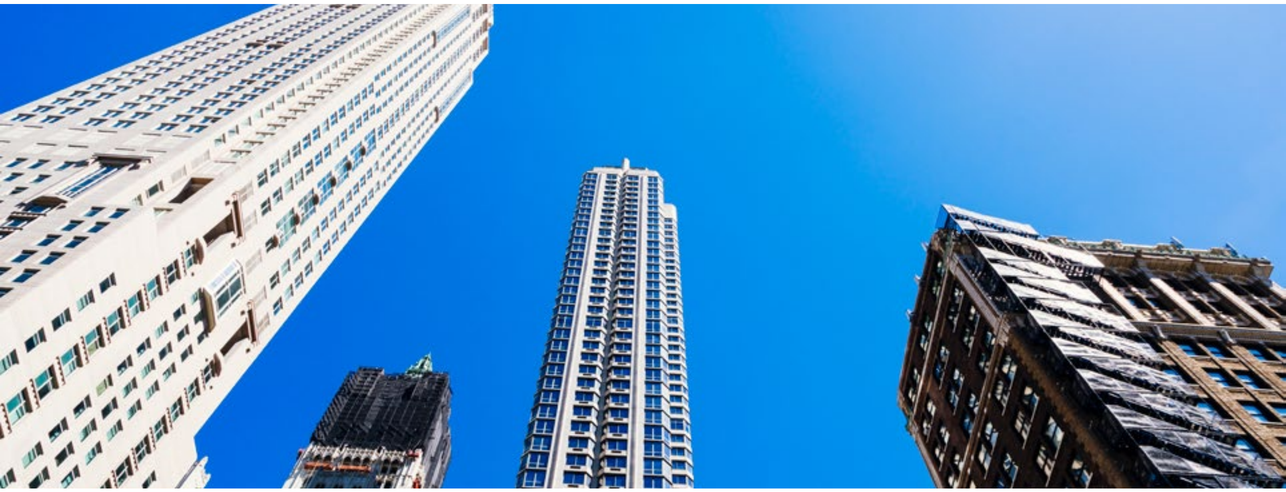
Standard time (winter):
- GMT-4 (All Paraguay)

### Currency[5]
Guaraní
US$1 = PYG 7,298.63
(Dec. 30, 2023)

### GDP current prices[6]
USD $44.14 Bn.
(2023f)

### GDP per capita (PPP)[7]
USD $15,533
(2023f)

### Main sectors[8]
Paraguay's main economic activities include agriculture, livestock, forestry, and mining. Its main products include timber, oils, yerba mate, tobacco, manioc derivatives, sugar, meat, textiles, cement, and lime.



1. Resultados Finales del Censo Nacional de Población y Viviendas 2022 (ine.gov.py)
2. DatosMundial.com
3. Extension (square kilometers) - Latin America and the Caribbean (2021), World Bank
4. 24timezones.com
5. Exchange rate, Bloomberg
6. World Economic Outlook (October 2023) - GDP, current prices; IMF
7. World Economic Outlook (October 2023) - GDP per capita, current prices, IMF
8. Encyclopedia Britannica

# Why

## invest in Paraguay?

Solid economy, macroeconomic discipline, and low public debt.

Lowest tax rates in the region and extensive tax incentives for investments.

Large food exporter: 1st largest exporter of organic sugar in the world, 2nd in stevia, 6th in soy, 10th in corn, and 13th in bovine meat in 2021-2022[3]

Best business climate in the region in 2022[2]

Cheapest green energy in the region which allows it to export energy to neighboring countries[1]

1. Investment and Export Network (REDIEX) of Paraguay
2. Marketdata (August 2023)
3. UN Comtrade

# *Paulo Pantigoso*

Country Managing Partner, EY Peru

## Peru is considered one of the world’s leading emerging markets, standing out for its macroeconomic stability, which is one of the nation's most important pillars of competitiveness.

Nearly uninterrupted economic growth over the past 24 years has contributed to the improvement of infrastructure, development of human capital, adoption of new technologies, and a higher standard of living for all Peruvian citizens. Additionally, its open policy when it comes to the international market, manifested through multiple trade agreements, complements legislation that is favorable to private domestic and foreign investment.

The recognition of Peru's solid economy is based on low inflation (it closed 2023 with its 26th year in a row of single-digit inflation), international reserves equivalent to 27.0% of GDP, a controlled fiscal deficit, and public debt that does not exceed 33.0% of GDP at the close of 2023, well below the average of other emerging countries around the world (67.0%) and region (68.1%). Additionally, 2023 closed with a trade surplus record of USD17.4 billion; and an estimated GDP growth of 3.0% for 2024, according to the Central Reserve Bank of Peru (BCRP).

We firmly believe that Peru offers great opportunities and an ideal business climate for profitable investment. Through the Doing Business Latam 2024, we commit to support Peru and the region in their development by helping businesses get started, grow, and thrive. We hope this guide will help you discover new initiatives. We are at your disposal for any assistance you may require.

# Peru

## 1. Overview

Peru is located in South America and has a geographic diversity that ranges from the Pacific coast to the Andes Mountains and the Amazon jungle. Lima is its capital and largest city; other major cities include Cusco, known for its Inca legacy, and Arequipa, recognized for its cultural heritage and colonial architecture. The Peruvian population is diverse, with indigenous and European influences, reflected in its music, dance, festivals, and cuisine. Peru is rich in natural resources, such as minerals (especially copper, gold, and zinc), fishery, agriculture (coffee, asparagus, grapes, etc.), and has a great biodiversity. The country has established trade agreements and is considered one of the world's leading emerging markets with a solid economic and industrial background.

**Population[1]**
33,725,844
Urban[2]: 82.6%
Rural: 17.4% (2023)

**Main language[3]**
Spanish

**Extension[4]**
1,285,216 km$^2$

**System of government[3]**
Democratic and presidential republic
President: Dina Boluarte
Next elections: 2026

**Climate**[3]
Tropical. No significant differences between seasons.

**International Time**[5]
GMT-5 (All Peru)

**Currency**[6]
Peruvian Nuevo Sol
US$1 = PEN 3,699
(Dec. 30, 2023)

**GDP current prices**[7]
USD $264.64 Bn.
(2023f)

**GDP per capita (PPP)**[8]
USD $15,893
(2023f)

**Main sectors**[9]
Peru's main sectors include mineral extraction and refinery, steel and metal manufacturing, oil extraction and refinery, natural gas and natural gas liquefaction, agriculture and food processing, fishing and fish processing, cement, and textile.

1. World Economic Outlook (October 2023) - Population, IMF
2. Urban population (% of total) - Argentina, Brazil, Chile, Colombia, Mexico, Peru (2022), World Bank
3. Main language, system of government and weather, DatosMacro.com
4. Extension (square kilometers) - Argentina, Brazil, Chile, Colombia, Mexico, Peru (2021), World Bank
5. 24timezones.com
6. Exchange rate, Bloomberg
7. World Economic Outlook (October 2023) - GDP current prices, IMF
8. World Economic Outlook (October 2023) - GDP per capita, IMF
9. Encyclopedia Britannica

# Why

## invest in Peru?

1st place in country reputation in South America in 2022.[1]

High Investment Grade Rating (S&P: BBB; Fitch: BBB; Moody's: Baa1).

An equal and non-discriminatory treatment of foreign investments. Free capital, royalties, and profits transfer.

Simplicity for most operations, whether in local currency or USD, with no foreign exchange controls.

22 trade agreements, 32 bilateral investment treaties, and 9 double taxation agreements.

14th most attractive country to invest in renewable energy.[2]

Global leader in mineral production: 2nd in copper and zinc, 3rd in silver, molybdenum, and mercury, 4th in tin, 5th in lead, and 1st in South America in Gold and Lead.[3]

Large exporter: 1st largest exporter in the world of fishmeal, blueberries, quinoa, fresh asparagus, and fresh grapes in 2023.[4]

1. RepCore Nations 2022
2. Climatescope by Bloomberg
3. U.S. Geological Survey, Mineral Commodity Summaries, January 2024
4. Ministry of Foreign Trade and Tourism (MINCETUR)

# Country’s economic outlook

Peru has traditionally been one of the countries with the highest macroeconomic stability in the region, thanks to its tradition of sound fiscal policies. Additionally, the country has a strong commitment to open markets and foreign investment, leading it to sign multiple trade agreements.

The strength and prudence of its macroeconomic policies have driven high and uninterrupted growth for several years, at least until the arrival of the pandemic, alongside low inflation and a solid fiscal position, allowing for significant development in the country.

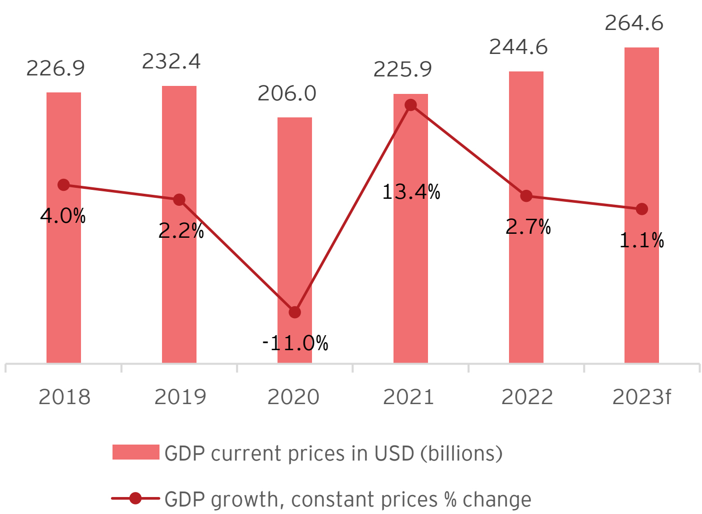
After a strong economic rebound in 2021, GDP growth slowed down, closing 2023 at negative 0.6%, below the expectations of organizations such as the International Monetary Fund (IMF). Meanwhile, inflation ended 2023 at 3.41%, and despite the imbalances caused by the Covid-19 health crisis, it has never exceeded double digits over the last 26 years. On the other hand, public debt remained around a moderate 34% of GDP at the end of 2023.

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.

| Index | Peru |
|---|---|
| GDP current prices USD (2023f)[1] | $264.64 |
| GDP growth, constant prices % change (2023f)[1] | 1.13% |
| Gross domestic product per capita, current prices (PPP) (2023f)[1] | $15,894 |
| Inflation, year-end consumer prices (2023f)[1] | 4.21% |
| Fiscal balance (net lending (+) or net borrowing (-) of general government; % of GDP) (2023f)[1] | -2.21% |
| Public debt (General government gross debt, % of GDP) (2023f)[1] | 33.91% |
| Current account (% of GDP) (2023f)[1] | -1.92% |
| Investment (% of GDP) (2023f)[1] | 21.00% |
| Poverty headcount ratio at $6.85 a day (2017 PPP) (% of population) (2021)[2] | 33.7% |

### Gross Domestic Product, Levels and Growth[1]

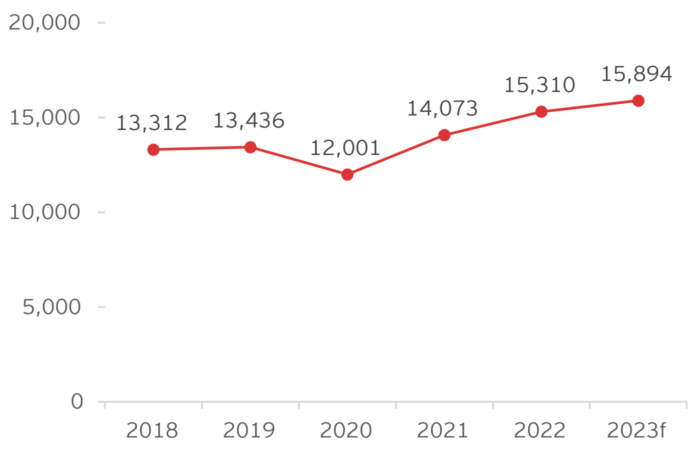



1.-International Monetary Fund, World Economic Outlook Database, October 2023
2.-Poverty headcount ratio at $6.85 a day (2017 PPP) (% of population) - Argentina, Brazil, Chile, Colombia, Mexico, Peru

Peru was one of the fastest-growing economies in Latin America in recent decades until the arrival of the pandemic. In 2021, the economy experienced a significant rebound with a growth rate of 13.35%, after which it began to moderate.

According to the Central Reserve Bank of Peru, in 2023, the GDP contracted by 0.6%, driven by a series of supply shocks that impacted private domestic demand. Last year, the country experienced a series of social and political disturbances early in the year, and sectors such as fishing, agriculture, and related industries were affected by the El Niño phenomenon. Until October 2023, the IMF and other organizations were expecting slightly higher than 1% growth for the Peruvian economy.

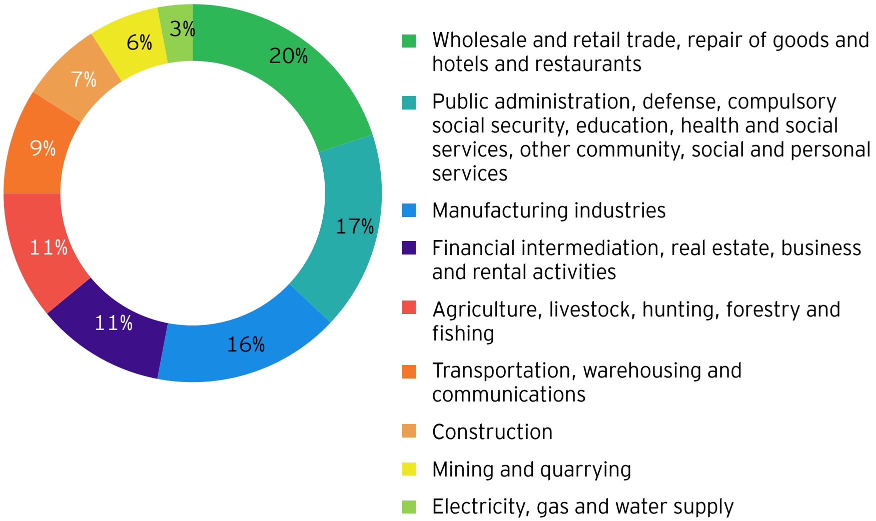
**Gross domestic product per capita, current prices (in USD, PPP)[1]**




Peru's years of growth have led to an increase in its GDP per capita. In terms of purchasing power parity (PPP), it is expected to remain over USD 15,000 in 2023.

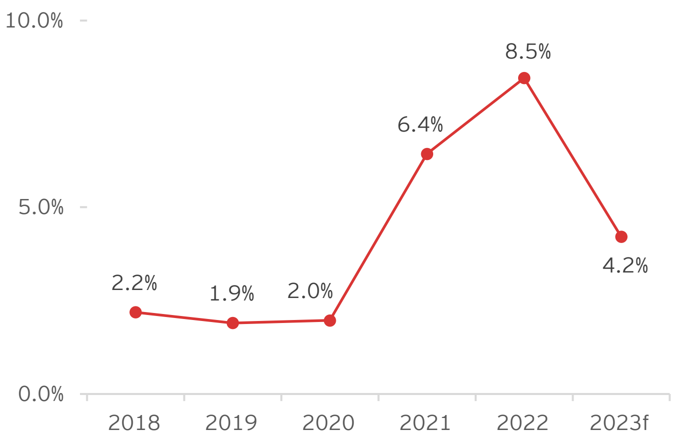
1.-International Monetary Fund, World Economic Outlook Database, October 2023

**Annual gross domestic product (GDP) by economic activity at current prices in dollars[2]**



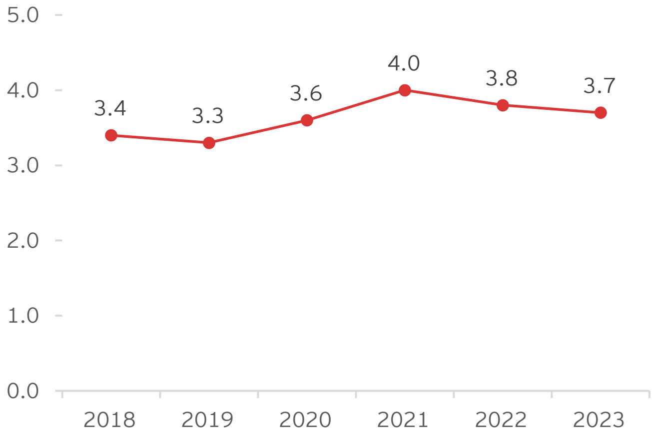

In Peru, the sectors that contribute most to the GDP are trade, including hospitality (hotels and restaurants), mining, and the manufacturing industry. These are followed by construction, agriculture, and fishing.

**Inflation, end of period consumer prices[2]**




1. Annual gross domestic product (GDP) by economic activity at current prices in dollars(2022), ECLAC
2. International Monetary Fund, World Economic Outlook Database, October 2023

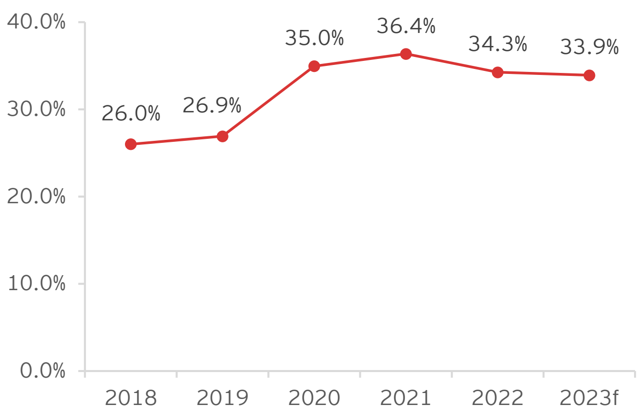
### Exchange rate of foreign currency (USD/BRL)[1]




Peru's stability and solid macroeconomic policies have been highly successful in controlling inflation. The Consumer Price Index (CPI) closed the January-December 2023 period with inflation at 3.41%, according to the National Institute of Statistics and Informatics (INEI), very close to the target range of 2% +/- 1% and lower than the IMF's October estimate (4.2%).

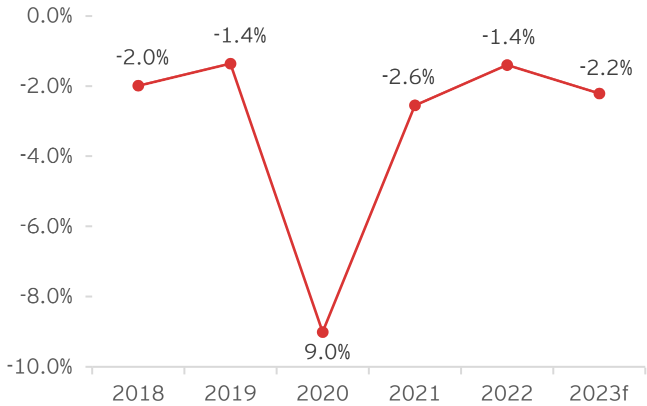
Meanwhile, the exchange rate remained stable in 2023, closing at 3.7 soles per dollar.

### Public debt (General government gross debt, % of GDP)[1]




1. Exchange rates of foreign currencies (USD/CLP), Bloomberg
2. International Monetary Fund, World Economic Outlook Database, October 2023

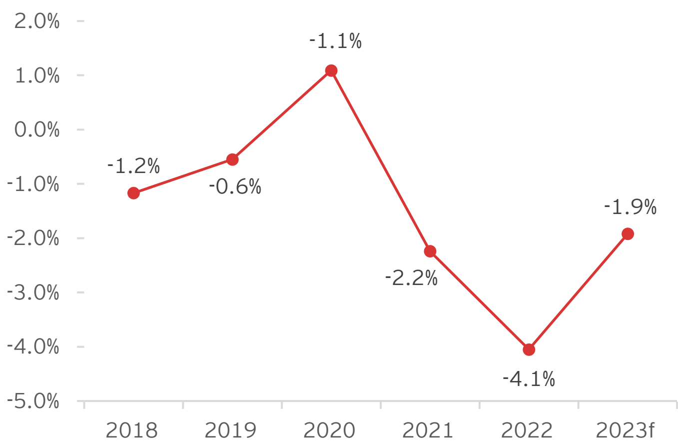
**Fiscal balance (net lending (+) or net borrowing (-) of general government; % of GDP)[1]**




In 2023, the fiscal deficit amounted to 2.8% of the GDP, according to the Central Reserve Bank of Peru (BCRP). This result is attributed to lower overall government revenue, mainly due to reduced tax revenue received by the National Government. The IMF had projected a figure of -2.2% in October.

Meanwhile, the international organization estimates that public debt in 2023 was around 34% of GDP last year, a figure lower than other emerging markets.

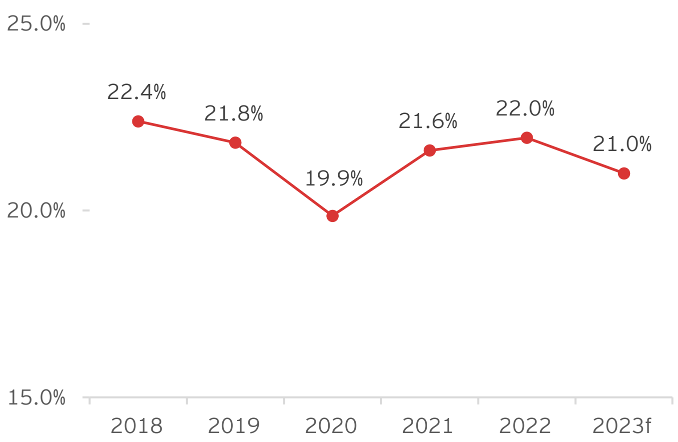
**Current account (% of GDP)[1]**



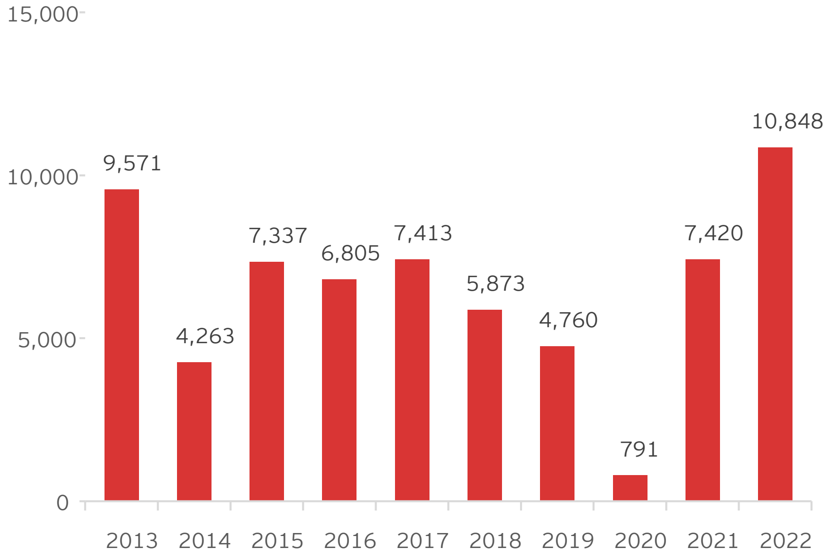

1.- International Monetary Fund, World Economic Outlook Database, October 2023

In October 2023, the IMF expected the current account to remain in deficit. However, after 2 years of deficit, it posted a surplus of 0.6% of the Gross Domestic Product (GDP), according to the Central Reserve Bank of Peru.

**Investment (% of GDP)[1]**




**FDI Peru (In millions of USD)[1]**




1. Foreign direct investment, net inflows (BoP, current US$), last 10 years (2022), World Bank

Investment in Peru experienced a sharp decline in 2023, driven by a series of external and internal factors that affected confidence and the income of economic participants.

A year earlier, foreign direct investment (FDI) was high, surpassing the figure reached in 2021, according to the World Bank.

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 concessions whose term is subject to the term of the respective concession contract.

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

<table>
<tr><th>Main characteristics</th><th>S.A.A.</th><th>S.A.</th><th>S.A.C.</th><th>S.R.L.</th><th>Branch</th></tr>
<tr><td>Capital</td><td colspan="3">Capital is represented by nominal shares. There may be share classes.</td><td>Capital is divided into equal, cumulative and indivisible partnership interests.</td><td>It has "assigned" capital instead of share capital.</td></tr>
<tr><td>Number of shareholders/ partners</td><td>Not less than 2</td><td>2 to 750</td><td colspan="2">2 to 20</td><td>No shareholders and/or partners</td></tr>
<tr><td>Transfer of shares/ partnership interest</td><td>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</td><td colspan="2">Share transfers must be recorded in the share ledger book.</td><td>The transfer of partnership interests is formalized by means of a public deed and is registered in the Public Registry.</td><td>No shares and/ or partnership interests</td></tr>
</table>

| Main characteristics | S.A.A. | S.A. | S.A.C. | S.R.L. | Branch |
|---|---|---|---|---|---|
| **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<br>‣ Board of Directors<br>‣ Management | | ‣ General Shareholders' Meeting<br>‣ Board of Directors (optional)<br>‣ Management | ‣ General Partners' Meeting<br>‣ Management | No bodies, only a permanent representative |
| **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.<br><br>In the event of a second convening, this meeting must be held within 3 to 10 days after the first meeting. | | | No meeting obligations |

# Tax Regime

## 1. General Overview:

**1.1. Corporate Income Tax Rate (%) Resident entities:** 29.5%.

**1.2. Capital Gains Tax Rate (%) Resident entities:** 29.5%.

In the case of non-resident entities: 30%. Nevertheless, capital gains arising from the sale of marketable/ negotiable securities through the Lima Stock Exchange (BVL) are subject to a tax rate of 5%.

**1.3. Branch Tax Rate (%) Branches of non-resident entities:**

29.5% on their Peruvian-source income.

**1.4. Withholding Tax (WHT) (%) Peruvian-source income obtained by non-resident entities is subject to WHT, depending on the type of income:**

- Dividends: 5%.
- Interest: 4.99%, provided certain requirements are met. Interest paid to related parties abroad: 30%.
- Royalties from Patents, Trademarks, Formulas and Similar Items: 30%.
- Technical Services. Technical assistance services economically used in Peru: 15%.
- In general, compensations and fees for services rendered abroad: 0%. However, technical assistance services (see point d) above) and digital services (30%) are taxed, provided that they are used in Peru.
- Branch Remittance Tax: 5%.
- Other income deriving from business activities rendered within Peruvian Territory: 30%

### 1.5. Net Operating Losses (Years)

- Carryback: N/A
- Carryforward: Resident companies may select between two options:
  - Losses can be carried forward for four consecutive years, beginning with the first subsequent year in which the losses arise.
  - Losses can be carried forward indefinitely, but with a deduction limit equivalent to 50% of the taxpayer's income for each fiscal year.

## 2. Tax on rent and corporate income tax

### 2.1. Corporate income tax

- Calculation of the net taxable income (trading income)
  - *General*

    Income tax is levied on net income and is determined annually. The fiscal year begins on January 1 of each year and ends on December 31, with no exceptions.
    Income tax returns for corporations, branches, and individuals must generally be filed by 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 make 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 core business 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 regimes[2]

▸ **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:

2. There are others special regimes in the Peruvian tax system.

| Special Mining Tax | | | |
|---|---|---|---|
| Scale N° | 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% |

$$\text{Operating Margin} = \frac{\text{Operating Profit}}{\text{Sales Revenue}} \text{ X } 100$$

- *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.

- **Agribusiness**[3]

  A reduced income tax rate of 15% has been established from 2021 to 2030 for individuals and legal entities in the sector whose income does not exceed 1,700 UITs (PEN 8,755,000 or approx. USD 2,357,861), with a gradual reduction in the special lower rate for those companies who exceed 1,700 UITs, as follows:
  - 2021 -2022: 15%
  - 2023 -2024: 20%
  - 2025 -2027: 25%
  - 2028 on: General regime[4]

**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 (i.e., Income Tax, VAT, etc.). Additional functions include, among others, the supervision, assessment, and control of compliance of tax and customs duties.

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.

# 3. International Tax

## 3.1. Foreign tax relief

Taxes effectively paid abroad may be offset against Peruvian income tax, even if there is no double taxation treaty, 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).

## 3.2. 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 to 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.

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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.

### 3.4. 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, nor have the right to offset losses generated by these transactions with foreign-source income, except in the case of operations involving (i) loans; (ii) insurance and reinsurance; among others.

## 4. Value-added tax

Value Added Tax (VAT) is levied on the sale of goods, the delivery 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 AndeanCommunity and national law.[8]

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.

### 5.3. Investment and saving incentives

The Peruvian Government may guarantee legal stability to national and foreign investors in terms of the legislation governing income tax and specifically, distribution of dividends. Foreign investors with the right to request the execution of a legal stability agreement are those willing to invest in Peru for a period of no less than two years and for a minimum amount of USD 10 million in the Mining and/or Hydrocarbons sectors, or USD 5 million in any other economic activity.[9] As of December 31, 2021, all Legal Stability Agreements entered into will stabilize the income tax rate in force at the time of execution plus two percentage points.

### 5.4. Stamp Duties

There are no Stamp Duties in the Peruvian Tax System.

### 5.5. Other taxes

- **Temporary Net Assets Tax ("ITAN"):**

  ITAN is equivalent to 0.4% of the total value of net assets in excess of PEN 1 million determined as at December 31 of the prior year. Companies in the pre-operational stage are excluded. ITAN payments can be used as an income tax credit.
  A refund may be requested for any balance not used in the current year.

- **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.

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 han 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.

- **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 stablished 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 fictitious or improper acts to obtain a specific tax advantage; and

- The use of said acts cause legal or economic effects, other than tax savings or advantages, equal or similar to those that would have been obtained through regular or proper acts.

# Labor Regime

## 1. Labor law

### 1.1. Classification of employment contracts based on their nature.

- **Indefinite contracts**
  Contracts that do not have a defined term. Such employment agreements fully extend all labor rights and benefits to the workers as per Peruvian law.

- **Fixed term or Modal Contracts**
  This category of contracts requires an objective cause justifying the temporary nature of the contract term, aligning with the type of contract deployed. The contract's validity is guided by its adherence to the regulations stipulated in the prevailing legislation.

- **Part-Time Contracts**
  These contracts are used for labor relationships encompassing less than an average of four working hours per day. Despite being entitled to all statutory benefits, part-time workers are not eligible for:

  - Compensation for unjustified dismissal
  - Severance indemnity (CTS)
  - 30-day annual leave

- **Considerations for all types of contracts**

  All the above contracts include a probationary period.
  This period, which begins upon commencement of the employment agreement, may be for:

  - 3 months for general workers
  - 6 months for proficient or trusted employees
  - 12 months for management-level employees.

  For any extension of the probationary period to be valid, written documentation is necessary.

### 1.2. Working hours and breaks

In Peru, the maximum working time is set at 8 hours per day or 48 hours per week. However, there are exceptions in place for roles requiring extended hours - these instances are deemed as atypical workdays.

This modality could be:

- Cumulative
- Irregular
- Alternating schedules

Regardless of the structure of the workday, it may not exceed an average of 8 hours per day or 48 hours per week over any given three-week period or any shorter timeframe.

### 1.3. Law on remote work, telework and international labor

For employees who work remotely, either entirely or partially, locally or internationally, it is necessary to define a work schedule. In situations where employees do not work continuous 8-hour shifts, their schedules may be distributed across a maximum of 6 days per week. A mandatory digital disconnection period must be established within the work schedule corresponding to a continuous 12 hours within a 24-hour cycle.

### 1.4. Principles governing employment; types of remunerations and minimum monthly income; employee profit sharing; Absences: holidays, vacations, maternity; and social security

Peru's labor laws are designed to protect workers' rights and promote fair treatment. Several key principles guide employment in Peru.

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

- **Remuneration**
  Workers are entitled to fair remuneration that provides them a decent living for themselves and their families.

- **Limitation on Working Hours**
  The maximum working hours in Peru is 8 hours per day or 48 hours per week.

- **Job Security**
  Workers are protected against unjustified dismissal.

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

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

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

- **Rights concerning Maternity, Paternity, and Family Responsibilities**
  Workers have the right to protection and assistance in the event of pregnancy, childbirth and lactation. Furthermore, certain provisions are established for parental leave and childcare.

### 1.5. Types of remuneration and minimum monthly income

Peru's Minimum Living Wage (RMV) is set at S/1025.00. Salaries, which can be paid in cash or in kind, are determined mutually between the employer and the employee, who can also decide on the currency of payment.

Salary can take various forms: it can be fixed (known as the basic salary or wage), variable (subject to the fulfillment of certain conditions, such as commissions or piecework), or mixed (a combination of fixed and variable components). It can be agreed to be disbursed on a weekly, bi-weekly, or monthly basis.

**1.6. Distribution of profits**

In accordance with Peruvian legislation, specifically the "Employee Profit Sharing Law", companies that engage in business activities and have a workforce exceeding twenty employees, are legally required to distribute a stipulated percentage of their annual fiscal profits among their employees.

The assigned percentage is contingent on the economic sector in which the company operates. In the mining and telecommunications sphere, the percentage is set at 10%. In the industrial sector, it amounts to 8%, and for all other economic and commercial activities, the established percentage is 5%. Peruvian legislation stipulates that companies must provide workers with a profit-sharing settlement, which is a document that outlines how profits were calculated. This document serves to inform the worker of the formula applied so they are aware of how the profits were distributed.

This item is subject to income tax and is calculated based on the net income of the company, the days effectively worked by the employee during the corresponding fiscal year, and the remuneration received.

**1.7. Absences: holidays, vacations, pregnancy**

Anchored in the Peruvian Constitution is the core right of every worker to rest after work. This includes mandated weekly rest, holidays, and 30-day paid annual leave for each year of service. If an employee works during their compulsory weekly rest period and isn't given a substitute rest day within the same week, the employer is obligated to pay the regular salary along with a 100% surcharge.

Peruvian regulations uphold the right of worker to enjoy paid leave on statutory holidays recognized by law. These include:
New Year's Day (January 1); Maundy Thursday and Good Friday (the date varies each year); Labor Day (May 1); Flag Day (June 7); Saints Peter and Paul's Day (June 29); Air Force Day (July 23); Independence Day (July 28 and 29); Battle of Junín (August 6); Saint Rose of Lima Day (August 30); Battle of Angamos (October 8); All Saints' Day (November 1); Immaculate Conception (December 8); Battle of Ayacucho (December 9); and Christmas Day (December 25).

Should operational factors or justified business requirements necessitate labor on a legally recognized holiday, the employer is obligated to substitute such a rest day, compensating the employee for the full day not worked. If the employer does not comply with substituting the rest day within the designated period, they are liable to compensate the employee with a 100% daily wage premium. Specifically, should the Labor Day holiday (May 1) overlap with the obligatory weekly rest day, the worker is to receive one day’s pay for the holiday in addition to the corresponding pay for the weekly rest day.

On the other hand, maternity leave represents one of the most consequential benefits afforded to employees. It grants the employee a span of 98 days of leave, distributed into prenatal and postnatal periods, each consisting of 49 days.

However, it is possible to allocate a portion, or the totality, of the prenatal period to the postnatal period. For this option to be applicable, a medical certification affirming the employee's ability to carry out their work duties up until the projected childbirth date must be submitted to the employer. This action should be undertaken by the employee two months prior to the estimated birthdate. Maternity leave can be extended by 30 days if the worker has multiple births or due to the birth of a child with a disability. During this period, the worker will receive a subsidy equivalent to their regular remuneration, which will be paid by the social security system.

### 1.8. Social Security systems

The worker assumes the entire contribution to the pension system of their choice, either the National Pension System (13% of salary) or the Private Pension System (10% of the salary plus the administration fee according to the Pension Fund Administrator -AFP), while the employer only withholds this contribution.

The employer assumes the contributions to Social Health Insurance – EsSalud, which amount to 9% of the worker's remuneration. In addition, the employer must provide the worker with a mandatory life insurance, and in the case of workers whose activities involve a high level of risk, a supplementary occupational risk insurance.

### 1.9. Expiration or termination of the employment relationship

An employment relationship can be concluded through:

- Expiration of the contract
- Mutual agreement

- Resignation
- Absolute permanent disability or death of the worker
- Retirement
- Collective dismissal
- Dismissal on justifiable and objective grounds

**1.10. Protection and rights of the worker**

As a general obligation, the payment of benefits is mandatory in accordance with the period worked and the conditions of the worker.

Regarding employment termination, if the stated grounds for dismissal are found to be lacking, legal safeguards for the worker dictate that the employer is obligated to provide compensation and could potentially be required to reinstate the worker. This applies in cases of unjustified, fraudulent, or void dismissals.

However, exceptions are made for management personnel and workers in positions of trust, who cannot request reinstatement and are only entitled to compensation.

**1.11. Trade unions and collective bargaining**

The prerequisites for forming a trade union include:

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

Trade union organizations present the interests of all workers within their scope, both in conflicts and during collective labor negotiations.

The result of collective bargaining is a collective agreement, ratified by the employer and the union or workers' representatives. This agreement governs compensation, working conditions, productivity measures, and other labor-related clauses. Under Peruvian law, companies operating for at least one year are required to negotiate these conditions.

With regard to the application of the collective agreement, if the union comprises an absolute majority of workers, the agreement signed shall apply to all company workers, regardless of their union membership. Conversely, if less than half of the company's workers are in the union, the agreement will only apply to those who are union members.

## 2. Considerations for foreign workers

### 2.1. Legal considerations regarding foreign workers

In Peru, legal provisions specify that the number of foreign personnel engaged by either a local or foreign company may not exceed 20% of the total workforce. This limit can be circumvented only with specific authorization.

Employment agreements with foreign workers must be in writing and are typically for a fixed term, not exceeding three years. These contracts can be subsequently extended for similar terms.

Foreign workers who do not reside in Peru and stay in the country for less than 183 days during any 12-month period must pay income tax by applying a 30% rate on their earnings, including salary.

### 2.2. Immigration regulations

Foreign workers need to have an appropriate immigration status. They may qualify for residency, which can be extended after an initial period of one year, or as a temporary migrant, extendable following an initial period of up to 183 days. These regulations are in accordance with the conditions established under the Legislative Decree on Migration.

### 3. Taxes levied on wages

For workers, income tax is levied on their earnings from employment, which can include wages, salaries, bonuses, commissions, and other forms of compensation.

Workers who receive more than 7 Tax Units (UIT) per year, meaning, S/36 101.00 annually for 2024, are subject to the payment of income tax.

The employer is responsible for withholding and paying the tax, making a projection of the employee's annual income and applying the following rates in effect for 2024:

| Sum of net income and foreign-source income earned | Rate |
|---|---|
| Up to S/25 750.00 | 8% |
| More than S/25 750.00 to S/103 000.00 | 14% |
| More than S/103 000.00 to S/180 250.00 | 17% |
| More than S/180 250.00 to S/231 750.00 | 20% |
| More than S/231 750.00 | 30% |

# Financial statements

Requirements and regulations for the preparation and presentation of financial information:

## 1. Publicly traded companies

The Peruvian Business Corporations Act (LGS) establishes that the financial statements of companies incorporated in Peru must follow the general accounting principles accepted in Peru and other applicable legal provisions.

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), and the specific provisions approved for particular businesses (banks, insurance companies, etc.). Likewise, on a supplementary basis, the U.S. Generally Accepted Accounting Principles (GAAPs) are applied.

The Peruvian Accounting Standards Board (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 an income in excess of 2,300 UITs (PEN11,845,000) are required to submit financial statements in accordance with the IFRS. Small and medium-sized enterprises (SME) that obtained an income higher than 150 UITs (PEN772,500) and lower than 2,300 UITs (PEN11,845,000) are required to issue their financial statements in accordance with the IFRS for SME. The IFRS for SMEs is a simplified set of rules designed specifically for small and medium-sized non-financial enterprises.

## 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.

## 4. Other country-specific 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.

# *Cr. Alejandro Barboni*

Country Managing Partner, EY Uruguay

Uruguay has traditionally kept its doors open to the world and been also one of the most attractive emerging markets, strategically positioning itself as an interesting place for investment, largely determined by factors such as its geographical location and its economic and institutional stability.

Considering this, it is crucial that companies interested in starting to operate in the country have a deep understanding of the regulatory compliance requirements that should be addressed from the pre-landing process to the complete establishment of their business.

Our teams share this brief guide with key information, covering the main challenges of any organization entering the Uruguayan market.

I invite you to explore the information in this guide and look forward to discussing the business issues that you may be facing in Uruguay.

# Uruguay

## 1. Overview

Uruguay, in the south of South America, is famous for its beaches and its cultural and economic capital, Montevideo. Other key cities are Punta del Este, popular for its beach resorts, and Colonia del Sacramento, known for its history. The population, mostly of European descent, celebrates its cultural diversity through music, tango, and carnival. Natural resources, such as fertile land and livestock, drive industries like agriculture (beef, soybeans, rice) and dairy. Uruguay has initiated several trade agreements, seeking more openness to global trade. With a focus on innovation, especially in technology and renewable energy, it maintains a stable economy and fosters industrial diversification for long-term sustainable growth.

**Population**[1]
3.443.263
Urban[2]: 96%
Rural: 4% (2023)

**Main language**[3]
Spanish

**Extension**[4]
176.215 $km^2$

**System of government**[3]
Democratic and presidential republic
President: Luis Lacalle Pou
Next elections: October 2024

**Climate**[3]
Temperate with well-defined seasons. Warm summers and cool winters.

**International Time**[5]
GMT-3 (All Uruguay)

**Currency**[6]
Uruguayan Peso
US$1 = UYU 39.11
(Dec. 30, 2023)

**GDP current prices**[7]
USD $76.24 Bn.
(2023f)

**GDP per capita (PPP)**[8]
USD $28,983
(2023f)

**Main sectors**[9]
Uruguay's main sectors are agrobusiness and industry. The first focuses on crops such as soybeans, rice, wheat, corn, cattle, and sheep. Its main industries include meat processing, dairy, textile, paper, cardboard, fertilizers, alcohols, cement, and hydrocarbon refining.

1. World Economic Outlook (October 2023) - Population, IMF
2. Urban population (% of total) - Bolivia, Ecuador, Paraguay, Uruguay, Venezuela (2022), World Bank
3. Main language, system of government and weather Uruguay, DatosMundial.com
4. Uruguay - El país, Ministerio de Economía y Finanzas
5. 24timezones.com.
6. Exchange rate USD/UYU, Bloomberg
7. World Economic Outlook (October 2023) - GDP, current prices, IMF
8. World Economic Outlook (October 2023) - GDP per capita, current prices, IMF
9. Encyclopedia Britannica

# Why

## invest in Uruguay?

High economic, social, and political stability

1st place in Latin America in institutional strength: 1st in the Democracy Index 2022[1], 1st in the Rule of Law Index[2] and 1st in the Corruption Index[3]

3d highest GDP per capita (PPP) in South America[4]

Large food exporter: 5th exporter of soy in the world and 10th exporter of beef in 2022[5]

Attractive tax benefits for investors

1. Economist Intelligence (2022)
2. World Justice Project Rule of Law Index (2023)
3. Transparency International (2023)
4. World Economic Outlook (October 2023) - GDP per capita, current prices, IMF
5. UN Comtrade

# *Alberto Afiuni*

Country Managing Partner, EY Venezuela

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 that continues today. It is estimated that the country needs at least 10 years to recover 6% of its GDP (according to the 1977 GDP scenario).

However, Venezuela has an enormous potential: it has the world's largest oil reserves and is 5th in natural gas reserves; the recent easing of sanctions has allowed for the reopening of the oil & gas sector. The country is rich in natural resources, both renewable and non-renewable, including gold and coltan, with a significant potential in petrochemicals, tourism, and agriculture. It has a large cocoa production, ranking among the best in the world, and it is one of the top 5 producers of the world's finest rums.

The country already has an installed infrastructure, industrial and technological know-how, and multi-million-dollar private savings (abroad), which means that Venezuela has the potential to both recover its economy at a faster growth rate than most countries in the world and to generate extraordinary returns for investors.

The country is opening up to private capital / venture capital, allowing for an increase in start-ups.

For any company looking for doing business in Venezuela, it is important to have a complete understanding of the many regulatory compliance issues that need to be addressed from their pre-landing process to the full establishment of their business. We hope this guide will provide helpful insights to understand the challenges ahead.

We will be glad to assist as well.

# Venezuela

## 1. 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. The economy faces internal challenges, such as inflation and devaluation.

**Population[1]**
28,301,696
Urban[2]: 88%
Rural: 12% (2022)

**Main language[3]**
Spanish

**Extension[4]**
912,050 km2

**System of government[3]**
Democratic and presidential republic
President: Nicolás Maduro
Next elections: 2024

**Climate**[3]
Tropical in the lowlands and coastal areas, cooler in the Andean Mountain regions, and hot and humid in the Amazon region.

**International Time**[5]
GMT-4 (All Venezuela)

**Currency**[6]
Bolívar
US$1 = VES 35.84
(Dec. 30, 2023)

**GDP current prices**[7]
USD $92.21 Bn.
(2023f)

**GDP per capita (PPP)** [8]
USD $7,985
(2023f)

**Main sectors**[9]
Venezuela's main sectors include oil, gas, construction materials, food processing, textiles, iron, mining, steel, and aluminum.

1. World Economic Outlook (October 2023) - Population, IMF
2. Urban population (% of total) - Argentina, Brazil, Chile, Colombia, Mexico, Peru (2022), World Bank
3. Main language, system of government and weather, DatosMacro.com
4. Extension (square kilometers), World Bank
5. 24timezones.com
6. Exchange rate, Bloomberg
7. World Economic Outlook (October 2023) - GDP current prices, IMF
8. World Economic Outlook (October 2023) - GDP per capita, IMF
9. Encyclopedia Britannica

# Why

## invest in Venezuela?

Largest crude oil reserves in the world[1]

Venezuela's economy has shown signs of recovery, with the IMF estimating an 8% GDP growth by the end of 2022 and 4.5% by 2023[2]

JP Morgan announced that Venezuela's sovereign bonds and those of state oil company PDVSA will return to its highly-influential emerging market bond indexes over a three-month period starting at the end of April[3]

Venezuela has diverse mineral resources, including coal, gold, iron, and bauxite. It also has a high potential for agricultural, livestock, and fishing development.

New trade opportunities: Improving international relations have led to the ease of sanctions since October 2023.

Venezuela is preparing to receive new investments through measures like inclusion in the stock market, promotion of start-ups, and the enactment of the Organic Law of Special Economic Zones.

1. OPEC (2023)
2. World Economic Outlook (October 2023) - Real GDP growth (Annual percent change)
3. Venezuelan Bonds Jump as JPMorgan Returns Debt to Indexes, Bloomberg, February 22

# 3 EY Services

## Why EY?

Because we provide global knowledge and experience tailored to your needs

EY exists to build a better working world, helping to create long-term value for clients, people and society, and to build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

### EY Global

**+395,000** people

**+150** countries

**+700** offices

**$49.4b** FY23 revenue (USD)

### EY Latam

**+24,000** people

**18** countries

**64** offices

**+20,000** clients

Why EY?

# Because we are a trusted partner to support you at every stage or challenge of your business

## Business challenges

### Assure

In the current context it is vital to protect your company against threats and maintain trust and credibility in the market.

At EY, we help you to build trust, protect and secure your business.

### Grow

Driving growth for future success.

At EY, we help our clients identify new opportunities for their business and succeed in the market.

### Transform

The companies that adapt are the ones that prevail.

At EY, we help you plan and implement the changes your business requires to thrive and reach its full potential.

### Operate

The increasing volume and complexity of operational activities tend to distract leaders from driving their businesses forward.

Delegating the operation and management of services to EY allows our clients to lead from the strategy.

Strategy | Consulting | Transactions and corporate finance
Assurance | Tax | Law | People and workforce
Technology | Managed Services
EY Private | EY Sustainability

# EY Services

EY exists to build a better working world, helping to create long-term value for clients, people and society, and to build trust in the capital markets.
Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.
Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

## Strategy by EY-Parthenon

Combining innovation with pragmatic thinking to deliver actionable strategies for real impact in today's business landscape.

- Strategy consulting services
- Corporate and growth strategy
- Transaction strategy and execution
- Restructuring and turnaround strategy
- Industry strategy
- Digital strategy
- Commercial strategy consulting

## Consulting

Helping you transform your business by placing humans at the center, leveraging technology at speed and enabling innovation at scale.

- Customer experience
- Cybersecurity consulting services
- Data and decision intelligence
- Risk consulting services
- Supply chain and operations
- Technology leaders' agenda
- Transformation EQ
- Transformation platform

EY

## People and workforce

Helping you unleash the potential of your people as part of an integrated business strategy that creates competitive advantage.

- Change management and experience services
- HR Transformation Services
- Integrated workforce mobility
- Learning and development consulting
- Recognition and reward advisory
- Workforce analytics

## Assurance

Promoting trust and confidence in business and capital markets to help protect and promote sustainable, long-term value for stakeholders.

- Audit
- Climate change and sustainability services
- Financial accounting advisory services
- Forensic & Integrity Services
- Private client audit experience
- Long-term value metrics creation
- IFRS

## Transactions and corporate finance

Helping clients reimagining their ecosystems, reshape portfolios and reinventing themselves for a better future.

- Corporate finance
- Divestment strategy: sell and separate
- ESG strategy services
- M&A advisory
- M&A integration
- Connected capital technologies
- Advanced analytics
- Capital allocation
- Value creation, preservation and recovery

## Tax

Offering connected services across all tax disciplines to help you thrive in an era of rapid change.

- Tax planning
- Tax function operations
- Tax policy and controversy
- Global trade
- Global tax reform
- Tax compliance
- Transaction tax
- Tax services: Designed for private

## Law

Reducing the gap between business advisors and legal counsel to help you navigate the complexities of the global economy.

- Corporate and commercial law
- Digital law
- Labor and employment law
- Legal operations
- Transaction law

## Technology

Harnessing technology as transformative force to help you reframe the future of your organization and industry.

- EY.ai
- Audit technology
- Tax technology
- Connected capital technologies
- Technology transformation
- Alliances and ecosystems

## Managed services

Revolutionizing your non-core, but business critical activities with easy-to-integrate solutions that free up your time for innovation.

- Financial Accounting & Corporate Reporting Managed Services
- Risk managed services
- Sustainability managed services
- Cybersecurity managed services
- Tax managed services
- Legal managed services

## EY Private

Offering connected services across all tax disciplines to help you thrive in an era of rapid change.

- EY Private client experience
- Audit experience: Designed for private
- Tax services: Designed for private
- Family enterprise
- IPO
- Entrepreneurship

## EY Sustainability

Delivering value-led sustainability to help you protect and create value for business, people, society and the world.

- EY Sustainability
- Climate change and sustainability services
- Sustainable finance
- ESG strategy services
- Supply chain transformation
- Tax services
- Legal services
- Global renewables
- Climate and decarbonization
- Environment, Health and Safety

# 4 Contacts

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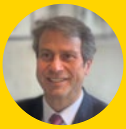

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