

LATAM Lithium Guide 2023

A comparative review of the legal
and tax considerations for the
Lithium industry in Latin America



Country	Legal restrictions or considerations to exploit Lithium	Government equity stake (free or not and %)	Government or State Lithium Strategy	Main competitors	Corporate Income Tax	Royalty or Mining Tax	Value Added Tax	Dividend Withholding	Export duty or tax	Tax Incentives	Depreciation	IFRS Compliance
Argentina	<p>The exploitation by private parties is foreseen in cases of legal concession for an unlimited period of time, whereas the State may only exploit or dispose of the mines in exceptional cases.</p> <p>The Mining Code also rules the process to be followed by the subjects willing to carry out a mining activity in the Argentine territory, starting with the request for an authorization from the competent authority.</p>	N/A	National government and the Provinces of Jujuy, Catamarca and Salta formed the National Lithium Roundtable (“Mesa Nacional del Litio”), which main purpose consisted in the coordination of provincial policies related to lithium production, mining competitiveness, legal security, legislation, environmental impact, processes, and enforcement controls, seeking the promotion of the development of the referred mineral sector.	Diversified competitors	Progressive rates ranging from 25% to 35% depending on the amount of the profit subject to tax	<p>Jurisdictions that implement a system of royalties may not collect more than 3% of the pithead price of the extracted ore.</p> <p>Specific agreements with the provinces.</p>	<p>The general VAT rate is 21%.</p> <p>Export of goods and services are exempt.</p>	<p>7%: dividends paid out of profits accrued in fiscal years started from 1 January 2018. Such rate applies to distributions made to resident individuals or foreign investors, while distributions to resident corporate taxpayers are not subject to withholding.</p> <p>0%: dividends paid out of profits accrued during fiscal years that started before 1 January 2018; however, in these cases, a 35% withholding tax (known as “equalization tax”) is triggered if the distribution exceeds the after-tax accumulated taxable income of the taxpayer</p>	<p>Depends on Tariff Code.</p> <p>For Tariff Code 2805.19.90.100C for Lithium and 2836.91.00.000G for Lithium Carbonate: 4.5% rate on FOB value</p>	<p>Total tax burden stability for 30 years</p> <p>Double income tax deduction for exploration expenses</p> <p>System to request VAT credits from mining exploration activities</p> <p>Exemption from the payment of customs duties</p> <p>Provision for environmental expenses deducted from the income tax assessment</p> <p>Income tax exemption regarding income from mining contributions and rights</p>	<p>Optional accelerated amortization system for income tax purposes of capital investments incurred in executing new mining projects and expanding the existing ones</p>	Required for public companies and optional adoption for private ones.

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Bolivia	<p>Only the Bolivian state is authorized to engage in any activity within the lithium production chain, through a state entity called "Yacimientos de Lito Bolivianos," especially for the initial stages of production, (from exploration to basic chemistry).</p> <p>In subsequent stages, such as semi-industrialization and industrialization, private companies may establish partnership contracts with the state.</p>	51% in Association or partnerships with private companies.	There is no defined strategy. However, the exploitation of lithium has become a significant focal point in the strategy to combat poverty.	<p>Without competitors.</p> <p>Only the Bolivian government is responsible for production of Lithium.</p>	<p>25%</p> <p>An additional 25% is applied on the income obtained by extractive businesses.</p>	3% over the gross sale value.	<p>Local sales are taxed with VAT whose rates are 13% and is applied on the price including VAT itself. Bolivia follows a system of VAT debits and credits.</p> <p>Exports are out of scope of VAT (taxed at a rate of 0%).</p>	<p>Dividends are not subject to taxation.</p> <p>A 12.5% tax is levied on remittances abroad.</p>	No	<p>Tax exception for investment in Potosi and Oruro region (where the Lithium is)</p> <p>Tax exemption applicable to the importation of capital goods, subjected to some conditions</p>	<p>Tangible property (except land), such as buildings, machinery, vehicles, furniture, and equipment are subject to tax amortization according to rates stated by SD 24051 (CIT)</p>	<p>The adoption for IFRS in Bolivia is not applicable.</p> <p>Only when there is no specific regulation related to a particular issue will IFRS (International Financial Reporting Standards) be applied.</p>

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Brazil	N/A	N/A	The increase in the global lithium demand has boosted the Brazilian government's prospects about the energy transition, which over time has led to measures to make it less bureaucratic and more attractive for private companies to exploit metals that are considered strategic in the culture of decarbonization. In addition, higher purity of Brazilian lithium contributes to better sustainable standards in its extraction and, consequently, greener energy solutions.	Sigma Lithium Latin Resources AMG Lithium Lithium Ionic CBL Atlas Lithium	34%	2%	Sales are subject to 18% VAT, and exports are exempt from VAT.	N/A	No	Tax incentive for investment in research and development, Tax exemption / reduction applicable to the importation or internal acquisitions of capital goods Tax exemption / reduction applicable to the importation or internal acquisitions of inputs Lithium Mining and Industrial Hub in the Jequitinhonha and Mucuri Valleys	R&D legislation allows companies to accelerate the depreciation, for tax purposes only, on R&D assets. Depreciation of 100% is available on eligible R&D assets upon the same year of acquisition.	The adoption of IFRS in Brazil is a fact for all process that began in 2007

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Chile	<p>From 1979 lithium has been constitutionally declared as of "National Interest" and a non-concessionable mineral reserved primarily for the State.</p> <p>As per the current regulations, lithium can be explored or exploited only by the State, directly or through its companies (i.e., Codelco, Enami, CORFO, etc.) or by civilians or non-governmental companies in two cases:</p> <p>1-By means of an administrative concession; and</p> <p>2-By a special operating agreement.</p>	N/A	The government proposed a strategy called "National Lithium Strategy" that takes up this challenge, assuming the responsibility of advancing in a sustainable manner, in economic, environmental and social terms, in the development of this industry.	SQM Albermarle	27%	No. However, it could still be applicable to Lithium concessions granted prior to 1979 as the mineral at that time was still a concessional mineral.	Sales are subject to 19% VAT, and exports are exempt from VAT.	35% WHT / Foreign investors residing in a DTT jurisdiction can claim full CIT credits, while investors resident in non-DTT countries can claim only a 65% of them. This means that: (i) foreign investors resident in DTT countries should end up paying an overall 35% tax burden in Chile, while (ii) non-treaty foreign investor might be subject to a 44,45% tax burden.	No	<p>Tax incentive for investment in research and development,</p> <p>Tax exemption applicable to the importation of capital goods</p> <p>Tax exemptions applicable to investments to start up a project</p>	<p>Tangible property (except land), such as buildings, machinery, vehicles, furniture, and equipment are subject to tax amortization.</p> <p>According to the ITL, taxpayers are entitled to opt for an accelerated depreciation regime,</p>	<p>The adoption of IFRS in Chile is a fact for all process that began in 2009 and ended in 2015 with smaller companies.</p> <p>The main challenges post its implementation are given by the permanent need to reconcile the requirements of the local regulator, with the definitions of the International Accounting Standards Board (IASB).</p>

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México	<p>Exploitation of Lithium is reserved to State starting 2022.</p> <p>There is no clarity on impact of the lithium reform to on-going projects.</p>	N/A	<p>Lithium exploration, exploitation and trading is managed by state-owned company LitioMx (Litio para México).</p> <p>No concessions are granted to private companies. It is legally permissible that they may be partnered for specific tasks, but there are no rules that clarify to what extent they could participate.</p>	N/A	30% corporate income tax (CIT) rate (plus 10% Employees' Profit Sharing, capped to employees 3-month salaries)	7.5% Special Mining Duty (SMD) on extractive operating profits.	Sales are subject to 16% VAT. Most of exports are subject to 0%.	<p>No WHT on local-to-local dividend.</p> <p>10% WHT to individuals and non-resident shareholders, that may seek for reduced WHT (0, 5, 8%) available under certain tax treaties.</p>	N/A	<p>30% CIT credit on research and development investments.</p> <p>Small mining companies may credit SMD from CIT.</p> <p>Government announced tax incentives to lithium industry in Sonora state (not yet published).</p>	<p>Depreciation for tangible fixed assets and amortization for intangible goods, based on the following annual percentages:</p> <ul style="list-style-type: none"> - Buildings: 5% - M&E: 10% - Mining M&E: 12% - Metallurgical M&E: 6% - Exploration expenses: 10% - Concessions: life of concession title. 	<p>Not mandatory for tax purposes.</p> <p>Only listed companies are required to produce accounting information under IFRS pursuant to regulations issued by National Banking and Securities Commission.</p>



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I. Introduction



Contacts:

Juan Pablo Mizutani
juanpablo.mizutani@ar.ey.com
Tax Partner

Rocio Curti
rocio.b.curti@ar.ey.com
Tax Manager

Lithium is a mineral that can be extracted from rocks or high salt flats, such as those found in the Argentine Puna in quite abundant concentrations.

In recent years, there has been a significant increase in the demand for lithium as a key input for the manufacture of batteries used in electric vehicles and to store renewable energy.

According to the latest information available from the United States Geological Survey (USGS)¹, 46% of global lithium reserves and 53% of resources are concentrated in the so-called “Lithium Triangle”. The Lithium Triangle refers to the geographical area composed by Argentina, Bolivia, and Chile. It comprise are: Salar del Hombre Muerto (Argentina), Salar de Uyuni (Bolivia) and Salar de Atacama (Chile). It is a region that has salt flats with levels of concentration that make their exploitation extremely profitable in relation to other deposits.

Argentina is ranked third in terms of the main lithium reserves in the world, with a share of 10.4%, according to USGS data. Chile, which accounts for 35.7% of world reserves, and Australia, with 23.8%.

In 2022 Argentina produced 33 thousand tons of lithium. Our country contributed 5% of world production (685 thousand tons) and was ranked the fourth world producer behind Australia (324 thousand tons), Chile (207 thousand tons) and China (101 thousand tons).

In 2022, the main destination for Argentine lithium exports was China (41.5% of total exports), followed by Japan (30.7%), South Korea (12.8%) and the United States (9%). The three Asian countries currently account for 87% of global lithium demand.

Argentina’s mining exports totaled 2,321 million dollars in the first seven months of 2023. The country is the four main lithium producer worldwide, and studies shown that for year 2030 the second place will be reached.

¹ U.S. Geological Survey, Mineral Commodity Summaries, January 2023

II. Lithium legal framework

Preliminary, it must be remarked that the Argentine mining regulatory framework is composed of federal (national) and provincial (or local) regulations. Furthermore, some topics are also subject to the concurrent competences of both the federal government and the provinces. Hence, unlike other activities, the provincial regulations are relevant when carrying out mining activities. This particularity is mainly due to the fact that the Provinces have the original domain over the natural resources existing in their respective territories. Thus, in addition to the general overview of the applicable national regulations, any of the 24 jurisdictions (or provinces) also have their own individual regulations which complement and rule together with the national provisions. In terms of Lithium mining reserves, Salta, Catamarca and Jujuy are the most relevant provinces.

At the federal level, the mining activity is regulated by the Argentine National Mining Code, as supplemented and amended (hereinafter, the "Mining Code"). The Mining Code was sanctioned by the National Congress, as per the competence granted by the National Constitution, and has national reach. Depending on the minerals involved and location of the mine, the mines may be private property of the Nation or the Provinces. The exploitation by private parties is foreseen in cases of legal concession for an unlimited period of time (i.e. discovery and/or expired and vacant mines), whereas the State may only exploit or dispose of the mines in exceptional cases.

The Mining Code classifies the mines in 3 (three) categories, as provided herein below:

- ▶ First category: This category refers to mines in which the soil is an accessory, which belong exclusively to the State, and can only be exploited by virtue of a legal concession granted by a competent authority. In this regard it must be remarked that the lithium is considered a first category mineral.
- ▶ Second category: This category refers to mines which, due to their importance, are preferentially granted to the owner of the land; and mines that, due to the conditions of their field, are destined for common use.
- ▶ Third category: This category refers to mines that belong solely to the landowner, and that no one can exploit without his/her consent,

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except for reasons of public utility. In the case of this category, it is broadly accepted by the legal doctrine that the exploitation of these minerals is not subject to an authorization from the State. Notwithstanding this, it is common that the Provinces do also require some kind of registration in specific registries in order to carry out such activity.

The Mining Code also rules the process to be followed by the subjects willing to carry out a mining activity in the Argentine territory, starting with the request for an authorization from the competent authority. Depending on the development of the activity (e.g. exploration or exploitation), different requirements must be met. The mines are acquired by virtue of the concession granted by the competent authority in accordance with the provisions of the Mining Code, being subject to concession: (i) discoveries and (ii) expired and vacant mines.

It is important to highlight that, according to section 11 of the Mining Code, the mines are considered as a different property from the land on which they are located. Pursuant to section 18, the mines' concessions are granted for unlimited time. Furthermore, section 323 of the Mining Code states that mines can be sold and transferred. Consequently, the discoverer of a mineral's pit (mines) can sell and transfer the rights acquired by the discovery.



At the beginning of 2021, the National government and the Provinces of Jujuy, Catamarca and Salta formed the National Lithium Roundtable (“Mesa Nacional del Litio”), which main purpose consisted in the coordination of provincial policies related to lithium production, mining competitiveness, legal security, legislation, environmental impact, processes, and enforcement controls, seeking the promotion of the development of the referred mineral sector.

After the referred roundtable took place, on October 5th, 2021, an interprovincial treaty for the creation of the lithium mining region in the referred provinces was signed by the corresponding provincial governments. The referred treaty foresees for the creation of a Regional Lithium Committee (“Comité Regional del Litio”) to be composed by the highest mining authorities of such provinces. Additionally, the National Ministries of Internal Affairs, Productive Development (“Ministerio de Desarrollo Productivo”) and Science and Technology (“Ministerio de Ciencia y Tecnología”) were invited to attend the referred committee. This committee aims to act as a coordination entity between the national and provincial governments in relation to matters such as research, production, industrialization, and commercialization of lithium.

On the other hand, there are several bills with active status at the National Congress, many of which provide for the declaration of lithium as a strategic mineral as well as the creation of a national company to participate in the lithium activity. As of the date hereof, it is uncertain whether any of such bills will become law in a short-term. At the present time it is also unlikely that the lithium be declared as an exclusive element to be exploited only by the national government.

Some provinces have mining promotional regimens related to taxes, among other topics.

By means of Law No. 24,228, the national Congress approved the document named Federal Mining Agreement (“Acuerdo Federal Minero”), which was signed between the National and

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Provincial governments. The document consists of a general agreement for the promotion of the local mining activity.

In 2017, a new document was signed among the national government and several provinces for the same purpose, including new provisions on the mining activity. Some of the relevant topics addressed in this document are: The creation of a Mining Federal Council (“*Consejo Federal Minero*”), the need of creating special environmental funds or warranties in the Provinces, government investment in mining infrastructure, among others.

The validity and effectiveness of this new federal mining agreement is subject to the prior legislative approval or ratification by the National Congress and each of the provincial legislative bodies. In this respect, the new agreement has not yet been approved by means of a national law by the National Congress as of the date herewith.



IV. Main companies in lithium extraction

4.1 Production and Construction

Some of the Projects, in production or under construction, in the Argentinean “Puna” of Lithium, are the following ones:

N°	Mining Project	Oversight/ Supervision	Location	Actual Status
1	Mina Fenix	Livent Corporation	Catamarca	Production
2	Salar de Olaroz	Allkem - JEMSE	Jujuy	Production
3	Cauchi - Olaroz	Minera EXAR	Jujuy	Production ²
		Jiangxi - Ganfeng Lithiumg Co. - Lithium Americas		
		Corp. - JEMSE		
4	Centenario - Ratones	Eramet	Salta	Construction
5	Tres Quebradas	Liex - Zijin	Catamarca	Construction - Production expected beg. 2024

² The mining company Lithium Americas began production at the Cauchari Olaroz project in June 2023

N°	Mining Project	Oversight/ Supervision	Location	Actual Status
6	Mariana	Ganfeng Lithium Co -	Salta	Construction - Production expected beg. 2024
		International Lithium Corp		
7	Sal de Oro	Posco	Salta	Construction - Production expected beg. 2024
8	Sal de Vida	Allken (Orocobre + Galaxy Resource)	Catamarca	Construction

4.2 Feasibility and Pre-feasibility

Some of the Projects, in feasibility and prefactibility, in the Argentinean “Puna” of Lithium, are the following ones:

N°	Mining Project	Oversight/ Supervision	Location	Actual Status
1	Pastos Grandes	Millennial	Salta	Feasibility
2	Salar del Rincón	Rincon Ltd	Salta	Feasibility
3	Cauchari	Orocobre Limited Pty Ltd.	Jujuy	Pre-feasibility
4	Kachi	Lake Resources	Catamarca	Feasibility

4.3 PEA (Preliminary Economic Assessments)

Some of the projects in preliminary evaluation in the Argentine Lithium “Puna” Area, are the following:

N°	Mining Project	Oversight/ Supervision	Location	Actual Status
1	Pozuelos - Pastos Grandes	Ganfeng Lithium	Salta	PEA
2	Sal de los Angeles	Tibet Summit	Salta	PEA
3	Salar del Hombre Muerto Norte	NRG Metals	Salta	PEA
4	Salar del Rincón	Argosy Minerals	Salta	PEA
5	Salar del Hombre Muerto Oeste	Galan Lithium Limited	Catamarca	PEA

4.4 Advanced Exploration

Some of the projects in preliminary evaluation in the Argentine Lithium “Puna” Area, are the following:

N°	Mining Project	Oversight/ Supervision	Location	Actual Status
1	Candelas	Galan Lithium Limited	Catamarca	Advanced Exploration
2	Pular	Pepinnini Lithium Limited	Salta	Advanced Exploration
3	Rincon	Pepinnini Lithium Limited	Salta	Advanced Exploration
4	Rio Grande	Plus Petrol	Salta	Advanced Exploration
5	Gallego	Everlight Resources	Salta	Advanced Exploration
6	Salinas Grandes	Plus Petrol	Jujuy	Advanced Exploration

The Argentine taxation structure is classified into the following three categories:

- 1. Federal taxes:** At the federal level, the Federal Public Revenue Agency (Administración Federal de Ingresos Públicos, hereinafter "AFIP"), a decentralized entity, is the agency in charge of applying, collecting and auditing taxes and interest and supplementary charges. The AFIP reports to the Under Department of Government Finance, which, in turn, reports to the Ministry of Economy.

The main Federal taxes includes:

- ▶ Income tax
- ▶ Value added tax
- ▶ Personal assets tax – substitute taxpayer
- ▶ Tax on bank account transactions and other similar transactions

- 2. Provincial taxes:** The provincial tax authorities (Direcciones Generales de Rentas, hereinafter "DGR") of each province are in charge of applying, collecting and auditing provincial taxes. These agencies are subordinate to the respective provincial ministries of economy.

The main provincial taxes include the following:

- ▶ Turnover tax
- ▶ Stamp tax
- ▶ Royalties

- 3. Municipal taxes:** Each municipality has the power to apply, collect and audit its resources. Municipalities obtain resources by applying rates and assessments.

5.1 Income Tax

General framework

The lithium industry in Argentina does not have special tax treatment. It is taxed by the general tax rules applicable to any taxpayer. It is important to

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point out that there is a Mining Investment Law which contains several incentives for taxes, which will be commented in section VII.

Income tax is levied on Argentine-source income earned by individuals or legal entities, regardless of nationality, residence or domicile. In addition, income tax is levied on income earned by Argentine residents outside Argentina.

Income Tax Law establishes for companies progressive rates ranging from 25% to 35% depending on the amount of the profit subject to tax. The amount of tax consists of a fixed tax and a variable tax for the remaining profit; and is updated annually for inflation. The current rates for fiscal years starting from 1/1/2023 to 12/31/2023 is as follows:

Accumulated net taxable income ³		Will pay \$	Plus %	On the surplus of \$
From \$	To \$			
\$ 0.00	\$ 14,301,209.21	\$ 0,00	25%	\$ 0.00
\$ 14,301,209.21	\$ 143,012,092.08	\$ 3,575,302.30	30%	\$ 14,301,209.21
\$ 143,012,092.08	Onwards	\$ 42,188,567.16	35%	\$ 143,012,092.08

In addition, a 7% dividend withholding tax rate applies to dividends paid out of profits accrued in fiscal years started from 1 January 2018. Such rate applies to distributions made to resident individuals or foreign investors, while distributions to resident corporate taxpayers are not subject to withholding. A 0% dividend withholding tax rate generally applies to dividends paid out of profits accrued during fiscal years that started before 1 January 2018; however, in these cases, a 35% withholding tax (known as "equalization tax") is triggered if the distribution exceeds the after-tax accumulated taxable income of the taxpayer.

Transactions with foreign related parties, "tax havens" and "non-cooperative countries" are subject to transfer pricing rules, which require that the transactions are celebrated as if they have been entered into between unrelated entities

(arm's length principle). In addition, regulations require the filing of TP returns and a transfer pricing report.

Inflationary adjustment:

Adjustment for inflation is allowed in accordance with the following rules:

- ▶ Inflation adjustment of new acquisitions and investments carried out from 1 January 2018 and onward related to fixed assets, intangible assets, shares and other securities.
- ▶ Application of a comprehensive inflation adjustment mechanism for fiscal years beginning on or after 1 January 2018: Such adjustment will be mandatory to apply if the variation of the Consumer Price Index

³ The exchange rate as of October 2023 is 1 USD = 350 ARS

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supplied by the National Institute of Statistics and Censuses is higher than 100% for the 36-month period before the end of the fiscal period⁴.

Nonresidents pay income tax exclusively on their Argentine-source income. In these cases, the law irrefutably presumes a variable percentage of the income resulting from the activities carried out in Argentina to be taxable income. The income tax rate of 35% is applied to these percentages of net income.

Deductions allowed for stock corporations and other companies

The general principle is that expenses incurred to obtain, maintain and keep taxable income will be deductible.

The following rules apply to certain deductions:

- ▶ Reserves may be deducted only for tax purposes if expressly allowed by law (e.g., the tax purposes allowance for uncollectible accounts, with certain restrictions). Any other allowances, provisions or reserves are generally not deductible.
- ▶ All taxes levied on income-generating assets, other than income tax itself, are income tax deductible.
- ▶ Start-up expenses related to setting up a business may be deducted in the year they are incurred or amortized over a maximum term of five years.
- ▶ Donations may be deducted when made directly to the federal, provincial or municipal government; the FPP (permanent funds for political parties); religious or charity institutions; or exempt private organizations with specific goals. Deductible amounts are limited to 5% of net income for the year.
- ▶ Deductibility of expenses associated with loans (e.g. interest and negative exchange differences). The law provides for a limit for the deduction of expenses arising from financial loans. The limit equals 30% of earnings before interest, taxes, depreciation and amortization (EBITDA) or an amount of ARS 1 million, whichever is higher. The limit each year will be increased by the amount unused (if applicable) in the prior three years. In addition, if certain interest was not deductible in a given year due to the application of the limitation, it can be carried forward for five fiscal years. "Interest" will include negative foreign exchange differences. The Law provides for certain exemptions from the deduction limit for certain situations (e.g., when the beneficiary of the interest has been subject to tax on such income, in accordance with the Argentine income tax law; or when the Argentine company is subject to adjustment for inflation rules for income tax purposes, among other situations.)
- ▶ Payments due to foreign affiliates or related parties, companies located in "tax havens" and "non-cooperatives countries" that

⁴ According to Laws Nº 27,430 and Nº 27,468 the comprehensive inflation adjustment is triggered when the variation of the Consumer Price Index, exceeds 55%, 30% and 15%, for tax years beginning on or after 1 January 2018, 2019 and 2020, respectively.

represent Argentine source income for such parties are tax deductible in the year of accrual, provided that the payment is made before the due date for filing the income tax return, otherwise it becomes deductible in the year of payment.

In addition to the specific items referred to above, other deductions that may be allowed include salaries, wages, commissions, director's fees, technical services fees, contributions to pension funds and traveling expenses. These are subject to certain restrictions.

Tax Losses

A tax loss (NOL) sustained in a given year may be deducted from taxable income generated in the five subsequent years. Tax losses may not be carried back against taxable income for prior years. The NOLs arising from the transfer of shares or equity interests may offset only income of the same origin. The same applies to NOLs from activities not to be considered of Argentine source and from transactions under derivative agreements, except for hedging transactions.

Double taxation agreements

Argentina has signed double taxation treaties with several European and American countries to avoid double international taxation and thus promote reciprocal investment and trade.

Consequently, lower withholding rates may be applicable when the beneficiary abroad is based in any of the countries with which Argentina has signed a treaty. But certain formal requirements may need to be met for the lower rate to apply.

Argentina has treaties with, Australia, Belgium, Bolivia, Brazil, Canada, Chile, Denmark, Finland,

France, Germany, Italy, Mexico, Netherlands, Norway, Qatar, Russia, Spain, Sweden, Switzerland, United Arab Emirates, United Kingdom, and Uruguay.

5.2 Value Added Tax

General framework

In terms of Value Added Tax ("VAT"), it is also possible to affirm that the lithium industry is taxed in accordance with the general rules.

VAT is levied on the following:

- ▶ Sale of personal property located or placed in Argentina
- ▶ Works, contracts for services and service provisions in Argentina
- ▶ Works, contracts for services and services provided abroad when the actual use or exploitation of which is carried out in Argentina, only if the service receiver is a registered VAT payer,
- ▶ Works, contracts for services and services provision made by foreign parties in Argentina hired by local parties, and
- ▶ Definitive imports of personal property
- ▶ Digital services provided by foreign parties whose effective use or exploitation is carried out in the country

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Credit and debit system

The VAT that a company charges on sales or service provisions is known as “VAT debit.” The VAT paid by companies for goods or services purchases is called “VAT credit.” In general, companies deduct their VAT credit from the VAT debit every month, file a VAT return and pay in the difference, if any. If in a given month the VAT credit exceeds the VAT debit, the difference may be added to the VAT credit for the next month.

Rates

The general VAT rate is 21%. This rate is increased to 27% and reduced to 10.5% for certain types of taxable events.

Exports treatment

Export of goods and services are tax exempt.

Exporters are allowed to offset any VAT billed to them for goods or services against VAT they are payable for other transactions subject to this tax. If a VAT credit results from this offset, the taxpayer may request that the respective amount be credited against other taxes collected by the AFIP, that it be reimbursed, or that it be transferred to other taxpayers.

VAT reimbursement for fixed asset investment

To be eligible for the reimbursement, taxpayers must have VAT credits from the purchase, manufacture, preparation or import of fixed assets (other than automobiles) and the VAT credits must still exist after six months.

The reimbursement will be subject to the condition that the VAT credits would have normally been absorbed within a 60-month period, through



VAT payable for local transactions or VAT reimbursements related to exports. If such condition is not met, the taxpayer will be required to reimburse to the tax authorities the amount that did not meet the condition, plus the related interest and penalties, if any.

VAT specific transactions

- ▶ Local companies are required to pay VAT on services rendered by others from abroad and given economic use in Argentina. The VAT paid can be computed as a tax credit in the following month (reverse charge method).
- ▶ Local companies are required to pay VAT on services rendered by foreign parties in Argentina. The VAT paid can be computed as a tax credit.

5.3 Personal assets – substitute taxpayer

General framework

Tax on personal assets generally applies to assets owned by individuals at 31 December each year. For resident individuals, the tax applies on assets owned in Argentina and abroad. For nonresident individuals, the tax applies only on assets owned in Argentina.

From 2002, a non-rebuttable presumption was instituted that shares, quotas and other participation interest in the capital of Argentine companies held by nonresident entities are indirectly owned by foreign individuals; thus, the tax applies to such ownership.

Argentine companies annually pay tax, as substitute taxpayers, on equity interests held by Argentine individuals and by foreign shareholders (either foreign individuals or foreign entities). The company is then entitled to request a refund of the tax from its shareholders or partners.

The tax rate is 0.50% and is calculated according to the net equity at 31 December of each year based on the company's Financial Statement.

5.4 Tax on bank account transactions and other similar transactions

General framework

A tax is levied on debits and credits to checking accounts opened with banks governed by the Financial Institutions Law. In addition, all cash movements or payments are subject to this tax, whatever the mechanism used, when made through organized payment systems in lieu of bank checking accounts.

The general rate is 0.6% for bank debits and 0.6% for bank credits. It is 1.2% when the movement of funds is not made through a bank account. In addition, differential rates and exemptions apply to certain transactions.

The law establishes that the federal executive is empowered to resolve whether this tax is to be computed on account of other taxes (either fully or partially). Accordingly, as from May 2018, 33% of the amount paid for tax on bank account credits and debits is used toward paying income tax.

The collection of exports is tax exempt.

5.5 Turnover Tax

General framework

Turnover tax is a provincial tax charged by tax authorities in each of the 24 jurisdictions (including provinces and the city of Buenos Aires). This tax is applied on revenues from the usual activities carried out for profit in business, industry, the professions and contracts for work or services, regardless of the result of such activities, the nature of the service provider or the place where the activities are performed.

Turnover tax rates vary according to the jurisdiction and the activity involved. The general rate (applicable to commerce and services) ranges from 3% to 5%.

The rate on production activities is generally 0.75%. Higher differential rates are applied to other activities, such as loans and commissions. In case the taxpayers carry out activities in more than one jurisdiction, the company's revenues should be distributed among the different jurisdictions to pay this tax, according to the rules laid out in the Multilateral Agreement signed by the Argentine provinces.

In most jurisdictions, exports are exempt from this tax.

As mentioned in previous sections, the lithium available in Argentina is mainly concentrated in three provinces: Catamarca, Jujuy and Salta.

The rates vary according to the jurisdiction and the activity involved. It is therefore necessary to

review each jurisdiction specifically. The following table lists the rates applicable to mining activities in the mentioned jurisdictions.

Jurisdiction	Turnover tax rate FY 2023
Catamarca	0.75%
Jujuy	Exempt ⁵
Salta	0.75%

Export of goods in the Provinces of Catamarca, Jujuy and Salta are tax exempt.

5.6 Stamp Tax

General framework

This tax is also a provincial tax charged by each of the 24 jurisdictions (including provinces and the city of Buenos Aires), and it is levied on acts documented in public or private instruments such as agreements, mining concessions, deeds, acknowledged invoices, promissory notes and securities. In addition, it is levied on acts documented through correspondence.

Each jurisdiction has its own stamp tax law, which is enforced within its territory. Double taxation sometimes occurs, for which no legal recourse currently exists.

⁵ General exemption granted to the mining industry. Art 284 inc 11 Fiscal Law

The rates vary according to the jurisdiction and the agreements executed. Given below is a list of the rates applicable in the main lithium jurisdictions in Argentina:

Jurisdiction	Stamp tax rate FY 2023 ⁶
Catamarca	1.00%
Jujuy	Exempt ⁷
Salta	1.20%

5.7 Royalties

According to Mining Investments Law No. 24,196, the jurisdictions that implement a system of royalties may not collect more than 3% of the pithead price of the extracted ore.

Pithead ore is the ore extracted, transported and/or accumulated before being subjected to any beneficiation.

Pithead price is defined as the ore and/or metals declared by the mining producer as the value obtained from the first stage of commercialization, less direct and/or operating costs necessary to take the pithead ore to that stage, with the

exception of direct or indirect expenses and/or costs inherent to the extraction process.

The following are the costs deducted, as applicable:

- ▶ Transport, freight and insurance costs until delivery of the product, minus the costs related to the ore extraction process up to the pithead
- ▶ Crushing and grinding costs, beneficiation contributing to the sale of the final product by the mining operation
- ▶ Commercialization costs of selling the end product
- ▶ Administration costs of delivering the end product, minus the extraction costs
- ▶ Smelting and refining costs

All depreciation-related amounts are excluded from costs to be deducted. In all cases, if the price taken as the basis for the pithead price calculation is lower than the price of such product on the local or international market, the latter shall be applied as the calculation basis.

It is important to highlight that some provinces can make specific agreements with mining companies and deviate from the general mining regime.

⁶ This is the general stamp tax rate since there is no specific rate or exemption aimed to the mining industry. However, different rates may apply, depending on each specific act or contract.

⁷ General exemption granted to the mining industry. Art 236 inc 31 Fiscal Law

6.1 Tax General treatment for imports

Tax treatment applicable to imports for consumption into Argentina includes the payment of Import Duties, Statistical Rate, Excise Tax, Value Added Tax (VAT), “PAIS” tax and Income Tax, VAT and Turnover Tax withholdings.

Import duties in Argentina are assessed on an ad-valorem basis on the customs value of the goods (CIF value), and range from 0% to 35%, depending on the good being imported. Merchandise originating in any of the MERCOSUR member countries (Argentina, Uruguay, Paraguay and Brazil and other LATAM countries), evidencing such condition by means of a Certificate of Origin, will be exempted from import duties.

In addition, certain merchandise originating in ALADI member countries (Latin American Integration Association), evidencing such condition by means of a Certificate of Origin will benefit from a duty reduction or exemption, depending on the type of good and origin.

Statistical Rate is an ad-valorem rate of 3% (with maximum amount) calculated on the same value that is used to apply import duties (CIF basis). Merchandise originating in MERCOSUR countries,

as evidenced by a Certificate of Origin, are exempt from this rate.

VAT is an ad-valorem tax applied to imports for consumption. The VAT is calculated on the CIF value of imported merchandise, plus Import Duties and Statistical Rate. The general VAT rate in Argentina is 21% or 10.5% for certain capital goods.

In relation with tax withholdings, VAT and Income tax withholdings amount to 20% (or 10% for certain capital goods) and 6%, respectively, when the imported assets are to be marketed. In the case of goods imported to be used by the Company, such as spare parts, the Income Tax Withholding arises to 11%. In general terms, fixed assets should not be subject to these withholdings.

Furthermore, there is a turnover tax (provincial tax) additional withholding that amounts to 2.5%.

6.2 Tax General treatment for exports

An exporter in Argentina may be a company, branch or individual registered with Customs and under whose name the goods are exported. The local law does not require the exporter of record to be the owner, seller or buyer of the goods being exported.

In Argentina, export transactions on behalf of third parties are allowed.

Export duties are calculated based on the free on board (FOB) value of goods valued under the Argentine Customs Code standards. Any other taxes and charges levied on exports and the CIF value of materials imported on a temporary basis are excluded from the taxable value.

Exporters of goods manufactured in Argentina, which are new, unused and sold for a valuable consideration, will be entitled to the full or partial reimbursement of any amounts they may have paid for internal taxes at the different production and selling stages.

Tax Treatment applicable to the exportation of Lithium and Lithium Carbonate

We are considering the Tariff Code 2805.19.90.100C for Lithium and 2836.91.00.000G for Lithium Carbonate.

6.3 National Decree No. 234/2021 and National Decree N° 836/2021. "Investment Promotion Regime for Exports"

This regime includes investments aimed at the start-up of new productive projects in mining activities, among others, as well as the expansion of existing business units.

In order to apply for the inclusion in the Regime, an "Investment Project for Export" must be submitted to the application authority, involving a direct investment in foreign currency of not less than USD 100,000,000, calculated at the time the project is submitted.

The beneficiaries of the regime shall enjoy the free application of foreign currency from exports of goods related to the project to be used for the payment of capital and interest on commercial or financial liabilities abroad and/or profits and dividends corresponding to closed and audited balance.

Also, there are extended benefits for Investment Projects that reach USD 500,000,000.

6.4 Foreign Exchange (FX) Controls

On Sunday September 1, 2019, Argentina enacted Decree No. 609/2019 establishing the obligation to enter and convert into Argentine pesos the export proceeds in the Foreign

Argentina»



Exchange Market (“FX Market”) and instructing the Argentine Central Bank (“BCRA”) to establish rules to regulate the access to the FX Market distinguishing between corporations domiciled in Argentina, individuals and non-residents. On the same day and in accordance with said Decree, BCRA published Communication “A” 6,770 setting new rules applicable to the FX Market (the “FX Regulations”). Since September 1, 2019, BCRA published a series of additional communications. Below is a summary of the most relevant FX Regulations in place.

1. Exports of goods and services

Export of goods formalized as of September 2, 2019 must be collected and foreign currency sold in the FX Market within i) 30 calendar days, ii) 60 calendar days (in the case of intercompany transaction regardless the Tariff Codes of the goods exported), iii) 180 calendar days and iv) 365 calendar days (in the case of the “Exporta Simple” Regime).

Exports of services must be sold in the FX Market within 5 business days from the collection in the country or abroad, or the deposit of the amounts in foreign bank accounts.

2. Intercompany loan

Financial debts received from abroad disbursed as from September 1st, 2019, must be entered and settled in the FX Market if the debt (capital and interest) will be in turn paid through the FX Market. Compliance with this requirement must be proved before the commercial bank.

The Argentine Company which receives the loan will be able to keep in its foreign account the amounts received, but it will not have access to

the FX Market to cancel the debt, since the loan funds will not be entered and settled into the local foreign exchange market at the time of the disbursement.

In addition, certain restrictions were progressively introduced in order to access to the exchange markets to make payments to foreign parties. In this context, on 28 May 2020, the Central Bank issued Communique “A” 7,030 (as amended), which established that no payment can be made through the official exchange market if the entity holds funds over USD 100,000 abroad (for instance, in foreign bank accounts or other available funds) or if it holds locally foreign currency out of the banking system.

Additionally, the debt should be reported in terms of the Communique “A” 6,401.

3. Capital contribution

There is no obligation to enter and convert the funds in the FX Market. That is to say, the Company is entitled to keep the funds in foreign currency, hence, it is enabled to enter them into our country and credit them in local accounts in foreign currency or keep them abroad.

Therefore, if the Company maintains the deposited funds in an offshore bank account, they can be used to make payments abroad.

It is worth mentioning that if the Company does not settle the funds in the local foreign exchange market, when making a future capital reduction, the BCRA will not authorize the operation, considering that since there has been no entry of foreign currency through the FX Market, there should be no outflow of funds through such market.

It is important to note that the capital contribution should be duly registered before the Public Registry of Commerce.

4. Payments for imports of goods and services

Currently, in order to pay debts abroad for imports of goods and/or services, the Argentine company has to undergo certain prior approvals that, to a greater or lesser extent, will help complete the file that they will then have to present to the commercial bank for request access to the foreign exchange market.

One of the authorizations is the so-called “SIRA” (Import System of the Argentine Republic) that is completed through the AFIP microsite and by which said Tax Authorities will analyze certain parameters.

Likewise, in the SIRA, the importer must inform the period in which the exchange market will be accessed for the purposes of payment for the operation.

Both the Ministry of Commerce and the BCRA are part of the Organizations that evaluate the information provided by the importer and will inform the period between the official Import Destination and the date on which access to the foreign exchange market will be allowed.

Another important authorization in the case of services is the “SIRASE” (System of Imports of the Argentine Republic and Payment of Services Abroad), which applies to human and legal persons who must make payments abroad to cancel their own obligations or from third parties.

As in the “SIRA”, subjects must complete the information on the “SIRASE” microsite of the

AFIP website, giving express consent for said information to be shared with the Ministry of Commerce and the BCRA.

It is important to keep in mind that the BCRA establishes that payments abroad for services to related companies require prior authorization from said Agency in order to be processed, therefore, beyond the fact that an order can be placed through SIRASE, if the payment is intended for a related company abroad; it cannot be processed until there is approval from the BCRA, which is processed by file. All requests to the BCRA must be done through a financial entity with authorization to deal in the foreign exchange market.

In relation to prior payment approvals, it is necessary to take into account the Exchange Operations Consultation and Registration System called “Single Foreign Trade Current Account”, in which banking entities authorized to operate must consult and register the total amount in pesos of each exchange operation at the time it is carried out.

Finally, and only if access to the foreign exchange market is allowed for payment abroad, it should be considered that - until December 2023 - a 25% tax called “PAIS” is in force on payments of services (including royalties) that will be applied to the total value of the invoice to be paid. In the case of payments of imports of goods, the tax rate of the “PAÍS” is 7,5%, however, the 7,125% has to be paid at the time of importation, and the remaining 0,375% at the moment of accessing the foreign exchange market.

VII. Tax issues of special relevance to the mining industry - Incentives

The Mining Investments Law No. 24,196, regulated by Administrative Order No. 2,686/93, sets forth a series of benefits for companies that carry out mining activities not related to oil and gas and are registered with the Mining Investments Registry. These include the following:

7.1 Total tax burden stability for 30 years, which is determined upon presentation of the feasibility study

Investments in new mining projects and in extending the existing ones, protected by Law No. 24,196, benefit from the tax stability for a 30-year term as from the date when the feasibility study is filed.

Tax stability means that companies' tax burden, as determined at the time of filing the feasibility study, cannot be increased as a result of changes in federal, provincial or municipal taxes and rates. The tax stability regime is applicable to all taxes that the companies registered are subject to, as well as the duties, tariffs or other taxes on imports or exports.

The total tax burden in each tax-related area may rise because of the below factors, as long as their effects are not compensated in that same jurisdiction through abolishing or reducing other

taxes or tax regulation amendments favorable to the taxpayer:

- ▶ Creation of new taxes
- ▶ Increase in rates or amounts
- ▶ Change in the mechanism or proceedings in assessing a certain tax base, whereby different guidelines or conditions are established than those established when the beneficiary filed its feasibility study, and which entail an increase in the tax base.

On the other hand, the following situations shall not be covered by the tax stability or shall not violate such tax stability:

- ▶ Changes in the valuation of assets, when such valuation forms the base for the tax's application and assessment
- ▶ Extension for a specified period of time of the validity of enacted regulations that are enforced upon obtaining the tax stability
- ▶ Defeatance of exemptions, exceptions or other measures applicable for a given period and that such defeatance results from the expiration of such a period
- ▶ Employer and employee contributions to the Single Social Security System and indirect taxes.

7.2 Double income tax deduction for exploration expenses

Double income tax deduction of all the amounts invested in prospect, exploration, special studies, mineralogical and metallurgical assays, pilot plant and other work intended to determine the technical and economic feasibility of projects; exploration fees are not included as a deductible expense.

Exploration related to new mineral reserves after the beginning of the production, are also subject to the benefit.

7.3 System to request VAT credits resulting from imports and purchases of goods and services intended for use in mining exploration activities

Law No. 24,196 and its administrative order establish that the VAT credits resulting from the import of goods and services carried out by the companies engaging in mining exploration activities, existing after 12 tax periods as from the one in which computation was appropriate, can be returned to them, provided certain formalities are met.

In order to be entitled to this benefit, the following requirements must be met, among others:

- ▶ The mining exploration tasks must be carried out by taxpayers registered with the Mining Investment Registry.
- ▶ The imports and purchases of goods and services must be intended for use in mining activities, such as prospecting, exploration, metallurgical assays and applied research.

7.4 Accelerated amortization system for income tax purposes of capital investments incurred in executing new mining projects and expanding the existing ones

Exploration expenditures, mine development expenditures and mining acquisition costs should be capitalized and depleted.

An accelerated amortization system applies to capital expenditures incurred in executing new mining projects or expanding those already in existence. The law stipulates the following:

- ▶ Investments made with regards to equipment, civil construction projects and construction for infrastructure needed for the operation may be depreciated over three years in the following manner:
 - Sixty percent (60%) of the total amount of the infrastructure unit in the fiscal year in which the facilities start to be used
 - The remaining 40% in equal portions in the two subsequent years
- ▶ Investments made in machinery, equipment, vehicle and facilities may be depreciated over three years as from start-up.

The computable annual tax amortization cannot exceed, in each tax period, the amount of taxable income before subtracting the relevant amortization and, as the case may be, after prior-year net operating losses have been computed.

The non-computable surplus in a given tax period can be carried forward to subsequent years, considering the above-mentioned cap for each of them.

The term for computing the tax amortization of assets cannot exceed their respective useful lives.

The existing residual value at the end of the year when the useful life of assets expires can be fully deducted for tax purposes in this tax period.

7.5 Exemption from the payment of customs duties

Specifically, mining companies registered with the Mining Investments Registry shall be exempt from the payment of import duties and taxes regarding the import of capital goods, special equipment or spare parts of such goods, and inputs deemed necessary for conducting mining activities by the enforcement authorities. In virtue of this benefit, certain restrictions to the sale of goods imported under this system apply.

7.6 Provision for environmental expenses

The companies must book a provision for environmental expenses, which may be deducted from the Income Tax assessment. The latter may not exceed 5% of extraction and benefit operating costs

7.7 Income tax exemption regarding income from mining contributions and rights

Income tax exemption regarding the capital gain derive from the contribution of mines and mining rights, as capital contributions, in companies engaged in performing the activities regulated by this system. Certain requirement should be met.



In Argentina, the general legal framework for labor matters is comprised of a series of regulations.

The minimum standards legally imposed on employer-employee relationships in Argentina are primarily governed by Employment Contract Law (Law No. 20,744). These minimum standards can be increased through collective bargaining agreements or even through individual agreements signed between employers and their employees.

Collective bargaining agreements play a significant role in labor regulation, especially because they are legally binding and often cover a wide range of industries or industrial sectors. In fact, the majority of workers are covered by a collective labor agreement.

Once a company is established and its primary activity is determined, it must register with the most representative labor union according to the services provided by its employees.

In this particular case, there is no collective bargaining agreement specifically applicable to

lithium extraction tasks. Nevertheless, Collective Bargaining Agreement No. 38/89, signed between the AOMA (Argentine Mining Association) and the Argentine Chamber of Mining Entrepreneurs, applies to all blue-collar workers engaged in extractive mining operations. This includes tasks such as prospecting, exploration, mine development, mineral extraction, crushing, grinding, concentration and refining of minerals, as well as gypsum extraction and calcination.

Therefore, lithium extraction activities fall within the broad category of extractive activities defined by Collective Bargaining Agreement No. 38/89.

Lastly, as mentioned at the beginning of this section, it is important to note that, based on the Argentine federal system, provinces reserve the right to regulate procedural aspects related to permits and concessions and may establish specific regulations that supplement the minimum federal requirements.

Summary of employer and employee contribution rates:

	Employer %	Employee %
Retirement	10.77 (a)	11.00 (c)
INSSJP (pensioner's health care organization akin to Medicare)	1.59 (a)	3.00 (c)
Family allowances	4.70 (a)	-
FNE (Federal Employment Fund)	0.94 (a)	-
Statutory health care organization	6.00 (b)	3.00 (c)
TOTAL	24.00	17.00

References:

(a) Such percentages are applied on the total compensation, with no limit. The amount of ARS 7,003.68 will be deducted from the tax base over which the social security contribution rate is applied per payroll employee as gross compensation. Similarly, for companies whose primary activity falls within the mining sector, the contributions earmarked for social security amount to 18%.

(b) Such percentages are applicable to the total compensation, with no limit.

(c) These percentages apply to the employee's compensation, up to the monthly cap of ARS 957,320.12 (in effect since September 1, 2023). This cap is updated quarterly during each year.

Employers can compute a VAT credit for the contributions paid, the amount of which depends on the taxable compensation and the region where the employees are located.

Furthermore, among other situations, in the case of personnel who regularly perform tasks in mining or open-pit operations, directly extracting mining products (according to section 1 of Decree No. 4257), employers are required to make an additional 2% contribution on the total compensation of these employees (as per Decree No. 633/2018).

Bolivia

A wide-angle photograph of a salt flat in Bolivia. The foreground is a vast, flat expanse of white salt with some darker, wet patches. In the middle ground, there are numerous small, conical mounds of white salt. The background shows a range of low mountains under a dramatic sky with large, white, fluffy clouds and a deep blue upper portion.



Contacts:

Juan Pablo Vargas
juan.vargas@bo.ey.com
Tax Partner

Sandra Vásquez
Sandra.Vasquez@bo.ey.com
Tax Senior Manager

Lithium is an alkali metal and the lightest existing on the planet and due to its high reactivity it does not occur in nature in free form, but only as part of a chemical compound.

According to a report issued by the Geological Institute of United States (January 2021) Bolivia, Argentina, Chile, Mexico and Peru control 67% of the world's reserves. The main world reserves of lithium in millions of tons are: Bolivia (21), Argentina, (19.3), Chile (9.6), Australia, (6.4), China (5.1), Canada (2.9), Germany (2.7), Mexico (1.7).

Bolivia, Chile and Argentina concentrate the largest reserves of lithium resources in their territories. It is common to use the term *lithium triangle* to describe the lithium brine deposits existing beneath the salt flats located in these three South American countries. A striking fact is that Bolivia, despite being the country with the largest estimated lithium resources, does not yet have certified reserves.

In the past, exploration studies were conducted and various institutions were founded to analyze evaporitic resources in Bolivian salt flats, especially in southwestern Potosí.

In a second stage, an institute called Complejo Industrial de Recursos Evaporíticos del Salar de Uyuni (CIRESU) was created to manage the salt flat and the idea was defended that the State should control its resources to promote the progress of the region. A contract with a company was rejected in 1990 due to concerns about the alienation of natural resources and lack of social participation. Finally, after tensions and negotiations, an international tender was held, and FMC Corporation-LITHCO obtained the concession, although it later resigned in 1993, on the grounds that Bolivia did not offer complete legal security.

Lithium became a strategic resource, and its exploitation and industrial development was entrusted with Corporación Minera de Bolivia (COMIBOL). A complete lithium extraction project was initiated in the Salar de Uyuni, fully financed by the State, which included research, exploitation and production of lithium-ion batteries. Funds from COMIBOL and loans from the Bolivian Central Bank (BCB by its Spanish acronym) were used.

Bolivia»»

In 2017, Yacimientos de Litio Bolivianos (YLB) was created, to develop advanced energy technologies. In 2018, YLB partnered with the German company ACI Systems to continue the lithium project, forming a joint venture called YLB-ACISA; however, concerns arose in Potosí, including the length of the partnership for 70 years, the composition of the board, royalties and certain features of the contract. This led to a conflict and eventually, the president of Bolivia annulled the association.

YLB carried out an international call for the Direct Extraction of Lithium in 2021. This is an exploitation project that seeks to extract lithium from the brine of the salt flats in a sustainable way, without the need to go through the traditional process of conversion of lithium carbonate.

The international call was open to companies and consortiums interested in participating in direct lithium extraction projects in the salt flats of Uyuni, Coipasa and Pastos Grandes. This initiative aimed to attract investments and know-how to accelerate the development of the lithium industry in Bolivia.

The call established detailed requirements and conditions for participants, including technical, financial and environmental aspects. Interested companies had the opportunity to submit proposals detailing their plans for lithium extraction, as well as their commitment to sustainable practices and benefits for local communities. It is publicly known that Chinese, Russian and American companies expressed interest in the project and to date there is still not a firm contract for its development.



1. Legal framework

Bolivia commonly produces and exports raw materials (e.g., ore concentrates); In addition, the main minerals exploited are: gold, zinc, silver, tin, lead, ulexite, antimony, tungsten and copper.

Currently, there is no express legal framework that defines in detail how the lithium business will be regulated in Bolivia; however, the general rules applicable to the exploitation of lithium in Bolivia are:

- a) The Political Constitution of the State, of 9 February 2009, which defines the treatment of strategic natural resources. It establishes that these must be under the management of the State, so that the granting of concessions to private companies is not allowed; but the development of projects through contracts with private companies or the constitution of joint ventures is allowed (article 351°).
- b) Law N° 535 (Mining and Metallurgy Law) of May 28, 2014, which defines lithium and potassium as strategic resources (article

26); therefore, the entire production process of both resources is under the direction and control of the State, through public cooperative or community entities and these can contract private companies and set up public-private companies.

- c) Law N° 929, of April 27, 2017, created YLB so that through this entity the lithium production chain or at least the first stages of production (basic chemistry according to article 73) are managed. In later stages, such as semi-industrialization and industrialization, private companies will be able to establish alliance contracts with the State.

YLB is an entity that depends on the Ministry of Hydrocarbons and Energy.

Bolivia»



2. Tax framework

a) Royalties

In general, royalties have percentages (1% to 7%) that depend on the type of operation and the types of assets exploited. In all cases, the basis of calculation is the gross value of the sale. The Ministry of Mining and Metallurgy determines official quotations by reference to the London Metal Exchange. In the case of lithium, the defined royalty is 3% on the gross sale value.

b) Taxes on sales

To date there is no regulatory framework that defines the taxation of domestic sales or exports of lithium, so it is expected the application of the general regime, which mainly contains the following taxes:

- Value Added Tax (VAT). Local sales are taxed with VAT whose rates are 13% and is applied on the price including VAT itself. Bolivia follows a system of VAT debits and credits. Exports are out of scope of VAT (taxed at a rate of 0%). Tax inputs that are generated and linked to exported goods can be returned to exporters.
- Transaction Tax (IT). It applies to all types of transactions in Bolivia with a rate of 3%, there are some exemptions that for example include exports.

c) Income taxes

To date there is no regulatory framework that defines the taxation on incomes derived

from lithium business, so it is expected the application of the general regime, which mainly contains the following taxes:

- Corporate Income Tax (CIT). Resident Bolivian companies are subject to the tax with a rate of 25%, this tax operates with the source principle. The income of non-residents is subject to a tax rate of 25% on an estimated tax base.

Taxable income equals taxable income minus allowable deductions. Taxable income includes ordinary and extraordinary income. Deductions include expenses incurred in producing taxable income or incurred in conducting a business in order to produce taxable income.

- Additional rate to extraordinary profits from extractive activities of non-renewable natural resources. An additional 25% is applied on the income obtained by extractive businesses. This tax is calculated on profits with deductions of: (i) up to 33% of the accumulated investment since 1991, and (ii) 45% of the gross income of each extractive operation (for example, a field or a mining site), with a threshold of BOB250 million for each extractive operation.
- Additional aliquot of CIT. To the extent that the exploitation of lithium is classified as a mining operation, 12.5% must be applied on CIT taxable income if the company carries out exploitation activities or 7.5% if the company carries out manufacturing activities that add value.

Bolivia»»

d) Other relevant tax aspects

- Use of losses

A Bolivian source loss incurred in one year may be carried forward to offset the taxable income derived in the following three years. Loss carry-overs are not subject to adjustment for inflation. For the oil and mining production sector and new projects with a minimum capital investment of BOB1 million, the carry-forward period is five years. In the case of reorganization of companies, the carry-forward period is four years.

- In general, capital gains are taxed in Bolivia with the CIT.
- Profits derived from reorganizations of companies (i.e., mergers, divisions or transformations) are not taxable.
- Bolivia has signed double taxation treaties with Argentina, France, Germany, Spain, Sweden and the United Kingdom of Great Britain and Northern Ireland. It has also signed the Andean Pact, which includes a fiscal treaty, with Colombia, Ecuador and Peru.



Brazil

I. OVERVIEW



Contacts:

Jose Peixe
jose.peixe@br.ey.com
 Tax Partner

According to data from United States Geological Survey⁸, Brazil is the 5th world's largest lithium producer and is responsible for 1.7% of global production with approximately 1% of the world reserves.

Table 1 - Main minerals in Brazil (2022)

Minerals	Total reserve (in thousands of tons)	Brazilian reserve as % of global reserves	Total production (in tons)	Brazil's ranking in global production
Iron	34,000,000	18.9%	410,000	2 nd
Bauxite	2,700,000	8.4%	33,000	4 th
Nickel	16,000	16.8%	83,000	9 th
Niobium	16,000	94.1%	71,000	1 st
Copper	11,212	1.6%	318,000	15 th
Lithium¹	250	0.96%	2,200	5th
Gold	2,4	4.4%	60	14 th

According to the U.S. Geological Survey, Mineral Commodity Summaries, January 2023.

Considering Brazil's Resources/Reserves ratio, the country has a relatively high ratio, which indicates a favorable scenario in terms of sustainability and economic efficiency in the extraction of this strategic mineral. With this, it is understood that, potentially, a significant part of the estimated reserves has

⁸ United States Geological Survey - Mineral Commodity Summary report for 2023

been identified as economically viable for extraction, in addition to minimizing the waste of natural resources, reducing the environmental impact associated with mining.



Total Reserves and Resources are in Ton. Source: U.S. Geological Survey, Mineral Commodity Summaries, January 2023

1.1 Main lithium reserve's location

According to ANM, Brazilian reserves are mainly concentrated in the states of Minas Gerais (in Jequitinhonha Valley), Ceará, Rio Grande do Norte, Paraíba, Tocantins, Goiás and Bahia.

The main portion of Brazil's lithium wealth lies in the northeast region of the State of Minas Gerais, region known as the Jequitinhonha Valley. The subsoil of the Jequitinhonha Valley holds 85% of Brazil's lithium reserves, and according to Brazil's Ministry of Mines and Energy (MME) the mineral extracted in this region boasts a triple-zero standard, being devoid of carbon, harmful chemicals, and waste products.

The Ministry of Mines and Energy, through its Geology, Mining and Mineral Transformation

program, launched a project to assess the potential of lithium in Brazil, encompassing technical analyses in order to expand the knowledge about pegmatite-related lithium deposits in the country. The first phase of the project was concluded in 2016 and studied the region of Jequitinhonha Valley, where most operations are located in. The second phase of the project was concluded in 2021 and published in 2022 and studied the Borborema Pegmatitic Province in the northeast region, the study identified new potential areas for lithium extraction and is currently an area with increased exploration activity.

1.2 The rise of Brazilian lithium market

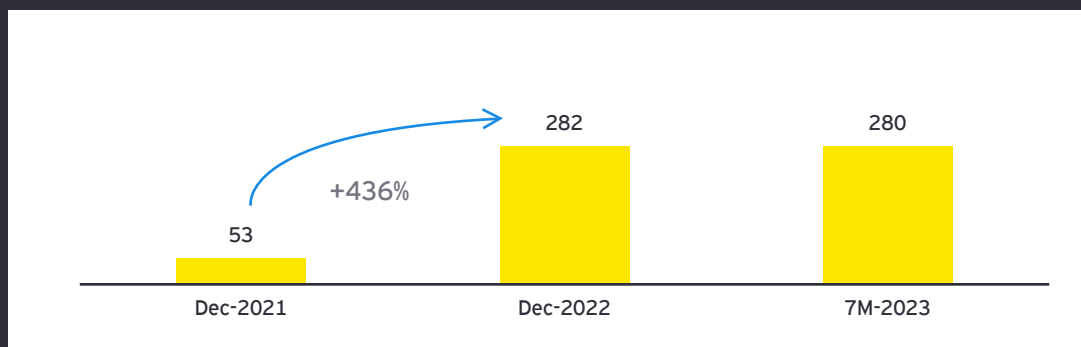
An emerging trend is directing greater attention toward critical metals such as lithium. This pivot is a response to the growing importance of green initiatives, resulting in a surge in drilling operations within these sectors, achieving record-breaking levels. Furthermore, environmental, social, and governance (ESG) considerations are instigating adjustments in the business strategies of international mining firms, investors, and governments, all working to reconfigure their portfolios and plans to align with a more sustainable, low-carbon presence.

This increase in demand has boosted the Brazilian government's prospects about the energy transition, which over time (especially

since 2020) has led to measures to make it less bureaucratic and more attractive for private companies to exploit metals that are considered strategic in the culture of decarbonization. In addition, higher purity⁹ of Brazilian lithium contributes to better sustainable standards in its extraction and, consequently, greener energy solutions.

As a result, there has been a growth in the sector's revenues over the last four years. In 2022, the market grew by 436% compared to 2021. Following the first batch of green lithium exports in 2023, the production as of July, totaled the revenues of the entire 2022.

Chart 3 - Brazil's Lithium Market Value (in USD millions)



Source: MME (Ministry of Mines and Energy)

Among the minerals extracted in Minas Gerais, the top mineral-producing state in Brazil, lithium has risen from 11th place in terms of revenue to 3rd

place from 2021 to 2023. The top positions are occupied by iron ore and gold ores, respectively.

⁹ Ministry of Mines and Energy (MME) - Social plan for the use of Brazilian lithium resources is a priority for the Ministry of Mines and Energy

Brazil

These factors position Brazil as a significant player in the global lithium market, particularly as the demand for lithium-ion batteries continues to rise with the transition to electric vehicles and renewable energy sources. Brazil's lithium resources, characterized by its high degree of purity³, are poised to meet this growing demand and contribute to sustainable energy solutions.

exploration, marking a significant milestone in the country's efforts to harness its lithium potential. According to the National Mining Agency, the total number of ongoing processes for exploration authorization and mining concession in Brazil reached 1,596 in September 2023, with 8 already approved mining concessions and 231 exploration authorizations.

In recent years, Brazil has witnessed a substantial surge in research investment dedicated to lithium

Chart 4 - Mapping of processes for exploration authorization and mining concessions for lithium in Brazil



Source: ANM (National Mining Agency)

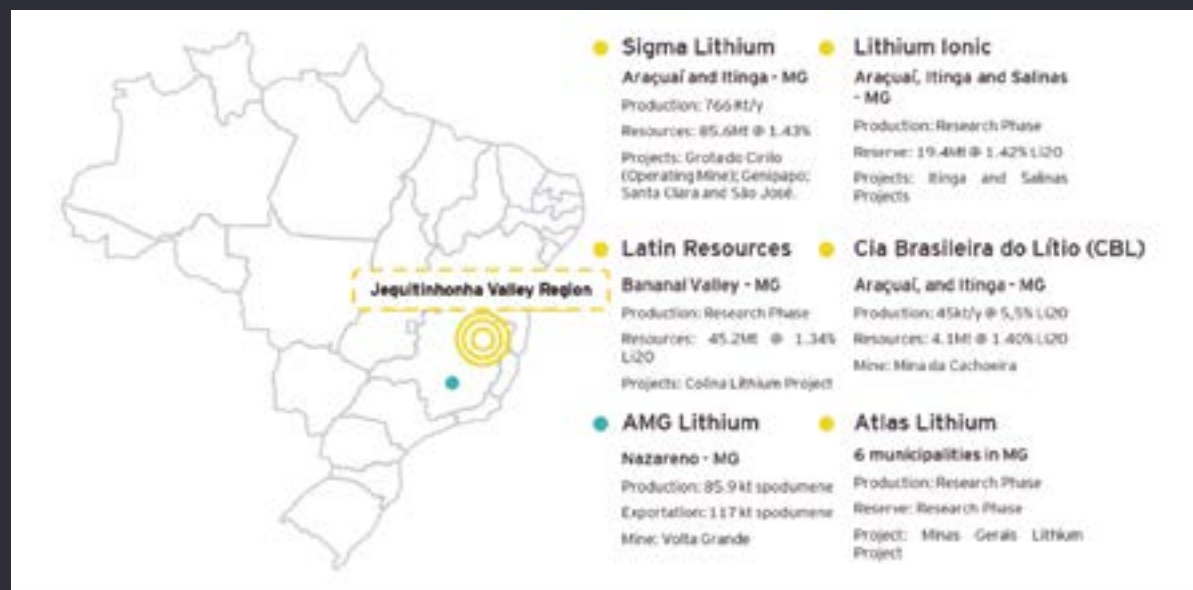
1.3 Main companies investing in Brazil

Brazil's lithium potential has been attracting companies seeking to tap into the country's lithium reserves. According to ANM¹⁰, the country has more than 200 companies actively engaged in mining processes regarding lithium extraction. Among these, the majority have secured active exploration authorizations and a few others hold active mining concessions, indicating room for more companies to harness this growing market potential. Accordingly, this industry presence underscores Brazil's pivotal role in satisfying the global demand for lithium, positioning the nation as a prominent player in the sector and

highlighting the significance of its lithium-rich regions in the ongoing global transformation.

Nowadays, Minas Gerais is the only state that already produces lithium and has the most advanced projects in terms of approvals and structuring. The state already has two operating companies which, until 2022, were the only players operating in the market. Following the recent government incentive both legally and economically for lithium production, Brazil has major international players with projects at an advanced stage and/or already in operation, as we can see below:

Chart 5 - Main Operating Companies in Brazil's Lithium Market

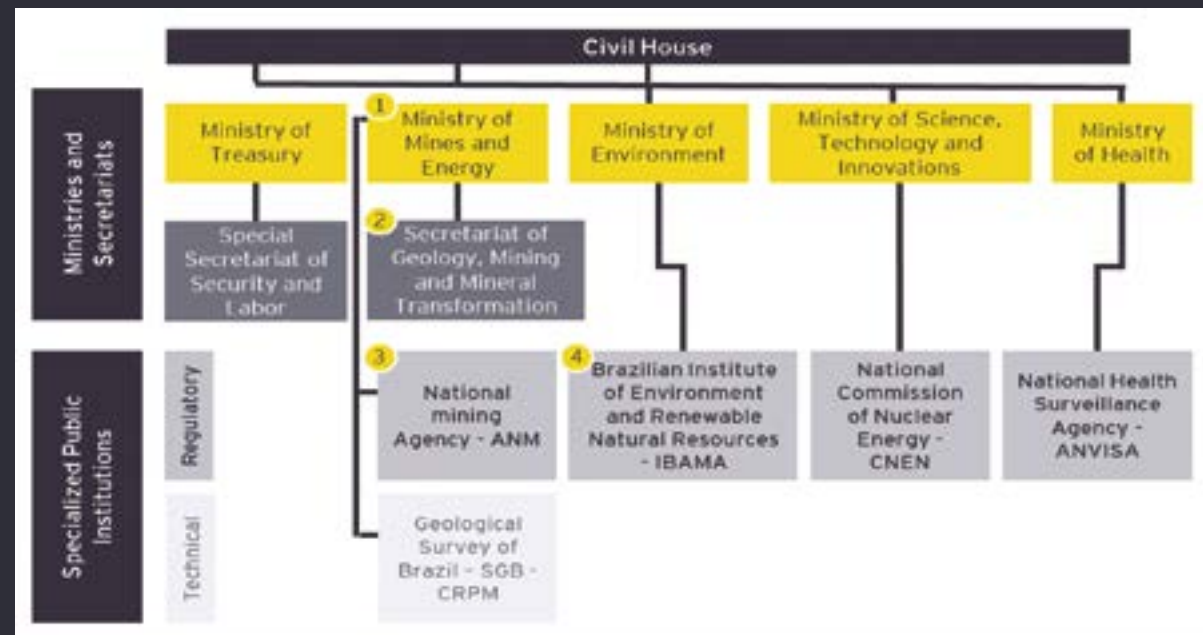


Source: Companies' website.

¹⁰ Ministry of Mines and Energy (MME) - responsible for creating and guarantee the practice of public policies related to energy and mineral resources from the country.

II. Mining Regulatory Framework

In Brazil, the main government agencies related to mining activities are federal agencies, with state agencies playing a major role in environmental licensing.



Brazil

1

Ministry of Mines and Energy (MME)

- responsible for creating and guarantee the practice of public policies related to energy and mineral resources from the country.

2

Secretariat of Geology, Mining and Mineral Transformation

- elaborates studies and propose actions to the sustainable development of the mining activity.

3

National Mining Agency (ANM)

- is the federal agency responsible for implementing mining and exploration in Brazil. Is ANM who oversee the authorizations, permits, concessions and licenses processes.

4

IBAMA - It's the federal environmental authority, involved in the environmental licensing for mining when the activity will be undertaken in federal areas or may impact one, as well when the area is across two, or more, states.

-

State Environment Agencies - Those are state agencies, which oversees the environmental licensing of mining operations within their state.



a. General Mining Legislation Overview

Mining legislation in Brazil is based on the Federal Constitution and the Mining Code. The Mining Code is reference for authorizations, permits, concessions and licenses.

Main Licenses

There are two main licenses issued by ANM, which are authorization for exploration and concession for mining, described below:

Mineral Rights Licensing

1. Exploration Authorization

- ▶ This authorization is to locate and define minerals deposits, also to determine economic viability of its exploration.
- ▶ Applications are made to the ANM and must include an exploration plan. Once granted, authorizations are valid for up to three years, with a possibility of extension, and an annual fee per hectare must be paid.
- ▶ By the end of the exploration work, a report must be submitted to ANM, enabling the authorization holder to request for a mining concession.
- ▶ May require a contextual EIA RIMA study, depending on how the exploration impacts the local environment.

ANM approval

2. Mining Concession

- ▶ The concession gives the rights to the holder to develop its mining operations in the mining lease subject.
- ▶ Mining concessions are issued either by MME or ANM, depending on the mineral and have an indefinite duration, valid through the total depletion of the mine.
- ▶ The rights holder must, once a year, report to ANM about the mine conditions and production status, as well as pay royalties to the federal government (CFEM).
- ▶ Requires an operating license.

Other permits and licenses

- Environmental licensing is regulated either by the state environment agency or by IBAMA;
- The mining company that holds a concession for mining should present a plan of retirement of the mine. This plan should be updated every 5 years;

- Federal police and the army are responsible to certificate the importation, storage and handling controlled explosives and chemical products.

Environmental Licensing process

The environmental licensing process goes through three consecutive phases that, each, unlocks a set of permissions for the company

Environmental licensing process

1. Preliminary license ("LP")

- ▶ At this stage must be prepared a Social and Environment Impact Assessment ("EIA RIMA") and a plan for the restoration of degraded areas. Usually there are public hearings to present the EIA RIMA to communities and authorities;
- ▶ Environmental authority will set the environmental compensation, which is a minimum of 0.5% of the projected development investment.

SEMAS approval

2. Installation license ("LI")

- ▶ During this stage, the company must elaborate an Environmental Control Plan ("PCA") and other documents;
- ▶ Once the PCA is approved the LI is granted;
- ▶ With the LI the company may start the construction of the mine, plant and infrastructure. Also, the LI is a requirement to obtain the mining concession from the Minister of Mines.

LI granted

3. Operating license ("LO")

- ▶ Once the development and construction are ready, in accordance with the LI and PCA, through the LO the company is authorized to mine, process and sell their production, from the environmental perspective.

Dam safety law

ANM also regulates the dams in mining operations. Currently, the regulation prohibits upstream dams where the containment dikes are supported by the deposited tailings itself.

The mining company also must maintain a safety plan for the dam, that should contain, among other items, an emergency plan in case of a disaster.

b. Lithium Regulatory Overview and Current Situation

Since 2021, amid the increase in demand for lithium and other minerals relevant to the energy transition, the Ministry of Mines and Energy considered lithium to be a strategic mineral through the promulgation of Decree 10,657/21, which subsidized the preparation of the National Mining Plan 2050. This change helped in reducing the bureaucracy regarding the mineral extraction and trading, which previously had its industrialization, import and export activities governed by the guidelines of the National Nuclear Energy Commission.

Accordingly, other regulatory measures have followed in the next couple of years changing

the perspective of the lithium regulatory market, as follows:

Decree 11,120

On July 6, 2022, Decree 11,120 was published, marking an important milestone for the Brazilian lithium market. This decree authorizes foreign trade operations involving lithium minerals, ores, and their derivatives.

Its main objective was to boost the opening and development of the national lithium market, with the aim of making Brazil more competitive globally and attracting investment in research, mineral production, beneficiation, production of components and batteries, i.e., the entire lithium value chain.

As a result, the Ministry of Mines and Energy expects the attraction of investments exceeding USD 2.9 billion in the Jequitinhonha Valley region in Minas Gerais by 2030. This area holds most of the country's lithium mineral reserves, and lithium production is expected to create more than 7,000 direct jobs in mining, along with over 84,000 direct and indirect jobs throughout the production chains.

Lithium Mining and Industrial Cluster - Bill 1,992/20

Despite its potential for lithium extraction, the Jequitinhonha and Mucuri Valleys are areas where approximately 49% of the population living in poverty or extreme poverty, according to data from the Brazilian Institute of Geography and Statistics (IBGE). It suffers from limited investments, a low Human Development Index (HDI), and a lack of economic diversification.

Accordingly, measures are being studied by the state of Minas Gerais. Bill 1.992/20 aims to establish the Lithium Mining and Industrial Cluster in the Jequitinhonha and Mucuri Valleys, creating a conducive environment for investment and sustainable growth. The bill provides for the creation of an industrial cluster to strengthen the lithium value chain, a special tax regime, a set of government guidelines to further incentivize and fund initiatives, among others.

Lithium Valley

In May 2023, Brazil launched the Lithium Valley Brazil initiative, marking its entry into the global lithium market race. Led by the government of Minas Gerais state and the Ministry of Mines and Energy, this initiative aims to attract international investments for lithium exploration in the state's northern region, which holds Brazil's largest lithium reserve. Several mining companies,

including Sigma Lithium, Atlas Lithium, Lithium Ionic, and Latin Resources, are already active in the region. This development is expected to boost the Brazilian automotive industry and reduce reliance on imported lithium.

Brazilian National Bank for Economic and Social Development

Additionally, government policies are being considered to support sustainable lithium supply chain development. Brazilian National Bank for Economic and Social Development (BNDES) announced the launching of a USD billion green bond fund to support the exploration of strategic minerals in Brazil. The fund will raise money abroad and invest in projects that boost mining industry and help Brazil to meet its goal of becoming a global leader in the production of critical minerals.

Brazil

Expected investments

According to IBRAM, the Brazilian mining industry plans to invest around USD 50 billion in the next five years (2023 to 2027), throughout an array of initiatives, such as ESG, strategic minerals, logistics, among others.



Preliminarily, it is relevant to point out that the lithium industry, following what happened for other mining companies, does not have a special regulatory framework or different from the general tax regulatory framework applicable to any other industry from a Brazilian tax standpoint.

Having noted the above, the main elements that must be considered regarding income tax, VAT and other taxes will be addressed below; and then briefly address some taxes or regulatory frameworks that directly apply to the lithium industry.

a. Corporate Income Tax (CIT) and Social Contribution Tax (SCT)

Brazilian resident companies are subject to CIT on their worldwide income. Companies resident in Brazil are those incorporated under the Brazilian laws. Foreign branches, agencies or representative offices of Brazilian companies are also subject to Brazilian tax on their income earned overseas. In general, foreign-source losses may not offset Brazilian-source income. A foreign tax credit is available¹¹.

The basic rate of CIT is 15%, increased by a surtax of 10% on annual taxable profits exceeding BRL240,000 (approximately USD48,000). Tax losses may be carried forward indefinitely but can only offset up to 30% of the company's taxable income for a tax period. No carryback is allowed. The same rules apply to SCT. Exemption from, or reduction of, CIT is granted to businesses in certain underdeveloped areas.

In addition to CIT, SCT is imposed on worldwide income. SCT is levied at a general rate of 9%.

CIT and SCT are due on a company's taxable income, which is the net book income, as adjusted by the tax law. In general, operating expenses are deductible if the following conditions are satisfied: they are necessary,

¹¹ A foreign tax credit is available to Brazilian companies on income taxes paid overseas. In general, the foreign tax credit is limited to the amount of Brazilian CIT and SCT on the foreign-source income. Compliance with certain formalities is required to support the foreign tax credit.

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usual and common to the company's activity; they are actually incurred; and they are supported by proper documentation.

As to the lithium industry, it should be noted that there are expenses of special relevance, given regulations applicable to companies that exploit the mineral. Also there are other numerous expenses derived by the necessity of capital goods and labor force.

Also, relevant to mention that there are certain tax reform bills being discussed in Brazil. The most advanced bill (approved by the House of Representatives but still pending approval by the Senate) proposes that the CIT be reduced from 34% to 26% (potentially 27%, depending on other factors under discussion). The likelihood of this bill being approved in 2023 is uncertain.

b. Transfer Pricing Rules (Alignment towards OECD standards)

Brazilian transfer-pricing rules apply only to cross-border transactions entered into between Brazilian companies and foreign related parties. A transaction entered into between a Brazilian company and a resident of a low-tax jurisdiction or a resident in a jurisdiction with a privileged tax regime is also subject to the transfer-pricing rules, even if the parties are not related.

Until recently, Brazilian transfer-pricing rules did not follow the transfer-pricing guidelines outlined in the Organization for Economic Co-operation and Development (OECD) Model Convention and the US rules. However, a new law, published in the Brazilian Federal Official Gazette (Diário Oficial da União - DOU)

on June. 15th 2023, establishes a transfer pricing (TP) framework in Brazil that is aligned with the guidelines provided by the OECD.

The new TP model set forth in Law No. 14,596 of June, 14th 2023 (Law 14,596/23) aims to integrate Brazil into the global value chains and mitigate both double taxation and double nontaxation scenarios. Moreover, this new TP system will likely remove one of the main obstacles associated with tax-credit recognition in the United States (i.e., foreign tax credits) arising from income tax paid and/or withheld in cross-border transactions involving Brazil.

Brazilian taxpayers may opt to adopt the new TP system aligned with the OECD guidelines in 2023. To do so, taxpayers must inform the Brazilian Tax Authorities (RFB) between September, 1st and December, 31st 2023. The new TP system will be mandatory for all taxpayers as of January, 1st 2024.

On September 29th 2023, the Brazilian Internal Revenue Authority (RFB) published Normative Instruction no. 2,161 that regulates Law No. 14,596/23, which deals with the new transfer pricing rules in Brazil based on the Arm's Length principle ("ALP").

The Normative Instruction ratified that the OECD guidelines ("OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administration 2022") will serve as a subsidiary source for applying local transfer pricing standards and can be used by taxpayers as a reference for applying the ALP.

Brazil

The publication of Law 14,596/23 and its Normative Instruction 2,161/23 are a milestone for Brazil and represents a new chapter in the country's international operations. It is expected that the TP framework will draw new foreign direct investments and help integrate Brazil into global value chains. This change goes beyond the tax system, as it affects the operating models of multinationals with a presence in Brazil.

Regarding the transfer pricing specific analysis for commodities, one of the main technical aspects of the new model is that the Comparable Uncontrolled Price (CUP/"PIC") method would be the most appropriate method according to the Brazilian Law 14596/2023 and the Brazilian Normative Instruction 2161/2023. When discussing the application of the PIC method, the Normative Instruction paid special attention to transactions involving commodities, providing definitions of the products that fall into this category, as well as the quotation price that can be used to apply the method. Along these lines, it indicated that prices that refer to quotations or indexes obtained from recognized and reliable global sources, such as commodity exchanges, research agencies or government agencies, and which are also widely and routinely used in pricing by unrelated parties, will be accepted as a reference.

If there is reliable information, whether from external comparable (stock exchange quotes, publications or agencies) or internal, the IN indicates that the PIC method will be considered the most appropriate, which

will not happen when the taxpayer can demonstrate that another method would present a result more in line with the Arm's Length principle. A good example of this situation occurs when public prices are not appropriate for transfer pricing control, as in the case of quotes from stock exchanges with low liquidity.

This aspect is particularly relevant to the mining industry since minerals (such as lithium) are commonly classified as commodities under the transfer pricing perspective. However, it is not quite clear if lithium follows the commodity definition since it can be traded in different stages of industrialization so a deeper analysis would need to be done. Thus, if lithium is stated as a commodity, the PIC method will be most appropriate to be applied.

c. Value-added taxes (VAT)

Currently there are five types of value-added tax in effect on Brazil: Social Integration Program ("PIS"), Social Security Financing Contribution ("COFINS"), State value added tax ("ICMS"), Federal value-added tax ("IPI") and Municipal Tax on Services ("ISSQN").

The Gross Receipt Contributions (PIS/COFINS) are social contributions based on turnover, which are levied on companies' gross revenue, on a monthly basis. Exports are not subject to PIS/COFINS.

Social Integration Program (PIS) tax is levied on gross income at a rate of 1.65%. The tax is a non-cumulative¹² (VAT-type) tax

¹² PIS/COFINS taxpayers who use the noncumulative system are entitled to calculate PIS/COFINS credits to offset PIS/COFINS payments.

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for certain taxpayers. Certain companies are subject to the cumulative regime and make the contribution at a 0.65% rate. The tax is also levied on imports of goods at a rate of 2.1% and on services at a rate of 1.65%, in most cases. However, for certain imported goods, different effective rates apply. In certain cases, the rate might be reduced to 0%.

Social Security Financing Contribution (COFINS) is levied on gross income at a rate of 7.6%. The tax is a non-cumulative (VAT-type) tax for certain taxpayers. Certain companies are subject to the cumulative regime and make the contribution at a 3% rate. The tax is also levied on imports of goods at a rate of 9.65% and on services at a rate of 7.6%, in most cases. However, for certain imported goods, different effective rates apply. In certain cases, the rate is reduced to 0%.

State value added tax (ICMS) is managed by the individual states in Brazil. The states set the level of taxation, but the Brazilian federal government may set the minimum rate (rates ranging from 0 to 35% for supplies in the same state - the standard rate in the Southeast states is 18% - and 4%, 7% or 12%, for supplies made to a taxable person in a different state). ICMS applies to the following transactions carried out in Brazil, even if the transaction begins abroad: (i) the circulation of goods, (ii) the importation of goods, (iii) the supply of transportation between states and between municipalities, (iv) the supply of communication services and (v) the supply of electricity. Exports of manufactured goods and raw materials are exempt from ICMS.

Federal excise tax (IPI) is charged by Brazil's federal government on national and



foreign “finished goods” (rates ranging from 0% to 300% depending on the IPI tariff table classification for goods). “Finished goods” are goods produced as a result of an industrial process, even if the process is incomplete, partial or intermediary. The mere extraction of minerals is not subject to IPI, once it is considered a raw material and not a finished good.

Municipal Tax on Services (ISSQN) is a form of sales tax payable to municipalities in Brazil (rates ranging from 0% to 5% depending on municipality and nature of service). It applies to the supply of any service that is not otherwise taxable by the state authorities (ICMS). The general list of taxable services is outlined in federal law (complementary law). A foreign company providing services outside Brazil in full for the benefit of a Brazilian recipient may be subject to ISSQN (withheld by the Brazilian entity) even if a nonresident pays for the services

when exporting). To measure the value of credits that can be accounted for, the company must calculate the percentage of taxable revenues over the total revenue.

An ICMS taxpayer may also recover the tax levied on inputs (that is, obtain a credit) for VAT charged on goods and services supplied to it that were subject to another taxable transaction. An ICMS taxpayer generally recovers the tax levied on inputs by deducting it from the one levied on outputs.

IPI taxpayers deduct IPI levied on inputs from the IPI charged in outputs. The rules are similar to those that applies for ICMS.

For ICMS and IPI purposes, taxes levied on inputs may not be recovered on purchases of goods and services that are not used for business purposes (for example, goods acquired for private use by an entrepreneur or general overhead costs) or on goods acquired before registration as a regular taxpayer.

If the amount of the recoverable tax levied on inputs exceeds the amount of tax levied on outputs, the excess is generally not refunded. However, the excess may be used to offset tax payments in the following months or may be transferred in certain cases to a third party in exchange of payment. This transfer, though, is only allowed ICMS purposes.

ICMS tax refunds are a special concern for the mining industry since the export of raw materials are exempt or not subject to taxation. Once the

i. VAT credits recovery

PIS and COFINS taxpayers who adopt the noncumulative system are entitled to calculate PIS and COFINS credits to offset PIS and COFINS payments. Credits are limited to certain costs¹³. For PIS/COFINS the company can keep the whole amount of credits that were recovered when the inputs were purchased and certain services taken. However, for IPI and ICMS when selling a product that is exempt, the company must reverse the amount of credits related to such items (except

¹³ PIS and COFINS legislation allow taxpayers to deduct credits on certain expenses, such as the purchase of raw materials. The concept of raw materials has been discussed over a number of years, but in 2017 a court decision ruled that all expenses that are connected to the production process and are considered relevant or essential to perform the manufacturing process shall be considered as expenses with the right to deduct the credits of PIS and COFINS.

majority of the sector's operations are destined abroad and considering that ICMS credits can be maintained by taxpayers in case of exportation. The downside is that credit volumes accumulate without being able to be adequately compensated. In this regard, the only alternative that arises is the transfer of credit to a third party, usually applying a discount. However, not every federal state allows this kind of transfer. Those that do present certain legal restrictions and bureaucratic procedures.

In the case of PIS and COFINS, the credit accumulation is usually mitigated by the fact that there is legal provision for compensation with other federal taxes (such as CIT and SCT).

ii. VAT tax reform

Notoriously ranked as one of the most complex tax systems in the world, Brazil's legislative framework for indirect taxes will go through significant amendments in the coming months.

Although the expectation is that this change will bring major simplifications when compared to the current system, the fact is that the new tax system will promote a wide range of changes in the market, with changes in tax burden and products pricing with a potential decrease in the "weight" of tax factors on allocation decisions and productive investments.

As proposed in PEC 45, the new tax model will work by replacing the current five VAT taxes (PIS, COFINS, ICMS, IPI and ISSQN) by only two (IBS and CBS) followed by an excise tax.

One of the major aspects that affect the mining industry relies on the change of the credits

accumulation that will be address by a prompt refund granted by a Federal Council.

The PEC 45 has already been approved by House of Representatives and is waiting for deliberation by the Brazilian Senate. Changes on the original project may be expected.

d. Other tax and mining royalties (CFEM and TFRM)

Financial compensation for Mineral exploration (CFEM) was created by the 1988 Federal Constitution, in article 20, §1º, as a way of guaranteeing the state restitution for the exploited resources.

Payment of this compensation is due by every mineral rights holder, which carries out mining activities and will be collected on the occasions listed as following:

- (1) The first exit due to the sale of mineral assets;
- (2) The act of auction, in cases of mineral assets acquired at public auction;
- (3) The act of first acquisition of a mineral asset extracted under the mining permit regime; and
- (4) The consumption of mineral goods.

The rates applicable to CFEM it is set in the Annex of Law 13.540/2017. In the specific case of lithium mineral exploration, the appropriate rate is 2% (two percent) according to the following table¹⁴:

¹⁴ Furthermore, the aforementioned 2% rate will apply to the following operations:

(1) In the sale, on the gross revenue from the sale, deducting the taxes levied on its commercialization;

Rate	Mineral Substance
1% (one percent)	Rocks, sand, gravel, gravel and other mineral substances when intended for immediate use in civil construction; ornamental rocks; mineral and thermal waters
1.5% (one whole and five tenths of a percent)	Gold
2% (two percent)	Diamond and other mineral substances
3% (three percent)	Bauxite, manganese, niobium and rock salt
3.5% (three whole and five tenths percent)	Iron, observing letters b and c of this Annex

Finally, we mention the Bill (“PL”) No. 4367/2023 which is being processed in the House of Representatives to authorize the union to establish the lithium social fund and increase the applicable rate to 4%, however it is highlighted that the project is not yet scheduled to complete the legal process.

Other than the CFEM, also relevant to mention that in some states, such as Minas Gerais, Mato Grosso, Pará and Amapá, there is a tariff charged by state governments for monitoring and auditing mining activities. The tariff is not charged due to the extraction itself, but rather for monitoring the mining activity.

Created based on article 23, XI, of the Federal Constitution, the TRFM has already had its constitutionality confirmed by the Supreme Court in ADI 4785 and its calculation basis is the volume of ore extracted.

However, the amount collected under the TRFM is generally insignificant in relation to the operation carried out and we can mention as an example the state of Minas Gerais, which article 7th of Decree No. 45,936/2012, defined that the rate will be 1 (one) UFEMG (Federative Unit) per ton extracted, which results in approximately R\$ 5.04 per ton, in the year 2023, according to resolution 5,630/ 2022.

(2) In consumption, on the calculated gross revenue, considering the current price of the mineral good, or its similar, in the local, regional, national or international market, as the case may be, or the reference value, defined based on the value of the final product obtained after completion of the respective processing process;

(3) In exports, on the calculated revenue, considered as a calculation basis, at least, the parameter price defined by the Brazilian Federal Revenue Secretariat of the Ministry of Finance, based on article 19-A of Law No. 9,430, of December 27, 1996, and in the complementary legislation, or, in the event of no parameter price, the reference value will be considered, observing the provisions of §§ 10 and 14 of this article;

(4) In the case of mineral assets acquired at public auction, on the auction value; or

(5) In the event of extraction under the mining permit regime, on the value of the first acquisition of the mineral asset.

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Finally, TFRM is directly linked to the choice of the State that will host the operation, and the calculation basis, rate, incidence, and triggering event may vary.

- e. Special considerations for the industry regarding incentives and tax regulatory framework

The Brazilian government has issued laws providing tax incentives to support R&D activities and increase investments in Brazil. The following topics are the main programs applicable to R&D expenses and the acquisition of CAPEX (machinery, apparatus, instruments and equipment) and OPEX (operating expenses or expenditure).

There are also local state incentives that are mentioned below and a new tax framework that is being discussed in the state of Minas Gerais.

- i. **R&D deduction (Law 11,196/2005)**

A super deduction of 160% to 200% is available to taxpayers with eligible expenses. The “standard” super deduction is 160% of eligible R&D expenses. If a company increases its number of contracted researchers during a calendar year when compared with the average number of contracted researchers in the prior calendar year, the amount of the super deduction increases. If the number of contracted researchers increased up to 5%, an extra deduction of 10% is available (resulting in a total super deduction of 170%); if the number of contracted researchers increased by more than 5%, an extra deduction of 20% is available (resulting in a total super deduction of 180%). In addition, if a company registers intellectual

property (IP) in Brazil, an extra 20% deduction is available.

The R&D deduction is applicable to expenses incurred by Brazilian entities, and contract research or greenfield investments are not normally eligible. Unused R&D deductions cannot be carried forward or carried back. To receive the R&D deduction, taxpayers are required to present tax clearance certificates to the tax authorities; however, no preapproval process is required to obtain the R&D deduction.

Eligibility is not limited to a specific industry. Under Law No. 11.196/2005, technological innovation is defined as “the conception of a new product or production process, as well as the inclusion of new functionalities or characteristics in the product or process resulting in additional improvements, effective quality or productivity increase, as well as competitiveness increase in the market.”

In general terms, innovation activities eligible for tax benefits are related to scientific and technological stages adopted by taxpayers in the development and implementation of products and/or processes, resulting in productivity gain and incremental improvements. Qualifying expenses include payroll costs, materials, machines, equipment, raw materials for tests and some local expenses directly related to the R&D in Brazil. Third-party costs can also be considered; however, there are specific rules to follow to obtain the incentive.

Taxpayers can also receive a reduction on federal excise tax (IPI) for eligible R&D activities. Under the IPI reduction, a 50% reduction is available on the IPI levied on instruments, equipment, machinery, apparatus and tools imported by

Brazilian companies or dedicated to R&D activities performed in Brazil. To receive the IPI reduction, taxpayers are required to claim the incentive upon acquisition.

Legislation also provides for a super deduction of up to 250% of eligible expenses made available for innovation projects executed by Scientific and Technological Institutions (ICT)¹⁵, which was further explored through the enactment of Decree No. 9.283 in February 2018.

ii. Accelerated depreciation (Law 11.196/05)

R&D legislation allows companies to accelerate the depreciation, for tax purposes only, on R&D assets. Depreciation of 100% is available on eligible R&D assets upon the same year of acquisition.

Accelerated depreciation is applicable to current investments. The R&D deduction is claimed through the income tax return filed in July of the subsequent year.

iii. Capital Expenditure (CAPEX)

- ▶ Ex-Tarifário - consists of the temporary reduction of the tax rate on the importation of capital and computer and telecommunications goods, recorded in the Mercosur Common External Tariff (TEC),

respectively as BK or BIT, in cases where there is no production national equivalent of these goods. BK or BIT standard rates are usually 14% (variations may occur between 12% to 18%) and the benefit can reduce the rate to 0%, being a very important cost saver in the transaction.

The concession of the regime is regulated by Ministry of Economy Ordinance nº 512/2023. The temporary reduction of the Import Tax granted by the regime will be valid for a determined period, defined by the Government's discretion (usually up to 2 years), and may be renewed. Once the reduction is granted to a specific equipment, any company can import this equipment enjoying the benefit, regardless of which company carried out the Ex-Tarifário request, as the benefit is linked to the equipment and not to the requesting company. The imported products need to fit exactly into the configuration's setup described in the Ex-Tarifário. In general, Ex-Tarifários are approved within 3 to 4 months.

- ▶ **Special Regime of Capital Assets Acquisition to Exporting Companies (RECAP)** - Law 11,196/2005 and regulated by Decree n. 5.649/05 and Normative Instruction n. 1.911/2019 issued by the Federal Revenue Service, which guarantees to mainly exporting taxpayers the suspension of PIS/COFINS taxation upon new Capital Assets imports and internal acquisitions, as

¹⁵ Scientific and Technological Institutions are entities of the direct or indirect public administration, or private nonprofit legal entities legally constituted under Brazilian laws, aiming to use the basic or applied scientific or technological research for the development of new products, services and processes. Innovation projects must be previously authorized by a permanent committee formed by members of the Ministry of Science, Technology and Innovations; Ministry of Development, Industry, Global Trade and Services; and the Ministry of Education. This tax incentive cannot be cumulated with the "standard" super deduction of 160% to 180% mentioned above.

listed (by NCM) on Single Annex of Decree n. 5.789/06.

- ▶ **Special Tax Regime for the Renewal and Expansion of Port Structures (Regime Tributário para Incentivo à Modernização e à Ampliação da Estrutura Portuária, or REPORTO):** is what allows, in the importation of machinery, equipment, spare parts and other goods, the suspension of the payment of the import tax, the tax on industrialized products, the contribution to the PIS / PASEP-Import and COFINS-Import, when imported directly by the beneficiaries of the regime and destined to their fixed assets for exclusive use in the execution of services of: - loading, unloading, storage and movement of goods and products; II - supplementary operational support systems; III - environmental protection; IV - security systems and monitoring of the flow of people, goods, products, vehicles and vessels; V - dredging; and VI - training and training of workers, including the implementation of Professional Training Centers. The suspension of the payment of the import tax and the tax on industrialized products becomes an exemption after the expiry of the period of 5 (five) years, counted from the date of occurrence of the respective generating event. (art. 473 of the Customs Regulation and art. 3 of IN RFB No. 1,370/2013.
- ▶ **CONFAZ Agreement nr. 52/1991** - Through the CONFAZ ICMS Agreement nº 52/1991, Brazilian states agreed on granting the fiscal benefit of the ICMS tax basis reduction to operations involving the acquisition of industrial machines, devices and equipment listed on Annex I of the Agreement. The benefit consists on effectively reducing

the ICMS tax basis to an 8,80% tax burden (depending on the NCM/HS Code) . On internal transactions and imports the tax burden will be 8,80% or 5,14%.The tax advantage may be automatically implemented by the taxpayer, with no need of previous authorization by the Tax Authorities, provided that the good's NCM code is listed in the agreement. However, the CONFAZ Agreement nº 52/1991 must be indicated under the "additional information" field of the invoices, related to this type of transaction.

iv. Operational Expenditure (OPEX)

- ▶ **Drawback** - as foreseen on article 383 of Decree 6.759/09 and regulated by the SECEX Ordinance. 208/2022 and the RFB/ SECEX Joint Ordinance n. 467/10, is the possibility of exemption or suspension of federal taxes on the imports and internal acquisitions of inputs that will be fully used on the manufacturing process or on the packing materials of products that will be exported in the near future. The taxes that are suspended on inputs imports are the Import Duty, PIS, COFINS and IPI and, on internal acquisitions are PIS, COFINS and IPI. AFRMM is also suspended on the import of inputs on this regime. When the Regime is granted, the Foreign Trade Office - SECEX will issue a Concession Act, indicating the approved imports, internal acquisitions and exports balances that must be followed within the course of one year. The deadline may yet be extended for another year. Suspension of ICMS is also admitted only on the importation under the modality

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“integrated suspension”, by force of ICMS Agreement 27/1990.

- ▶ **Industrial Warehouse Under Computerized Customs Control - RECOF SPED:** a special customs regime that enables companies to import or acquire in the local market with suspended taxes (Import Duty [II], IPI, PIS, COFINS, Marine Fee (AFRMM) and ICMS (only the states of São Paulo [SP], Rio de Janeiro [RJ] and Parana [PR]) goods that will be used in the industrial process for export destination or sales in the local market.
- ▶ **Mainly Exporting Company - “EPE”** - another Export tax incentive offered by the Brazilian government to the companies established here is the opportunity of requesting its classification as a Mainly Exporting Company. This status guarantees to the beneficiary companies the suspension of PIS, COFINS, and IPI on the import and internal acquisition of raw materials, intermediate products and packing materials that will integrate the manufacturing process of goods to be exported in the future. PIS and COFINS are also suspended on the freight to transport raw material, intermediate products, packing materials and the goods to be exported by the companies enrolled on the Special Regime. To require the status of Mainly Exporting Company, the applicant must have, throughout the calendar year that immediately precedes its enrollment, at least 50% of its gross revenue deriving from export activities, after the exclusion of taxes and contributions levied upon the sales.

v. CAPEX & OPEX

- ▶ **Export Processing Zones (ZPE)** - the ZPE`s were created through the Decree Law nr. 2,452/1988, replaced with the Law nr. 11,508/2007, and modified by law No. 14,184/2021, sanctioned the new Legal Framework of Export Processing Zones, with the intention of reducing regional disparities and incentivize the economic and social development of the country. They are free trade areas with other countries, destined to the installation of companies dedicated to the production of goods to be commercialized abroad. According to article 6 of the aforementioned Decree, companies established in these zones will be benefited with the suspension of the Import Duty (II), Federal VAT (IPI), Social Contributions (PIS/COFINS, as well as PIS Import and COFINS Import) and Additional Freight for Merchant Marine Renewal (AFRMM), upon the local acquisition of goods and services, as well as imports. These benefits will last for 20 years, counted from the normative act authorizing the installation of the company in the ZPE. with the possibility of extension of equal period.

vi. ICMS Special Regime

- ▶ State VAT is due on the circulation of goods and the provision of some services. Considering that ICMS is a State Tax, each State shall enact their own legislation to define applicable rates and the criteria to charge the ICMS. In this sense, each State can define especial regimes according to their own legislations. In our experiences with previous cases, we accompanied

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companies that successfully obtained the deferral, suspension or exemption of the ICMS on their acquisitions in various Brazilian States. In fact the possibility of obtaining a special regime will vary according to the tax authorities. It is important to highlight that EY has good contact with the State Secretaries and can assess companies in obtaining these benefits.

vii. **Lithium Mining and Industrial Hub in the Jequitinhonha and Mucuri Valleys**

A bill is being processed in Minas Gerais state that aims to create a lithium mining and industrial hub in the Jequitinhonha and Mucuri valleys. This is bill No. 1,992/2020, which establishes as objectives the strengthening of the lithium mining and industrial production chain and encouraging the exploration, processing and commercialization of industrialized products using lithium.

Among other measures, the bill authorizes the granting of a special tax regime for companies that have set up facilities for processing and production in the region's municipalities.

The project is currently awaiting an opinion from the environment and sustainable development committee, with no vote or approval expected.





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I. OVERVIEW



Contacts:

Alicia Dominguez V.
Alicia.Dominguez@cl.ey.com
Tax Partner

Matías Moroso V.
Matias.Moroso@cl.ey.com
Tax Senior Manager

Chile has an important potential in lithium resources contained mainly in the pre-Andean salt flats (i.e., Atacama, Maricunga and Pedernales) and also in the Andean salt flats (i.e., La Isla, Pajonales, Las Parinas and Aguilar), which has allowed its position as the world's second largest producer due to the exploitation of the Atacama salt flat.

There are several sources of lithium worldwide, including salt flats in closed basins, pegmatite rocks, lithium-enriched clays, brines in salt flats and lithium-enriched zeolites. At present, the extraction of brines from salt flats is the most common.

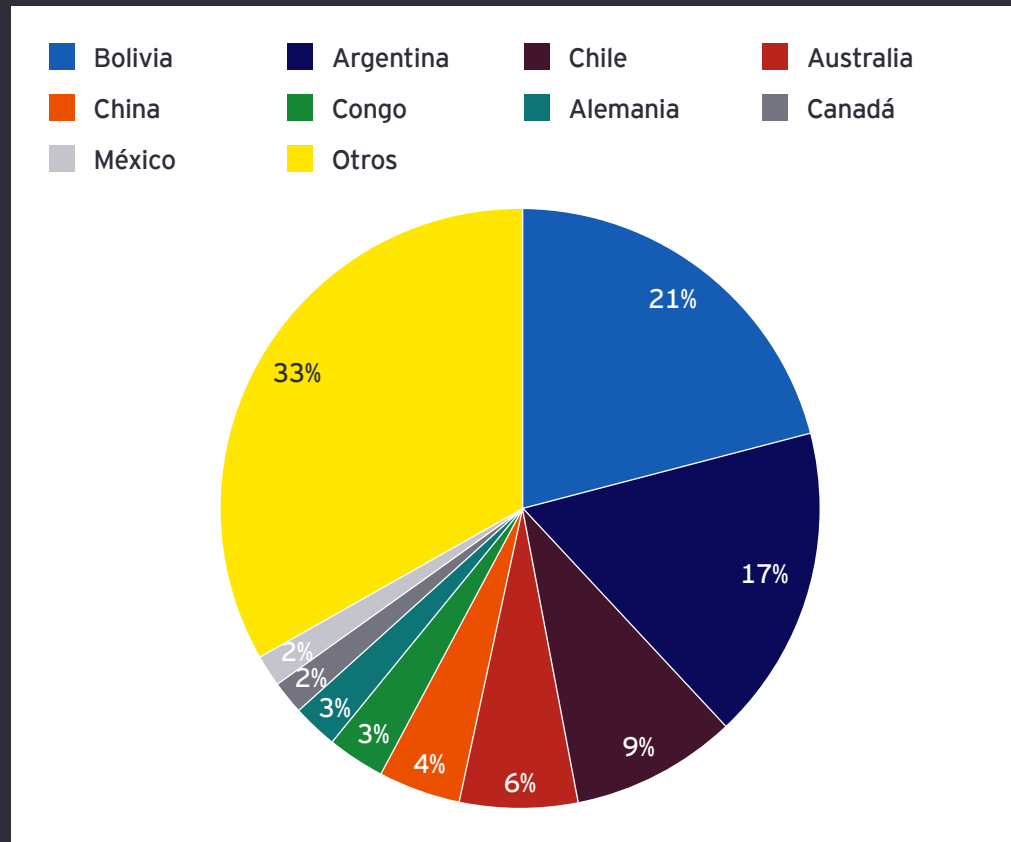
There is a difference between lithium resources and lithium reserves. Lithium resources are the amount of natural lithium concentration on earth that has been quantified and can be extracted or processed with the available technological means.

The reserves are the part of the resources that are technically, legally and economically feasible to be extracted or processed.

Among the countries with the most important lithium resources worldwide are Bolivia with 21% of the resources, followed by Argentina with 17%, Chile with 9%, Australia with 6.3%, China with 4.5%, Congo with 3%, Germany with 2.5%, Canada and Mexico with 1.7% of the world's lithium resources¹⁶.

¹⁶ Mineral Commodity Summaries, USGS, 2023.

Chart No. 1: Distribution of lithium resources in the world by country



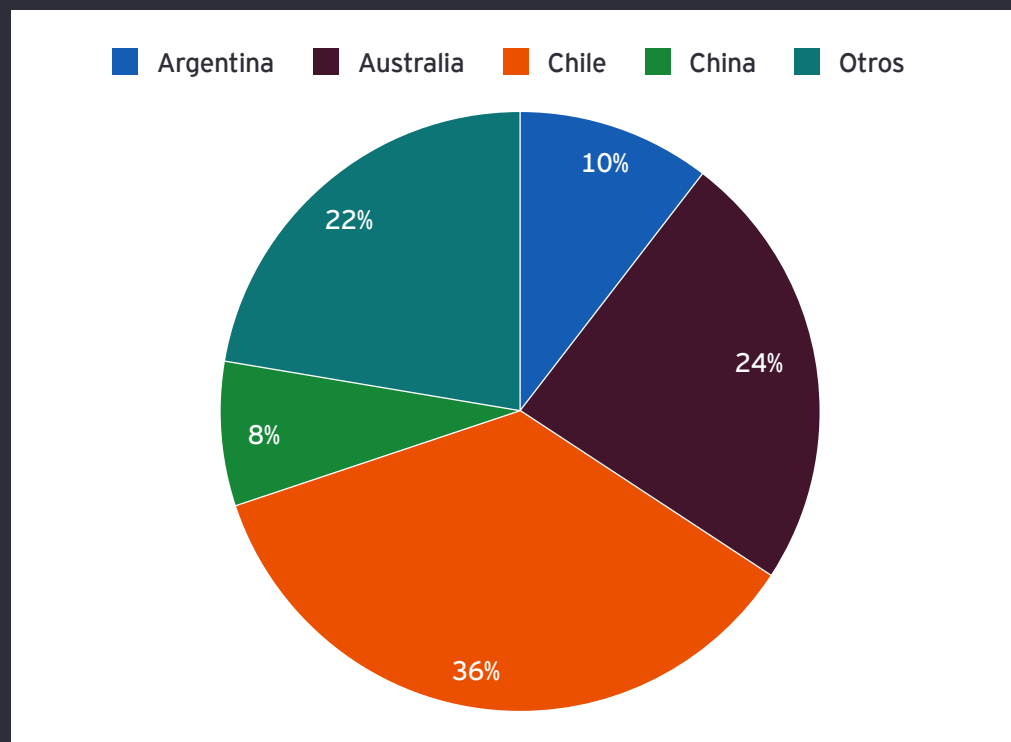
Source: EY with data from U.S. Geological Survey, Mineral Commodity Summaries, 2023.

On the other hand, in terms of globally identified reserves¹⁷, Chile has the largest amount with 36% of the world's lithium reserves, followed by Australia with 24%, Argentina with 10% and China with 8%¹⁸.

¹⁷ World lithium reserves vary over the years, as various factors such as processing, metallurgy, infrastructure, economic, marketing, legal, environmental, social and governmental factors play a role in the evaluation of lithium reserves.

¹⁸ Mineral Commodity Summaries, USGS, 2023.

Chart No. 2: Distribution of lithium reserves in the world by country



Source: EY with data from U.S. Geological Survey, Mineral Commodity Summaries, 2023.

In recent years, the production of this mineral has increased steadily in the country, estimating that in 2022 lithium production in Chile was approximately 39,000 metric tons, which means an increase in production of more than 37% compared to the previous year.

According to data presented by the Undersecretariat of International Economic Relations¹⁹, in Chile in 2021 the export value of lithium carbonate with a purity percentage

of 99.2% or higher was US\$ 535.2 million, while in 2022 this value reached US\$ 3,647.5 million, which represents an increase of 581%. Meanwhile, the export value of other carbonates was US\$ 297.6 million in 2021, while in 2022 it reached US\$ 3,826.4 million, an increase of 1,185%. The export value of lithium hydroxide with a purity percentage greater than or equal to 56.5% increased from US\$ 95.4 million to US\$ 437.2 million between 2021 and 2022, equivalent to US\$ 3,826.4 million, an increase of 358%.

¹⁹ X-ray of the lithium market: An international trade perspective - Undersecretariat of International Economic Relations.

Chart No. 3: Export value of lithium

Type	Year 2021 (MM USD)	Year 2022 (MM USD)	Increase
Lithium carbonate with a purity percentage of 99.2%	535.2	3,647.5	581%
Other carbonates	297.6	3,826.4	1,185%
Lithium hydroxide with a purity percentage greater than or equal to 56.5%	95.4	437.2	358%

Source: EY with data from the Undersecretariat of International Economic Relations of Chile report.

The substantial increase in the total value exported is explained by the price increase at the beginning of 2022. In 2021 the average price of lithium carbonate with a purity percentage greater than or equal to 99.2% per ton was US\$ 6,721, in 2022 it averaged US\$ 34,370. The average price of other lithium carbonates was US\$ 6,331 per ton in 2021, rising to US\$ 45,991 the following year. Consequently, the country's fiscal revenues associated with lithium have experienced a strong increase since 2022.

- **Chilean Exploiters**

In Chile, the mineral is extracted by the companies SQM Salar and Albemarle, which make payments to the Treasury through two channels: 1) lithium mining lease contracts with CORFO; and 2) tax revenues from Corporate Income Tax.

- **Tax Collection**

Based on estimates provided by Corfo, the Autonomous Fiscal Council ("CFA" for its Spanish acronym) estimated total lithium tax revenues in 2022 at around US\$5 billion. This figure would

correspond to 1.6% of GDP and 6.4% of total tax revenues. The CFA emphasizes that lithium tax revenues are not published in individualized form in official statistics, so this estimate is a preliminary approximation.

However, in the case of SQM, the sums paid to Corfo for the contracts that allow it to exploit the lithium in the Atacama salt flats are published in its annual reports.

Chart No. 4: SQM payments to Corfo

Year	MUS\$
2022	3,272,897
2021	247,604
2020	74,418
2019	143,861
2018	182,954

Source: EY with information provided in SQM Annual Reports

- **Global Demand**

Global lithium consumption in 2022 has been estimated to record a level of 134,000 tons, representing a 41% increase over 2021, when global consumption was estimated at 95,000 tons. The increase in consumption was reflected due to the increased demand for lithium and the battery manufacturing, mainly because rechargeable lithium batteries are widely used in the growing market of portable electronic devices, in addition to power tools, electric vehicles and grid storage applications.

Chart No. 5: Percentage of lithium end use year 2022

Uses	Year 2022
Batteries	80%
Ceramics and glass	7%
Lubricating greases	4%
Flux powders for continuous casting molds	2%
Air treatment	1%
Medical use	1%
Other uses	5%

Source: U.S. Geological Survey, Mineral Commodity Summaries, 2023.

Regarding the lithium demand projections for 2030, the Chilean Copper Commission ("COCHILCO" for its acronym in Spanish)²⁰ has stated the following:

*"We estimate the lithium demand to increase from 327kt Lithium Carbonate Equivalent (LCE) in 2020 to 2,114 kt LCE in 2030, a compound annual growth of 21%. This increase rests on the projected higher consumption of lithium-ion batteries from the automotive sector. Indeed, we anticipate the electric vehicle segment to grow from 41% of aggregate lithium consumption in 2020 to 73% in 2030."*²¹

Also, the Budget Directorate of the Ministry of Finance ("DIPRES" for its acronym in Spanish) has pointed out that although higher revenues may be good news, from a fiscal point of view they may represent a challenge for fiscal sustainability. Given the importance of the increase in the number of resources coming from this source, it is worth analysing whether they are transitory or could contain some cyclical component.

Therefore, DIPRES conducted a study in which it concluded that the resulting threshold for the projections made in 2023 corresponds to 0.35% of GDP for the current year and 0.3% of GDP for the medium term (2024-2027).

Then, given the lithium revenue projections, a Prudential Adjustment of 0.3% of GDP is calculated for 2023, 2024 and 2025, 0.2% of GDP for 2026, and 0.1% of GDP for 2027.

²⁰ Comisión Chilena del Cobre (COCHILCO) is a technical agency of the State of Chile, whose function is to advise the Government on matters related to the production of copper and its by-products, as well as all metallic and non-metallic mineral substances, except coal and hydrocarbons.

²¹ The lithium market: Recent development and projections to 2030 (year 2021) - COCHILCO.

- **Ownership and right to exploit**

Lithium was declared as of “nuclear interest” in 1976. In 1979 lithium was constitutionally declared as of “National Interest” and a non-concessional mineral reserved primarily for the State of Chile.

Article 19 No. 24 of the Political Constitution of the Republic of Chile establishes that the State has absolute, exclusive, inalienable, and imprescriptible dominion over all mines, and the law is responsible for regulating the form of exploration, exploitation, and benefit of such mines.

The Mining Code establishes that lithium is a mineral that is not subject to mining concessions and may be explored and exploited directly by the State or its companies, or by means of administrative concessions or special operating contracts.

Therefore, by virtue of the aforementioned regulations, the current law establishes three types of lithium exploitation in Chile:

- i. By the State or by its companies,
- ii. By means of an administrative concession²²; and
- iii. By a special operating agreement (“CEOL” for its acronym in Spanish).

CEOLs correspond to administrative contracts through which the State of Chile, represented by the Ministry of Mining, authorizes a third party to explore, exploit and benefit lithium deposits, in accordance with the conditions and requirements established by the President of the Republic on a case-by-case basis.

In 2018, the Ministry of Mining signed a CEOL with a subsidiary of Codelco (Salar de Maricunga SpA)

²² To this date, no administrative concessions has been subscribed.

for the exploitation of the Maricunga salt flat. The project is currently in the exploration stage and has not yet obtained an environmental permit. It is important to mention that, to this date, this is the only CEOL subscribed in Chile.

freely exploit the lithium from these properties, subject to compliance with current environmental regulations and the Chilean Nuclear Energy Commission authorization for the sale and storage of lithium.

Notwithstanding the above, owners of lithium mining properties declared prior to 1979, can

Chart No. 6: Mining properties declared prior to 1979

Owner	Salt flat	% Ownership of the area
Corfo	Atacama	54,6%
CODELCO	Pedernales and Maricunga	100% and 18%
ENAMI	Aguilar	4%
Privates ²³	Maricunga	25%

Source: 2018 Chile Ministry of Mining.

Currently, there are two main players developing and exploiting lithium in Chile, namely Albemarle Chile Limitada (“Albemarle”) and the Sociedad Química y Minera de Chile (“SQM”). Both companies are authorized to exploit lithium under contracts signed with CORFO over its lithium concessions at the Atacama Salt Flats, which were acquired at the time lithium was considered a concessional mineral (prior 1979). These contracts establish the payment of a rent and a percentage of sales to CORFO, which is incremental with the price, in exchange for the right to exploit lithium in the area.

The current contract between CORFO and Albemarle has been in force since 2017 (until 2043), while the current contract between CORFO and SQM’s entered into force in 2018 (until 2030).

A new competitor is on the radar, Minera Salar Blanco has been developing a project at the Maricunga salt flat for seven years. It has already invested US\$ 71 million, and this year announced the intention to invest US\$ 700 million more.

Also, after counting with an approved Environmental Qualification Resolution and

²³ Minera Salar Blanco, controlled by the Australian junior Lithium Power International, and the alliance between Cominor, of the group led by Francisco Javier Errázuriz Ovalle, and the Singaporean Simbalik, called Simco.

a favourable indigenous consultancy, at the beginning of 2023, announced the start of works to produce lithium in “Proyecto Blanco”.

In conclusion, in Chile there are two parallel regimes for the exploitation of lithium, namely, concessions granted before 1979, and concessions and contracts granted after that date. Of the latter, only one CEOL has been signed with CODELCO.

- **Tax Treatment**

- a) **Corporate Income Tax**

In general, a Corporate Income Tax (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 Additional Tax (AT), a withholding tax 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.

- b) **Dividend distribution**

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 AT or GIT to use the CIT paid by the entity distributing such dividends or profits as credit in the AT 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 in force with Chile (DTT Country), 100% of the CIT paid over the distributed dividends or profits would be available as CIT credit 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.

In general, a 35% tax rate applies over the distribution of dividends or profits to foreign shareholders, owners, or partners of Chilean CIT taxpayer entities (AT). As explained under section, 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 payable AT. As a result, total tax burden would be 44.45%.

- c) **Tax losses**

Losses derived from the commercial activities of the Chilean entity in the relevant commercial year, may be deducted as 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 Chilean IRS and Supreme Court rulings have also established that tax loss audit faculties to be exercised by the Chilean IRS are not subject to any statute of limitation.

d) Stamp Tax

In general terms, all documents evidencing monetary credit operations are subject to ST at the time of its issuance. Monetary credit operations consist in 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:

- (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.

Stamp Tax is an allowed expense for CIT purposes.

e) Property Tax

Under Law 17,235, a Property Tax, at a rate ranging from 1% to 1.4% on yearly basis, is applied to real estate property. The rate to be imposed depends on the real estate's qualification as agricultural or nonagricultural. This rate is calculated on the fiscal value of the real estate. The Property Tax Law provides the following surtaxes:

Global surtax: Applicable over the sum of fiscal values of all the real estates owned by the same taxpayer and correspond to progressive rates ranging between 0% (to overall fiscal value lower than USD 616k) to 0.425% (to overall fiscal value equal or higher than USD 1.3m).

Nonagricultural real estate surtax: Applicable to nonagricultural real estates, to the extent that they are located in urban territory and are undeveloped or abandoned or correspond to ballast wells.

Chilean Law grants certain taxpayers the opportunity to use the sums paid on account of Property Tax as credit against the CIT. If the conditions set forth by the Law to use the Property Tax as credit are not met, such tax may be deducted for income tax purposes.

On the other hand, there are benefits and exemptions available for qualified taxpayers or real estate.

f) Contribution for Regional Development

Law 21,210 establishes a Contribution for the Regional Development (CRD), which has a rate of 1% and is applied on the acquisition value of all the physical goods of the fixed assets in the part that exceeds the amount of USD 10 million.

It applies to CIT taxpayers who are taxed based on effective income, determined according to full accounting records, who made investments in projects:

- That comprise the acquisition, construction, or importation of physical goods of the fixed assets for a total value equal to or greater than USD 10 million; and
- That must be submitted to the environmental impact assessment system according to article 10 of the Law 19,300.

The contribution is accrued from the first fiscal year in which the project generates operational income, provided that the definitive reception of work has been obtained by the respective Municipal Works Directorate, or if the referred reception is not applicable to the project, that the Superintendence of the Environment has been informed by the management.

The CRD must be declared and paid to the Chilean Treasury, in April of the following year of the accrual of the contribution, or, in up to 5 annual instalments from the time of its accrual.

g) Value Added Tax

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

The VAT levied on the acquisition of goods or services and imports gives the acquirer/recipient the right for VAT credit, as long as the taxpayer is engaged in the sale of good or the provision of services subject to VAT.

VAT credit equals the VAT charged in the invoices supporting acquisitions of goods, utilization of services, import or other operations subject to VAT.

When said taxpayer sells goods or renders services subject to VAT, the VAT so charged becomes a VAT debit, which may be offset with the carried-forward VAT credit.

As per VAT methodology, the VAT credits offset the VAT debits, being the positive

difference, the VAT owed. If VAT credits remain after offsetting the VAT debits, this balance could 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 exports.

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 be offset against any tax liability or request its cash refund.

h) Mining patent

Lithium explorers and exploiters must pay a mining patent, equivalent to 1/10 of a monthly tax unit (circa USD 8) for each hectare in the case of exploitation, and 1/50 of such unit (circa USD 5) for the same extension if it is for exploration.

i) Specific Tax on Mining Operation

The Specific Tax on Mining Operation is levied on mining exploiters. It is applied over the operational mining income of the taxpayer.

Rate varies depending on the amount of the annual sales and the mining operational margin of the taxpayer:

- If annual sales are less than the equivalent of 12,000 refined copper tons: exempt.

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- If annual sales are superior to the equivalent of 12,000 but less than the equivalent of 50,000 refined copper tons: from 0.5 to 4.5%; and
- If annual sales exceed the equivalent of 50,000 refined copper tons: effective rate varies from 5 to 14% depending on the mining operational margin. Mining operational margin is defined as the ratio of the net operating mining income divided by the mining revenues.

To determine the tax rate, it is important to consider that sales made by related entities are attributed to the taxpayer.

The refined copper ton value is informed on a yearly basis by the Chilean Copper Commission.

This tax must be filed and paid annually, although provisional monthly payments applicable toward the annual tax liability must be made at a 0.3% rate over monthly sales of the mining product. The advance payment rate may be adjusted year to year to consider the actual annual tax liability.

Additionally, the Specific Tax on Mining Operation is a deductible expense for CIT purposes.

The net operational mining income is determined on the basis of the net taxable income of the company for CIT purposes with certain adjustments.

Regarding this mining tax, a particular debate has arisen in the lithium industry,

since, the Chilean Constitution and the Mining Code consider lithium to be a non-concessional metal, so the application of the specific mining tax has been questioned²⁴. Currently there are lawsuits in the courts to clarify these issues.

From January 1st, 2024, a new Mining Royalty will be in force for miners' exploiters under the terms and conditions included in Law N° 21,591. This new royalty will repeal the Specific Mining Tax.

Holders of a Foreign Investment Contract as of December 1st, 2004, protected by a general tax stability and/or a tax stability under Article 11 bis of the Foreign Investment Statute (or DL 600) will not be affected by the new Mining Royalty.

The new Mining Royalty establishes the following components:

- Ad-valorem component: 1% ad-valorem tax rate shall apply to mining companies producing and selling more than 50,000 tons of fine copper. If the operating margin of the company is negative, this tax will not be payable.
- Margin component: The margin component will be differentiated depending on the sales and annual production of copper.

j) **Prospecting and Exploration expenses**

As a rule, during this stage only mining license fees and sometimes land taxes are

²⁴ It has been said that in principle, it is not applicable to lithium exploiters considering they do not meet the definition of mining exploiter, since for such purposes the exploitation must be on concessional minerals and lithium is not concessional under Chilean law. However, it could still be applicable to Lithium concessions granted prior to 1979 as the mineral at that time was still a concessional mineral.

paid. These disbursements are deducted from a CIT perspective. Disbursements incurred during this phase must always be considered as organization and start up expense, which may be amortized in up to six years, starting from the date expenses were incurred or when the mining company earns income from its main activity, if later.

k) Exploitation and Expansion expenses

Exploitation disbursements associated to the preparation of the units or sector that will be exploited, alongside the direct costs of exploitation, such as the direct labor spendings, raw materials and supplies directly related to the goods, shall be considered as part of the costs of the minerals under the terms regulated in the CITL. Therefore, the cost of the minerals will have an impact in the results of the company upon its sale or export.

Regarding to pre-stripping costs, they shall be treated as organization and start-up expenses, which may be amortized in up to six years starting from the date expenses were incurred or when the mining company earns income from its main activity, if later.

Expenditures that improve infrastructure, production capacity or the useful life of the assets, could be seen as investment in fixed assets subject to depreciation tax rules. Maintenance disbursements shall be considered as expenses of the year in which such disbursements occurred and following the general requirements for its deduction, from a tax perspective. Repairs, if they extend the life of the respective asset, shall be considered as an investment in fixed assets subject to depreciation tax rules.

l) Green Tax on Fixed Sources

As of January 1st, 2023, the Green Tax on Fixed Sources will be levied on Particular Matter (PM), NOx, SO2 and CO2 emissions into the air produced by establishments whose emitting sources, individually or collectively or, emit 100 or more tons of PM per year, or 25,000 or more tons of CO2 per year. Excluded from the application of the tax are emissions associated with hot water boilers used in services linked exclusively to personnel and generators with a power of less than 500 kWt.

From February 25th, 2023, taxpayers subject to the Green Tax on fixed sources, may offset all or part of their taxable emissions for purposes of determining the amount of tax payable through the implementation of projects to reduce emissions of the same pollutant (or comparably known as "offsets"), subject to such reductions being additional, measurable, ascertainable and permanent.

m) Tax Incentives

- Incentive for investment in research and development (tax credit against the FCT):

Tax credit imputable to the CIT, corresponding to 35% of the total disbursements in R&D projects duly certified by CORFO (in-house) or for payments to certified research centers. The maximum amount of the credit, per year and per each legal person or tax ID, cannot exceed 15,000 monthly tax units (approx. USD 1.2 million). This tax credit is non-refundable. However, it can be carry-forward indefinitely.

Also, a deduction as a tax expense of the remaining 65% of the R&D disbursements certified by CORFO for in-house activities or associated with R&D certified contracts entered with a registered research center, even if such disbursements are not necessary to produce income for the respective business (deductible in up to 10 years).

- VAT exemption applicable to the importation of capital goods.
- Tax exemptions applicable to investments to start up a project, i.e., accelerated depreciation of fixed assets, super accelerated depreciation of fixed assets, credit for investments in fixed assets, operating and start-up expenses, etc.

Business Opportunities & Risks

Lithium has become a mineral of high strategic value due to its current crucial importance in the global energy transition process, which requires energy storage solutions and makes it necessary to make decisive progress in electromobility.

The government of President Gabriel Boric proposed a strategy called "National Lithium Strategy" that takes up this challenge, assuming the responsibility of advancing in a sustainable manner, in economic, environmental and social terms, in the development of this industry.

- **National Lithium Strategy**

In April 2023, the President of the Republic, Gabriel Boric Font, presented the National Lithium Strategy, in which he pointed out several objectives and measures that this policy would entail.



The main objectives are:

- i. **Increase wealth for Chile**
- ii. **To develop a sustainable industry for the country and the world**
- iii. **To develop technology and productive linkages**
- iv. **Chile's world leadership in the lithium industry**
- v. **Strengthen social and environmental sustainability**
- vi. **Fiscal sustainability**
- vii. **Contribute to the diversification productive diversification and regional growth potential**

This plan includes several stages:

- i. **Initiate a process of dialogue and participation with the various stakeholders:** Aurora Williams, the Minister of Mining, announced that on October 13, 2023, a process of dialogue will begin in five regions of the country, carrying out four spaces for dialogue on the National Lithium Strategy, two with civil society and two with indigenous communities, in a work that will be carried out by the Citizen Participation team of the Ministry of Mining and the Regional Secretaries of the Ministry.
- ii. **Create the National Lithium Company:** President Mr. Gabriel Boric, in the first half of 2023, announced the creation of the National Lithium Company, which

will act as a public-private partnership in which the State will have a majority representation, in order to exploit the natural resources of Lithium and to attract new players and expand the industry through collaborative initiatives.

Notwithstanding the above, in December 2022, a subsidiary company of ENAMI, "ENAMI Litio SpA", was incorporated to develop lithium mining projects while the National Lithium Company is created. Currently, ENAMI Litio SpA is developing a project in a set of salt flats called "Salares Altoandino" (La Isla, Aguilar, Infieles, Las Parinas, Grandes), which has a profile engineering date of 2025.

- iii. **Create a Network of Protected Salt Flats and in those salt flats under exploitation.**
 - iv. **Modernize the institutional framework.**
 - v. **Create a Public Technological and Research Institute for Lithium and Salt Flats.**
 - vi. **Incorporate the State in the productive activity of the Salar de Atacama:** Currently there is a negotiation in progress between SQM and CORFO to exploit jointly Atacama Salt Flat.
 - vii. **Prospecting of other salt flats.**
- **Lithium and Salt Flats Committee**

The purpose of the "Lithium and Salt Flats Committee" will be to collaborate with the achievement of the objectives of the National

Lithium Strategy in the areas in which CORFO has competences or attributions, or in which it can serve as a technical advisory body. It recently discussed the proposed measures for the reorganization and strengthening of the Lithium Unit of the Ministry of Mining, which considers the incorporation of new professionals from associated portfolios and services.

- **Collaboration Agreement with the European Union**

On December 9th, 2022, the European Union and Chile concluded negotiations on the modernization of the EU-Chile Association Agreement, now named an Advanced Framework Agreement. The EU-Chile Advanced Framework Agreement ensures that the EU will have access to lithium, while also securing the highest sustainability standards.

- **ESG Tax Reporting**

ESG Reporting Standards cover various voluntary standards related to economic, social, and environmental issues that companies are implementing as a mechanism to demonstrate transparency, commitment and accountability on several topics of social relevance. Within the industry, three major standards stand out: GRI, IRMA and EITI.

GRI (Global Reporting Initiative): The GRI Standards represent global best practice for reporting publicly on a range of economic, environmental and social impacts. Sustainability reporting based on the Standards provides information about

an organization's positive or negative contributions to sustainable development.

IRMA Standard (Initiative for Responsible Mining Assurance): IRMA's Standard for Responsible Mining defines best practices for what responsible mining should look like at the industrial scale. In Chile, Albemarle and SQM, are certified by this standard, being worldwide pioneers in lithium matters.

EITI (Extractive Industries Transparency Initiative): The Government of Chile has confirmed its intention to become an EITI implementing country as part of the National Lithium Strategy. The EITI is an international, non-treaty bound organization in which state and non-state actors work together for creating and implementing policies and regulations that promote transparency and accountability in the natural resource sector. Currently, SQM support's EITI standard.

- **Development of new lithium extraction mechanisms**

Lithium extraction mechanisms from salt flats have advanced from an evaporation mechanism, which allows a recovery of circa 50% to a direct extraction mechanism (DLE), which allows a recovery of circa 90%. In addition, the DLE technology allows the optimization of water use, its reinjection, and a significant reduction in the extraction time. Currently, DLE technology is being developed, tested and implemented in several sites in Chile. Promoting it is important to increase current production levels without negatively impacting the environment.

A large pile of white material, possibly salt, covered in blue plastic, with the word "México" overlaid in yellow outline text. The scene is set against a dramatic sky with blue and orange tones, and the pile is reflected in a body of water in the foreground.

México

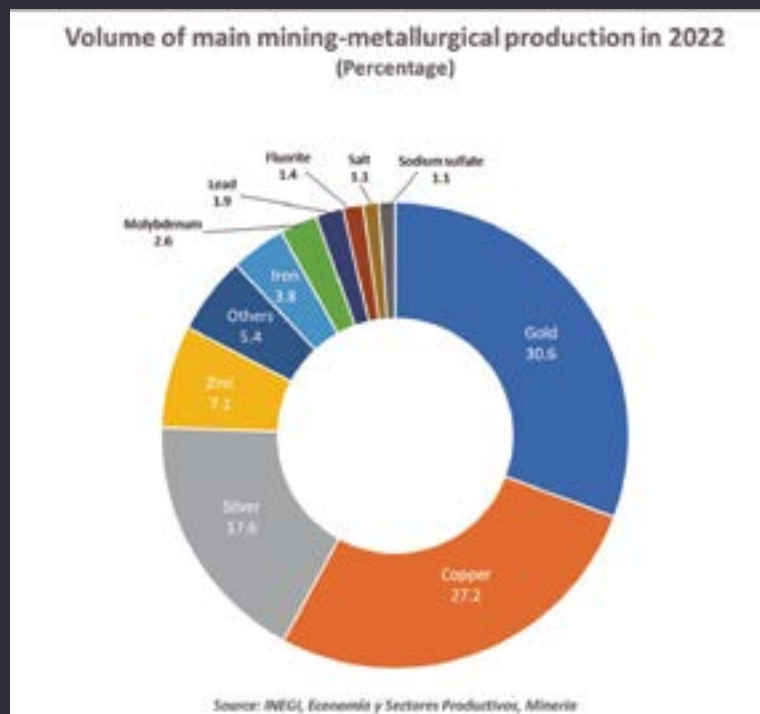


Mexico continues to be one of the world's largest producers of metals and minerals. The bulk of production is comprised by base metals and minerals, and non-metallic minerals. However, precious and non-ferrous metals are by far the most valuable, despite the recent volatility in international prices, representing over three-quarters of the country's output's value.

Contacts:

José I. Pizarro-Suárez
Jose.pizarro@mx.ey.com
Tax Partner

Fernando Junco
Fernando.Junco1@mx.ey.com
Tax Senior Manager



México

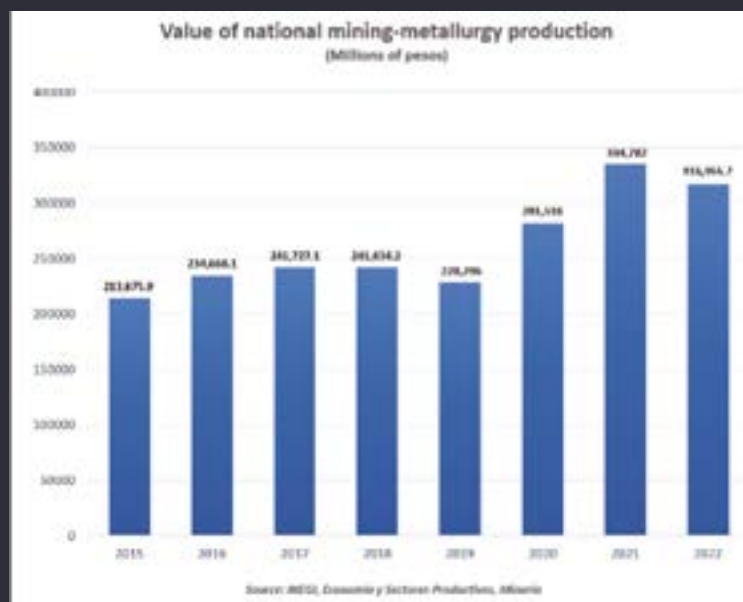
At first glance, the industry is highly competitive, with over 500 companies holding roughly 25,000 concessions. In practice, however, activity is dominated by large firms. These account for an astounding 97% of main metals' total output (gold, silver, copper, zinc and lead) and tend to dominate the most profitable niches, such as precious metals. Cumulatively, investment has risen sharply over the past decade. It currently hovers around US\$5 billion per year well—but well below the peak it reached in 2012.

Compared to other producers, Mexico is in a privileged position for most of the main mining products. Overall, it ranks among the ten largest producers of 16 minerals and metals. It is the principal silver producer, for example, with a share equivalent to over a quarter of global output.

Mining is effectively concentrated in a handful of states, mostly located in northern Mexico and holding the bulk of the country's most valuable

resources. Sonora and Zacatecas, in particular, account together for around 50% of the country's aggregated mining GDP. Other northern states with significant mining activity include Chihuahua, Coahuila and Durango. A handful of central states also mine, but are generally specialized in specific products of lesser value.

Nonetheless, compared to other sectors, the mining-metallurgy industry is relatively marginal in terms of its economic weight, representing 2.46% of the country's GDP (2022), according to official data. By comparison, the other key extractive industry (oil & gas) is two times larger. Similarly, the mining industry's contribution in terms of exports (~US\$22.5 billion) and employment (~420 thousand direct employments) is relatively negligible compared to the country at large. In 2022, the mining output value decreased 5.3% compared to the previous year, reaching almost MXN\$317 billion (~US\$18 billion).



México

Latin America positions as the top regional exploration destination since 2013, attracting over a quarter of the global mining exploration investment. Between the region, Mexico ranked second in 2022, losing the top spot reached in 2021.

- **Lithium in Mexico**

According to the USGS National Minerals Information Center (2023 Mineral Commodity Summaries for Lithium²⁵),

Mexico ranks in ninth place among countries with the largest identified lithium reserves with 1.7 million tons. Currently there is no commercial mining exploitation of lithium in Mexico, only some exploration projects in Sonora, Jalisco, Guanajuato and Puebla. The Mexican Mining Chamber (CAMIMEX for its acronym in Spanish) reports 24 lithium projects in Mexico from a total of 1,218 projects (2023 Annual Report²⁶).

The country is expected to benefit from the worldwide increase in lithium demand; however, its reserves are located in hard-to-extract clay deposits, which makes its production more expensive and gives rise to uncertainty with respect to viability of its commercial exploitation.

Due to the large reserves and the strategic importance of lithium for the energy

transition, the Mexican Congress approved amendments to the Mining Law in 2022 declaring lithium as a strategic mineral and property of the Mexican nation (2022 Reform). Therefore, the exploration, exploitation and commercialization of lithium can only be conducted by a governmental agency called *Litio para México* (Litio Mx), and no concessions will be granted to private companies.

It is unclear how this reform will affect on-going private projects, including the most advanced one in Sonora, where the Mexican government recently cancelled 9 lithium concessions arguing that the company failed to comply with the minimum investment requirements.

On the other hand, the Mexican government requires the expertise and funding from the private sector in order to make lithium exploitation a reality. Therefore, it is not clear to what extent private companies will be able to participate in the Mexican lithium market. The 2022 Reform seems to open the door for Litio Mx to partner with private companies in lithium by-product projects, such as manufacturing of batteries for EVs and electronics.

²⁵ [Lithium \(usgs.gov\)](#)

²⁶ [Informe Anual :: Camimex](#)

The sector is governed by the Mining Law, first enacted in 1992 and amended several times since then. The law establishes the notions of concessions and a corresponding national registry where these are recorded. During the current administration (2018-2024), the Mining Law has been amended twice, for purposes of nationalizing lithium (2022 Reform) and changing regulatory aspects of mining and water concessions (2023 Reform).

Although the 2023 Reform introduced relevant changes to the concessions, these changes may not affect current concessions, due to the non-retroactivity principle, under which changes to the law cannot be retroactively applied.

Concessions can be granted either to private individuals, companies, villages and indigenous communities, or to the Mexican Geological Service and other State-owned companies. The former encompass both exploration and production for 30 years renewable for 25 years (with an additional extension of 25 years, subject to bidding process). Before the 2023 Reform, concessions were granted for 50 years, renewable for the same term. The latter are granted to State-owned companies for exploration and exploitation of strategic minerals and those reserved to the Mexican State, such as lithium. The Mexican Geological Service will conduct exploration

activities through Exploration Orders for purposes of identifying prospective areas that may attract the interest of private investors.

The size of concessions is not specified, nor does the law distinguish between the various types of metals and minerals or between onshore and offshore locations. Concessions granted under new provisions will specify the metals and minerals that could be exploited and are no longer granted upon demand on a “first-come, first-served basis”, but shall be subject to bidding process and awarded to the applicant with the best proposal, including the economic terms. All concessions are recorded in the Public Mining Registry in order to ensure transparency, together with the Mining Map. It should be noted, though, that the law does not mandate nor impede the publication of a concession's real beneficiaries.

México»»

Contrary to the other extractive industry—oil & gas—mining in Mexico is not overseen by a ministry, but by the General Mining Coordination, which in turn depends on the Ministry of Economy. Despite its long history, mining has been overshadowed by oil & gas over the past century, both in terms of symbolism and economic weight. However, the government is taking steps to grant the industry more visibility within the cabinet.

Although the recent reforms created uncertainty within the Mexican mining sector, it is expected that the Regulations to the Mining Law (to be published soon) will provide some clarity with respect to some of those concerns.



Mining companies are subject to all federal and local taxes under the general regime applicable to legal entities of any economic sector. There is no specific tax regime applicable to mining companies, although some specific rules may apply, such as deduction of exploration expenses, mining equipment and mining concessions. In addition, mining companies are subject to royalties or mining duties.

The main federal taxes are: (i) corporate income tax; (ii) VAT; (iii) Excise Tax, and (iv) Social Security Taxes. The main local taxes are: (i) Payroll Tax; (ii) Property Tax; and, (iii) Tax on Acquisition of Real Estate. Green Taxes are applicable in some mining states, such as Zacatecas.

a) Corporate income tax and profit sharing.

Mexico taxes resident companies at a rate of 30% on their worldwide income. In addition, employers must pay profit sharing to employees each year equal to 10% of the adjusted taxable income (subject to a cap of the sum of the 3-month salary of each employee). The profit-sharing base is similar to the taxable income for income tax purposes with certain adjustments.

b) Dividends

Dividends paid by Mexican companies to nonresident shareholders are subject to withholding tax at the 10% rate. However, Mexico has a broad network of double tax treaties in place, in terms of which withholding tax on dividends may be reduced to 5% or 0%.

c) Exploration expenses

Exploration expenses must be capitalized and amortized on a straight-line basis over a 10-year period. Mexico does not provide for tax incentives for exploration activities.

d) Tax losses

Net operating losses (NOLs) may be carried forward for 10 years (restated by inflation); no carryback is allowed.

e) Tax incentives

Generally, there are no tax incentive applicable to the mining sector. Mexican officials recently announced that tax incentives will be granted to promote the lithium value chain in Sonora. Local governments may grant incentives related to payroll and property taxes for promoting new businesses. These incentives must be negotiated locally, on a case-by-case basis.

f) Research and development (R&D)

For promoting research and development of technologies, a tax incentive will be granted, consisting on a 30% credit on expenses and investments made in research and development of technologies applicable against corporate income tax payable in the fiscal year.

g) General Mining Duty

Mining concession holders shall pay the general mining duty semiannually per assigned hectare. The general mining duty varies depending on the size and the timing of the concession.

h) Special Mining Duty

The special mining duty shall be paid by mining concession holders no later than the last business day of March of the following year (an option to make advanced payments exists), by applying the rate of 7.5% over the profits deriving from the extractive activity. Mining concession holders are allowed to deduct authorized expenses for income tax purposes, except for depreciation of investments (except for mining prospecting

and exploration investments), interest expenses, and inflationary adjustment. Please note that there are no tax losses carryforwards for special mining duty purposes.

As an incentive to small mining companies (i.e., with annual sales of minerals of less than MXN\$50 million), the Federal Budget Law for 2023 allows them to credit the special mining duty against their income tax.

i) Extraordinary Mining Duty

The extraordinary mining duty is applicable to the gross value of sales of gold, silver and platinum, without any deductions, at a rate of 0.5%. This duty shall be payable no later than the last business day of March of the following year, but there is an option to make advanced payments.

j) Additional mining duty

The additional mining duty is imposed as a penalty when a concession has not being developed. The additional mining duty shall be calculated by taking 50% of the general mining duty (per the size of the property) in case a concession holder does not perform any exploration or exploitation works for two consecutive years during the first 11-year period of a concession. As from year 12, the penalty will be 100% of the general mining duty. This duty shall be paid semiannually, in January and July.

k) Value Added Tax

VAT is imposed on legal entities and individuals that carry out any of the following activities in Mexico: (i) selling goods and



property, (ii) rendering independent services, (iii) granting the temporary use or enjoyment of goods (e.g., leasing), and (iv) importing goods or services. VAT is payable at the general rate of 16%, which is applicable to most transactions. There is also a 0% rate applicable to certain transactions, such as exports.

Taxpayers must add the VAT to the sales price of their products or services; collect it from their customers; and, in turn, pay VAT to their own suppliers. The VAT paid to suppliers (input VAT) is deducted from the VAT charged to customers (output VAT). Consequently, the amount that companies must remit to tax authorities is the excess of the total VAT collected during the tax period from their customers over the VAT paid to suppliers. If in a given period, VAT credits exceed VAT collected from customers, the excess may be carried forward to the following tax period, or the taxpayer may obtain a refund for such excess.

Domestic sales of mineral concentrate or doré bars are subject to 16% VAT, unless the sale qualifies as an export sale (subject to the 0% rate). In the case of mining companies, input VAT generally exceeds output VAT, since their sales are subject to the 0% rate (as export sales). Therefore, VAT should be recovered through VAT refunds.

l) Import duties

All foreign goods, equipment and materials that enter Mexico are subject to customs and import duties, as well as VAT. There are exemptions for import duties under certain free trade agreements. Special preferential rates exist under Mexico's free trade agreements, such as the United States-Mexico-Canada Agreement (USMCA). To qualify for these preferential rates, the importer must present a certificate of origin at customs clearance.

It is also possible to import certain equipment on a temporary basis, thereby deferring, and in some cases avoiding, duties and VAT on importation, if the equipment is returned within a certain period of time.

m) Export Duties

In general, the export of goods is not subject to duties, and it is subject to VAT at a 0% rate (which allows the refund of input VAT credits).

n) Foreign-exchange controls

Mexico currently does not have foreign-exchange controls.

Indeed, Mexico has a number of attributes that make it stand apart when compared to other countries, in Latin America and elsewhere. As noted, the country's resources are significant and diverse, offering opportunities for many types of companies. By the same token, Mexico has a strong mining tradition, going back centuries. As a result, qualified staff is abundant, and in most regions local inhabitants are accustomed to mining activities, which helps reduce potential conflicts (which nowadays tend to occur mostly in "new" areas with no previous exposure to mining). In practice, some of the largest companies finance social and environmental projects in the areas where they operate. These initiatives help to build trust and prevent conflicts, particularly in regions with an important presence of indigenous peoples. It is still yet to see, how private investors will participate in the lithium value chain.

The fact that Mexico is part of the USMCA has also helped channel financial resources. The Toronto Stock Exchange has emerged as a key source of funds for mining projects in Mexico, given the presence of numerous Canadian mining companies, which represent about two-thirds of all the foreign firms operating in the country.

As in any other country, however, there are risks. Some are intrinsic to the industry—global prices, financing, strategic focus, cost control, project execution, productivity gains, access to energy, etc. Other challenges are local: land tenure, social responsibility and security issues, to name a few. Access to land is a particularly convoluted problem, notably in self-proclaimed indigenous communities, given the regime of communal ownership that still prevails in large portions of

Mexico. Companies must generally engage in delicate negotiations when launching a project. Similarly, security can be an issue, particularly in remote areas.

Last, but not least, the Mexican tax authorities (SAT) have begun to realize that the mining industry is less marginal in economic—and tax—terms than previously thought. This does not mean that royalties will be increased, but merely that SAT will exercise greater oversight beyond large companies, particularly with regards to transfer pricing, in order to ensure industry participants are properly taxed. New entrants will thus require extensive fiscal advice to navigate the country's complex rules governing the mining industry.

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