

Doing Business in Latin America

Moore Stephens Latin America

MISSION

To drive clients success through a strong leadership of a cohesive and well resourced international network with a top-down culture of quality.

Vision

To be a leading, recognised and highly regarded international accounting and consulting network and the first choice in our chosen markets.

Summary

	Page
1 Executive Summary	4
2 Argentine	5
3 Belize	13
4 Bolivia	22
5 Brasil	32
6 Chile	49
7 Colombia	53
8 Costa Rica	59
9 Ecuador	67
10 El Salvador	76
11 Guatemala	86
12 Honduras	93
13 Mexico	101
14 Panamá	109
15 Paraguay	118
16 Peru	124
17 Dominican Republic	131
18 Uruguay	139
19 Venezuela	149

Executive Summary

PRECISE. PROVEN. PERFORMANCE.

1. Moore Stephens

Moore Stephens is a global network of accounting, auditing and consulting firms with presence in 106 countries and with almost 27.000 professionals. Since 1907 Moore Stephens provides accountancy and tax services to corporate and individual clients.

Moore Stephens has been present in Latin America since 1910 and today it has a well organized regional structure with approximately 60 offices and 2.700 professionals, including México. More information can be found on the website: <http://msla.moorestephens.com>

2. Tax Information

Doing Business in Latin America summarizes the corporate and personal tax systems of 18 countries in Latin America. This content is based on tax and legal information current to December 2015 unless otherwise indicated, and it is focused on the following aspects:

- Country Profile
- Foreign Investment regime: types of companies and their characteristics
- Auditing and Accounting
- Labor system: workforce employment, recruitment, types of contracts, conditions of employment, remuneration, etc.
- Exchange control regulations
- Tax system: number and types of taxes, tax payment, incentives
- Protection for investors
- Transfer pricing
- International agreements and conventions

This publication is an overview and should not be seen as a complete explanation of the Tax systems in Latin America. It is subject to amendments in accordance with the laws in each country and multi-lateral agreements.

Neither Moore Stephens International, nor any member firms of the global network are responsible for actions incurred or omitted based on this publication. Further details may be found in local publications, we advice readers to consult with specialists in the Moore Stephens member firms in each country.

Moore Stephens Latin America
December, 2015

Argentine Republic

1. Contact firm identification

Moore Stephens - Suarez & Menéndez

1.1 Office, address, telephone

Maipú 942, Piso 12

C1006ACN

Buenos Aires

2. Expert Professionals

CPA Mariel Castro

International liaison and Tax partner

rcox@suarez-menendez.com

CPA Julio Suarez

Taxes Partner

jsuarez@suarez-menendez.com

CPA Alejandro Galván

Audits Partner

agalvan@suarez-menendez.com

3. Country Profile

The Argentine Republic is a sovereign state, organized as a federal and representative republic, and it is located in the South East end of America. Its territory is divided into 23 provinces, and one autonomous city, Buenos Aires, the capital city of the nation, and seat of the federal government. With a population of 40 million inhabitants, its human development indices, per capita distribution, economic growth level, and quality of life are among the highest in Latin America. Due to its extension, 2,780,400 km², it is the second largest state in South America, fourth in the American continent, and eighth in the world.

Despite the diverse origins of its population, the common language is Spanish, and its culture unifies the country. The youngest population has, in general, a good command of the English language, and, as a result of the Mercosur, many are learning Portuguese.

. In Argentina, there is great freedom of religion guaranteed by section 14 of the National Constitution, even though the State recognizes a pre-eminent role of the Catholic Church, which has a separate legal status with regards to the rest of the churches and confessions: according to the Argentine Constitution (section 2), the National State must uphold the Catholic Church, and, according to the Civil Code, it is legally compared to a non-governmental legal entity of public law.



All in all, it is a separate regime which is not considered official as the religion of the Republic.

According to the new education act, enacted on December 15, 2006, education is compulsory for children aged between 5 and 18 years old. There are public and private educational entities for all levels. The State guarantees free education for all of them, except for university postgraduate studies.

The currency unit is the Peso, which is divided into 100 cents; it is the functional currency in Argentina. However, the US dollar and other foreign currencies can be used for internal transactions.

After the deep crisis of 2001, inflation has remained in two digits, even though this is not acknowledged by governmental authorities. There is still a high level of intervention in the formation of some prices via subsidies, and, in some cases, through indirect price controls.

4. Foreign Investment Regime - Types of Companies

The types of business associations mostly used by foreign investors in Argentina are corporations, limited liability companies, and branches of foreign companies. Also, the use of joint ventures, trusts, and franchises has become ever more frequent during the last years. To cover company matters, both the civil legislation (Civil Code), and the commercial legislation (Code of Commerce) must be considered, as well as the different specific laws. Company types are governed, in their majority, by the Companies Act 19550, and its amendments. Except for the cases of joint ventures or partnerships, all others must be regis-

tered with the public registry of commerce, which is local (each province, and the Autonomous City of Buenos Aires having their own jurisdiction).

The main types of companies set forth in the Companies Act are:

- Corporations
- Limited Liability Companies
- Branches of Foreign Companies
- Trusts
- Non-Profit Associations
- Foundations

4.1 Corporations or Public Companies (SA)

Act 19550 does not define Corporations; however, section 163 describes the characteristics of this type of company in the following terms: Capital is represented by shares, and shareholders limit their liability to the payment of the shares subscribed.

Corporations must have a minimum of two shareholders, and shares can be in the hands of private holders, or they can be offered publicly. This is the only type of company where shares can be offered publicly. The shareholders' liability is limited to the capital contributed. The board of directors is liable for the administration of the corporation. Directors are chosen at the annual shareholders' meeting, and they are personally liable for their acts. All corporations are subject to control and supervision by governmental entities. Directors must be simple residents or native Argentinians in their majority. Shareholders can be individuals or companies, both national and foreign.

In the event a shareholder was a foreign company, prior to the creation of the local corporation, its by-laws must be registered and its legal existence must be proven with the Board of Legal Entities (IGJ), among other requirements. The foreign corporation must, thereby, appoint a legal representative, and establish a legal domicile in Argentina. In order to be incorporated, these foreign corporations cannot be created in a fiscal paradise, and they must maintain assets that exceed the value of those to be invested in Argentina, among other assumptions (we suggest that, before choosing an investment company, eligibility is verified with the Board of Legal Entities). Once a year, they must confirm, by means of evidencing documentation, that they comply with the requirements abovementioned.

Corporations are created by public deed, and

incorporation procedures are reviewed by the local control authority, the IGJ in the Autonomous City of Buenos Aires, and in the different provinces it has different names. The corporation is created by a deed executed before a notary public, and incorporation procedures take, approximately, 30 days. Corporate name must contain the terms "sociedad anónima" (corporation) or its abbreviation, "S.A.". Shares are nominative, and non-endorsable. The majority shareholder cannot hold over 95% of the shares. In some cases, according to the corporate capital amount, shares in the stock market or in connection to the national state will require the appointment of an auditor, or an auditing committee.

The current minimum corporate capital amounts to \$ 12,000; in any case, it must be in accordance with the activity foreseen for the corporation. A name, corporate purpose, duration, domicile, and termination date must be established at the moment of incorporation. The termination date can be any month of the calendar year.

4.2 Limited Liability Company (SRL)

In general, the creation and administration of a limited liability company (SRL) is relatively easy. However, the efficacy of its functioning depends on the existing relations of the partners since any modification requires the consent of the majority of the partners and, in some cases, of all of them. Its formation is similar to that of a corporation and, when capital is under Ar\$ 21 million, control and intervention by government authorities is much lower. Corporations cannot form part of limited liability companies. The company name must compulsorily include the terms "Sociedad de responsabilidad limitada" (Limited Liability Company), or its abbreviation, or the acronym "SRL". The capital is divided into units of interest, and the partners (must be more than one and up to 50) limit their liability to the payment of the units of interest subscribed. It can be created by a public or private deed, and the articles of organization must be registered with the Public Registry of Commerce, upon prior publication in the Official Bulletin.

4.3 Branches of Foreign Companies

In order for a company to be able to operate as a branch, it is necessary to prove the existence of the parent company abroad. The articles of organization, by-laws, or company agreement must be registered with the Public Registry of Commerce, and representatives must be appointed and registered in the same manner. Branches are subject to control by the board of legal entities, and they must comply with the same requirements as those

demanding for corporations subject to said control. Branches must keep separate accounts from those of the parent company, and they must file their financial statements with the board of legal entities. There is no minimum capital required for their creation.

4.4 Joint Ventures

There are different types of joint ventures. The ones mostly used are the collaborative associations, and the temporary joint ventures (UTE). Regarding the latter, they are now accepted as a legally binding agreement between companies. The operating agreement must be registered with the Registry of Commerce.

A representative sufficiently empowered by each and all members will be appointed to exercise rights and undertake obligations pertaining to the development of the purpose of the agreement.

4.5 Other Types of Companies

Trusts, Non-Profit Associations, Foundations, and Cooperative Associations.

5. Auditing and Accounting

The profession of the CPA is essentially self-regulated, and the federation of professional associations is a member of IFAC. As such, it requires the adoption of international accounting and auditing regulations, which became compulsorily applicable to open companies as from January 1, 2012.

6. Labour Regulations

The basic requirements for incorporating personnel to a company must comply with the labour regulations in force in Argentina, and with the labour agreements.

6.1 Payment and Compulsory Annual Bonus

The Federal Employment, Productivity, and Minimum Adjustable Living Wage Association (National Employment Act 24013) sets the minimum monthly living wage sum for monthly workers, and the day and hour wages for journal workers. Employed workers receive an additional compulsory payment (annual bonus), which is paid in two annual instalments in June and December. Each instalment equals to 50% of the best monthly, normal, and usual wages of the semester.

6.2 Term of the Labour Agreement

For Argentine legislation, the labour agreement is informal and indefinite, except when its term of duration had been expressly established in writing, or when the manner of performance of the tasks or activities reasonably appreciated so justifi-

fy it.

It shall be understood that the labour agreement will be performed on trial during the first three (3) months after it becomes enforceable.

Any of the parties may terminate the agreement without a cause during said term, and said party will not be entitled to compensation regarding termination, but it will have the obligation to give prior notice.

6.3 Severance Payment for Unfair Dismissal

In case of unfair dismissal, the employer must pay the worker a severance payment equal to one (1) month wages for each year of service, or a fraction greater than three (3) months, taking as a basis the best monthly, normal, and usual wages accrued during the last year, or during the time of the rendering of services, if shorter.

Said basis shall not exceed a sum equal to three (3) times the monthly wages of the sum resulting from the average of all severance payments foreseen in the labour agreement applicable to the worker at the time of dismissal.

The labour agreement shall not be terminated without prior notice, or, in lack thereof, without a severance payment. Prior notice must be given with the following anticipation:

- FIFTEEN (15) days when the worker is on trial; ONE (1) month when the worker had been employed for no more than FIVE (5) years, and TWO (2) months when exceeding said term.

The party failing to give notice, or giving undue notice, must pay the other party a substitutive indemnity equal to the wages that would correspond to the worker during the terms above mentioned.

6.4 Vacations

The worker shall have a paid, annual, minimum and continuous annual vacation term with the following duration: fourteen (14) running days when seniority does not exceed five (5) years; twenty-one (21) running days when seniority exceeds five (5) years but not ten (10); twenty-eight (28) running days when seniority exceeds ten (10) years but not twenty (20); and thirty-five (35) running days when seniority exceeds twenty (20) years.

6.5 Social Security

Social security taxes are shared by the employee and the employer. The employer cost can amount

to 29% of the wages, while the worker pays, in average, 20% of his or her wages as a deduction, excluding the income tax. Formation of the sums withheld or paid for commerce employees, for example, are as follows:

6.6 Employee Contribution

Pension 10.17% - 11%

National Social Security Administration (INSSJYP) 1.5—3%

Required External Funds (FEN) 0.89%- 0%

Family subside 4.44% - 0%

Health insurance 6% - 3%

Life insurance (1) Ar\$ 2.46 per employee 0%

Occupational Risk Insurer (ART) (1) 2-3% - 0%

Business Employees Union (SEC) 0%- 2%

Union 0% - 0.50%

Argentine Institute of Professional and Technological Training for Commerce (INACAP) Ar\$ 13.74 per employee (1), depending on the activity of the company

6.7 Unions

Act 23551 regulates the activity of the associations which purpose is the defence of the rights of the workers.

7. Exchange Controls

7.1 Currency Inflow

Except for the cases of company capital contributions, real estate purchases or loans termed for over two years, currency entered for investment purposes is subject to 30% non-remunerated reserves for one year. Investment currency must be registered with the Central Bank of the Argentine Republic (BCRA).

Currency will be converted into pesos and can be deposited in a free availability bank account. As for the entry of currency from exports of goods and services, currency conversion in the exchange market remains compulsory. However, the entry of currency will not be compulsory in some specific activities excepted by the national law, contracts with the National State or Executive power decrees.

7.2 Currency Outflow

With respect to the wiring of profits and dividends, transfer is possible provided they correspond to closed and audited financial statements. Repatriation of investments originated abroad can be returned to the investor provided that, at the time of the investment they were, and continued to be, notified to the Central Bank.

BCRA regulations are constantly changing so it is

advisable to analyze any international transaction prior to its execution. This includes both import and export operations.

8. Tax System

The Argentine tax system is formed by national provincial, and municipal taxes. In the national scope, the main taxes are:

8.1 National Taxes:

- Income Tax: It includes the transfer prices policy
- Assumed Minimum Income Tax
- Personal Property Tax
- Value Added Tax
- Bank Debits and Credits Tax
- Internal Taxes
- Personal Property Tax: Surrogate Decision Maker
- Real Estate Transfer Tax

8.2 Provincial Taxes

- Territorial Taxes
- Turnover Tax
- Stamp Tax

Likewise, there are certain duties imposed by provinces or municipalities.

8.3 Taxes on Companies

8.3.1 Income Tax

Pursuant to the Argentine Income Tax Act, residents pay this tax on the total amount of their income. Non-residents pay taxes only on their income derived from Argentine sources.

Argentine companies must file their annual income tax return together with their financial statements. The tax return must clearly reflect the adjustments made to determine taxable earnings or losses, and the tax credit. Tax returns must be filed with the Federal Public Revenue Administration (AFIP) within a term of five months after the closing date of the financial year.

The income tax rates are as follows:

Companies and diverse partnerships 35%
Individuals (progressive rate) 9% to 35%

8.3.2 Assumed Minimum Income Tax

A 1% rate taxes international assets of Argentine companies. The payment of this tax, and of the income tax can be mutually compensated. The term to take the payment of the

assumed income tax on account of the Income Tax is extended to 10 years.

8.3.3 Personal Property Tax Surrogate Decision Maker

This tax is levied upon the net accounting assets of the company at a 0.5% rate at the end of the financial year. It also taxes the shareholders' contributions, Argentine or alien individuals, and foreign companies. In the case of alien individuals, the provisions established in the Agreements must be observed to avoid double taxation in force.

8.3.4 Value Added Tax

The value added tax VAT or (IVA) is levied upon consumption goods, and it applies to the sale of items, to the rendering of services, and to the imports of certain goods.

To maintain VAT as a consumption tax, there is a compensation mechanism through which debits generated by the sale of products can be paid through VAT which is paid when purchasing items, or when paying services to third parties. Tax debit is generated when applying the net sales price to the current proportional rate of the tax.

On the other hand, tax credit is generated in the purchase of consumption goods, hiring of services, etc. The difference between the tax included in the sales (tax debit) and that taken from the invoices of the purchase of consumption goods and services (tax credit) constitutes the sum to be paid to tax authorities for each tax term.

Tax authorities implement a system of anticipated withholdings before the tax debit deposit.

There are some products and services that are exempted from this tax.

The percentage added to the price as VAT is 21%. However, there are differential rates for sales or the rendering of services (for example, 27% in the case of the electrical power supply for a shop or professional office, provided such person is a Registered VAT Payer or an Individual Tax Payer, and 10.50% for main activity).

8.3.5 Bank Debits and Credits Tax

This tax is levied upon bank account deposits and extractions at a 0.6% rate. 34% of the tax on bank credits can be considered a payment accounted for the income tax.

8.3.6 Internal Taxes

This tax is levied upon alcoholic beverages, beers, non-alcoholic beverages, syrups, extracts, and concentrates, automobiles and gas motors, cellular and satellite telephone services, champagnes, sumptuous objects, motor vehicles and motors, and recreational or sportive vessels and aircraft which will be applied pursuant to the provisions of this act.

8.3.7 Calculations and Collection

The tax resulting from the application of the provisions of this act will be settled and paid per calendar month on the basis of the tax return filed in an official form.

8.3.8 Transfer Prices

In 1998, the transfer price concept was introduced to tax legislation according to the OECD guidelines. The election of the transfer prices method applicable in Argentina depends on the information available, the type of operations, and the magnitude of the necessary adjustments to achieve comparability.

The Income Tax Act incorporated the following methods to evaluate operations of all kinds, which includes operations for tangible and intangible assets, services, and financial operations:

- Comparable prices (uncontrolled);
- Actual price;
- Additional cost;
- Profit splits;
- Net operational margin.

A transfer prices report must be carried out annually, and penalties for not filing said report amount up to Ar\$ 45,000.

The obligation to file Transfer Price reports is not only due to economic relations between the Principal Company and the local company but also due to functional reasons, such as the dependence upon a single supplier or client. Relations with tax havens always require the suitability of the operations to be proven, and the demonstration of the prices agreed as between independent parties.

8.3.9 Real Estate Transfer Tax

The transfer of ownership for real estate located in Argentina which is owned by individuals or undivided inheritance are taxed with a 1.5% rate provided said operation is not taxed by the income tax.

8.3.10 Real Estate Taxes

This provincial tax is levied upon real estate, and the rates and valuations depend on each zone and province.

8.3.11 Turnover Tax

This is a tax on turnover. Each tax is levied upon each commercial operation, without any tax credit given for taxes paid during prior terms. Rates vary depending on activity and province, and they range from 1% to 5%. (In general, primary and industrial activities are exempted).

8.3.12 Stamp Tax

Public and private documents, or certain operations, require the payment of the stamp tax for their formal execution, and this applies to deeds, promissory notes, and leases or other types of agreements, among others.

8.3.13 Withholdings

Some types of payments to non-residents are subject to tax withholding.

In accordance with certain guidelines, the income tax, the value added tax and the turnover tax are withheld at the moment of

payment.

8.4 Individuals Tax

8.4.1 Income Tax

All income obtained by individuals is taxed by the income tax. Individuals referred to in the previous paragraph residing in the country are taxed on the total amount of their income obtained in the country or abroad. The sums duly paid under similar taxes on their activities abroad can be considered a payment on account of this statutory tax up to the limit of the tax burden increase originated by adding the income obtained abroad.

Non-residents pay taxes only on the income derived from Argentine sources. Residents in the Republic shall be individual persons living for more than 6 months in the country during the course of the financial year.

To all purposes of this act, residents in the country shall also be individuals residing abroad to the service of the Nation, provinces, or municipalities, and officers of Argentine nationality acting in international organizations where the Argentine Republic is a member State.

8.4.2 Income Categories

The law establishes the following four income categories: land income, capital income, company income, work income, and personal income.

The tax return reflects the net income for each category, and, after a deduction is made on the sums permitted by law, the profits or losses are determined subject to tax. All information provided by tax payers in their tax returns is subject to review by the Federal Public Revenue Administration (AFIP).

8.4.3 Personal Deductions

Resident individuals will be able to deduct certain sums from their net income/revenue according to the following table, which is applicable to the financial year 2009:

TABLE A

Deduction	Sum Ar\$
Non-taxed income	15.120
Spouse	16.800
Children (each)	8.400
Other dependents	6.300
Deductions applicable on income for services	72.576



8.4.4 Applicable Rates

TABLE B

Scale Range (Section 90)		Accumulated Sums		
Accumulated Net Taxable Income		Will Pay		
From More Than Ar\$	To Ar\$	Ar\$	Plus	On Surplus of Ar\$
0	10,000	--	9 %	0
10,000	20,000	900	14 %	10,000
20,000	30,000	2,300	19 %	20,000
30,000	60,000	4,200	23 %	30,000
60,000	90,000	11,100	27 %	60,000
90,000	120,000	19,200	31 %	90,000
120,000	Hereinafter	28,500	35 %	120,000

8.4.5 Tax Payment

The AFIP (tax authority) sets, by General Resolutions, the term expiration dates to file tax returns, and to pay income tax sums owed. Payments shall be made by bank deposit or e-transfer, as provided by the general resolution

Also, tax payers and income tax payers must determine and make advance payments of the tax to be paid. Individuals must make 5 advance payments. The basis of the calculations is the tax determined by the tax term immediately prior to that for which the advance payments will be credited. This calculations basis allows deductions.

A 20% rate will be applied to the resulting sum.

The remaining tax payers, except for those that do not meet the taxable sums, must file an annual tax return for their income as of December 31, which will expire in April each year.

Non-residents subject to the corresponding withholding need not file an annual tax return.

8.4.6 Personal Property Tax

Individuals or undivided inheritance are subject to tax for property they may own at the end of each calendar year, including those subject to economic processes, pursuant to what is established hereunder:

- Individuals domiciled in the country, and undivided inheritance based therein for property located in the country and abroad.
- Individuals domiciled abroad, and undivided inheritance based therein for property located in the country.

There is tax-exempted property as well. The Personal Property Tax Act sets forth the manner in

which property located in the country and abroad is to be appraised in order to pay the tax. Individuals whose property, as appraised pursuant to what is provided by law, is equal or under Ar\$ 305,000 will not be taxed.

The tax to be paid by tax payers will derive from its application on the total value of the taxable property, excluding shares and capital contributions of any kind of company governed by Act 19550 (except for sole proprietorships which capital exceeded Ar\$ 305,000), and the proportional rate for each case shall be as follows:

Value in Pesos	Applicable Rate %
Under 305,000	0.00
Between 305,000 and 750,000	0.50
Between 750,000 and 2,000,000	0.75
Between 2,000,000 and 5,000,000	1.00
Exceeding 5,000,000	1.25

Persons domiciled in Argentina, whether individuals, corporations, or any other type of entity that owns, administers, uses, keeps, etc. any property, which is owned by individuals domiciled abroad and taxable shall be compelled to pay a total tax of 1.25% on the value of the property.

9. Bilateral Treaties

Argentina has signed bilateral investment treaties with several countries, such as Germany, Austria, Armenia, Australia, Bolivia, Bulgaria, Canada, South Korea, Costa Rica, Chile, China, Denmark, Ecuador, Egypt, Spain, USA. UU., Guatemala, Finland, France, Holland, Hungary, Indonesia, Israel, Italy, Jamaica, Luxembourg, Mexico, Nicaragua, Malaysia, Morocco, Peru, Poland, Portugal, Romania, United Kingdom, Senegal, Sweden, Switzerland, Tunisia, Turkey, Ukraine, Vietnam, Venezuela, among others, in order to protect investments.

Within the framework of Mercosur, two agreements were signed to promote foreign investment, thus ensuring a fair treatment for any national investment within Mercosur: Protocol Investment Promotion for non-members in 1994 (Act 24,554) and the Colony Protocol 1997 (Act 24,891).

10. Agreements to Avoid Double Taxation

Likewise, Argentina has celebrated 17 large agreements to avoid double taxation and to prevent tax evasion; 16 of which are already in full force. These agreements avoid investments made between signing countries to pay income, capital and/or property taxes twice.

As a main benefit from these agreements, we can mention the reduction in the income tax rate on royalties and interest paid abroad. Argentina has also signed 21 agreements to avoid double taxation regarding international transport, out of which 17 are in force.

Belize

1. Firm name and contact information Moore Stephens Magaña LLP

1.1 Office, address, telephone
3 ½ Miles Phillip S W Goldson Highway,
New Horizon Building.
PO Box 1922
Belize City,
Belize, Central America
T: +501-223-2144

2. Professional expertise

Reynaldo Magaña, CPA, CA
Senior Partner, International Liaison
Audit and Tax Services
rfmagana@moorestephens.bz

Omar Magaña
Partner International Financial Services
o.magana@moorestephens.bz

Shawn Mahler, CISA
Director- Audit and Assurance & IT
s.mahler@moorestephens.bz

3. Country Profile

Belize (formerly "British Honduras", the name of the country was changed in the year 1973) is located in the east or the Caribbean coast of Central America, bordered on the north and western part with Mexico, and in the south and the rest of the west by Guatemala. Belize achieved full independence on 21st September 1981.

The population was estimated to 356,900 in 2014, with a growth rate of 2,056 % per annum. The ethnic composition is as follows: 48.7 % mestizo, 24.9% creole, 10.6% Maya, 6.1% Garifuna, and 9.7 % other. Due to racial harmony and religious tolerance, the different racial elements in Belize have been mixed and combined with success, and Belize has gained a worldwide reputation for its friendly people. English is the official language although Spanish, Creole, Garifuna and Mayan are widely spoken throughout the country. The dominant religion is Christianity - both Catholics and Protestants. Small groups practice Islam, Hinduism and the Baha'i.

The Government

The Government of Belize is operated on the principles of Parliamentary Democracy based on the Westminster System. The country is a sovereign,



democratic state.

Queen Elizabeth II of Great Britain is the Head of State; she is represented by the Governor General Sir Colville Young since 1993.

The House of Representatives consists of 31 members of representatives that are elected by direct popular vote for a term of five years. The Governor General appoints the Prime Minister, who is the leader of the majority party. The Governor General appoints the Senate of 12 members, in which case six members are nominated on the advice of the Prime Minister, three are nominated on the advice of the leader of the opposition, and three more are nominated on the advice of the Council of the Churches in Belize and the Association of Evangelical Churches, the Belize Chamber of Commerce and Industry of Belize and the Better Business Bureau, and the National Congress of Trade Unions and the Steering Committee of the Civil Society. Currently the Honorable Dean Barrow is the Prime Minister

Belize has a legal system based on common law. There is a Supreme Court of Justice, and the president of the Supreme Court is appointed by the Governor General on the advice of the Prime Minister. The Caribbean Court of Justice (CCJ) has replaced the Judicial Committee of the Privy Council (Judicial Committee of the Privy Council) as a court of last instance for the members of the Caribbean Community (CARICOM) and also serves as a court of appeal in both civil and criminal cases of common law courts in all the state members.

General elections are held every five (5) years, and legal voting age is 18. There are two major political parties in the country - the People's United Party (PUP) and the United Democratic Party (UDP). The most recent general elections were held in November 2015, in which the United Dem-

ocratic Party (UDP) won 19 out of 31 seats.

The official currency of Belize is the Belize Dollar (BZ\$), which has been pegged to the United States dollar at a rate of BZ \$2.00 = US \$1.00 since 1976.

Belize currency denominations are printed at \$ 100, \$ 50, \$ 20, \$ 10, \$ 5 and \$ 2 - dollar bills and coins are \$ 1.00, \$ 0.50, \$ 0.25, \$ 0.10, \$ 0.05, and \$ 0.01 cents a unit.

4. Foreign investment regime - types of business entities

The corporate type most commonly used by foreign investors in Belize is Belize Chapter 250 Limited Company.

Other business types allowed include:

- Sole Proprietor
- Partnerships
- Limited Liability Partnerships
- Registration of an overseas company (foreign branch)

4.1 Registration of business name and companies

4.1.1 Registration of business name

In accordance with the Business Names Act Chapter 247 of the Laws of Belize, each company or individual who operates a business in Belize must register a business name.

Application forms can be obtained from the Registrar of Companies in Belize. All applications require a name search before proceeding to avoid duplication of names. Moreover, to register a business name, the Business Names Act provides that a business owner abroad must be a permanent resident or have a partner in Belize, and a foreign company must obtain the approval of the Central Bank of Belize. Identification documents to be submitted with your application are a passport, social security card, voter registration card or residence card. Certified copies are accepted.

4.1.2 Incorporation of a limited company

The incorporation is usually done through a lawyer or accountant, and requires the filing of the Memorandum and Articles of Association in order to be issued a Certificate of Incorporation.

Benefits of registering a Limited Company under Chapter 250 of the Laws of Belize:

- Limited Liability, which means that the capi-

tal providers are not subject to losses higher than the amount of initial investment;

- Transferability of shares, whereby the rights of the company can be transferred easily from one investor to another, without the reconstitution of the organization under the law;
- Juridical Personality, meaning that the corporation itself as a fictive "person" has legal standing and may thus sue and be sued, may make contract, and may hold property in a common name; and
- Indefinite Duration, by which the life of the company may extend beyond the participation of any of its founders.

4.1.3 Registration of an overseas company (foreign branch)

Foreign companies doing business in Belize are required to register as an overseas company in accordance with the Companies Act Chapter 250 of the laws of Belize. The registration of an overseas company, in essence, causes it to enjoy the benefits as if registered locally initially as a Limited Liability Company in Belize. Documents required to register an overseas company:

- A certified copy of the charter, statutes or memorandum and articles of the company or other instrument constituting or defining the constitution of the company, and if the instrument is not written in the English language, a certified translation thereof;
- A list of the directors and secretary of the company containing their particulars such as full name, usual residential address, nationality, business occupation, and if the director is Corporate; the Corporate's name and registered office;
- The names and addresses of some one or more persons resident in Belize authorized to accept on behalf of the company service of process and any notices required to be served on the company, provide for the creation, registration, dissolution and liquidation of companies with limited liability;

Other requirements

- Must have a registered office in Belize;
- Must keep accounting records for 5 years in Belize or designated office;
- There is no audit requirements of the accounts;

- Every overseas Company shall, in every calendar year, file with the Registrar such a statement in the form of a balance sheet as would, if it were a company incorporated in Belize and having a share capital, be required under this Act to be included in the annual summary.

4.1.4 Limited Liability Partnership

A Limited Liability Partnership are forms of business entities which permit one partner to be shielded from individual joint liability for partnership obligations created by another partner's or person's misconduct. A partner's liability is not limited, however, when the misconduct took place under the supervision or control of the partner. Only liability arising from the misconduct of other partners or persons is covered by this law; the partnership is not relieved from liability for other partnership obligations and individual partners are liable for their own misconduct. A limited liability partnership may be registered in Belize, where the people who wish to form the partnership with a common view to profit, come to an agreement and understand the following provisions of the Limited Liability Partnership Act:

- Provide for the creation, registration, dissolution and liquidation of companies with limited liability;
- The name of partnership includes the words "Limited Liability Partnership", but the abbreviations "LLP" or "L.L.P." can be replaced in actual use;
- There is no limit to the number of people who can be partners; any person can be a partner - including individuals, corporations or other limited liability partnerships;
- You must have a registered office in Belize;
- Must keep accounting records for 5 years;
- There are no reporting or audit requirements of the accounts;
- Partners can lend money or borrow money from the association.

5. Audit and accounting

The accounting profession is regulated by the Institute of Chartered Accountants of Belize (ICAB). ICAB is a member of the Institute of Chartered Accountants of the Caribbean (ICAC) who are in turn members of the IFAC. ICAB requires adopting international standards of accounting and au-

ditng, or may choose to adopt accounting principles generally accepted in the United States of America. Recent changes in laws and regulations, locally and internationally, require accounting records of all businesses to be kept for a minimum of 5 years and be available for inspection at its registered office or designated office at all times.

6. Labor regime

6.1 Duration of the contract of Work

In Belize, the contract of work can be formal or informal and may be for a definite or indefinite period of time depending on the type of work to be performed. Contracts for work generally include a probationary period of two weeks or more (up to three months) as may be approved by the employer.

Either party may terminate the contract during the probationary period at will without any notice.

An employee's workweek by law is not to exceed 6 days or 45 hours per week. In addition, hours worked in excess of 45 hours are considered overtime hours and attract a rate of time and a one half. The minimum wage is BZ\$3.30 per hour effective in 2012 for all types of workers except for highly skilled workers or professionals who can negotiate the salary with the employer.

In general, the laws of the workweek seem to be comparable with other countries and the minimum wage shows signs of improvement based on cost of living.

6.2 Compensation for dismissal

Notice period is mandated by law and is determined by the duration of employment. Employees who have worked 2 weeks to 6 months are given 1 week notice; 6 months to 2 years are given two weeks' notice; 2 years to 5 years are given 4 weeks' notice and the employees who have worked more than five years are given 8 weeks' notice. In any case of employment, notice pay in accordance with notice period mandated by law is required to be paid for lack of notice.

6.3 Vacation

In Belize employees are allowed 16 days of sick leave at the regular rate of pay. To obtain sick leave authorization, an employee must have worked at least 60 days within 12 months. Employees are also entitled 2 weeks annual vacation leave after working for more than 12 months per year. Women who are pregnant are allowed a

maximum of 30 days of sick leave that results from the pregnancy.

6.4 Social security charges

The costs of social security contributions are shared between the employer and the employee. The average cost to the employer is approximate-

ly 6.5% of salary, while the average cost to employees is a maximum of 3% of their remuneration in the form of deduction and excluding income tax (Table A). A minimum of fifty contributions are required to qualify for benefits under the scheme.

TABLE A

Weekly Salary	Employer's Contribution	Employee's Contribution	Total paid to Social Security
Below \$70.00	\$3.57	\$0.83	\$4.40
\$70.00-\$109.99	\$5.85	\$1.35	\$7.20
\$110.00-\$139.99	\$8.45	\$1.95	\$10.40
\$140.00-\$179.99	\$9.65	\$3.15	\$12.80
\$180.00-\$219.99	\$11.25	\$4.75	\$16.00
\$220.00-\$259.99	\$12.85	\$6.35	\$19.20
\$260.00-\$299.99	\$14.45	\$7.95	\$22.40
300.00 and Above	\$16.05	\$9.55	\$25.60

6.5 National occupational safety and health regulations.

The new law is in its final stages of enactment and generally covers the employer's responsibility for occupational safety and health of its employees.

7. Exchange control

7.1 Foreign investment income

Foreign investment income, which are of a capital nature, earmarked for the purchase of property or to provide commercial loans for more than one year term, must be registered with the Central Bank of Belize.

Foreign currencies transferred to Belize will be converted to Belizean dollars and deposited in a local bank account.

Foreign exchange earned for the export of goods and services, the Central Bank of Belize acts as the clearing house for such foreign currencies and may authorize certain businesses to hold foreign currency accounts in Belize.

7.2 Outflows of foreign currency

Investors wishing to repatriate their capital can do so, as long as they are in U.S. dollars and with the permission of the Central Bank of Belize. With respect to profits and dividends, it is possible to repatriate those once Income Tax clearance is pro-

vided by the Income Tax Department.

The repatriation of investments originating from overseas can be returned to the investor once authorized by the Central Bank of Belize.

8. Taxation

The tax structure of Belize consists of national and municipal taxes. At the national level, the main taxes are:

8.1 Domestic taxation:

- Income and Business Tax
- Personal Income Tax
- Property Tax
- General Sales Tax
- Stamp and Transfer Tax

There are also certain fees and taxes imposed by the municipalities.

8.2 Income and business tax

8.2.1 Business tax

Businesses and self-employed with receipts over BZ \$ 75,000 gross income per year must pay the tax on gross sales known as the Business Tax.

8.2.5 Deductions

Some types of payments from Belize to non-residents are subject to withholding tax. (TABLE C). Certain local contract payments in excess of BZ\$3,000 are subject to a 3% contract tax withholding.

8.3 Tax on individuals

8.3.1 Income tax

Income tax is paid at a rate of 25% on the taxable income of all employed persons resident in Belize who earn in excess of BZ\$25,600 (US\$12,800) a year, individuals who earn less are exempt from income tax.

Non-residents are taxed only on earnings received in Belize.

An individual is deemed to be a resident of Belize during a basis tax year if he spent in the aggregate more than one hundred eighty two days within the country or was domiciled in Belize.

8.3.2 Payment of tax

Employee tax is paid on the pay as you earn (PAYE) system and the estimated tax is withheld and paid monthly to the tax department.

8.4 Other taxes

The Belize Customs Tariff is modelled from the Harmonized Description and Coding System (HS). The rates are based on the Customs Value (Cost, Insurance, Freight - CIF). Import Duties are levied at the point of importation, and is the liability of the importer. The Belize Customs & Excise Department is responsible for the collection of import duties. Rates range from 0 to 45% with the majority of commodities attracting a rate of 20%. There are some items that attract a Revenue Replacement Duty (RRD) ranging from 5%- 40% based on the aggregate of the Customs Value and the Import Duties. Under the CARICOM agreement, all imported products entering Belize from a CARICOM member state are exempt from import duties. In order to receive an exemption, importers must produce a CARICOM Certificate of Origin to the Comptroller of Customs. Customs brokerage services are necessary when the commercial value of imported goods exceed Bz\$200.00 (US\$100).

9. Bilateral treaties

Belize has signed bilateral investment treaties with several countries, including: the Caribbean Community CARICOM that includes Antigua and Barbuda, Barbados, Dominica, Grenada, Guyana,

Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad & Tobago. Please see Table E for list of tax rates within CARICOM region.

As regional group, CARICOM has negotiated and signed several bilateral trade agreements, namely:

1. CARICOM - The Dominican Republic Free Trade Agreement
2. CARICOM - Costa Rica Free Trade Agreement
3. CARICOM - Venezuela Trade and Investment Agreement
4. CARICOM - Colombia Trade Cooperation, Economic and Technical
5. CARICOM - Cuba and the Economic Trade Cooperation Agreement

CARICOM is also pursuing other partnerships, including:

1. CARICOM - MERCOSUR negotiations
2. CARICOM - Canada negotiations
3. CARICOM - USA negotiations
4. CARICOM - Central America negotiations

Other bilateral treaties include: CBI & CARIBCAN, ACP-EU relations, Belize-Guatemala Partial Scope Agreement & Central American Integration System (SICA).

10. Double taxation avoidance agreements

Belize has signed 11 double taxation avoidance treaties, all of which are in full force. Countries that have signed these agreements are members of CARICOM (9), Austria (1) and UK (1).

11. Tax Information Exchange Agreements

Belize has signed the following Tax Information Exchange Agreements with the following countries:

Statutory Instrument No. 90 of 2010 -Tax Information Exchange Agreement (Belize/Australia) Order, 2010

Statutory Instrument No. 91 of 2010 - Tax Information Exchange Agreement (Belize/United Kingdom) Order, 2010

Statutory Instrument No. 92 of 2010 - Tax Information Exchange Agreement (Belize/Belgium) Order, 2010

Statutory Instrument No. 93 of 2010 -Tax Information Exchange Agreement (Belize/Netherlands) Order, 2010

TABLE B
Business tax rate for companies and self-employed persons (local):

Type of business / activity	Rate % on gross income
Regular trade or business	1.75%
Professional services	6.0%
Commissions and royalties	5.0% & 15.0%
Rental income	3.0%
Income of radio, television, and newspapers companies	0.75%
Income of national airlines	1.75%
Insurance premiums	1.75%
Revenues from telecommunications provider	19.0%
Services for the supply of electricity	1.75%
The income of service stations including fuel/lubricant	0.75% & 1.75%
Casino and gambling	8.0%
Real estate business	1.75% & 15.0%
Tour operators and travel agencies	6.0%
Construction	1.75% & 6%
Local dividends withholding tax	15%
Dividends paid by telecommunications service provider	0%
The interest income from financial institutions	6%, 12% & 15%
International financial services	3%

TABLE C

Tax rate on foreign payments:

Type of payment	Tax %
Dividends and interest	15.0%
Management fees	25.0%
Rental of plant and equipment	25.0%
Technical services	25.0%
Commissions and royalties	0%

TABLE D

Corporate tax rate:

Tax Type	Tax %
Tax on net income	25.0%
Tax on net income of petroleum operations	40.0%

TABLE E

Tax rate - CARICOM:

Type of payment	Tax %
Dividends	0%
Management fees	15.0%
Interest	15.0%
Royalties	15.0%

Business tax payments made during the year under TABLE B count as credit toward income tax on net income of corporations. At the end of the tax year, corporations are given the option to accept the business tax paid as the final tax or can opt to file a corporate tax return to determine whether any tax credits may be due.

8.2.2 General sales tax

General sales tax (GST) is a tax imposed on the value or the mark-up added to imports and other goods and services supplied by one business to another or to final customers. GST is calculated and charged on transactions in the production and delivery chain but the consumer pays GST only on the final selling price. However, the tax paid on inputs by a registered person is netted off the tax received on the output and only the difference is paid to Government. Where the input tax incurred by a registered person exceeds the output tax (received), the registered person may claim the difference as a credit against future tax liability. There are some products and services that are exempt from this tax.

The GST percent is 12.5%.

8.2.3 Calculation and collection

Businesses are required to file a monthly tax return in the prescribed form and pay the appropriate taxes by the due date to avoid any penalties and interest.

8.2.4 Stamp duty and transfer tax

Stamp Duty / Transfer Tax is governed by the Stamp Duties Act Chapter 64 of the Laws of Belize. It becomes payable on any transactions involving taxable land. Nationals and Foreign Investors alike are required to pay 5% of the value; however if the value of the land falls below US\$10,000 then the transaction is tax exempt.

Public and private documents including certain transactions require the payment of stamp duty in order for it to be legally effective, including scriptures, promissory notes, and contracts.

Statutory Instrument No. 105 of 2010 - Tax Information Exchange Agreement (Belize/Sweden) Order, 2010

Statutory Instrument No. 106 of 2010 -Tax Information Exchange Agreement (Belize/Finland) Order, 2010

Statutory Instrument No. 107 of 2010 -Tax Information Exchange Agreement (Belize/Greenland) Order, 2010

Statutory Instrument No. 108 of 2010 -Tax Information Exchange Agreement (Belize/Norway) Order, 2010

Statutory Instrument No. 109 of 2010 -Tax Information Exchange Agreement (Belize/Iceland) Order, 2010

Statutory Instrument No. 110 of 2010 - Tax Information Exchange Agreement (Belize/Denmark) Order, 2010

Statutory Instrument No. 111 of 2010 -Tax Information Exchange Agreement (Belize/Faroes) Order, 2010

Statutory Instrument No. 112 of 2010 - Tax Information Exchange Agreement Belize/Portugal) Order, 2010

Statutory Instrument No. 113 of 2010 - Tax Information Exchange Agreement (Belize/France) Order, 2010

Statutory Instrument No. 124 of 2010 - Tax Information Exchange Agreement (Belize/Ireland) Order, 2010

Statutory Instrument No. 47 of 2012 - Tax Information Exchange Agreement (Belize/Mexico) Order, 2012

Statutory Instrument No. 61 of 2013 - Tax Information Exchange Agreement (Belize/Poland) Order, 2013

Statutory Instrument No. 81 of 2013 - Tax Information Exchange Agreement (Belize/India) Order, 2013

Statutory Instrument No. 43 of 2014 - Tax Information Exchange Agreement (Belize/South Africa) Order, 2014

12. Development incentives and fiscal

incentives

12.1 Development incentives

A variety of investment incentives are offered by the Government of Belize (GOB). These allow investors a legal framework for participation in economic activities and were developed to provide grants to support genuine investors, always when their proposals are approved by the GOB. As a general rule, when evaluating investment proposals, the GOB focuses on the economic and social benefits that can be obtained with the investment. Other critical aspects of the proposals are the overall viability of the investment. Listed below are the incentive programs currently enacted and in effect:

- Fiscal Incentives Program (also known as development concessions).
- Export Processing Zones (EPZ).
- Commercial Free Zone (CFZ).
- Program of the Qualified Retired Persons (QRP).
- Gaming Control (Casino & Gaming).

12.2 Fiscal incentives program

The fiscal incentive program was designed to promote the genuine investment in Belize through tax exemptions and tax holidays. The Law provides the current and potential investors with a legal framework and fiscal framework to stimulate productive economic activities.

Full duty exemption:

- Duty exemption of up to a maximum of 15 years to companies granted an Approved Enterprise Order.
- Duty exemption may be renewed for a further term of 10 years or a total of 25 years for companies engaged in agriculture, agro-industrial products, mari-culture, food processing and manufacturing with operations centred on export, and that are highly labour intensive.

12.2.1 Categories

Several categories of items may benefit from full or partial relief from Import Duty, depending on the nature of the business.

Examples of categories that may be approved:

- Building materials and supplies.
- Plant, machinery and equipment.
- Specialized tools (except hand tools).
- Utility vehicles and transport.
- Fixtures and fittings.
- Office equipment and appliances.
- Spare parts for plant, machinery, and equipment.
- Agricultural machinery and supply.
- Raw materials and other items for the exclusive use of approved enterprise.

13. International financial services

Belize continues to experience steady growth in its International Financial Services (IFS) industry. In 1992, the International Business Companies Act, based on the British Virgin Islands model, was enacted. This was supplemented by the Trusts Act (1992), and followed by the Offshore Banking Act (1996). Key success factors for Belize's vibrant financial sector are a highly literate workforce, stable democracy, flexible investment incentives, fixed exchange rate, and being the only English-speaking country in Central America. Belize has developed a favourable reputation based on investor-friendly legislation for service providers, ethical codes of conduct, capital gains repatriation, and no restrictions on nationality. Proximity to the United States, Mexican, and Canadian markets, have created the platform on which the country's international financial services industry continues to grow. Also supplementing this sector are our historical ties to the United Kingdom, and European Union. Belize offers a full array of investment initiatives designed to meet the needs of global investors. Services include:

- International Business Corporation - IBC
- International Companies with Limited Liability (Limited Liability Corporation – LLC)
- Belize Exempt Trust
- Foundations
- Protected Cell Company
- Mutual Funds
- International Insurance
- Offshore Bank

While the banking sector is regulated by the Central Bank of Belize, the International Financial Services Commission (IFSC) has jurisdiction on all non-banking transactions. The 'Code of Conduct' legislation assures investors that the industry's professional standards and integrity are maintained. The Money Laundering (Prevention) Act of 1996, was implemented as a preventative measure to safeguard institutions and investment entities. Serving as a supplement to this Act, the IFSC regulates all other financial crimes such as internet fraud and other nonbanking transactions.

13.1 International Business Corporation – IBC

An offshore company is a company registered in a country that offers a very advantageous taxation system, provided the activity is not exercised in the territory in which it is registered. More specifically, offshore companies have three characteristics: First, must be registered as an entity within the territory. Second, the "founders" (customers) must be domiciled outside the territory in which the company is registered. Finally, the company should exert most of their business outside the territory in which it is registered.

13.2 International Limited Liability Company LLC

Conceptually, a Limited Liability Company or an LLC is a hybrid between two familiar business structures, namely, a corporation and a partnership. An LLC combines the best of both worlds by offering the advantage of both a corporation and a partnership without the disadvantages of either form. An LLC, has distinct advantages over both a corporation and a partnership in that it not only avoids multiple level taxation, it also limits the liability of its members to the extent of the contributions made by them to the Company. No member of an LLC has personal liability for the debts of the LLC except where there are personal guarantees or other special arrangements. Moreover, LLC members, unless restricted by agreement, fully participate in the management of the LLC, while limited partners in a limited partnership may not participate in the management of the enterprise without risking the loss of their limited liability status. Usually offshore LLCs are more appropriate for people with high medical risks and people whose insurance coverage are inadequate or are not available.

13.3 Belize exempt trust

The primary benefit of a Belize trust is that it allows the legal ownership of property to be distinguished and separately vested from the enforceable rights of use and enjoyment of that property. This makes the Belize offshore trust, particularly when established as an exempt trust, an extreme-

ly flexible, sophisticated and creative instrument for asset protection, tax, estate and investment planning, and the preservation of confidentiality.

The Belize Trust law, based on the Guernsey Trusts Law of 1989 but with various modifications and innovations, is one of the strongest and most flexible asset protection trust legislation in the world.

Other benefits of the Belize Trust include:

- No legal requirements to audit Belize trust accounts
- A Belize trust and its trust property is exempt from income and business tax, estate, inheritance, succession or gift tax and all instruments relating to the trust property or to transaction carried out by the trustee on behalf of the trust shall be exempt from stamp duty.
- Trustees of a Belize trust shall be regarded as a non-resident of Belize and shall be exempt from exchange control with regard to the trust property and to all transactions carried out by the trustee on behalf of the trust.
- The Belize trust is extremely flexible and can accommodate numerous asset protection clauses.
- Typically discretionary trusts. Such trusts may also provide for automatic successor trustee and protector provisions.
- The Belize trust laws also permit the establishment of private trust companies.

13.4 Foundations

A foundation created in Belize is a separate legal entity. In Belize, private foundations can carry out business, market, buy and sell properties, sue and be sued, enter into contracts, open bank accounts and maintain assets under its own name.

The Foundation Act of Belize, enacted in 2010, establishes the principles of offshore foundations in Belize. The principles of offshore foundations in Belize are similar to the legislation of other private foundations. Under this Act, a person or company can create an offshore Foundation charitable, not charitable, ordinary or without purpose. Foundations in Belize can be founded by one or more persons or by a company with a member of the Council.

14. Merchant Shipping (IMMARBE)

The International Merchant Marine Registry of Belize, commonly known by its acronym of IMMARBE, is now operated fully by the Government of Belize since June 11, 2013. IMMARBE first opened its doors in 1991 as an open Ship Registry with the intention of offering to the ship owners and operators of the world a very serious and efficient shipping registry based on reliable services, competitive prices and high standards of maritime safety. We are governed by the Merchant Ships (Registration) Act, 2010 .

IMMARBE operates daily through the main office located in Belize City known as the Head Office and through a network of 67 Designated Offices. The Designated Office authorized by the Government of Belize is located in the different main ports and shipping centers of the world. It is important to take into consideration that the success of IMMARBE is based in the promotional effort that all the Designated Offices have had to perform. Success can also be attributed to the efficiency and reliability of its Head Office staff that are challenged each and every day to provide excellence in ship registration.

Advantages of registration

- IMMARBE has attained ISO 9001-2008 Certification
- Attractive and competitive tonnage taxes, fees and incentives
- A network of Deputy Registrars in major maritime centers
- Worldwide Network of General Safety Inspectors
- A well-established legal system and mortgage recording services
- Professional technical staff offering 24 hours service.
- Belize has a number of memberships in Regional Fisheries Management Organizations such as ICCAT, IOTC, IATTC and WCPFC.

Types of registration:

- Provisional registration (6 months)
- Permanent registration (without expiry)
- Special registration (3 months)
- Dual-out registration (Charter out, 1 or 2 years)
- Dual-in registration (Charter in, 1 or 2 years)
- Vessels Under Construction Registration (no validity period)

The Plurinational State of Bolivia

1. Identification of the contact firm

- Moore Stephens Ratio Consulting S.A.**
 Hugo Wast st. and San Martin Av.
 Equipetrol
 Floor 4
 Santa Cruz de la Sierra – Bolivia
 T: (591) 3 3427921
 F: (591) 3 3427927
- Moore Stephens Valdivia & Asociados**
 Jauregui St., 2248
 Quipus Building
 Floor 8. Between F. Guachalla and R.
 Gutierrez st.
 La Paz - Bolivia
 T: (591) 2 2444496 / 2911571

2. Expert Professionals

Moore Stephens Ratio Consulting S.A.

Rodo Suxo
 Consulting and Microfinance Partner
rsuxo@msratio.com

Rosario Molina
 Responsible for Taxes
rmolina@msratio.com

Moore Stephens Valdivia & Asociados:

David Valdivia Peralta
 Principal Partner
dvaldivia@valdivia.com.bo

Daney David Valdivia Coria
 Business and Corporate Tax Partner
ddvaldivia@valdivia.com.bo

Nelly Coria Conde
 Legal and Tax Consulting Partner
ncoria@valdivia.com.bo

3. Country Profile

The Plurinational State of Bolivia is a landlocked country located in the West Centre of South America, with a population of about 10.5 million inhabitants. It borders on Brazil to the North and East, on Paraguay and Argentina to the South, and on Chile and Peru to the West. The Bolivian territory covers different geographical areas, such as the Andes Mountains, the Andean plateau, the



Amazonia, and the Chaco. It is one of the countries with greatest biodiversity in the world.

Politically, Bolivia is a plurinational, decentralized state with autonomous regions. It is divided into 9 departments. Sucre is the Capital, seat of the judicial power, while La Paz is the seat of the executive and legislative powers, and of the electoral body.

Ancient civilizations like the Tiwanaku developed in the Bolivian territory. The country became independent from the latter in 1825 and has inherited the traditions of the colonial, mixed races, and the pre-Colonial cultures, that gives the quality of multi-ethnic and pluricultural country, rich in the mixture of traditions, and folklore of its people of mixed races, natives, whites descending from Creoles, Afro-Bolivian, and, in a minor scale, European and Asian immigrants.

The Constitution sets forth the division of powers into four government bodies:

Executive Power

It's formed by the President, the Vice-President, and State Ministers.

Legislative Power

The Vice-President of the State heads the Plurinational Legislative Assembly with 36 Senators and 130 Deputies.

Judicial Power

It's formed by the Supreme Court of Justice, Tribunals, Courts, and the Magistrates' Council.

Electoral Body

It's formed by the Supreme Electoral Court, Departmental Tribunals, Electoral Courts, Table Courts, and Electoral Notaries.

Economy Bolivia has a diversified economy, mainly focused on manufacturing, banking and extraction and export of commodities. It is the fourth largest economy in regional growth, above the Latin American average in 2012. GDP per capita is one of the lowest in Latin America with minimum national wage of 172 dollars per month. The country's official currency is the boliviano (BOB). Even though both the national currency and the dollar are largely accepted nationwide, and for any operation, besides last years there was an important remonetization process as a consequence of public confidence in national currency and economic activity prospects that lead in the expansion of monetary aggregates and international reserves.

The most important economic activities are mining (San Cristobal Project), and the extraction of natural gas (YPFB), both belonging to the primary sector. Within the secondary sector, Bolivia is renowned for beer, dairy, oleaginous, and textile sales. In the tertiary sector, banking and telecommunication activities are renowned. In addition, pharmaceutical and manufacturing industries, and commercial conglomerates, such as supermarkets, are renowned as well.

In the last years, the average GDP growth was around 4.8%, reaching twin surpluses, fiscal (since 1940), and current account mainly due to increases in tax revenues and public (in 2012 five times greater than 2006) and private investment. The economically active population rate reaches 71.9%, and the unemployment rate is 3.8%, one of the lowest in the region.

Bolivia is one of the countries with greatest microfinance development in the world (2nd position worldwide).

4. Investment

4.1 National Investment Act

Bolivia has a legal framework for private investment, the Investment Act, which purpose is to foster and secure national and foreign investment to promote economic growth and social and economic development.

Investment Incentives

Foreign investors have the same rights, duties, and guarantees as national investors, aside from having property rights, they have guaranteed:

- A freedom of currency exchange system, neither restriction for capital inflow and outflow, nor for the remittance abroad of

dividends, interest, and royalties for technology transfer, and/or other business concepts.

- The freedom of production, trade, import and export of goods and services, as well as the free determination of prices.
- Internal taxes and duties repayment, through tax rebate certificates, paid on inputs and capital goods incorporated into export goods.

Bolivia has a simple tax system with low transfer price regulation.

4.2 Types of Companies

The Bolivian legislation considers the existence of different types of companies, which are:

- Companies
- Company Transformation
- Company Fusion
- Partially Government-Owned Company
- Foreign Company
- Shared Risk Agreements (Joint Ventures)

4.2.1 Companies

Companies can be created under different types:

4.2.1.1 General Partnerships

General partnerships are created by public deed. Partners are jointly and unlimitedly liable for partnership obligations; therefore, in case these obligations exceeded the amount of their capital contributions, partners shall be liable to the extent of their personal assets for said obligations.

4.2.1.2 Limited Partnerships

The limited partnership is formed by one or more limited partners that are only liable to the extent of their capital contributions, and by one or more managing or general partners that are jointly and unlimitedly liable for partnership obligations, whether they make capital contributions or not. The administration and representation of the partnership will be in the hands of the general partners, or third parties appointed, and general partnership administration rules will apply.

4.2.1.3 Limited Partnerships with Stock Capital

In the limited partnership with stock capital, managing partners are liable for partnership obligations as in a general partnership. Limited partners limit their liability to the amount subscribed in their shares.

4.2.1.4 Limited Liability Companies

This type of company is formed by two or more "partners" liable for company obligations according to the amount of their capital contributions. It requires a minimum of two, and a maximum of 25 partners. Capital contributions must be paid in full at the time of their legal creation.

4.2.1.5 Corporations

In this type of company, shares represent capital contributions. The shareholders' liability is limited to the amount of shares they had subscribed. The administration of the corporation will be in the hands of a Board of Directors, formed by a minimum of three directors, whether shareholders or not, appointed by the shareholders' meeting. Corporate by-laws can set forth a greater number of directors, which shall not exceed twelve.

4.2.1.6 Joint Ventures or Partnerships

Joint ventures or partnerships have an agreement where one or more individuals have an interest in one or more certain or temporary operations to be performed through their mutual contributions; said operations will be performed by one, two, three, or up to all partners, as agreed in the joint venture agreement.

This type of association has no legal status, and no corporate name. It is not subject to the requirements that govern the creation of companies, and it does not require its registration with the Registry of commerce. Its existence can be proven by all evidencing means.

The partner(s) in charge of the operations act on their behalf. Third parties acquire rights and undertake obligations only concerning said partners, and they are jointly and unlimitedly liable. Partners who are not in charge of the operation have no direct right against third parties.

With the consent of the other partners, the partner(s) in charge of the operations must make their names known, so that all partners are jointly and unlimitedly liable to third parties.

4.2.2 Company Transformation

A company can be transformed by adopting any other company type foreseen in the Code of Commerce. Transformation shall not dissolve the company, nor will it modify its rights and obligations.

The joint and unlimited liability of the partners, existing under the previous company type, is not modified with transformation, unless the creditors so agree.

4.2.3 Company Fusion

Fusion shall exist when two or more companies are dissolved without liquidation to form a new one, or when another acquires one company or other companies dissolved but unliquidated.

The newly formed company, or the company acquired, shall acquire the rights and undertake the obligations of the companies dissolved at the time of total transfer of their corresponding assets because of the final fusion agreement.

The new company will be created according to the regulations that apply to the newly formed company type. For the case of the acquired company, the articles of organization or by-laws shall be modified pursuant to the regulations in force.

The final fusion agreement will be registered with the Registry of Commerce, and it will be published as set forth in the Code of Commerce.

The managers of the new company, or of the acquired company, will be the representatives of the companies dissolved and acquired, notwithstanding the liabilities corresponding to their mandate.

4.2.4 Partially Government-Owned Company

A partially government-owned company is formed by a public entity (government-dependent), and a private company for the performance or implementation of activities of collective interest, the fostering, or the development of industrial or commercial activities or services. The liability of both parties is limited to the contributions made, and to the responsibilities established at the time of creation of this type of company. The name of partially government-owned companies must compulsorily include the reading "sociedad anónima" (corporation), or its abbreviation, "S.A.", the word "mixta" (partially government-owned), or its abbreviation, "SAM".

4.2.5 Foreign Company

This type of company is formed pursuant to the laws of the place where it is created, that is to say, it is governed by the existing provisions there in as to its type and legal existence. To develop activities in Bolivia, a legal status shall be acknowledged subject to provisions of the Code of Commerce, and other Bolivian laws.

Any company created abroad which main purpose in the country is the commercial or industrial exploitation shall be registered as a local company to the effects of said exploitation, functioning, control, taxing, and liquidation regarding its business in Bolivia, and, in if it were the case, the ter-

mination of its legal status.

Any company created abroad can perform casual or isolated activities in the country, but it cannot carry out acts of commerce permanently without the prior compliance with the requirements of Bolivian legislation. To be registered with the Registry of Commerce, and to carry out the usual activities entailed in their company purpose, these companies must:

Upon judicial decree, and at notary public's office appointed for its domicile in the Republic, record the articles of incorporation, its amendments, by-laws, and provisions evidencing their legal existence in the country of origin, as well as the legal authorization or resolution of the competent administrative body of the company to establish a branch or permanent representation in the country. This shall also apply to the individual(s) representing the company with broad and sufficient powers to perform acts encompassed in the company purpose. These individuals shall be the judicial and extrajudicial representatives of the company for all legal effects.

4.2.6 Shared Risk Agreements (Joint Ventures)

Pursuant to Bolivian legislation, companies created in the country such as government entities and corporations, including autarchic companies and individuals, national or foreign, domiciled or represented in the country, can enter into an agreement through shared risk agreements; they must establish a legal domicile in Bolivia, and comply with other requirements established by national legislation.

5. Audits and Accounting

Company accounting, and, in particular, registration and assessment of the elements of the annual accounts are developed by compulsorily applying the generally accepted accounting principles in Bolivia, approved by the National Technical Association of Auditors and Accountants of Bolivia (CTNAC). In Bolivian the convergence process of IFRS/IAS was propose. Companies that belong to General Regime, compelled to carry out annual audits on their financial statements are those whose income is greater than or equal to BOB 1,200,000, being in this regime are Large Taxpayers (called GRACO) and PRICOS (Main Taxpayers) which by their nature have incomes higher than the minimum described.

6. Labour Regulations

The General Labour Act determines the rights and obligations in general that derive from labour,

and according to the type of labour agreement entered into.

6.1 Types of Labour Agreements and Employment Conditions

The Bolivian legislation acknowledges the following types of agreements:

- Individual Labour Agreement
- Joint Agreement
- Training Agreement
- Engagement Agreement

6.2 Remuneration

Remuneration can be:

- Per journal
- Per piece rate
- Onwages
- Oncommission
- In kind
- With participation on the benefits
- Combined

Additionally, there are other types of remunerations such as:

- **Annual Bonus:** It is equal to one monthly wage, and it must be paid once a year, up to December 20.
- **Annual Premium:** It is the legal participation in the profits, and it equals to one month wages or salary.
- **Production Bonus:** It is applicable to industrial companies; this is an additional remuneration for productive effort, additional as well, different from the annual premium, and it is aimed at exceeding certain production goal agreed between the company and the union.
- **Seniority Bonus:** These are monthly payments calculated on a percentage basis, and according to a scale. This bonus is in accordance with the Minimum National Wages.

6.3 Labour Benefits

- **Vacations:** After the first year of uninterrupted work, workers are entitled to a vacation term. The duration of said term shall be according to a scale ranging from fifteen to thirty working days.
- **Maternity Leave:** The law establishes the right of the pregnant woman to a maternity leave of 45 days before the birth, and 45 days after the birth.

6.4 Other Labour Aspects

- **Severance Payment for Term of Services:**

When the worker was dismissed for any reason not attributed to the worker, the employer must provide a severance payment for the term of services, which shall equal a month's wages for each year of uninterrupted work.

- **Severance Pay:** When the worker was suddenly dismissed due to reasons not attributed to him, the employer shall be compelled to make this severance payment, which shall correspond to three wages or salaries.

6.5 Social Security

Social Security and Retirement Contributions: All

WORKER CONTRIBUTION		COMPANY CONTRIBUTION	
Retirement Contribution	10%	Compulsory Social Security	10%
Common Risk Premium	1.71%	Professional Risk Premium	1.71%
AFP Commission	0.5%	Pro-Social Housing	2%
National Joint Fund	0.5%	Joint Social Security Contribution	3%
TOTAL 12.71%		TOTAL 16.71%	

There are also special contributions for individuals with salaries equal to or above BOB 13,000, to be paid according to the following cumulative scale:

National Joint Contribution (for salaries above Bs. 13,000)	
> Bs. 13.000	(Total earned - 13000 * 1%)
> Bs. 25.000	(Total earned - 25000 * 5%)
> Bs. 35.000	(Total earned - 35000 * 10%)

Birth allowances. The first two allowances consist in a payment in kind, equal to the Minimum National Wage, and the third one is a single payment, equal to the Minimum National Wage for the birth of each child.

- **Burial Allowance:** It consists in a single payment equal to the Minimum National Wages for the death of each minor child under 19 years of age.

6.6 Foreign Workers

The Bolivian legislation establishes that the number of foreign workers must not exceed 15% of the total number, and that it will correspond to technicians only, since it is mandatory to have Bolivian nationality to be a Director, Administrator, Advisor, or Representative in state entities and private companies where the activity is directly related to the interests of the State.

7. Currency Inflow and Outflow Controls

All companies or individuals must declare currency

employed or independent workers (freelancers) are compelled to become a member of one of the Retirement Funds Administrators, and to have Compulsory Social Security. Both the employer and the employee must make the payment of the contributions. The rate derived from these contributions is calculated on the total amount earned (for the worker), and on the total sheet (for the company).

Contributions must be paid monthly, both to the AFP (Retirement Funds Administrators), and to the corresponding Social Security chosen by the company, pursuant to the following rates:

- **Family Allowance:** Pregnant working women, or workers whose wives are pregnant, are entitled to Maternity, Lactation, and

inflows and outflows with due anticipation to the operation date on the Central Bank website by filling in the "Foreign Currency Cash Inflow or Outflow Affidavit for Sums between 50,000 and 500,000 Dollars" form. Once the form is filled in, the BCB (Central Bank of Bolivia) will immediately proceed to authorize the operation, and a unique number and code will be generated for said operation. Interested parties shall print two copies of the form to file it before the customs authority at the moment of performing the operation. All sums above 500,000 dollars must be authorized by the Treasury Department.

This provision applies only to operations in foreign currency cash. E-transfers (bank transfers) are not encompassed within the scope of the Decree that regulates this provision.

8. Tax System

The Bolivian tax structure is formed by taxes, rates, and contributions that can be national, or municipal.

8.1 National Taxes

8.1.1 Value Added Tax

The Value Added Tax is a tax on:

- The sale of goods located or placed within the territory of the country.
- Contracts for works, rendering of services, and any other type of rendering, whichever its nature, performed within the national territory.
- Final imports.

Interest generated on financial operations will not be encompassed in the purpose of this tax. Said operations shall include credits granted or deposits received by financial entities. Likewise, the sales or transferences derived from company reorganizations or capital contributions are not included in the purpose of this tax.

The proportional rate of this tax shall be 13%, monthly payable. The calculations are obtained by adding all the income taxed (which generate a tax debit), and deducting the costs or expenses (tax credit). When the difference was in favour of the tax authority, the sum shall be paid in the terms established. If, on the contrary, the difference was in favour of the taxpayer, the VAT in favour of the tax authority corresponding to previous tax periods can compensate this sum, together with the assessment update.

Tax exemptions shall include the following:

- Goods imported by members of the diplomatic body accredited in the country, or individuals and entities or institutions having said status according to the provisions in force, international agreements, or reciprocal treaties with certain countries.
- Goods entered "bona fide", and travelers arriving in the country as set forth in the custom duties.
- Book sales domestically produced and imported, and official publications of public institutions.

8.1.2 Value Added Tax Complementary System (RC-IVA)

This is a tax on all income belonging to individuals or undivided inheritance, derived from capital investment, work, or the joint application of both factors. Interest generated by term deposits in the financial system is exempted when they were in national currency, and for terms greater than 30 days, as well as those in foreign currency, or national currency with a value equal to the U.S. dollar for a term of three years or greater, and the

yields of other debt securities issued for a term equal to or greater than three years.

The proportional rate of this tax shall be 13%, monthly payable. Taxpayers will be able to consider the rate corresponding to the purchase of goods and services, work agreements, or any other kind of services or consumables as paid because the tax determined by the application of said proportional rate.

It is important to take into account the jurisdictional basis of this tax, since the total amount of income derived from Bolivian sources is subject to it. In general, income from Bolivian sources shall include those deriving from goods located, placed, or economically used within the country, the performance of activities within the national territory when capable of producing income, or events taking place within the limits thereof, without prejudice to the nationality, domicile or residence of the owner or parties taking part in the operations, or of the place where the agreements are celebrated.

8.1.3 Company Profits Tax (IUE)

This is a tax on the profits resulting from the financial statements of the companies at the end of each financial year. All companies, public and private, are taxed, including: corporations, limited partnerships with stock capital, general partnerships, cooperatives, limited liability companies, limited partnerships, *de facto* business associations, sole-proprietorships subject to regulations, branches, agencies or permanent companies formed or domiciled abroad, or any other type of company.

The following are also included in this tax system:

- Companies formed or to be formed within the national territory that extracts, produce, benefit from, reform, fund, and/or trade minerals and/or metals.
- Companies which purpose is the exploration, exploitation, refining, industrialization, transport, and trade of hydrocarbons.
- Companies which purpose is the generation, transmission, and distribution of electrical power.

Individuals who are not compelled to keep accounting records that allow for the creation of financial statements must file an annual tax return as of December 31 of each year, where they will include the total amount of their annual income taxed, and the expenses necessary for obtaining said income, and maintaining their originating

source. Incomes derived from company reorganization processes will not be taxed.

The proportional rate of this tax shall be 25%, annually payable. The net taxable profit shall result from deducting the necessary expenses from the gross profits for the procurement and preservation of the source, including compulsory contributions to regulatory/supervising entities, allowances for social security, and national and municipal taxes.

When, for one year, a company suffered losses of Bolivian sources, that loss can be deducted from taxed profits to be obtained in the years immediately following.

The following shall be exempted from this tax:

- Activities of the National State, Departmental Prefectures, Municipalities, Public Universities, and entities or institutions belonging there to.
- Profits obtained by civil associations, foundations, or non-profit organizations legally authorized having signed agreements, and developing the following activities: religious, charity, humanitarian, cultural, scientific, ecological, artistic, literary, sportive, political, and unions.
- Interest in favour of international credit entities, and foreign official entities which agreement had been approved by the National Congress.

Also, there are achieved by an additional rate of 12.5% those activities of non-renewable natural resources when generating favorable conditions for minerals and metals, applied to the established annual net income when prices are above those required by law.

On the other hand, the additional tax rate for the financial sector IUE (AA-IUE), 12.5% tax additional utilities of financial institutions and non-bank (except those of 2nd Floor), when their benefits exceed 13% of the coefficient of return on equity.

8.1.4 Company Profits Tax Foreign Beneficiaries (IUE-BE)

When tax is paid on income derived from foreign Bolivian sources, it will be assumed that the net taxed profits shall equal 50% of the total amount paid or remitted, without accepting proof to the contrary.

In this way, those paying or remitting said sums to beneficiaries abroad must retain a 25% rate on

the assumed net taxed profit as a single and final payment.

8.1.5 Operations Tax (IT)

All individuals involved in commerce, industries, professions, trades, businesses, leasing of assets, works, and services, or any other profitable activity, shall be taxed. All acts on Gratuitous Title that entail the transfer of ownership of property, real estate, and interest shall also be included in the purpose of this tax. The tax is determined based on the gross income accrued during the tax term for the financial year of the activity taxed.

The proportional rate shall be 3%, monthly payable; the following shall be exempted from this tax:

- Personal work performed by an employee with a fixed or variable remuneration.
- Exports.
- Interest on deposits in savings accounts, term current accounts, and any income derived from securities investments.
- Private educational entities.
- Services rendered by diplomatic representations in foreign countries, and international organizations accredited by the State.
- The trading of Securities, and the purchase and sale of units of interest, in the case of Limited Liability Companies.

8.1.6 Specific Consumption Tax (ICE)

This is a tax on the sale of certain products, such as cigarettes, tobacco, beverages, beer, corn drink, and alcoholic beverages, aside from the imports of these products, and motor vehicles. ICE only affects whole sale, and it is not applied again for retail sale.

The rate for this tax is determined annually. Cigarettes are taxed according to percentage rates on their price while beverages and alcoholic beverages are taxed according to specific rates for measurement units. Vehicles foreseen for the transport of 10-18 passengers, and vehicles having a chassis fitted with a cabin shall be taxed by a 10% proportional rate on the taxable basis. Vehicles for the transport of more than 18 passengers, and with high tonnage, as well as motor bicycles, shall have an 18% rate taxed on the taxable basis.

Vehicles built and equipped for health and security services, such as ambulances, safety cars, fire fighting vehicles, and tanker trucks are exempted.

8.1.7 Gratuitous Property Transfer Tax (TGB)

This is a tax on succession by inheritance, and legal acts by which the ownership of recordable property is transferred by gratuitous title. Public entities are exempted from this payment, as well as associations, foundations, or non-profit organizations legally authorized, such as religious, charity, humanitarian, welfare services, education and training, cultural, scientific, artistic, literary, sportive, political, and professional organizations, or unions. Proportional rates are established according to the blood relationship degree:

- Ascendant, descendant, and spouse, 1%
- Siblings and descendants, 10%
- Other collateral relatives, legatees, and gratuitous donors, 20%

8.1.8 Tax on Flights Abroad (ISAE)

This tax affects all Bolivians and residing foreign every time they leave Bolivia by air. Holders of diplomatic passports and children under 2 years old are exempted from payment. The ISAE proportional rate is BOB 254 (this amount is updated on the January 1st each year by the Tax Authority, according to the U.S. dollar variation).

8.1.9 Special Tax on Hydrocarbons, and Derivatives (IEHD)

This is a tax on the import and trade of hydrocarbons and its derivatives in the internal market. The proportional rate of this tax shall be in accordance with the specific rates per unit of measurement, as determined by the National Agency of Hydrocarbons, which is annually updated to the variation of the Housing Promotion Unit (UFV).

8.1.10 Mining Royalties (RM)

This tax applies to each operation for the sale or export of minerals and metals, and any one performing exploration, exploitation, benefiting from, trading, and performing mineral and/or metal funding activities are subject to this tax, which is paid now of selling or exporting.

The manufacturing of minerals and metals, that is to say, those involved in transforming them into parts or capital goods, shall be exempted from RM. RM is not considered an additional tax to the Company Profits Tax (IUE), since, at the end of the administration, the consolidated annual IUE and the RM are compared, and only the larger of these two taxes will be paid.

The RM proportional rate for metals such as gold, silver, zinc, lead, and tin is determined according to an established percentage scale. For the remaining minerals, the rate is determined by the interna-

tional prices of the minerals or metals; so, it varies according to this fluctuation. This tax is consolidated at the end of each financial year.

8.1.11 Financial Operations Tax

This is a tax on the following operations:

- Credits and debits in current accounts.
- Payments, and fund transfers.
- Issuance of management's checks, traveler's checks, and other similar financial instruments existing or to be created.
- Money transfers or money wiring abroad or within the country.
- Delivery or reception of funds owned or belonging to third parties.

The proportional rate of the tax is 0.15%, applicable to sums above USD 2,000. Operations for savings accounts in national currency, or with value maintained, are exempted from this tax.

8.1.12 Direct Tax on Hydrocarbons (IDH)

The IDH applies throughout the country, to the production of hydrocarbons from the wellhead, measured and paid as royalties (18%) according to current regulations.

The tax base is equal to the royalties and participations that applies to volumes or energy of the hydrocarbons produced. The rate is 32% non-progressive on total hydrocarbons measured at the point of control.

8.1.13 Tax Game (IJ)

This tax is levied on gambling, lotteries and business promotions throughout the national territory, not being achieved in their entirety those who are destined for charitable goals or assistance.

The rate is 30% for gambling and lotteries, and 10% for business promotions.

8.1.14 Tax participation in games (IPJ)

The IPJ tax participation in gambling and lotteries in all of Bolivia territory, with a rate of 15% levied on the taxable people involved in that activity.

8.1.15 Tax on the sale of foreign currency (IVME)

This tax reached total sales of foreign currency by the financial intermediaries (banks, non-bank and money exchange). The IVME is not deductible to IUE, and is monthly payable.

Exemptions from this tax are the ones done by the Central Bank of Bolivia (BCB) and sale of foreign currency by taxpayers at BCB.

The tax rate is 0.7% in case of banks and non-banks and 0.35% for the money exchange houses.

8.2 Municipal Taxes

8.2.1 Real Property and Motor Vehicles Tax (IPBI, IPVA)

Owners of real estate and/or motor vehicles pay this tax. The percentage to be paid varies according to the characteristics and value of the property, which is obtained, based on zoning tables, tax scale, and depreciation. That is to say, the basis of the calculations for this tax is the tax assessment established by each municipality, in the case of real estate, and values declared at customs, for motor vehicles.

8.2.2 Real Estate and Motor Vehicles Transfers Municipal Tax (IMT)

This is a tax on casual transfers of real property and/or motor vehicles. A 3% rate is applied on the greatest amount between the value of the property, and the value in the records.

8.3 Customs Duties

Except as set forth in the international agreements in force, the import, export, customs transit and storage of goods, and other customs operations shall be subject to the General Customs Act, and its regulations, aside from other complementary provisions.

The Generating Fact for customs duties is the entry of foreign goods, or the outflow of goods from the customs jurisdiction under the control of customs authorities. The taxable basis of customs duties is the customs value of the good imported. The taxable basis on which the customs duties are paid shall be formed by the transaction value of the goods, which is determined by the assessment methods established in a scale, plus the loading and unloading expenses, transport cost, and insurance to the border customs, which operate as customs for entering the country.

The Consolidated Customs Duty (GAC) to be paid shall be: 10% for general goods and 5% for those listed as capital goods. However, in case of an existing commercial agreement signed by Bolivia, the GAC to be paid will depend on the tax exemption of the property in question.

When transported by air, the cost of the air freight shall be twenty-five per cent (25%) of the sum duly paid for this concept for the determination of the Customs CIF value.

When there is no commercial documentation

evidencing the transport cost, it shall be assumed that it equals 5% of the FOB value of the goods. When the transport operation is carried out without insurance, the premium shall be assumed to be 2% of the FOB value of the goods. The national insurance policy shall only be accepted when irrefutably obtained before the shipping of the goods in the country of origin.

For vehicles entering the country by their own means of transport, or luggage of the traveler's regime, in order to determine the taxable basis, the transport cost shall be two per cent (2%) of the FOB value.

To pay the Added Value Tax, and to apply the percentage of the proportional rate of the Specific Consumption Tax, in the case of imports, the taxable basis shall be formed by the border customs CIF value, plus the Customs Duty duly paid, and other non-invoiced expenditures necessary for customs clearance.

As a general rule, the term for the payment of customs duties shall be three (3) days to be counted from the working day following the acceptance of the declaration of goods by the customs administration.

The same term shall apply for the payment of obligations derived from the liquidation carried out by the customs administration, and it will be counted from the time the notification with the liquidation is given. The National Customs shall be able to grant an extension to this term with general scope for exceptional cases.

8.4 Transfer Pricing

As part of the new transfer pricing regime established by Law No. 549 of July 21, 2014 and Supreme Decree 2227, the Tax Administration of Bolivia has issued on April 30, 2015 Normative Resolution No. 10-0008- 15, which regulates the formal obligations in the matter.

Companies linked to other national or foreign, must carry out its operations as economic and as would have been made between independent reality. Otherwise the Tax Administration has the power to make adjustments and / or corresponding revaluation.

Formal obligations shall take effect from September 2015 and for each taxpayer is determined in accordance with the materiality of the amount of transactions with related accumulated in a year, applying the following scale:

Greater than or equal to 15,000,000 Bolivianos (BOB)	Electronic Form 601 Affidavit must submit Informative and Study of Transfer Pricing (EPT)
Equal to or greater 7,500,000 Bolivianos (BOB)	Electronic Form 601 Affidavit must submit Informative Operations with Related Parties.
Less than Bs. 7,500,000 Bolivianos (BOB)	They must keep records to show that related party transactions were made at market prices, or that the necessary adjustments were made.

Both the Study of Transfer Pricing, as the Sworn Declaration Form 601 must be submitted by the deadline for filing the Tax Return and payment of tax on Company Profits (IUE).

The EFA must be made in physical and digital format, sent via the website of the National Tax Service of Bolivia.

The same shall be prepared in Spanish language, expressed in Bolivianos, and it must be signed by the legal representative of the taxpayer.

It must contain at least the following information:

- Index
- Executive Summary
- Functional analysis
- Economic analysis
- Conclusión

The methods accepted by the Tax Administration will be welcomed by the OECD (Method Comparable uncontrolled price, resale price, the cost add-

ed, the Profit Distribution and Transactional Net Margin), together with either the Notorious Price Transaction in transparent markets.

In the event that the price or value of transactions between related is outside of comparable rank, and as a result has been diminished taxable IUE.

The adjustment will be determined at a value equivalent to at least sample plus average value of the same.

Penalties for not filing EPT F.601 or presentations later, buggy or incomplete information is punishable with fines ranging from 50% to 100% of the maximum penalty provided in Art. 162 of Law No. ° 2492 of the Tax Code.

9. International Treaties

9.1 Bilateral Investment Agreement

Bolivia has entered into international agreements with the following countries: Argentina, Great Britain, France, Sweden, Spain, and Germany.

9.2 Agreements to Avoid Double-Taxation

The countries of the Andean Community have signed Decision 578: a regime to avoid double taxation, and to prevent tax evasion.

The criterion applied is the tax exemption for the country where the taxable income is pretended to be consolidated; that is to say, the income is taxed by source-based taxation regime.

Federative Republic of Brazil

1. Identification of the firm contact
Moore Stephens performs its activities in more than 10 Brazilian cities.

1.1 Main contacts

Marco Antonio Olívio Palos
palos@msbrasil.com.br

Lygia Caroline S. Carvalho
lygiacarvalho@msbrasil.com.br

2. Country profile

2.1 Territory

Brazil is the fifth largest country of the world, with a total area of 8.5 million square meters, covering about half of South America. The country is divided in five regions.

According to the data collected by the Brazilian Institute of Geography and Statistics (IBGE) in 2010 (last research of the Census held in the country), the urban areas concentrate 84.36% of the population, the Southeast region having the largest population, with more than 80 million people. The data of the Census 2010 show a total Population of 190.755.800 inhabitants.

2.2 Language

Portuguese is the eighth more spoken language in the world and the third among the western countries, only behind English and Spanish. About 200 million people use this language throughout the world and it is the official language in eight countries: Angola, Brasil, Cabo Verde, Guiné Bissau, Moçambique, Portugal, São Tomé e Príncipe and Timor Leste. It is also one of the official languages of the European Union since Portugal joined the group of nations.

The Portuguese language was introduced in Brazil with the Portuguese colonization in 1500.

2.3 Political System

Brazil is a Presidential Federative Republic, formed by the Union, states, the Federal District and municipalities, in which the exercise of the Power is assigned to different and independent government entities, submitted to a control system to guarantee the accomplishment of the laws and the Constitution.

Brazil is a Republic because the people elect the



Head of State for a certain period. It is Presidential because the president of the Republic is Head of State and Head of the Government. It is federative because the states have home rule.

The Union is divided in three powers, being independent and harmonic among them: the Legislative, that works out the laws; the Executive, that acts in the execution of programs or performing public services; and the Judiciary, that solves conflicts among citizens, entities and the state.

Brazil has a multiparty political system, in other words, admits the legal formation of several parties. The political party is a volunteer association of people that share the same ideas, interests, objectives, and political doctrines, trying to influence and be part of the political power.

3. Types of companies

3.1 Simple company

A company is considered simple when its social object results from intellectual profession, of scientific, literary, or artistic nature, including the support of auxiliaries and collaborators, in other words, we consider a simple society the old civil company.

This company has a contract nature, not being characterized as business company. The private assets of the partners may be executed for debts of the company, but only after the social assets have been executed, if these are not sufficient to pay the debts. In this case, the partners respond with their social equity at the proportion of their shares in social losses, except if on the social contract there is a clause stipulating the supportive responsibility.

To change the social contract, voting and unanimity is necessary when the contract determines a different quorum.

3.2 General partnership

In a general partnership the partners respond for the supportive obligations in an unlimited form. This means that the creditors may demand what is due to them from any one of the partners and the partners respond with all the personal equity.

In spite of that, as the contract may establish that the partners are the managers, the same contract may establish the responsibility of each partner.

3.3 Limited partnership

The limited partnership is formed by partners of two categories: the general partners, individuals, having supportive and unlimited responsibility for the social obligations; and the limited partners, obliged only for the value of their stake.

The limited partnerships are ruled additionally by the norms of the general partnership, so that the general partners have the same rights and obligations.

Even not, affecting his right to participate in the deliberations of the company and inspect its operations, the limited partner is entitled neither to practice any management action nor have the name of the social firm, on condition to be subject to the responsibilities of the general partner.

In this case, the contract has to discriminate the general partners and the limited partners.

3.4 Brazilian limited liability company

In this company, the responsibility of each partner is restricted to the value of its shares, but all respond supportively for the subscription of the capital stock.

This type of company will have a consolidated basis in just one legal diploma, as the existing company called company of shares of limited responsibility, had its legal basis fixed by the Decree n° 3.708/1919, revoked, and additionally by the Law of Business Corporations (Law n° 6.404/1976).

The subsidiary application of the law of joint stock companies continues being possible, as long as there is an express provision on the articles of the association.

3.5 Share companies

There are two types of share companies: the joint stock company and the limited partner-

ship with share capital.

3.5.1 Joint stock company

On the joint stock, company the capital is divided in shares, being each partner or shareholder responsible only for the issue price for the shares that he subscribes or purchases. The joint stock company is ruled by a special law (Law n° 6.404/1976 and further legal determinations), and on the omitted cases will be applied the legal determinations of the New Civil Code (articles 1.088 and 1.089).

3.5.2 Limited partnership with share capital

This company has the capital divided in shares, being ruled by norms referring to the joint stock company. However, in this type of company only the shareholder has the right to manage the company and, as director, responds in a subsidiary and unlimited way for the obligations of the company (articles 1.090 to 1.092 of the New Civil Code).

3.6 Cooperative company

It is a simple company and ruled by the Law 5.764/1971; it must be registered in the Commercial Registry.

It is characterized by: variability or exempt from capital stock; a minimum number of partners is necessary to the composition of the board however, there is no restriction on maximum number of members; limitation of the share of capital stock for each partner; capital shares are not supposed to be transferred to third parties unknown to the cooperative members, even as heritage; quorum of installation and deliberation of the assembly of the cooperative members, established according to the number of partners present to the social meeting and not based on the represented capital; each cooperative member is entitled to one vote only; distribution of the result in a direct proportion to the value of the operations effected by the cooperative partner with the company; the reserve fund cannot be divided among the partners, even in the case of dissolution of the company responsibility of the partners in a limited or unlimited way regarding the debts.

3.7 Individual Businessman

The individual businessman (formerly called individual firm) is just a person performing in his name a business activity. It is a company with only one person as holder who subscribes his own assets to run his business; in other words, here the separation of the assets is not in force.

3.8 Individual enterpriser and Individual

Microenterpriser

The individual enterpriser and the Individual Microenterpriser (MEI), is a person that works on his own account and is legal. It is considered such an enterpriser when he is earning up to R\$ 60,000,00 in calendar year (new ceiling established by the "Lei Complementar 139/2011"), does not participate in another company as partner or holder and is enabled to hire only one employee paying monthly a minimum wage.

The Complementary Law n° 128, from 19/12/2008, produced special conditions for the worker, known as informal, may become a legal individual enterpriser.

Among the advantages offered by this law, is the registration on the Federal Revenue Service (CNPJ), what will make it easier to open a bank account, to ask for loans and issue invoices. Besides, the individual enterpriser will be framed in the Brazilian Simplified Taxation System. A further advantage brought about by enrollment with the "Simples Nacional" is the federal tax exemption (Income Tax, PIS, COFINS, IP and CSLL).

Only a fixed, monthly "x" amount will be paid. The individual enterpriser is required to pay R\$ 36.20 corresponding to 5% of the minimum salary for this year, i.e., R\$ 724.00, plus R\$ 1.00 of ICMS – State Vat, for industrial or trading companies; and R\$ 5.00 of ISS – Service Tax – a municipal tax, for those operating in the service segment. Trading and service companies will pay R\$ 42.20. These amounts will be updated every year according to the minimum wage.

With these taxes, the individual enterpriser will have access to benefits such as maternity aid, disease aid, and retirement, among others.

3.9 EIRELI

From January 9, 2012 on, can be formed the EIRELI – Individual Company of Limited Responsibility, created by Law 12.441/2011.

EIRELI will be owned by only one person with the total capital stock, duly paid-in, which will be no less than 100 (hundred) times the highest minimum wage of the country. The name of the enterprise must include the expression "EIRELI" after the firm or the social denomination of the individual enterprise of limited responsibility. The person that forms an individual enterprise of limited responsibility can be in only one enterprise of this type.

4. Labor system – Consolidation of Labor Laws**(CLT)**

The Consolidation of the Labor Laws (CLT) combined to the Federal Constitution of 1988 are the main diplomas that rule the labor laws in the country. It follows a summary of the main points the legislation deals with:

4.1 Terms for registration/ recruitment

The employees have the right to own a Labor and Social Insurance Book (CTPS). This document is signed by the employer and contains information, as performed position, remuneration, and working day, forming the summary of the qualifications that are part of the working contract signed by the parties. Special employment terms or special contracts also must be mentioned in that Book. The recruitment of foreign employees is guaranteed as long as their international identity card (RNE) (issued by Brazilian authorities) is shown. Beyond the signature of the CTPS, it is necessary the employer keeps an updated registration of all employees on the Registration Book of the Company.

Every year the Ministry of Labor must be informed about the total number of employees working for the company, specifying the number of foreigners and minors.

4.2 Labor conditions

The labor legislation assures the right to a decent and healthy labor environment. In order to assure the comfort and convenience of the workers, adequate meal facilities or meal tickets must be supplied at the place, in companies with more than 300 employees.

For companies engaged in potentially dangerous and/or unhealthy activities, before they start operations there must be a previous inspection by the Ministry of Labor approving the offered working conditions.

4.3 Labor time

The Brazilian worker uses to work eight hours a day and the standard week is of forty hours. The workers are entitled to have a weekly rest time of 24 consecutive hours and regular intervals for the meals. Specific professional categories are subject to different working hours.

4.4 Transfer of employees

The legislation allows only one geographic transfer of the employee whose need has to be proved by the company. The temporary transfers require the paying of additional salary not less than 25% and the travel expenses have to be paid by the employer.

4.5 Experience period

The employees can be admitted for an experience period not exceeding 45 days, not extendable but once for a further 45 days, totaling 90 days at the most. During the experience period, the so-called experience contract between employer and employee will be in force. At the end of that time, if the labor link is not ended, the contract becomes definitive.

4.6 End of the job

The dismissal without a fair reason requires from the employer the payment of a fine equivalent to 50% of the value deposited on the account of the Guarantee Fund of Working Time (FGTS) of the employee. The employer will receive 40% of this value and the other 10% go to the government.

If the employee has been dismissed for a fair reason, the employer is not supposed to pay a fine. If the dismissal occurs during the experience period time, these fines do not apply.

4.7 Litigation

The rigidity of the labor legislation should be considered seriously, as compared to the norms of other countries. The labor litigation culture and the absence of flexibility of the norms ruling the labor contracts are factors to be observed as the labor claims may represent expenses for the companies involved.

The Brazilian labor legislation allows entering the court up to a maximum of 2 years from the end of the labor contract, and the employee can plead the payment of sums referring to the last five worked years.

4.8 Remuneration

The remuneration is periodical and the general rule says it to be paid monthly in national currency. The salary is to be paid 13 times during the year, in view of the 13th salary, awarded to the employees at the end of every calendar year.

4.9 Associated benefits

Associated benefits are those that are not part of the remunerated salary and usually are related to tax incentive programs promoted by the Federal Government, that grants law benefits to the companies that pay meals, transport and/or education for their workers.

The big companies also offer pension plans and policies of life insurance, these being considered associated benefits as well, due to its no-salary nature.

4.10 Additional salary

The legislation established the possibilities in which additional values are due to the remuneration salary of the worker. The payment of any additional is linked to the intensification of the physical and mental stress to which the employee is submitted in the situation in which the additional is due, as follows:

- **Extra hours:** it is the additional due to the work exceeding the working day of 8 hours. The value of the additional must be at least 50% more than the value of the regular worked hour, although higher percentages may be established thru agreements and collective conventions between workers and employers.
- **Night additional:** is due to the work performed in the night period, and remuneration has to be at least 25% higher than the normal worked hour during the day.
- **Dangerous additional:** is due to the workers submitted to activities considered dangerous by the legislation, and in this case it is not supposed to be less than 35% of the salary of the employee.
- **Unhealthy additional:** is due to the workers submitted to working conditions considered unhealthy by the legislation, and it can vary from 10 to 40% of the salary of the employee, in view of the risk of a potential damage to the health or to the well being of the employee.

4.11 Minimum salary

Minimum salary is the monthly minimum payment established by law to be paid to the worker. No remuneration under the minimum salary is allowed. The minimum salary is R\$ 724,00 in force in 2014, but variations may be established by categories or geographical regions.

4.12 Deductions and reductions

In view of the labor rights be so inflexible in Brazil, it is not possible to the employer to effect any deductions from the compensations paid or credited to the employees, except to the commissioned functions or deductions prescribed by law or collective agreements, such as tax withholding, social and labor unions.

4.13 Equality of opportunities

The Brazilian criminal legislation considers the discrimination as a crime, including the working environment. The labor laws consider that every kind of work of the same function must be remunerated equally, independently of the nationality, age, sex, or marital status of the worker.

The Federal Government promotes many programs of directed action for the integration in the labor market for disabled, former prisoners and apprentices, among others.

In spite of all, differences in working times can be considered on the calculations to justify different salary levels. Companies having career plans can afford differences in salary levels, according to the merit or maturity; however, any career plans must be registered at the Ministry of Labor.

4.14 Labor rights

4.14.1 Holidays

The employees have the right to remunerated holidays up to thirty days for every period of 12 worked months, as well as receiving a holiday bonus equivalent to 1/3 of the monthly salary of the worker. The legislation establishes the possibility for the employer to purchase up to 10 days of the holidays of the worker, as long as the worker agrees with it.

4.14.2 Thirteenth salary (Christmas bonus)

The worker has the right to receive the Christmas bonus corresponding to the 13th month salary, equivalent to 1/3 of the salary received on the month of December for every month worked during the civil year. This bonus must be included on the calculation basis of the social or social insurance taxes. The legislation establishes the possibility of paying the bonus in two separated parcels during the calendar year.

4.14.3 Family aid

For every child under 14 years of age or dependents, the worker has assured a supplementary monthly benefit for each dependent, variable according to the salary received. This supplement will not be considered on the calculation of the social insurance and other due taxes.

4.14.4 Profit distribution

The companies may establish conditions for the distribution of profits and results obtained among the workers. Although initially there is no obligation for the employer to do that, once the benefit has been granted, it is submitted to the legal current rules, according to the formalities considered on the Law 10.101/2000.

As long as the provided conditions by the legislation are fulfilled, the company considers the payments as deductible expenses.

4.14.5 Previous notice

The termination of the labor contract is optional both for the employee and for the employer, as long as informed 30 days before (previous notice). If one of the parties interrupts the labor contract without observing the previous notice, the 30 days will have to be compensated by the other party, as they would have been worked.

4.14.6 Domestic Workers

The PEC (Proposed Constitutional Amendment), 478/10, also known as "PEC das Domésticas", enacted on April 2, 2013 as Constitutional Amendment no. 72 has expanded the rights of domestic workers thus making them equal with those of other urban and rural workers.

Among the changes introduced by this PEC, the following stand out: the right to indemnity in case of unfair dismissal; unemployment insurance in case of involuntary unemployment; amounts deposited with the FGTS – Guarantee Fund of Working Time; minimum salary for those receiving variable compensation; night-shift bonus; protected salary, with special mention to malicious salary withholding; Family allowance; daily eight-hour and weekly forty-four hour working periods; payment of overtime; benefit from labor hygiene, health and security standards; day-care and pre-school benefits for children and dependents of up to 5 years of age; recognition of trade union collective agreements; occupational accident insurance; prohibition of discrimination against persons with disabilities; and prohibition of night-shift, hazardous or unhealthy work for those under 16 years of age.

In terms of tax, certain aspects of mandatory FGTS mandatory deposits are still under regulation. This deposit is the equivalent to 8% of the workers' salary and must be fully paid by employers. In case of unfair dismissal, employers must also pay 40% of all deposits made in the workers' secured account during the contract validity, duly restated.

4.14.7 General considerations

As it was pointed out previously, the Federal Constitution and the Consolidation of the Labor Laws are the main diplomas that rule the labor right in the country, however, other norms can be established thru federal laws and agreements and collective working conventions of professional categories. We do not include these details in this publication, but the

considerations made here are those causing more impact on the day-to-day routine of the company.

4.15 Tax on salaries

4.15.1 Fund of Guarantee for Worked Time (FGTS)

The company has to pay monthly the equivalent to 8% of the total salary of every worker to the FGTS, depositing this amount on a proper account of a government bank in name of the worker.

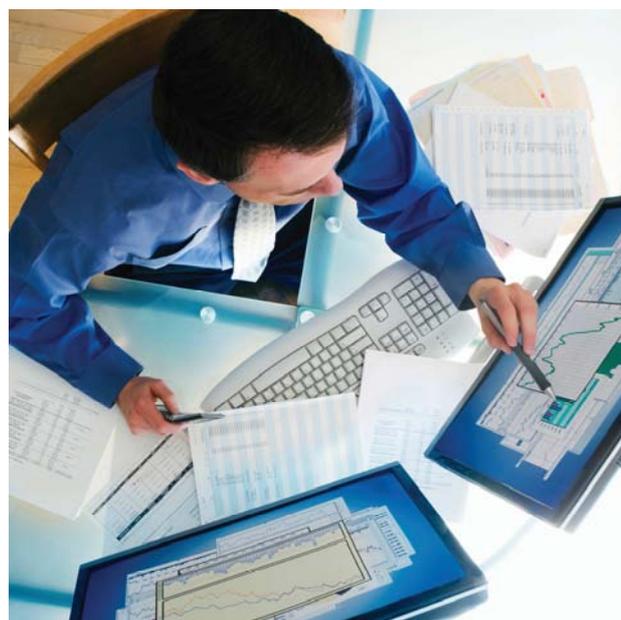
Sectors	Tax rate
Textile	1,00%
Apparel	1,00%
Leather and footwear	1,00%
Plastic	1,00%
Electric material	1,00%
Capital goods—Mechanic	1,00%
Bus	1,00%
Auto parts	1,00%
Naval	1,00%
Air	1,00%
Furniture	1,00%
IT	2,00%
Hotels	2,00%
Call Centers	2,00%

The use of that Fund is made available to the employee under special conditions, such as the retirement, dismissal without fair reason, purchase of the home owning house and severe disease.

4.15.2 National Institute of Social Insurance (INSS)

4.15.2.1 Contribution of the employer

The contributions for the social insurance have to be paid monthly by the company to the INSS, at a rate of 20% charged on the gross salaries of the employees and adding minority charges (insurance of the compensation of the worker, educational contribution and contributions for other governmental institutions, as "S" system, Senac, Sesc, Senai and Sebrae). Payments to individual or honorary employees without a job link are also subject to the payment to INSS at a rate of 20%.



As from 2012, with the enforcement of Law 12.546/11, some economic sectors began to benefit from the "payroll exemption", which consists of a change from a 20% payroll tax rate to one varying between 1% and 2% on gross revenues (except export revenues) earned by companies. Below, some of the sectors benefiting from this exemption (not a complete list):

4.15.2.2 Contribution of the employee

The contribution of the employee is subject to a minimum tax, collected monthly by the employer, based on a specific progressive table varying from 8% to 11% according to the salary level of the worker.

The company is responsible for charging and therefore it must keep the percentage due from the workers. The contributions have to be paid monthly to the respective agencies of the government.

The delay in the payment of the contributions to the social insurance causes the banning of the distribution of bonus, dividends to the shareholders or distribution of the sharing of profits to partners, shareholders, or directors. Besides, companies are also prevented to make contracts with the government, among other penalties.

5. Tax system

The Brazilian tax system is based on the principle of strict legality and its fundamental principles are

fixed by the Federal Tax Code of 1966 and by the Brazilian Federal Constitution of 1988. There are three jurisdictions and levels of charging taxes fixed by the tax legislation: federal, state, and municipal.

5.1 Federal tax

The main federal taxes charged by the companies installed in Brazil are: Income Tax of Corporation (IRPJ); and the Social Contribution on the Net Profit (CSLL), that are calculated in a similar way.

There are not distinctions regarding the origin of the invested capital (be the investors foreign or national).

The subsidiaries of foreign companies, although seldom, are taxed in the same form as the autonomous subsidiaries. In principle, the company is considered to be seated in Brazil as long as it has been established according to the Brazilian corporate law and have its address in Brazil. Besides, the Brazilian law requires that the management of the company be effectively in Brazil. The Brazilian fiscal year corresponds to the calendar year, independently of the corporate year. The yearly statement of income tax must be submitted on the date fixed by the Brazilian Federal Revenue – usually on the last Day of the month of June and, also has to be shown when occur special events, as fusions, purchases, separations.

5.1.1 Income Tax of Corporation (IRPJ)

The rules of the IRPJ, consolidated according to Decree n° 3.000, of March 26, 1999, apply to all tax payers. Only the federal government is entitled to charge income tax, but part of it after the charge is transferred to states and municipalities.

It should be pointed out that, with the new accounting methods and criteria adopted by law n° 11.638, (December 28, 2007); the neutrality for tax purposes by law n° 11.941/09 was defined, this is, the alterations that modify the recognition criteria of incomes, costs and expenses computed on the finding of the net profit of the fiscal year will have no effects on finding the real profit of the corporation subject to Transition Tax Basis, consequently for tax purposes should be considered the current accounting methods and criteria of December 31, 2007.

As from 2014, companies may opt for definitive IRPJ, CSLL, PIS and COFINS levying rules defined through the Provisional Measure 627/2013, having in mind the accounting rules introduced by Law 11.638/07. And in 2015 the definitive taxation rules will be mandatory for all companies,

and accordingly, as from January 1, 2015, the Transition Taxation Regime (RTT) will be revoked.

The IRPJ is charged on the taxable net profit, being applied the basic percentage of 15%, plus an additional of 10% on the parcel of annual income exceeding R\$240.000.00 per year or R\$ 20.000.00 per month.

Lastly, it is worth stressing that with the enactment of the Provisional Measure 627 of 2013, IRPJ and CSLL (the later outlined in the next sub-topic), will begin to be determined by digital bookkeeping means (Sped), the records of which are made at the “ECF – Escrituração Contábil Fiscal” (Accounting – Fiscal Bookkeeping). By defaulting on this regulation and failing to submit or submitting incorrect information, a taxpayer will be liable to fine calculated based on their company’s ability to pay taxes.

5.1.2 Social contribution on profits (CSLL)

This tax was introduced to cover the costs of social and welfare programs and is a tax charged additionally to IRPJ.

CSLL is charged on the taxable net profit at a percentage of 9% and is not deductible from the IRPJ. The calculation basis is similar to the IRPJ, although some specific adjustments apply to one but not to the other one.

The CSLL percentage is 15% for financial institutions, private insurance companies and capitalization applicable to providing facts occurred from May 1, 2008 on.

5.1.3 Taxation methods

The legislation offers three methods to calculate IRPJ and CSLL that fall upon the profits: the real profit, the estimated profit, and the arbitrated profit:

5.1.3.1 Real profit

According to the system of real profit, the taxable net profit corresponds to the accounting net profit of the company, calculated following the Brazilian accounting practices and adjusted through additions and exclusions, in compliance with the Brazilian legislation.

In this sense, according to the system of real profit, the companies are required to keep appropriate accounting registers, a book of Income Tax and documents of the calculation to confirm the demonstration of due taxes.

According to the system of real profit, the taxpay-

ers have an option to calculate the taxes every three months or yearly. The option has to be made at the beginning of the calendar year and is valid for the whole fiscal year. Besides, the taxable profit is calculated yearly, although an anticipated monthly payment is required; (a) estimated basis; or (b) on real basis. The estimated corresponds to the basis of the tax on the estimated profit.

Among the main exclusions of the taxable profit are dividends received from other Brazilian entities, referring profits provided from 1996 onwards, and equity incomes of relevant investments in other companies.

Moreover, the main additions refer to non-deductible account provisions and non-deductible expenses.

The deductible expenses usually are all the items referring to regular business of a company, correctly documented in a capable form and necessary to keep its income source. Now follow some examples of rules about how expenses for Income Tax purposes can be deducted:

- The depreciation can be debited based on the useful life of the referred asset. There is a detailed list of asset items published by the Tax Authorities containing accepted depreciation taxes. Higher taxes can also be accepted when they accomplish some requirements. When the company operates in two or three shifts, these taxes maybe increased in 50% or 100% respectively. Besides, the asset purchased according with approved or eligible projects for certain fiscal incentive programs can be depreciated on higher taxes.
- Technical assistance and payments of royalties are deductible, depending on the specific conditions and limits established by law, which requires, among other things, the approval of the National Institute of Intellectual Property (INPI).
- Fines coming thru notifications from the Tax Authorities and fines not related to taxes are not deductible. Fines due for delay in the payment of taxes are deductible.

Tax losses:

- Tax losses can be compensated indefinitely without a time limit for prescription.

- The compensation is limited to 30% of the taxable profit.
- Tax losses get lost if between the time of its provision and that of its use, cumulatively, occurs a change on the control and on the type of activity of the tax payer.

Lastly, a further change introduced by the PM 627/13 is worth stressing: it is that any share-based compensation paid to employees or partners must be added to the net income.

5.1.3.2 Estimated profit

The Brazilian companies have the option to calculate their taxes based on the estimated profit as long as, on the previous fiscal year there were no total incomes of more than \$ 48 million; and neither be financial institutions or similar, nor factoring companies: have no profit, incomes or values coming from abroad, directly or thru the foreign subsidiaries; and not be qualified for exemption or reduction of the IPRJ.

From the calendar year 2014 on, companies may opt for the assumed profit taxation method, if their gross revenues did not exceed R\$ 78 million in the previous calendar year, or R\$ 6,5 million multiplied by the number of months of activity, if lower than 12.

The choice, both for the IRPJ and for the CSLL, is made yearly at the beginning of the year and can be renewed every year. On this basis of estimated profit, the taxes have to be calculated and paid every three months.

The estimated profit is calculated by applying a pre-fixed estimated percentage on the total sales, which is variable according to the activity. The total of capital gains, financial income and of other income must be added directly to the basis of the estimated profit in order to calculate the corporation taxes, subject to percentages of 15% and 10% (additional, if due).

For example, for the IRPJ, the tax for incomes resulting from the sale of products is 8%, but the tax resulting from services is 32%. For the CSLL, the taxes are 12% and 32%, respectively.

Illustrative calculation:

It should be pointed out that by the system of estimated profit, the compensation of the losses is not supposed to be used to reduce the profit. The decision to pay the taxes on the income (profit) by

Percentage IRPJ	\$
Gross Sales	1.000
Estimated profit for Income Tax (8%)	80
Financial income	500
Total Estimated for Income Tax	580
Income Tax due (approx. - 25%)	145

Percentage CSLL	\$
Gross Sales	1.000
Estimated profit for Social Contribution (12%)	120
Financial income	500
Total Estimated Profit for Social Contribution	620
Social Contribution due (9%)	55.80

the estimated system does not prevent the Brazilian entities to pay dividends corresponding to the amount of its account profit, if it exceeds the estimated profit.

However it is required that the company keeps appropriate accounting registers and balance sheets to demonstrate the account profits.

5.1.3.3 Arbitrated profit

Under certain circumstances, such as keeping non-convenient or not trustworthy registers, the Tax Authorities can arbitrate the profits. In this sense the method consists of a kind of punishment applicable in situations provided by law.

The income tax paid about the arbitrated profit is definitive and cannot be compensated with future payments.

The system of arbitrated profit is similar to that of the estimated profit, but having higher percentages to be applied to the gross sales. Besides, the Tax Authorities can impose penalties.

The management resources against decisions or official notifications must be required within 30 days after becoming aware of it. If that is maintained, the tax payer can appeal to an administrative court and, even so, if the decision is maintained, can be appealed to a court of justice.

5.1.4 Penalties and fines

The penalty for delay in payment of federal taxes is 0.33% a day, up to the maximum of 20%,

depending to the delay period. The interest rates on delayed federal taxes are charged at a fluctuating rate (SELIC) plus 1%.

The launching by letter for the non-payment of the tax or the contribution usually is subject to a fine of 75%, which can be reduced to 37.5% when paid within the time limit of 30 days. In the case of non-payment or less payment of the monthly advances of IRPJ and CSLL, the fine applicable is of 50%, even when there have been identified tax losses in the yearly calculations of taxes. If fraudulent intentions were proved, than the fine goes up to 150%.

When there is a delay in the payment of federal taxes or social contributions, the company entities are not allowed to distribute bonus in shares to its shareholders or pay any participation on the results to the "quota holders," partners, directors or members of the management council. The non-observation of these restrictions cause penalties.

5.1.5 Program of Social Integration (PIS) and Contribution for the Financing of the Social Security (COFINS) PIS and COFINS are federal contributions charged monthly on incomes, under two basis the cumulative and the non-cumulative.

Before, PIS and COFINS were charged at a percentage of 0.65 and 3%, respectively, from the majority of the companies, causing a harmful ripple effect, due to the lack of a credit mechanism and, consequently, increasing the tax incidence and the cost of products and services in Brazil.

The new legal provisions about PIS and COFINS, providing the non-cumulating, took effect on December 2002 (Law 10.637/2002) and December 2003 (Law 10.833/2003) with effects produced from December 1, 2002 and February 1, 2004, respectively. Because of these rules, the percentages of PIS and COFINS went up from 0.65% to 1.65% and from 3% to 7.6%, respectively, with the introduction of a credit mechanism.

According to this non-cumulative mechanism, the tax payers can, generally, recognize credits of PIS and COFINS corresponding to 1.65% and 7.6% of certain costs and expenses. These credits can be used to compensate PIS and COFINS due on its taxable income.

So, the tax payers that adopt the non-cumulative system are subject to an incidence of PIS at a

percentage of 1.65% and COFINS at a percentage of 7.6%, being permitted to recognize tax credits of PIS and COFINS charged on certain inputs. Among these inputs are: products purchased for resale; goods and services used as inputs when offering services or manufacture; consumption of electric energy; property rental and fixed assets applied in the activities; purchase of fixed assets; and returned goods, if the corresponding income was included on the basis of taxable PIS and COFINS in the previous period.

The non-cumulative basis of PIS and COFINS is obligatory for companies that adopt the method of real profit to calculate the IRPJ.

The previous system of cumulative PIS and COFINS continues applicable to certain entities, such as financial institutions and companies that adopt the system of estimated profit, among other, and for certain income resulting from services of telecommunications, transport and development of software, which usually are taxed at a percentage of 0.65% for PIS and 3% for COFINS, without available credits. The financial institutions are taxed for COFINS at a percentage of 4%.

The companies whose incomes are subject to the cumulative system and other incomes are subject to the non-cumulative system and will have to calculate PIS and COFINS separately, in both systems.

On incomes referring to export transactions and to the sale of permanent assets, in general, these taxes do not fall upon.

There are special basis of PIS and COFINS for companies of certain types of industry, such as the automotive, car parts, cosmetics, pharmaceutical, oil, beverages, packing materials, energy, property, among other. Besides, from 1st May 2004 on the import of assets and services is also subject to the payment of PIS and COFINS at a combined percentage of 9.25%, as a general rule. In some cases, the tax payers can recognize credits of PIS and COFINS on imports.

Among the changes described herein, the PM 627/13 substantially changes the PIS and COFINS bases of calculation. Under art. 2 of this PM, the gross revenue concept dealt with in art. 12 of the Decree-Law 1.598/77 is modified, by including also "the revenues from a legal entity's main activities, not included in items I to III" (I – proceeds of sale of assets in operations performed on one's own account; II – the price of general services provided; III – the income on operations per-

formed on account of third parties).

Also, § 4 of that PM reads: "non-cumulative taxes charged mostly to a buyer or a contracting party by a seller of goods or a provider of services, solely in the capacity of depositary are not included in gross revenues".

Additionally, art. 49 of that PM amended art. 3 of Law 9.718/98 to the effect that "the invoicing referred to in art. 2 comprises gross revenues dealt with under art. 12 of the Decree-Law 1.598 of December 26, 1977".

Furthermore, under articles 51 and 52 the same concept was maintained, of non-cumulative levying of PIS and COFINS, as provided by Laws 10.637/2002 and 10.833/2003, respectively.

5.1.6 Tax on Industrialized Products (IPI)

IPI is a federal tax falling upon the import and manufacture of goods. In many aspects, it works as a value added tax, charged on the added value to the final good. Generally, IPI paid on a previous transaction can be used to compensate the IPI obligation that comes up on subsequent taxed operations. The applicable percentage depends of the product and its classification on a table of IPI percentages.

The IPI also has a normative nature, in other words, the executive power can increase its percentage at any moment, by decree, as a form to implement financial and economic policies. Further, the percentages can be higher in the case of non-essential products, as cigarettes, perfumes, etc. Every installation (subsidiary) is considered a separate tax payer for IPI purposes. In the case of imported products, the providing fact is the customs release, as well as the first time the product leaves the installations of the importer (in general, at a sale). In most of the import products IPI is charged on the CIF value, plus certain custom tariffs and the import tax. In most transactions in the country, the providing fact is when the manufactured product leaves the installation where it was manufactured. Normally IPI is charged on the



transaction value plus the ICMS (a state tax).

The Brazilian tax legislation defines as manufacture every process that modifies the nature, the operation, the finishing, the presentation, or the purpose of a product, or that turns a product better for consumption.

The IPI payers have the right to an IPI credit equivalent to the tax paid on the purchase of inputs to be used in the manufacturing process. This credit can be compensated by IPI charged on subsequent transactions. In certain circumstances the excess of IPI credits that cannot be compensated with IPI due in subsequent transactions, can be used to compensate other federal taxes. IPI does not fall upon the sale of fixed assets, but for that certain requirements have to be fulfilled.

5.1.7 Income Tax Withheld at the Source (IRF)

The income tax withheld at the source applies in certain transactions made in Brazil, such as payment of honoraries to certain service providers, payment of salary and financial income resulting from bank investments (applications). In the majority of the cases, the IRF means an anticipated payment of the income tax on the final income tax statement of an individual or a corporation. However, in some cases it is considered a final tax.

The IRF is also due in most cases of non-residents that have a Brazilian income source (for example royalties, honoraries for provided services, capital earnings, interests, etc). According to the Brazilian tax legislation, the IRF is due on payment, credit, delivery, utilization, or remittance of funds; from these possibilities, what occurs first.

The percentages depend from the nature of the payment, from the residence of the beneficiary and the existence of treaties between Brazil and the country where the beneficiary has his seat. The most common percentages vary from 15 to 25%.

Generally, the income paid to beneficiaries seated in jurisdictions with low taxes is subject to be withheld 25% at the source.

5.1.8 Contribution on Economic Activities (CIDE)

CIDE is a contribution of 10% due on payments to non-residents as royalties, technical and administrative services, and technical assistance, among others. It should be pointed out that, differently from the tax withheld at the source, CIDE is charged on those paying honoraries in Brazil and therefore, cannot be reduced because

of taxation treaties and does not provide a credit abroad.

There is a limited tax credit given to the Brazilian referring to the CIDE paid on royalties for the use of registered trademarks or commercial marks, which reduces the effective percentage of the tax. Law 11.452, which came into force on February 27, 2007 established that the royalties due to licenses of software are not subject anymore to this tax. The provision goes back to 1 January 2006, enabling the recognition of tax credits of CIDE for payments of software licenses.

CIDE Fuel is another contribution charged on the import and sale of oil and products related to petrol, including ethanol. The manufacturer, the formulator and the importer have to pay the CIDE Fuel, according to Law 10.336/2001.

According to Decree n° 5.060/2004 with a text changed by Decree n° 7.764/2012, the percentages of CIDE on the import and trading of oil and its derivatives, natural gas and its derivatives, and fuel ethyl alcohol – CIDE were reduced to zero for certain products.

5.1.9 Tax on Financial Operations (IOF)

IOF is a federal tax charged on transactions involving credit, Exchange, insurance and securities made thru financial institutions. The tax is also applied on loan transactions between companies.

Now IOF is based on Decree n° 6.306/2007 with further alterations.

IOF percentages can be raised by decree of the federal government and come into force immediately. The calculation basis varies according to the providing fact and the kind of financial operation.

IOF is charged at variable percentages, depending on the expiration date and the kind of transaction.

In the case of loan transactions (credit operations) in Brazilian currency, the general rule says that IOF falls upon the daily average balance, or based on the transaction, at a percentage of 0.0041% plus the additional of 0.0038%. There are situations provided that reduces the percentage to zero.

On the subject, the discussion settled in mid-2013 by the Câmara Superior do CARF" (CARF's Superior Chamber) is worth mentioning. The argument was that no IOF should be levied on activity of a

current account between an assessed company and its parent company.

In the case of operations of exchange, insurance, transactions with securities, gold, financial asset, or exchange instrument there are also specific percentages, according to the situations and conditions provided on the referred decree.

5.1.10 Tax on Territorial Rural Property (ITR)
ITR is a federal tax charged on property located outside the urban areas. The tax basis varies according to its value, size and location and the percentage according to the use of the land.

5.1.11 Contribution for the Development of the National Cinematographic Industry (CONDECINE)

CONDECINE is a contribution falling upon the diffusion, production, licensing and distribution of cinematographic and video works for commercial purposes.

5.2 State taxes

5.2.1 Value-added Tax on Services and Circulation of Goods (ICMS)

ICMS falls upon operations related to the circulation of goods and on providing services of interstate and intermunicipal transport and communication.

It is a kind of value-added tax falling upon the import of products and certain transactions involving goods (including electricity), services of intermunicipal, and interstate transport and communication services.

In general, when the transactions involve two different states of the federation, the percentage is 7% (when the buyer has his seat at states located in the north, northeast and center-west regions or in the state of Espírito Santo) or 12% (for buyers seated in the south and southeast regions).

For transactions made in the same state or in the case of imports, the percentages can be 17, 18, or 19%. The percentage of 19% is applied in the state of Rio de Janeiro; 18%, in the states of São Paulo, Paraná and Minas Gerais; and 17% in the remaining states.

Sales of cars, communication services, and electricity are subject to the payment of a percentage of 25% for ICMS.

In the case of imports, in general, the calculation

basis of ICMS is the same as the CIF value, plus the applicable import tax, IPI, certain custom tariffs, the ICMS itself and PIS and COFINS due on the import.

It should be pointed out that the Commission of Economic Matters (CAE) of the Senate, approved the Resolution of the Federal Senate n° 13/2012, unifying the percentage of ICMS to 4% on the interstate operations with assets or goods imported from abroad, as provided on its Article 1°, § 1°.

ICMS also falls upon when a product is dealt in the domestic market or when it is physically removed from an installation of the manufacturer. The taxed basis is equal to the transaction value, including the ICMS itself ("inside calculation"), insurance, freight, and conditional discounts. To the calculation basis of ICMS also has to be added the IPI when the transaction is between taxpayers that do not pay ICMS or when a product is involved that will neither be submitted to another manufacturing process nor will be dealt, as fixed asset.

As occurs with IPI, each subsidiary of the company is considered a separate taxpayer for ICMS purposes.

In general, those paying ICMS have the right to a credit on the amount of the tax paid on the previous transaction with the same asset (inputs), as long as the buyer also pays ICMS on that product, meaning that as long as the subsequent transactions involving the purchased product also be subject to the payment of ICMS. The tax credit can be compensated by future obligations of payable ICMS.

If the purchaser does not pay ICMS, and depending on his sales being or not subject to this tax, ICMS can become a cost and not be recoverable under the form of credit.

5.2.2 Tax on Causa Mortis Transmission and Donation of any Properties or Rights (ITCMD)
ITCMD is a state tax applied to the transfer of the properties and rights due to death (succession) and donations. The percentages vary according to the legislation of every state.

5.2.3 Tax on Automotive Vehicles (IPVA)
IPVA is a state tax charged on the property of motorized vehicles (cars, trucks, etc.) the calculation basis is the value of the vehicle and the percentages are variable according to the legislation of every state.

5.3.3 Tax on Property Transfer (ITBI)

ITBI is a tax on the transfer of properties, charged at variable percentages (from 2% to 6%). This tax is not normally charged if the property is transferred within a reorganization process of a company (fusion, separation, payment of capital in cash, etc.).

5.4 Rules to avoid non-payment

The Brazilian tax legislation (National Tax Code) provides that the Tax Authorities can have the power for tax reduction of actions or transactions to reduce the amount of tax due, avoid or postpone the payment of a tax or hide aspects of a providing fact or the real nature of elements that cause this fact.

However, under the legal point of view, these provisions are still dependent of a regulation through ordinary law and administrative entities to come fully into force.

5.5 Tax incentives

There is a wide variety of governmental incentives for projects of installations of companies in Brazil. In general, the international investor has the same access to these incentives than the local investors.

The use of governmental incentives is a relevant aspect of the Brazilian business environment.

Normally the incentives are rather subsidized and exemptions or reductions of taxes instead of money granting.

5.5.1 Federal, state and municipal incentives

The incentive programs of the federal government want to promote the objectives of internal Brazilian policies, including the increase of exports and capitalization of the national private industry, while the state and municipal incentive programs have specific objectives, such as the expansion of the opportunities of local jobs.

The state and municipal governments generally use the exemption or postponement of taxes on properties they have the right to charge, giving assistance to potential investors to be able to access the available federal programs. Therefore the company that decides to establish a new factory, whose production will be exported, and is qualified to participate in federal programs, will look for the best package of local incentives before deciding about the location of its factory.

Some of the main fiscal incentives are "Lei Rouanet" (Rouanet Law), "Lei do Audiovisu-

al" (Audiovisual Law), "Fundo para Infância e do Adolescente (FIA)" (Childhood and Adolescence Fund), donation for "OSCIP- Organizações da Sociedade Civil de Interesse Público" (Civil Public Interest Organizations); donation for "Entidades de Ensino e Pesquisa, Lei Federal e FIA Federal" (Teaching and Research Entities – Federal Law and Federal FIA).

However, there are certain limitations on the enjoyment of tax benefits. For example, micro and small businesses who have opted for the "Simples Nacional" cannot support or make donations to cultural and social projects using income tax Incentives, nor can companies opting for the assumed-profit or arbitrated-profit taxation regime, or a donor or sponsor linked to an individual, Institution or company responsible for the proposal, except in case of not-for-profit institution formed by the one responsible for the incentive. Only companies who opted for the taxable-income taxation regime may opt for income tax incentives within a given calendar year.

5.5.1.1 Frequency of revisions

The incentive programs of the Brazilian government are subject to frequent revisions regarding both to the basic approach as well to the specific categories and levels of granted tax incentives. Therefore, the companies that want to get benefits from these programs should consider essential to get good information about it.

5.5.1.2 Subventions of capital

The governments do not grant available sums of money to reduce the initial expense with industrial constructions and equipments. The exception is the subvention of capital as land, obtained by municipal governments, frequently granted through state development agencies.

5.5.1.3 Financing at low cost

Several governmental incentive programs grant financing at low cost. In the past Brazil suffered under a chronic inflation and until today the bank interest rates continue very high. Under these circumstances, the financing at subsidized rates has been very important to certain areas of the Brazilian economy.

5.6 International tax aspects

5.6.1 Permanent establishment

Only the companies founded in Brazil are, in general, taxed as residents. In principle, the Brazilian companies have to register for tax purposes.

Unlike the international practices, the Brazilian tax law neither embodies the concept of permanent establishment nor gives a clear orientation about the potential impact, in terms of taxes, about the fact that foreign entities are Doing Business in Brazil.

There is also no orientation of the Tax Authorities and we only know about some few administrative precedents (tax notification) about the issue. That may be due, in certain cases, that the tax charge on the income of non-residents continues to be higher than the final taxation of residents, what the characterization of an establishment as permanent would generate.

For example, although the profits of a non-resident corporation be taxed at a combined percentage of 34%, while the gross honoraries for services of non-residents, in general, are taxed in 25% (tax withheld at the source and CIDE, if applicable).

Besides, the New Brazilian Civil Code (NBCC) bans foreign entities to operate in Brazil without authorization, which, in principle, is obtained by establishing a subsidiary, that is taxable in Brazil in the same way as a legal Brazilian entity.

However, the following situations can provide taxation in Brazil and therefore it is recommended to check the specific activities to be exercised in the country in order to evaluate the eventual risk:

- **Subsidiary in fact:** the foreign company has a non-registered subsidiary or office.
- **Consignation:** Sales are made by consignation, without keeping appropriate account registers by the addressee in Brazil.
- **Link agent:** Sales are made in Brazil thru an agent or contracted company and, normally, he does it.

5.6.2 Rules of sub capitalization

Thin capitalization rules were introduced in Brazil pursuant to Law 12.249/2010, limiting the deductibility of interest paid or credited by a Brazilian entity to a related party (individual or legal entity) or to an individual or legal entity (whether related or not) that is resident or domiciled in a tax haven jurisdiction.

Soon after the enactment of Law 12.249/10, the Regulatory Instruction RFB 1.154/11 stipulated that interest paid/credited by a Brazilian-based source to a related individual or company abroad, not organized in a country with privileged tax regime, or operating thereunder, will be deducti-

ble only for purposes of taxable income and CSLL calculation basis determination, whenever it is evidenced that they represent necessary expenses for operations in the base period, and on the condition that certain requirements mentioned in art. 2 of the Regulatory Instruction referred to above are met.

5.6.3 Taxation treaties

To avoid a double taxation Brazil signed treaties with several countries. The main method of tax relief, according to the treaties, is the tax credit abroad. The existing treaties offer very few opportunities of reduction or elimination of tax withheld at source about payments to other countries. Besides, many treaties in force contain clauses of estimated credit.

Brazil has treaties with following countries to avoid a double taxation: Argentina, Austria, Belgium, Canada, Chile, China, Czech Republic, Denmark, Ecuador, Finland, France, Hungary, India, Israel, Italy, Japan, Luxemburg, Mexico, Holland, Norway, Philippines, Portugal, Slovakia, South Africa, South Korea, Spain, Sweden and Ukraine.

The treaties with Venezuela, Paraguay and Russia were executed, but are still depending on a final approval by the National Congress. Brazil had a treaty with Germany, which was reported by that country in 2006. The official reason for its cancellation, alleged by Germany, was the existence of many provisions that would only work one-sidedly and that were not corresponding anymore to the German policy and practices, even regarding developing countries. The treaty also would not be providing the necessary legal protection to the German economy.

In fact, there are many discussions about two issues referring to treaties: if the Brazilian rules of transfer prices, that are not based on OECD, would act against the provisions about "Associated Enterprises", contained in the treaty; and if the interpretation given by the Brazilian Tax Authorities regarding the withholding of income at the source, can be applied to honoraries for services, as these would fit into "Other Results" and not in "Business Profits".

On the Brazilian transfer price regulations, early in January 2012, the Regulatory Instructions RFB 1.321 and 1.322 came into force, and since then, the following is not subject those regulations: the deductibility of interest paid, credited or received in connection with contracts signed with related parties abroad until December 2012 and registered with the Brazilian Central Bank by that date.

Any contracts signed subsequently, i.e., as from January 1, 2013, will be subject to the Law 12.766/12, which establishes interest rates based on the currency of the transaction, and provides for an annual spread to be defined by the Ministry of Finance according to the rates prevailing in the market.

5.6.4 Percentages of taxes withheld at the source
The main applicable percentages to payments to non-residents are the following:

- Interests – 15%
- Interests on equity capital – 15%
- Royalties – 15%
- Honoraries for technical services 15%
- Honoraries for non-technical services – 25%
- Lease and rental taxes – 15%

It follows what is not subject to the withholding of tax at the source (restricted to certain requirements):

- Dividends (if related to profits after January 1996) – 0%
- Interests and commission on export financing – 0%
- Interests and commission on export notes – 0%
- Export commissions – 0% Interests on certain public securities – 0%
- Rental taxes of aircrafts and vessels – 0%
- Chartering sea and air vehicles, stay of the boat at the port,
- Payments of container and freight to foreign companies – 0%
- Hedge international – 0%
- Taxes for the register and keeping of patents, registered marks and plant varieties.

5.6.5 Jurisdictions with low taxation

In most cases remittances to beneficiaries seated in jurisdictions with low taxation are subject to withholding the tax at the source at a percentage of 25%. They are the following: Andorra, Alderney (Channel Islands), American Samoa and West Samoa, American Virgin Islands, Anguilla, Antigua and Barbuda, Aruba, Bahamas, Bahrein, Barbados, Belize, Bermudas, British Virgin Islands, Campione d'Italia, Cayman Islands, Cook Islands, Costa Rica, Cyprus, Djibouti, Dominica, East Samoa, Guernsey, Gibraltar, Grenada, Grenadines, Hong Kong, Isle of Man, Jersey, Labuan, Lebanon, Liberia, Liechtenstein, Luxemburg (referring to 1929 Holdings), Macau, Madeira Island, Maldives, Malta, Marshall Islands, Mauritius, Montserrat, Monaco, Nauru, Nevis, Dutch Antilles, Niue, Oman, Pan-

ama, Saint Kitts, Saint Vincent, San Marino, Saint Lucia, Sark, Seychelles, Singapore, Tonga, Turks and Caicos Islands, United Arab Emirates, and Vanuatu. At any moment new jurisdictions may be added to this list.

5.6.6 Interests on equity capital

According to the Brazilian law, besides the dividends, the subsidiaries can also pay interests on the equity capital and its shareholders. These interests are a mixed instrument as they are deductible for Brazilian tax purposes and, at the same time, be considered remuneration for the investor, based on the value of the shareholders.

In general terms, the interests on the equity capital are calculated by applying the daily variation "pro rata" of the long term governmental interest rate ((TJLP) to the adjusted equity capital of the Brazilian entity, considering all the variations occurred during the year.

The interests on the equity capital are limited to what is higher between 50% of the profits withheld of the payer (accumulated) and 50% of its current profits, with some adjustments. However, although clearly provided by law, the Central Bank of Brazil is not accepting remittances of interests on equity capital based on the current profits, when the company has accumulated losses on the balance sheet of the previous fiscal year (on December 31). Normally it is necessary and essential to compensate the accumulated losses.

The interests on equity capital are subject to 15% be withheld at the source, at the date of its payment or credit to whom gets them (it could also fall upon a withholding of 25% if the receiver is seated in a jurisdiction with low taxation - favored). On the other side, the local taxpayer can deduct the interests on equity capital paid to residents or non-residents shareholders as a remuneration on the invested capital – IRPJ and CSLL.

Besides, when the shareholder is a resident entity, the tax withheld at the source becomes a tax credit (and in this case, more tax consequences could come up, considering that other Brazilian taxes could fall upon it).

Therefore, it should also be considered the applicable tax treatment to the interests on the equity capital in the jurisdiction where lives the foreign beneficiary (either be the income taxable or the Brazilian tax at the source creditable, etc.) as the payment of interests on the equity capital may offer tax opportunities.

only the following shareholders' equity accounts will be taken into consideration: capital, capital reserves, revenue reserves, treasury stock and accumulated losses. Under previous legislation, the interest on equity reserve would be calculated on the whole shareholders' equity, except for the evaluation reserve.

The same PM provides for non-retroactivity of the new rules for IER calculations, with prevalence of those in force until 12/31/2013, based on the previous legislation.

5.6.7 Royalties

The tax withheld at the source is charged on the payment of royalties at the standard percentage of 15% or to that applicable, according to the treaty.

The payments of royalties are also subject to the payment of CIDE at a percentage of 10%. CIDE is not a tax withheld at the source. It falls upon the entity that pays royalties. CIDE generates a partial tax credit, in the case of royalties paid by trademarks and patents.

There are also discussions if the royalties are subject to the payment of PIS and COFINS, as well as ISS tax.

The royalties on trademarks, patents and know-how, as well as other agreements involving technology transfer (specialized technical services and technical assistance) are subject to specific requirements both for remittances to be sent abroad as for being deductible. The agreements have to be registered at the Central Bank and at the National Institute of Intellectual Property (INPI).

On the royalties fall certain global and individual limits based on the net income. For example, the royalties on trademarks are limited on 1% of the net income and the royalties on patents at a percentage of the net income varying according to the type of industry (from 1% to 5%).

Collectively, it is not supposed to exceed 5%. However, as there are specific limitations of tax deductions, they are not subject to transfer rules of valid prices in Brazil.

5.6.8 Honoraries for services

The taxation of honoraries for services is different depending on the provided services be considered technical or non-technical. In the Brazilian legislation there is not a clear definition of technical and non-technical services. However in a re-

cent regulation of withholding taxes at the source, the Tax Authorities described technical services as works or companies whose performance requires specialized technical knowledge and is made by liberal professionals or artists.

The non-technical services are taxed at the source at 25%, while the technical services at 15% and fit into CIDE at a percentage of 10%. Both the technical as the non-technical services are subject to the payment of PIS and COFINS, as well as ISS. The percentages of PIS and COFINS are respectively 1.65% and 7.6%, while the ISS taxes may vary from 2% to 5%, depending on the regulation of each municipality.

The rules on transfer prices are supposed to be accomplished if the honoraries are to be paid to related parties, as well as should be observed the general requirements of being deductible, namely, evidence the work has been really made, formal agreements, etc.

In the case the services involve technology transfer, can be made specific requirements for remittances to be sent abroad and regarding the possibility of tax deductions, as mentioned on the previous paragraph about royalties.

5.6.9 Capital gains

When a non-resident sells an asset located in Brazil, including shares of the Brazilian company, the capital gains are taxed at the source at 15% (25% if the seller be in a country listed of the jurisdictions of low taxation).

The transactions between two non-residents used to be exempt of taxes in Brazil.

However, since 2001 these transactions are also taxed in Brazil, whenever they involve assets located in the country. The representative of a non-resident buyer is responsible for the withholding and payment of the Brazilian tax on capital gains.

The capital gains correspond to the difference between the value of the transaction (for example, Sales price) and the cost of the investment. However, there are two possible method for computing the cost of the shares, which many times result on the fixation of different purchase costs and, consequently, to a different amount of capital gains.

One of these methods considers as purchase cost the historical value of the investment made in local currency (Reais), duly adjusted by the inflation of December 31, 1995. The other method consid-

ers the cost equal to the foreign capital registered at the Central Bank (RDE-IED).

There is a strong discussion which of these methods is correct and therefore it is recommended to discuss and check the issue properly before the sale or purchase of shares of the Brazilian company.

5.6.10 Taxation of foreign profits (rules of Federal Accounting Council - CFC)

The Brazilian rules about foreign subsidiaries companies are relatively new, with some provisions distant from the concepts and provisions that are on the CFC legislation of other countries.

The profits produced by foreign subsidiary or branch offices are supposed to be part of the financial statements on December 31 of the fiscal year in which the profits were made, independently of a distribution of dividends or profits. The profits would be considered taxable in Brazil, before December 31, under other circumstances, for example, liquidation of the Brazilian company.

The Brazilian tax legislation says that the financial statements of the subsidiary be made according to the local commercial legislation and converted in Brazilian currency (Reais).

In principle, the consolidation of profits and losses of foreign companies is not permitted in Brazil for tax purposes (except in the case of branch offices of the same entity, located in the same jurisdiction, as long as certain conditions be observed).

The foreign profits gained by the Brazilian entity, thru its subsidiaries, should be considered according to each subsidiary. However, the foreign subsidiary has to consolidate on the financial statements the results of its foreign subsidiaries. (from second step onwards).

On the other side, the losses suffered by the Brazilian entity by means of the foreign company may not serve to compensate Brazilian profits, although the rules allow the compensation of these losses with future profits of the same subsidiary, without quantitative or qualitative limitations.

Finally, it is important to mention that in case of foreign profits be subject to the payment of income tax in the country of the foreign company, the Brazilian controller would have the right to a tax credit in Brazil. However, this credit and the corresponding compensation are subject to certain restrictions.

For Brazilian companies that have investments abroad it is obligatory the use of the method of real profit to calculate the corporation taxes.

As regards the taxation in Brazil, the investments of non-residents in financial and capital markets and the incomes earned by foreign investors, in investments on the financial market are subject to the income tax at the source, at the following percentages:

- 10% for investments in stock funds, swap operations and operations on the future market, made outside of the stock markets or commodity exchange.
- 15% in the other cases, including investments in fixed income.
- 0% for capital gains, defined as gains obtained with stocks, commodities, other similar transactions on the commodity Exchange, and for gold dealt outside of the market of commodities earned and distributed by these foreign investment funds; for income obtained with Brazilian public securities purchased from February 16, 2006 on, except in case of income provided by bonds dealt with a resale clause assumed by the purchaser (locally, this operation is called Repo, or repurchase operation); for mutual funds, in cases when the portfolio of the fund is composed by at least 98% of public securities; and for investments in investment funds in partnership (and for investments in emerging companies) and funds that invest in quotes of these funds (zero tax is applied only if the investor and the funds observe certain rules).

If the foreign investor is not investing according to the provisions of Resolution 2.690/00, or if the investor is seated in jurisdictions with low taxation, the income resulting from investments made in the Brazilian financial market is subject to taxation, in the same way as the investments for residents.

And finally the tax impact of IOF must be pointed out, as its percentages, as the providing facts can be instituted or changed by the government, by decree, and come into force immediately.

The foreign investments in financial and capital markets, except those of variable income (for example, shares dealt in stock exchange) are subject to IOF at a percentage of 1.5% in the liquidation of the exchange operations.

Republic of Chile

1. Contact company identification

Moore Stephens Auditores Consultores Ltda

1.1 Offices, address, telephone

Monjitas 527, Oficina 1101, C.P. 8320070

Santiago, Chile

T: +56 (2) 24768000

2. Company Professionals

Victor Aguayo

Principal Partner

vaguayo@moorestephens.cl

Jorge Astudillo

Audit Partner

joastudillo@moorestephens.cl

Macarena Aguayo

Tax Manager

maguayo@moorestephens.cl

Country Profile

Chile is a country located in the southwestern corner of South America and Santiago is its capital city. It has an immense geographical and topographical diversity that includes deserts, mountains, forests, glaciers, islands and a coastline that stretches more than 4,270 km in its continental section.

Considering its continental and insular areas and the Chilean Antarctic territory, Chile has an area of approximately 2,006,096 km². It has a population of about 17,819,054. On average, the quality of life, economic growth, human development, globalization and GDP per capita indexes are among the highest in Latin America. It is politically organized as a unitary, democratic and presidential state with a clear separation of the executive, legislative and judiciary branches. Chile is recognized as one of the best evaluated emerging economies of Latin America and worldwide. During 2010 it became the first South American country to join the Organization for Economic Cooperation and Development (OECD).

Chile has an economy characterized by the exploitation and export of raw materials, strongly emphasizing the export of copper, fruits, fish products, paper and wine. In addition, Chile is now viewed as a foreign investment platform by other Latin American countries because of its economic, political and legal stability. The Chilean economy



is one of the most open in the world, particularly considering the large number of ongoing trade agreements – strategic agreements, free trade agreements, economic complementation agreements and limited scope agreements – with countries that represent 60% of world population. Its main trading partners are the European Union, the United States, South Korea, China and the P4 Agreement. Chile is also a member of diverse economic forums such as APEC and is an associate member of the Andean Community and Mercosur. Also part of the Pacific Alliance since 2011.

1. Main taxes in Chile

The taxes most widely applied in Chile are:

- Income Tax to businesses and individuals
- Value Added Tax (VAT)
- Stamp Tax
- Capital Gains Tax
- Municipal Licenses

In addition, the tax regime includes property taxes, inheritances and donations taxes, and other minor taxes. Except for municipal licenses, all taxes are applied nationwide.

2. Tax Enforcement

The entity responsible for the control of taxes in Chile is the Internal Revenue Service (hereinafter the "SII"). In addition, the SII is the entity responsible for issuing instructions, administrative rulings and tax law interpretations.

In case of a dispute between the taxpayer and the SII, there is an administrative (not judicial) review by the same SII, which is optional for the taxpayer. If the judicial avenue is followed, the taxpayer may file a complaint with the Tax Court, whose first instance is the SII's Regional Director. CTDs

are specialized and independent of the SII and the National Customs Service courts of first instance. Dedicated to resolving the tax and customs claims that individuals or companies have against administrative decisions.

Afterwards, there is the possibility of appealing to the Court of Appeals and, finally, the taxpayer may reach the Supreme Court to settle legal issues. As a rule, the statute of limitations is three years from the respective tax payment due date. In special cases, the statute of limitations period is extended to six years. Law 20,322 published in the Official Gazette on January 27, 2009 created the Tax and Customs Courts, which will settle controversies between taxpayers and the SII. These courts are currently operating in several regions of the country. However, they will start operating in Santiago in the year 2013.

3. Income Taxes

General

In general, individuals or legal entities resident or domiciled in Chile are subject to taxes on income from their global sources. This includes income received from activities pursued in Chile or abroad. In the case of non-residents, they will find themselves subject to taxes only on income they obtain from a Chilean source.

Exceptionally, foreign individuals will pay taxes only on income earned in Chile during the first three years of their residence in the country, a period that can be extended. Importantly, revenues of Chilean companies will always be considered as a Chilean source income. Also considered Chilean income sources are those that generate income from the disposal of shares or rights representing the capital of a legal entity incorporated abroad, made to a person domiciled, resident or incorporated in the country, whose acquisition would allow, directly or indirectly, holding more than a 10% ownership or profits of another company incorporated in Chile.

The Income Tax Law contains several categories of taxes depending on the taxpayer activity, namely:

- The First Category Tax: affects income from industry, commerce, mining, real estate and other activities involving the use of capital.
- Global Complementary Tax: affects income derived by individuals domiciled or resident in Chile, on the sum total of their income, whether the source is Chilean or foreign.
- The Second Category Tax: applies to income from personal services provided by employ-

ees.

- Additional Tax: affects Chilean source income received or accrued by individuals or legal entities not domiciled or resident in Chile.

Integrated Taxation

Income taxes are structured as an integrated taxation system with two levels. A first taxation level corresponds to the First Category Tax levied on main line business activities. In the second taxation level we find the Global Complementary Tax and the Additional Tax, also known as final taxes. This second taxation level is triggered once the income generated by the company is distributed to its members or shareholders. If the distribution is to a natural person domiciled or resident in Chile, the Global Complementary Tax is triggered with rates ranging from a 0% rate on an exempt income

TAX	RATE
First category	24%
Second Category	Exempt to 40%
Global complementary	Exempt to 40%
Additional (non resident in Chile)	35%
Royalties paid abroad	30%
Royalties for the use, enjoyment, development of computer software and others	15%
Royalties paid abroad for films and videos	20%
Royalties paid abroad for copyright and publishing	15%
Technical and engineering jobs	15%
Professional and technical services	15%
Other services paid abroad	35%
Interest paid to foreign companies	35%
Interest paid to financial and banking institutions	4%
Sea freight	5%
Insurance premiums paid to foreign insurers	22%
Reinsurance premiums paid to foreign reinsurers	2%
Taxes of a unique character	
Rejected expenses Art. 21 in Corporations	35%
Capital gains taxes on the sale of shares	20%

(*) These rates are only for reference, particularly concerning the Additional Tax, which varies with the occurrence of certain circumstances.

Payment of income tax: Every taxpayer must file an annual income tax return and pay any tax due during the month of April following the closure of the financial year.

An employee who receives income only from remunerations does not need to pay an annual tax in April. In this case, the Second Category Tax is withheld and paid monthly to the Treasury by the employer.

The First Category tax or corporate tax is payable on income earned annually.

In most cases, provisional estimated payments must be made on account of First and Second Category, Additional and Global Complementary taxes.

4. Specific tax on mining activities

Given the importance of the mining industry for the Chilean economy, the "Specific Tax on Mining Activities" was established in 2006, also known as the "Mining Royalty Tax". This tax affects the operating income of metallic mining operators. Mining operators include all individuals or corporations who extract minerals of grantable character and who sell them in any of their production stages. Applicable tax rates range from 5% to 14% depending on the operating margin as defined in the law.

5. Stamp tax

This tax is levied on the issuance of documents containing money loan operations defined by the law. In the case of forward transactions, the rate is 0.033% per month or fraction of a month between the issuance of the document and the date of expiration of the same with a maximum of 0.8%. (beginning January 1, 2016). In the case of documents containing on demand money loan transactions or transactions with no expiration date, or foreign loans, the pertinent rate will be 0.166%.

External loans are subject to the Stamp Tax irrespective of whether they are formalized in a document or not.

6. Municipal licenses

The Municipal License is an annual tax on the activity carried out by a taxpayer in the territory of a particular borough. The fee is calculated on the taxpayer's assets at a rate set by each Municipality, with a minimum of 0.25% and a maximum of 0.5%. The annual fee cannot exceed 8,000 Monthly Tax Units (approx US\$640,000).

7. Value added tax, VAT

VAT primarily levies sales and other contracts covering material goods and the provision of certain services. In both cases the taxable event is generally triggered when the sale or service is carried out routinely by a vendor or service provider, both concepts defined by the VAT Law itself.

The VAT operates on the basis of a Tax Credits and Debits system. That is, the taxpayer may take advantage of the VAT tax charged when he purchases a product or receives a service, against the VAT charged by the taxpayer when he sells his product or provides a service. Thus, the payable tax is determined by subtracting from the Tax Debit the Tax Credit accumulated by the taxpayer.

The VAT Law also contains some specific taxes such as the luxury tax and the alcoholic beverages tax, and other taxes that vary according to the type of item being sold.

8. International Taxation Considerations

Credit for taxes paid abroad

Foreign incomes are taxed in Chile on the basis of the net amounts received (except agencies taxed on an accrual basis). Provided they meet certain conditions established in the Income Tax Law, investors are entitled to a credit against the First Category Tax and Final Tax based on the income tax withheld abroad on profits remittances dividends and on revenues derived from permanent establishments. The credit is capped at 30% in the case of dividends and 20% for profits derived from a branch. In calculating taxable income, taxes paid abroad are added to the tax base. Taxes paid abroad that exceed the limit and therefore cannot be used as a credit, are allowed as deduction from taxable income.

Notwithstanding the foregoing, the cap is 30% with countries with which Chile has signed double taxation treaties. The foreign withholding tax with a maximum of up to 20% may be used as a credit against the 20% First Category Tax, and the balance may be applied against the Additional or Complementary taxes of the local company's shareholders or partners.

Without detriment to the above, credits are capped at 30% of net revenues from foreign sources, net revenue meaning foreign source income less expenses that were incurred to generate the same.

Treaties to prevent double taxation

Chile has signed several general and specific double taxation treaties. The following treaties are

currently in force: Argentina, Belgium, Canada, Colombia, Mexico, Brazil, Norway, South Korea, Ecuador, Peru, Spain, France, Poland, United Kingdom of Great Britain and Northern Ireland, Denmark, Croatia, New Zealand, Ireland, Malaysia, Paraguay, Portugal, Sweden, Switzerland, Russia and Thailand.

All these treaties are based on the OECD model, except for the Treaty with Argentina. On June 29, 2012, Argentina notified the complaint to Chile agreement to avoid double taxation, signed by both countries on 13 November 1976.

The double taxation agreement concluded with Argentina is based on the exemption principle, under which the income is taxed in the country where it has its production source. Therefore, the income from Argentinean source obtained by Chilean residents is taxed only in Argentina, but it must be taken into account for the purpose of establishing the Global Complementary Tax rate that applies to an individual resident in Chile. In addition, Chile has subscribed double taxation treaties with Russia, the United States and Australia, which have not yet become effective. Chile has also completed negotiations with South Africa, but the treaty has not been signed yet.

In addition, Chile has signed bilateral agreements with several countries to avoid double taxation in international cargo and passenger sea and air transport services.

Article 41D of the Income Tax Law Law No. 19,840, published in the Official Gazette on November 23, 2002, allows foreign investors to set up in Chile a base for their investments in other countries.

Under this Law, the open joint stock companies and the closed joint companies governed by the rules of the former, which are established in Chile in accordance with Chilean law where their foreign capital must be maintained at all times in the full ownership and possession of partners or shareholders not domiciled or resident in Chile or in countries or territories considered as tax heavens or harmful preferential tax regimes, shall qualify (with the exception of specific provisions in the Law) for Article 41D of the Income Tax Law instead of the general provisions of the same. According to Article 41D, for Income Tax Law purposes the above companies will not be considered domiciled in Chile and they will only be taxed in Chile on their Chilean source income.

Article 41D allows the participation of shareholders domiciled or resident in Chile, but limiting

their holdings.

Among other requirements, the aforementioned companies must have the sole purpose of making investments in the country and abroad. The capital contributed by the foreign investor must have a foreign source and bank secrecy rules will not apply to them.

9. Customs duties

Customs duties on imports of virtually all goods and products amount to 6% of their value. There are regional and bilateral reductions for some products, in the context of ALADI (Latin American Integration Association).

Chile has signed free trade agreements with Australia, Canada, Mexico, United States, European Free Trade Association (EFTA), Central America, European Union, South Korea, Panama, Japan, China and Turkey. These agreements tend to eliminate customs duties between member countries within the deadlines set out in each treaty.

There are also bilateral and economic complementation agreements. Among others, with Bolivia, India, Colombia, Brazil, Cuba, Venezuela, Peru, Argentina, Ecuador, all of them leading to the elimination of customs duties.

Chile is an associate member of MERCOSUR and has negotiated customs duties' reductions for some products as well as immediate or gradual eliminations for others.

The 20,780 29/09/2014 Law on "Tax Reform" was published in Chile, which envisages a gradual implementation, with fully effect by January 1, 2017. The main objectives of the Tax Reform are; Increase the tax burden to finance permanent expenditure and income fund the current fiscal deficit; Advance tax equity, improving income distribution; Introducing new and more efficient mechanisms for encouraging savings, investment and establishing new measures to curb tax evasion and avoidance.

Among the main changes, it is highlights the Income Tax Reform, considering a gradual increase in the first category tax of enterprises, 22.5% in 2015, 24% in 2016 to reach 25% from 2017, according the tax regime adopted by the company.

In this regard, the tax reform contains two new alternative tax regimes, starting on January 1, 2017; Income Attributed regime, which will affect a rate of 25% income derived by enterprises in each tax year, which will be immediately attributed to the partners or shareholders.

Republic of Colombia

1. Firm identification

Moore Stephens SCAI, S.A.

1.1 Contact details

Carrera 9 No. 80-15, Oficina 1003
Bogotá - Colombia
T: 571-3456002 / 571-2557527

2. Specialized professionals

Edgard Pérez

Partner and Audit Director

eperez@moorestephensscai.com

Juan Guillermo Bernal

Outsourcing and Tax and Legal
Advising Partner

jgbernal@moorestephensscai.com

Nayivi Lozano

Tax and Legal Advising Partner

nlozano@moorestephensscai.com

3. Country Profile

Colombia is the fourth largest South American Country, only country located between two Oceans, the Pacific and Caribbean Oceans. The country's frontiers are with Panama at Northeast, Venezuela is at the East, and South with Peru and Ecuador at the Southeast. Its Government is Democratic, a Presidential Unitary Republic with two legislative cameras.

Capital: Bogotá D.C.

Language: Spanish.

Currency: Colombian Peso.

President: Juan Manuel Santos Calderón.

Population: Approximately 48 million of inhabitants¹.

4. Corporate Regime

4.1. Permanent activities in Colombia

In accordance with the Colombian commercial legislation², a Foreign Company may incorporate through legal means a permanent business in the country. Permanent activities are detailed below:

- Incorporate commercial establishments or business offices in the Country.
- Participate as a Contractor in rendering services or executing work.
- Participate in activities that imply the



administration, gains or investment of private savings funds.

- Develop activities related with the extraction industry.
- Obtain or participate in Government's bidding.
- Development of the General Shareholders' Meeting, Board of Directors or Board of Administration.

4.2. Means to develop permanent activities

In order for an investor to perform permanent activities in the Country, it could establish a foreign Company Branch or Commercial Company in Colombia.

4.2.1 Branches of Foreign Companies

Foreign company branches does not have a different judicial form to that held abroad under regulations in Colombia (Principal Office).

The incorporation requires a Public deed and the protocol of some documents, such as those related with the incorporation, existence and representation of the foreign entity, its bylaws and that include the decision of incorporating the Branch in Colombia, with the requirements of the Colombian Law. The capital assigned to the Branch should be made through market exchange brokers authorized in Colombia, or through the compensation accounts and record them as a foreign investment at the Central Bank (Banco de la República).

4.2.2. Commercial Entities

Commercial entities in Colombia may be of the following types: Simplified Stock Companies (S.A.S.), Stock Companies (S.A.), Limited Liability Companies (Ltda.), collective companies, Simple Limited Partnership Companies, Limited Partnership by Shares. The three first types are the most

¹Information taken from the National Department of Statistics – DANE for its acronym in Spanish (May 2015).

²Articles 471 and 474 of the Code of Commerce.

common in Colombia.

The incorporation of a commercial company is made through a Public Deed or private document depending on the type of selected Company.

Every society has special rules regarding the incorporation, structure, responsibility of partners or shares, administration and internal control.

4.3. Overall requirements

4.3.1. Accounting Standards

It is mandatory for the Branches and companies incorporated in Colombia to keep its accounting records in Colombian pesos and in Spanish, as well as to comply with the regulations and reports required by the control entities and tax authorities.

As of 2015 the International Financial reporting Standards (IFRS)³ will be applied in Colombia. The entities that comply the requirements established by the law (SME's) that will begin to apply IFRS in 2016.

The Accounting Principles Generally Accepted in Colombia in force as of 2014 will continue to be applied for tax purposes until 2018, which are included in Decrees 2649 and 2650 of 1993, among other regulations.

4.3.2. Statutory Auditor

It is mandatory for Stock Companies and Foreign Branches to name a Statutory Auditor. Other legal entities should name a Statutory Auditor if their gross annual income exceeds 3.000 Minimum Legal Monthly Salaries in Force (SMMLV)⁴ (approximately US\$773.000)⁵ and/or if their gross assets are equal or greater than 5.000 SMMLV (approximately US\$1.2 million).

4.3.3. State's Surveillance and control

Commercial companies and foreign company branches are subject to the surveillance of the Superintendency of Corporations, provided that at the closing date of the financial statements they have an income or gross assets that exceed 30.000 SMMLV (approximately US\$7.7 million). Other Superintendencies could apply this control depending on the activities performed by them.

4.3.4. Mandatory Records

The commercial entities and branches should be registered in the mercantile record administrated by the Chambers of Commerce, which would allow to execute any commercial activity and to publicly credit their commercial quality. For effect

of contracts with the States Entities, the company additionally requires the inscription and update of the Sole Suppliers Register (RUP, per its initials in Spanish), which is processed at the Chamber of Commerce.

The Companies should obtain and update the Sole Tax Register (RUT, per its initials in Spanish) for identification effects with the Tax Identification Number (NIT, per its initials in Spanish, at the National Tax and Customs Direction DIAN - per its initials in Spanish

Every foreign investment made in the Company should be registered at the Central Bank (Banco de la República); its entrance to the country should be made through the exchange regulation in compliance with exchange regulations applicable to foreign investment.

5. Labor Regime

The Colombian Labor Regime complies with that established by the International Labor Organization. Foreign employees have the same rights and obligations as local employees, except for certain diplomatic privileges. Colombian laws apply to employees as of the date in which the written labor agreement is entered into.

The types of labor contracts are: i) The term may not be superior to three (3) years. However, the parties may extend them; ii) The term of the hired work or labor: its term is equal to term of the work; iii) Occasional, accidental or transitory: The term is not greater than one (1) month and refers to the work different to the employer's normal activities, and iv) Undefined term: No term is established for the contract.

5.1 Minimum Salary

There is a minimum payment in Colombia that employees should receive as remuneration from their work, known as Minimum Legal Monthly Salaries in Force (SMMLV). The SMMLV in 2015 was for Col\$644.350 (approximately US\$239).

Additionally, a monthly transport aid is provided in 2015 for Col\$74.000 (approximately for US\$27,5), which will be paid to those employees that earn up to two (2) SMMLV.

5.2 Labor Hours

The labor weekly hours is maximum of 48. The daily shift is between 6:00 a.m. and 10:00 p.m. and the night shift is from 10:00p.m. to 6:00 a.m.. The night hour is paid with a surcharge of 35% over the value of the ordinary daily hour. Day time and night shift overtime is paid with a surcharge

³Law 1314 of 2009 regulates the accounting principles and standards and financial information and assurance of information accepted in Colombia

⁴The SMMLV salary in 2015 is for Col\$644.350 (approximately US\$239).

⁵The US Dollar figure in this guide is computed based on the estimated exchange rate of Col\$2.700 per US\$1

of 25% and 75% respectively, over the value of the ordinary daily hour.

5.3. Fringe Benefits

Fringe benefits correspond to: i) Severance payments: 30 salary days per year worked or proportional ; ii) Interests over severance payments: 12% annual over severance payments; iii) Vacations: 15 salary days in time or in some cases in cash; iv) Service Premiums: 15 salary days paid on June 30 and 15 salary days paid at the latest on December 20; v) Labor supplies: Employees that earn up to two (2) SMMLV, should receive from the employer a pair of shoes and appropriate dressing, three (3) times a year.

5.4 Other payments

Retirement Pension Contributions: 16% of the salary (12% paid by the employer and 4% paid by the employee); Health contributions (EPS): 12,5% of the salary (8,5% paid by the employer and 4% paid by the employee); contributions to Welfare Compensation Funds, ICBF and SENA: 9% complete responsibility of the employer.

The Tax Reform created as of 2013, the Equality Income Tax (CREE, per its initial in Spanish), in benefit of the employees and social investment; salary tax contributions made in favor of SENA and ICBF by income tax payers related with employees that individually receive up to ten (10) minimum monthly salaries.

Employers that have employees that ear up to 10 SMMLV are exempt of paying the health contribution (8,5%).

5.5 Integral Salary

There is a remuneration known as Integral Salary, which minimum amount is equivalent to 10 SMMLV plus 30% equivalent to certain fringe benefits. The employees that receive this salary also have the right in time or in cash for the concept of 15 days of Vacations.

6. Migratory Regime

The migratory regime in Colombia is regulated in order to have a control over the income of expatriates in the country, even if they are investors or employees. Among the categories of visas relevant for foreign investors there are: Business Visa, Temporary Visa and Resident Visa.

7. Tax Regime

The main taxes in Colombia are as follows:

7.1. Income tax

7.1.1 Income from domestic and foreign sources

The Colombian legislation establishes that income from Colombian sources proceeds from the exploitation in the country of material and immaterial goods, the derivatives from rendering services within the Colombian territory and those obtained from the sale of material and immaterial goods located in the country when sold. Income from Colombian sources include:

- Income from rendering technical services, of technical and consulting assistance services in favor of a resident in Colombia, independent if these are rendered in Colombia or abroad.
- Financial yields that proceed from the external indebtedness granted to residents in the country, and the financial cost of rental values originated from international leasing contracts.
- Income from the manufacturing or industrial transformation of merchandise or raw material within the country, whichever is the place of sale.
- For the contractor, the total value of the related contract for the case of "turnkey contract" and other manufacturing contracts of material work.

The Colombian legislation states that income that does not proceed from national sources.

7.1.2 Domestic companies and branches of foreign entities

Income tax rate of 25% is applied over the income of domestic companies, including branches or permanent establishments of foreign companies. Those companies that are users of the Free Zone (except for commercial users) have a rate of 15%.

Entities known as "small companies" regarding their volume of assets and number of employees, have a special income tax rate, as follows: i) 0% during the first two years; ii) 6,25% during the third year; iii) 12,50% during the fourth year and iv) 18,75% for the fifth year. These companies are usually subject to an overall rate of 25% as of the sixth year of operation.

The overall income tax rate for foreigners without domicile in Colombia is of 33%. Nevertheless, for 2015 to 2018 the tax rate will be of: i) 39% for

2015; ii) 40% for 2016; iii) 42% for 2017 and iv) 43% for 2018.

Colombian companies pay taxes over domestic and foreign income and should declare equity held in and out of Colombia. Foreign companies and their Branches and permanent establishments of foreign companies pay their taxes over income from Colombian sources and they should also declare equity held in Colombia.

Income tax is determined over the greatest income value between ordinary income and presumptive income. Ordinary income results from extracting from tax income the costs and deductions that have been authorized by the tax legislation. Presumptive income corresponds to a minimum income that is presumed to be obtained by the taxpayer, which is equivalent to 3% of the prior year's net income. If the entity determines fiscal tax losses by the presumptive income system.

Taxpayers may offset any tax losses obtained from its net income, as well as the excesses of presumptive income.

Domestic entities may discount, without those limitations established by law, those taxes paid abroad over the foreign source income obtained.

7.1.3. Natural persons

Natural persons resident in Colombia are taxed with the progressive income tax rate. This rate oscillates between 19% and 28% for income superior to 1.090 and up to 4.100 UVT; the income tax that exceeds 4.100 UVT are taxed at a rate of 33%.

Natural persons that act as employees are subject to the Minimum Alternate National Tax (IMAN, per its initials in Spanish). Employees and workers that comply on their own behalf (minor income) the requirements established by the law, may have access to a simplified system to determine the Minimum Alternate Simple Tax (IMAS, per its initials in Spanish).

Individual's residents in Colombia have occasional income and earnings from global sources taxed and should declare their equity held in Colombia and abroad. Natural persons without residence in Colombia pay their taxes over Colombian income and declare the equity held in Colombia.

7.2. Tax on Occasional earnings

Tax on occasional earnings is levied on income that is obtained from certain operations specifically determined by law, among which it includes income

obtained from the sale of fixed assets held for more than two years and the income that proceeds from inheritances, legacies, donations and similar acts, as well as that received from a portion of the spouse. The tax rate is of 10%.

7.3. Income equality tax (CREE)

The generator of the equality tax ("CREE") occurs from generating income at a 9% rate that may increase equity of the liability for the taxable year.

CREE is applicable to those judicial persons, income tax payers, as well as permanent foreign entities branches and establishments. The Colombian legislation expressly states what taxpayers are not submitted to the CREE tax.

The taxable basis of CREE is similar to the income tax taxable basis, except for some differences that are expressly stated in the law.

7.4. Surtax over the Equality tax (CREE)

This tax is applicable to those taxpayers that have a taxable basis in CREE equal or superior to Col\$800.000.000 (approximately US\$320.000). The first \$800.000.000 (approximately US\$320.000) of the taxable basis or not taxed with the surtax.

The surtax rate will be of 5% for 2015, 6% for 2016, 8% for 2017 and 9% for 2018. This surtax will be subject to an advanced payment of 100% of the same value, calculated over the taxable CREE basis over the mentioned tax for the prior year, and should be paid in 2 annual quotes.

7.5 Wealth tax

Wealth tax is applied over wealth held at January 1, 2015, which value is equal or superior to Col\$1.000 million (approximately US\$400.000). For effects of this tax, the wealth concept is equivalent to the taxpayer's total gross equity that is held at this date, less the taxpayers' debts in force at this date.

Judicial persons, companies, natural persons and unliquidated inheritances that are taxpayers of income tax, are subject to this tax. Likewise, natural persons without domicile in the country, illiquid inheritances of accrued non-residents and foreign companies and entities that possible have directly or indirectly related its wealth held in Colombia.

The accrual of this tax for judicial persons is stated on January 1, 2015, 2016 and 2017, and for natural persons it is from January 1, 2015, 2016, 2017 y 2018.

⁶The Tax Unit Value – UVT, per its initial in Spanish – is equivalent to Col \$29.752 (approximately US\$11).

The wealth tax rate is progressive, it operates in the base that is declared by companies and oscillates between 0,4% and 2,55%, and in the case of natural persons between 0,5% and 6%, for the total of the years in which this tax is in force.

7.6 Sales Value Added Tax (VAT)

This is a national tax that mainly levies on the sale of real estate goods classified as not fixed assets and have not been excluded, rendering services in the national territory and the importation of real estate goods expressly excluded.

The entity responsible for the Colombian tax authority for the collection and payment of tax is who performs any of the generating facts, even though the taxpayer at the end of the day is the final consumer. There are three different rates of 0%, 5% and 16%. Exportation of goods and services is exempt from the sales VAT. Certain goods and services are excluded, especially transportation services under certain conditions, educational services, public utilities and interests, among others.

7.7 . Tax on Financial Transactions (GMF, per its initials in Spanish)

This tax is applied on financial transactions over resources deposited in checking or savings accounts, as well as deposits in accounts of the Central Bank (Banco de la República) and for the draft of management checks. The rate of this tax is for 0.4% of the financial transaction's total value.

7.8. Consumption tax

The consumption tax is applicable to the food services rendered by restaurants, cafeteria, self-service, etc. (8%) and mobile telephony (4%), taxes over used vehicles, among others.

7.9. Real-estate tax

This is a tax levied on the owners, possessor or beneficial owner of real-estate properties at every municipal jurisdiction. The rate of this tax oscillates between 0,3% and 3.3% approximately, and it is applied over the real estate reappraisal or self-valuation.

7.10. Industry and Commerce Tax and billboards taxes

This is a territorial tax applicable to income obtained from industrial, commercial and service activities applied, or made directly or indirectly with natural persons, judicial or entities where these transactions have been made under the regulations of each municipality. This rate varies in every municipality, but it is around 1%.

8. Agreements to avoid dual taxation

Colombia has signed off agreements to avoid dual taxation in the ocean and air transportation with Argentina, Germany, Italy, Brazil, United States, Venezuela, France, Chile and Panama.

It has also agreed to interchange tax information with the United States and the European Union.

Besides it has agreed different agreements to avoid possible taxation and to prevent fiscal evasion (CDI), which in general cover income tax and equity with Ecuador, Peru, Bolivia, Spain, Canada, Chile, Switzerland, Mexico, India, Czech Republic, Portugal and Korea.

9. Transfer Pricing

Colombian regulations regarding Transfer Pricing was written based on guidelines for the Organization and Economic Development – OCDE, per its initials in Spanish – and began to rule as of 2004. In virtue of the entrance of this Regime, the Income Tax Payers that agree transactions with foreign related parties should determine its income, costs and deductions considering the price and margins of income used in comparable operations with or between independent related parties. Especial consideration should be considered with those related parties located abroad, in free zones and/or with persons located or residents in tax havens.

10. Foreign Investment and Exchange aspects

10.1 General and control aspects

The exchange market is free with certain regulations that establish channelizing the mandatory exchange transactions through the exchange market. Transactions that should be channelized through the exchange market, with a foreign market broker and/or a compensation account (bank account in foreign currency) are: foreign investment and draft of foreign income, Colombian investments abroad and income, import and exportation of goods, external indebtedness of Colombian residents and related financial costs, derivative Financial Operations, Foreign currency guarantees.

10.2 General Exchange Regime

Applicable to companies incorporated under the Colombian legislation and foreign company branches not dedicated to the oil and mining sector (coal, uranium and ferro nickel). Under this mode, Colombian residents, with some exceptions may not pay their debts in foreign currency to other residents. The access to the exchange market is allowed to obtain foreign currency resources

to pay obligations with non-residents. The importation and exportation of goods is handled this regime and there is an access of internal and external indebtedness.

10.3 Special Exchange Regime

Applicable to foreign branches dedicated to the exploration and exploitation of hydrocarbons, coal, uranium and Ferro Niguel and the Branches that exclusively render services to the oil sector.

Under this mode the Branches are authorized to receive and make payments in foreign currency within the country, provided that the foreign currencies provide resources obtained from their production, without being obliged to reimburse the local exchange market with all the foreign currency proceeding from the sale in foreign currency.

10.4 Foreign investments

The investment of foreign capital is allowed, even for the purchase of real estate. The investment of national security and defense is not allowed and the processing and actions of toxic, dangerous or radioactive wastes produced abroad.

The types of investments are known as Direct and Portfolio.

Direct investments are the purchase of shares, participations, share quotes, capital contributions or mandatory bonus convertible to shares; Acquisition of autonomous equity constituted by means of trust right contracts to develop a company; Additional paid-in capital assigned to the Branches in Colombia; Purchase of real estate and participation securities resulting from a real estate ownership and Acquisition of participation in private capital funds.

The Portfolio of investments is defined as the acquisition of shares, mandatory bonds tradable in shares and other values recorded in the National Security Register; this investment is considered to be of a speculative character and not as a permanent investment.

11. Contracts with the State

The standards for contracts with the State are set forth in the General Statute for the Public Administration Contracting, applicable to all the public entities in accordance with Laws 80 of 1993, 816 of 2003, 1150 of 2007, 1450 of 2011, 1474 of 2011, 1508 of 2012, Decree 19 of 2012 and Decree 1510 of 2013, among others; however, there are entities which contractual activity is submitted to different private contracting regime.

The selection process of the contractor may be performed under the following modes: bid, short-term selection – abbreviated selection, direct contracting, merit contest and Minimum amount contracting.

12. Environmental Aspects

The Renewable Resource Code, Law issued in 1974, determines to obtain the environmental license to perform projects, civil works or activities that affect the renewable resources or landscape; requirements may be imposed to prevent, mitigate, correct, compensate and manage environmental aspects regarding the activities to be made as part of the project.

A license is required to perform the following projects of hydrocarbons, mining, energy, hydric, marine, ports, land and air, nuclear energy, railroad, irrigation and public fluvial works and natural national reserves.

13. Intellectual Property

Rights of intellectual property are divided in two categories: a) Industrial Property, related with inventions, patents, industrial designs, trace designs of integrated circuits, industrial secrets and distinctive signals such as slogans, brands, names and commercial logos, and b) Copyrights, related with the protection granted to scientific, artistic and literary works susceptible of any kind of reproduction or distribution, including artists, interpreters and sound producer's copyrights for software.

The Industry and Commerce Superintendency is the regulating entity of the State responsible of controlling and registering Industrial Property and Copyrights.

14. Financial Sector

This sector is under the surveillance of the Financial Superintendency, State entity with inspection, surveillance and control faculties. Other regulating entities are the Central Bank (Banco de la República) and the National Tax and Customs Direction (DIAN, per its initials in Spanish).

The financial activity is considered as public interest and may only be applied upon authorization of the State.

Republic of Costa Rica

1. Firm identification

Servicios Profesionales MS Costa Rica S.A.

1.1 Contact details

San José, Ofiplaza del Este ,
Torre B, Piso 2, oficina N° 8
San José, Costa Rica
T: (506) 2253-5097,
F: (506) 2224-1332

2. Professional specialists

Lic. Francisco Ovares Moscoa ,CPA ,MAF
francisco.ovares@moorestephenscr.com

Licda. Arlette Urrea Vargas, CPA, PhD (c)
arlette.urrea@moorestephenscr.com

Lic. José Becerra Muñoz
jose.becerra@mooretstephenscr.com

3. Country Profile

Costa Rica is a country with stable democratic tradition. The current constitution was enacted in November 1949. The political structure is based on the representative republican system with three powers:

Executive Power: is headed by the President and two Vice Presidents, elected by direct universal suffrage for four years non-renewable. The members of the Executive Power include 18 ministers appointed by the President.

Legislative Power: this power is represented by 57 members, elected by direct universal suffrage for four years. This Assembly is the first power of the Republic.

Judicial: includes the Supreme Court, which has 22 judges elected by the Assembly for eight years, the civil and criminal courts, labor courts and the electoral court.

3.1 Geography

Situated in the geographic center of the Americas, Costa Rica is bordered by Nicaragua to the north, by Panama to the south, by the Pacific Ocean to the west and the Caribbean Sea to the east.

Three mountain ranges define Costa Rica, forming five distinct areas: the tropical lowlands on the Pacific and Caribbean coasts; the North Central tropical plains; the Central Valley high lands; and the broad, generally low Northwest Zone. The



Central Valley's easy access and temperate climate with an average temperature of 20 degrees centigrade (68 degrees Fahrenheit) have attracted two thirds of the country's population, an even greater proportion of its industry and is the site of the capital city, San José. With an extension of 9.47 sq. km. (3.66 sq. miles) and an elevation of 1.150 meters (3.773 feet) above sea level, San José is the country's largest city.

3.2 Roads

Costa Rica's infrastructure is among the best developed in the region. There are more than 7.000 km of principal highways and roads and some 16.000 kms. of rural roads. There is good taxi and public bus service in San José.

3.3 Air Travel

The principal airport, Juan Santamaría is served by 17 international passenger airlines and 10 cargo airlines. A new terminal, along with a three-stage renovation plan, is planned to upgrade the airport's capacity and adequacy. The Daniel Oduber Quiros Airport serves the north Pacific (Guanacaste) área, famous for its beaches. In addition, there are approximately 31 small, rural airports in the country.

3.4 Shipping

Several steamship companies maintain regular and frequent cargo service for containers from both coasts to the United States, Europe, Japan and Latinoamerica . The largest of all ports, Limón handles up to 80% of all cargo. On the Pacific Coast, Puntarenas, supported by Taiwanese funds, has recently completed a new pier that is opening to large cruise ships. And within 90 miles of San José is the port of Caldera. Built in 1982 to replace the aging Puntarenas port, it has adequate storage space, three berths and a passenger

terminal. Caldera is a busy port handling approximately 30 to 40 ships per month. All three ports can service containers and roll on/roll off cargo.

3.5 Communications

The Costa Rican telephone system is excellent, offering direct dial access to most countries. Public telephones are found throughout major cities. Costa Rica has a fully automated system of telecommunications, providing a high standard of national and international communication including facsimile facilities and e-mail. Cellular telephones were introduced in 1994 and the service providers cover the whole country.

3.6 Political History

For a century and a half, Costa Rica has been building a stable society with benefits shared by all. The country's commitment to socioeconomic development is evident in present-date Costa Rica, the nation with the most equitable distribution of wealth, highest health standards, and longest life expectancy in Central America. In 1990, the United Nations cited Costa Rica as having the best human development indices among developing nations. In 1996, Costa Rica again tops the list in Central America in terms of human development.

For years, this small republic's democratic traditions and peaceful business climate have encouraged and successfully attracted foreign investment. This is underscored by the Costa Rican constitution, which, except for participation in political affairs, guarantees foreign investors the same legal rights as Costa Rican citizens.

All this translates into an ideal place to conduct business. The country's industrial base is strong; the highly educated labor force is easy to train; a fairly well-developed production infrastructure is available; and a modern, efficient communications system ensures ready access to the global marketplace. In addition, the country enjoys multilateral and bilateral trade agreements with other nations, allowing for preferential access to foreign markets. The business environment is second to none in the region. A quick analysis and comparison of Costa Rica's social, political and economic policies with those of its neighbors make the choice easy for international investors seeking fresh opportunities for their technology and know-how.

The colon is the official currency, but the US Dollar can be used for local transactions also.

3.7 Population

The majority of Costa Rica's 4 million inhabitants

are descendants of Spanish and other European families and, as such, do not exhibit characteristic Indian features.

Costa Rica's population growth rate has been relatively stable over the last four years, reaching 2.7 percent in 1988. The Central Valley, the principal area of concentration, will continue to absorb about 60% of this growth and is projected to one giant metropolitan area comprising San José, Alajuela, Heredia and Cartago. Promotion of family planning over the last 20 years has lowered the birth rate and altered demographic trends. In 1960, about half of the population was 15 years of age, in the late 70s that figure was 20%, therefore the productive population (ages 15-64) has increased from 49 to 67% today day.

3.8 Language

The country's official language is Spanish, although English is the most widely spoken foreign language, and is commonly spoken in the business community.

4. The Economy

Costa Rica has a market economy with major government participation in certain sectors. Insurance, refineries and major service industries are dominated by public corporations, although closely held companies and family enterprises are common. Utilities, transport and some primary industries are owned by semi-autonomous state monopolies, but there is a trend towards privatization. Both the public and private sectors recognize that foreign private investment is essential to increased exports and employment. This is especially relevant in light of decreased U.S. aid to the country in the last several years.

Intent on joining other countries in market liberalization, Costa Rica was accepted into the General Agreement of Tariffs and Trade (GATT) in November 1990. This important move spawned more reform-oriented and transparent-trade policies. Import licenses have been virtually eliminated, and tariffs have been reduced from nearly 80 to 20 percent for most non-durable consumer goods, and to 10 percent for capital goods.

4.1 Investments and export incentives

The failed protectionism model of the 1960s and 1970s forced manufacturers to seek new markets outside Central America and improve the production, pricing, and quality of their products. Because of increased world production and competition, the country's traditional, mostly agricultural, products commanded low prices. In order to promote both domestic and foreign investment in

nontraditional exports, the government streamlined import and export procedures and implemented a structural adjustment program to carry out economic reforms.

Today, fiscal incentives are available for reforestation and tourist oriented projects. These are three major investment incentive plans under which a company or individual may operate:

- Regime of Active Finishing
- Free Zones

4.1.1 Aims of Government Policy with regard to the Economy

Government policy is directed toward stimulating economic growth, especially in areas away from the main urban centers and to privatize state-owned industries and utilities as far as possible. Decentralization of industry is a major objective of government economic planning and regional incentives are available.

4.1.2 Tax treaties

Costa Rica has bilateral investment treaties with , Germany, Argentina, Canada, Chile, Taiwan, Korea, Spain, France, Netherlands, Paraguay, Czech Republic, Venezuela Treaties for the avoidance of double taxation with respect to income and property taxes have been signed only with Spain, but it still needs Congress approval to be implemented. A Tax Information and Exchange Agreement (TIEA) with the United States became effective in 1991. Under this agreement, Costa Rica is now eligible for Section 936 funds. These are profits earned by U.S. companies in Puerto Rico that are exempted from U.S. income tax when invested in any qualifying Caribbean Basin country. In addition, the TIEA enables U.S. businesses holding conferences or seminars in Costa Rica to deduct those expenses on their U.S. income tax returns.

5. Business entities

All matters relating to commercial enterprises are governed by the Commercial Code. Foreigners are granted full freedom to acquire and/or operate a business in Costa Rica with some exceptions in the area of communications. One important stipulation, however, is that a foreigner cannot carry out business in her or his own name unless she or he has accumulated ten years of legal residency. The most widely chosen alternate is to carry out business through a corporation legally formed and registered in Costa Rica.

5.1 Types of commercial companies

Five types of legal capacities are allowed by Cost Rican law:

- The stock corporation
- The limited liability company
- The collective company
- The limited partnership
- The individual enterprise with limited liability (this option is the only one regarded as an individual rather than corporate personalities).

Of these five, the first two are the most utilized.

5.1.1 Stock Corporations

By far the most popular form of commercial company, the corporation is public entity whose members are liable for the amount of their contribution. As for the limited liability company, a minimum of two shareholders is required; a basic difference is that the administration of a Stock corporation is more sophisticated. The company must be organized with registered shares. Title of these is recorded only in the company's shareholder register, a private record whose access is restricted to shareholders and/or administrators. Third parties have access only through judicial resolutions. Shareholders are not necessarily incorporators; instead, members or employees of the legal agents organizing the incorporation usually act as incorporators in a formal capacity, and once the corporation is registered the shares are delivered to legitimate shareholders.

There must be a board of directors with at least three directors and a statutory examiner, all of whom can be foreigners if desired. The name of the corporation must be registered (and be different than those already registered) and followed by the words Sociedad Anónima, or the abbreviation S.A.

5.1.2 Limited Liability Company.

The limited liability company is a stock-held corporation, with a minimum of two shareholders required at the formation. Afterwards, a single person or company may become the sole owner of all the shares and this will not cause its termination. Thus, a board of directors is not required. The shares can be issued only in registered form and have to be transferred by assignment.

The limited liability company requires a very simple administration and, therefore, is suitable for enterprises of medium size, where the basic needs are those of limitation of liability and administrative simplicity. The only position required, though there may be more, is a manager with broad powers of attorney.

The company name must include either the phrase Sociedad de Responsabilidad Limitada (limited

liability company) or the abbreviation S.R.L. or Ltda. and must be stated in all company advertisements, invoices, publications, and other documents. A limited liability company is not dissolved automatically upon the death, interdiction, or bankruptcy of a partner, unless otherwise provided for in its charter. Bankruptcy of the company does not include bankruptcy of its partners. In this legal entity the partners are liable only to the extent of their contributions to the capital.

This type of company is the most widely used after the corporation.

5.1.3. Foreign companies

Foreign companies may operate branch offices or transfer their headquarters to Costa Rica. Branch offices are subject to Costa Rican Law. They must provide the Mercantile Registry with a certificate or statement issued by the Costa Rican consul or other friendly nation's consul stating that the prospective branch office has been authorized by its headquarters to operate in Costa Rica.

Foreign companies headquartered in Costa Rica continue to be governed by the laws of the country where they were organized with regard to the charter, but they are bound by Costa Rica public law and obligated to pay income tax on business carried out in the country.

Foreign enterprises may also operate in Costa Rica by granting a powers of attorney to a representative. This power has to be registered in the National Public Register.

6. Some specifics in business law

Power of attorney, surety and guaranty, as well as trusts are legal actions that may be of use to business at certain times. Their Costa Rican versions are described and explained in this section, as well as pertinent aspects of selected business-related legislation.

6.1 Powers of Attorney

The document in which a person or entity is given certain rights to act on behalf of another party is known as a power of attorney (poder). A power of attorney is a rather common legal instrument that allows a foreign investor to delegate the handling of certain business matters to her or his attorney or other trusted representative.

The person granting the power of attorney is known as the poderante. The person or entity appointed is known as the apoderado. There are four types of power of attorney, which allows the

power delegated to be adjusted to the nature of the task or type of actions needed.

6.2 Special Power of Attorney

A special power of attorney (especial) is granted for a given transaction in or out of court. Once this is accomplished, the power of attorney ceases.

6.3 Very Special Power of Attorney

The law requires a very special power of attorney (especialísimo) for the contraction of marriage through a proxy, the making of a donation through a representative, or any other case of special importance.

6.4 General Power of Attorney

A general power of attorney (general) is given for any and all transactions conferring full and general powers of administration to the attorney-in-fact with regard to a specific matter.

6.5 The Very General Power of Attorney

This final classification of power of Attorney (generalísimo) covers all the transactions a person may wish to have carried out, such as the right to sell, mortgage, or any other way alienate or encumber any type of property; to accept or renounce inheritances, to act in court, to execute any type of contract, and to perform almost any other legal act.

6.6 Trusts

The Commercial Code contains provisions permitting the establishment of trusts. A trust is an arrangement by which a founder transfers to a trustee the ownership of certain property or rights with the obligation to employ them for the purposes outlined in the trust.

Any person or legal entity having the legal capacity to acquire rights and contract obligations may serve as a trustee. The original instrument designates the person who is to receive the assets of a trust. If no designation exists, then the assets are returned to the founder or heirs.

Any kind of property or rights that form a legal part of a business may be the object of a trust and become separate and independent assets for the purpose of the trust.

The following trusts are prohibited:

1. A trust made for secret purposes.
2. Trusts having a duration of more than thirty years if the trustee or beneficiary is a legal entity. This rule does not apply if the

beneficiary is the state or a nonprofit charitable, scientific, cultural, or artistic institution.

3. A trust in which the trustee is allotted earnings, commissions, premiums, or advantages other than the remuneration indicated in the original instruments or determined by a court.

7. Accounting & auditing requirements

7.1 Accounting

Public and private companies are required to maintain accounting records in terms of the Commercial Code and the Income Tax Law, which also requires that the annual financial statements are prepared in conformity with International Financial Reporting Standards, and it also prescribes certain disclosure and other requirements for the annual financial statements.

7.2 Auditing

In terms of the Institute of Public Accountants Law, only registered members are qualified to perform audits. External audits are mandatory for banks, pension funds and other financial companies only. The accounting and auditing standards are laid down by the Institute of Public Accountants and are based on the International Auditing Standards.

8. Labor Relations

Though labor costs are somewhat higher in Costa Rica than in neighboring countries, the labor force also has a higher level of education and generally high level of productivity. The U.S. Embassy, in its "General Business Information on Costa Rica" states that "the Costa Rican labor force can be characterized as relatively well-educated, skilled and easily trainable. The average worker has demonstrated a willingness to seek, and an ability to absorb, additional specialized training". Labor regulations have their legal base in the Costa Rican Labor Code.

Since its enactment in 1943, it has been the country's principal law concerning labor relationships, protecting both worker and employer by stating the legal rights and responsibilities of each. Though this section presents the main provisions of this code, potential investors should be aware that these may be changed by the legislature in order to comply with modern administrative systems and global marketing requirements. A labor consultant attorney should be consulted in order to fully understand and comply with the requirements of this code.

8.1 Foreign employees

All foreign workers require a work permit. The employer has to submit a request to the Foreign and Migration General Administration, who will in turn presents its opinion to the Work and Social Security Ministry.

8.2 Working hours

Three different shifts are described. The day shift is any eight hours between 5:00 a.m. and 10 p.m., not to exceed 49\8 hours weekly. The night shift is any six hours between 6:00 p.m. and 5:00 .a.m., not to exceed 36 hours weekly. Finally, a mixed shift is up to seven hours of both day or night hours, not to exceed 42 hours weekly.

Overtime is calculated at time and a half, with the work day not to exceed twelve hours per day. No overtime is allowed when working conditions are dangerous or unhealthy. Employers must pay double time for work on Sundays.

8.3 Holidays and vacations

Costa Ricans receive remuneration for all mandatory holidays prescribed by the Labor Code. Religious or civic holidays, are unpaid, and the decision to give time off varies from employer to employer. If a company needs to work on a holiday, it can do so by letting employees know in advance and paying double for the hours worked. On special days such as Christmas Day, May 1, or Holy Week, companies usually not only pay double, but provide transportation, meals and a bonus. In addition to these holidays, a worker is entitled to two weeks of paid vacation for every 50 weeks of continuous employment with the same employer. Employees terminated before the 50-week mark are entitled to receive pay for one vacation day per month worked. In practice, additional vacation days are very common benefits offered, especially as part of executive packages.

8.4 Sick leave

According to the labor Code, the employer is required to pay 50% of an employee's salary for the first three days of an illness. From the fourth day, the social security system (Caja Costarricense del Seguro Social) pays 50% of the worker's salary with no further obligation from the employer except to allow the worker to return to his or her former position. The custom, however, is that big companies pay the employee's salary in full the first three days. Sick leave per person averages approximately four days per year.

8.5 Maternity leave

An employee is entitled to up to four months of maternity leave, 30 days before and 90 days after the birth. The employer is required to pay 50% of the employee's salary during this leave, and social security covers the other 50%.

8.6 Leave for work-related injuries

If an employee must be absent from work because of an on-the-job-injury, the National Insurance Institute(INS) covers 75% of the injured worker's salary, with no time limit. Some companies pay the other 25%, but this is decided by each employer. The INS insurance is paid by the employer, in the form of an occupational hazard tax.

8.7 Wages and salaries

Minimum wage is based on a cost-of-living index and adjusted biannually by the National Council of Salaries. This council also reviews professional fees. Blue collar workers generally work 48 hours weeks and are paid weekly. Salaries of white collar and domestic workers are based on a thirty-day 240-hour month and are generally paid bi-monthly.

Costa Rica has a very competitive labor market, which obliges employers to pay above the minimum wage if they want to maintain a reasonable turnover rate. The main reasons for the situation are a very low unemployment rate (4-5%); a good educational level, which enables people to move around easily; and other options available in the market. This is true at the professional level as well, where the competition issue is even stronger.

Salaries can be paid by check, however companies usually provide the services of a local bank, which comes into the installations to cash the checks. Management is very often paid by direct deposit through modern banking systems.

8.8 Mandatory payroll deductions and bonuses

8.8.1 Social Security

The Costa Rican social security system covers health, indemnification, and retirement pensions. Costs are calculated as a percentage of the worker's salary. 26.33% of the worker's gross salary must be paid by the employer, with 9.34% to be deducted from the employee's salary.

8.8.2 Income tax

It is the employer's Responsibility to make monthly income tax deductions directly from employees' salaries, according to the following table for the

current period 2015 - 2016 :

From ¢0 to ¢787.000 month (about US\$1,457) no income tax is paid. From ¢787.000 to ¢1.181.000 (US\$ 1.457 a US\$ 2.187) 10% income tax is paid. From ¢1.181.,000 (US\$ 2.187) and up, 15% income tax is paid.

8.9 Occupational Hazard Tax

This is the tax that gives employees access to the INS's insurance for work-related injuries. A payment of 2 to 3 percent of the worker's salary is paid by the employer.

8.10 Christmas Bonus (aguinaldo).

All workers must be paid a Christmas bonus equivalent to a twelfth of their annual income (one month's salary after one year's work) within the first twenty days of December. The employee does not pay tax on the bonus, and the employer may deduct the amount from the tax base for income tax purposes.

8.11 Supplementary Benefits

Costa Rican companies often grant workers benefits over and above those mandated by law. Such benefits vary, but commonly include subsidized food, uniforms, transportation, company medical services, and education scholarships.

9. Exchange controls

The Central Bank of Costa Rica is responsible for formulating monetary policy and monitor exchange rate of the country, and should also promote conditions favorable for strengthening the liquidity and solvency and proper functioning of the financial system.

9.1 Capital repatriation

Although it is no longer necessary to register foreign capital with the Central Bank to ensure capital repatriation, investors are advised to convert their foreign currency through the national banking system.

10. Taxes

10.1 Taxes on dividends

According to Costa Rica law, upon credit or payment of a dividend, whichever occurs first, the company must withhold 15% of the amount credited or paid. The 15% withholding tax does not apply if: (payments are made in shares of the distributing entity; payment is made to another Costa Rican corporation; or foreign tax credits are not allowed by the recipient country (previous authorization from local Tax Authorities is required). If the distribution company is registered in a local stock exchange and the shareholder ac-

quired the shares through the stock exchange, the applicable withholding tax decreases to 5%.

The amounts withheld must be deposited with Tax Authorities within the first 10 days of the month following the date of credit or payment of the dividend.

10.2 Corporate tax rates

With the exception of qualified and limited free trade zone, export, forestry, and tourist-oriented activities, a corporation's net profits are taxed according to their annual gross income as follows (based on year 2010 rates):

Up to ₡ 52.320.000,00:	10%
Up to ₡105.241.000,00:	20%
In excess of ₡: 105.241.000,00	30%

Exchange rate: US\$1 = ₡540

The tax is levied on net income before dividend or reserve distributions.

10.3 Foreign remittances

Foreign remittances such as royalties, leasing, technical advice, salaries or services are subject to withholding taxes ranging from 5.5 to 30 %, as follows:

Transport y comunicaciones	8.5%
Personal Work	10%
Fees, commissions , allowances	15%
Reaseguros	5.5%
Dividends	15%
Commercial leases	15%
Royalties, technical advice	25%
Other concepts not defined	30%

Payments or credits made by subsidiaries or branches to parent companies for royalties, franchises, trademarks, etc., are limited to a maximum of 10% of its gross sales.

Companies are normally exempt from withholding taxes on interest remittances provided the lenders are financial institutions or banks duly recognized by the Costa Rican Central Bank and first order financial institutions.

10.4 Municipal, permit and stamp taxes

Costa Rica has no state or city income taxes. There are, however, minor municipal taxes, operation permit fees and stamp taxes. Stamp taxes are levied most legal documents.

10.5 Education and culture stamp tax

An education and culture statutory stamp tax is imposed annually, with fees ranging from 750 colones to 9.000 colones, based on the capital stock of the company.

10.6 Real estate tax

This tax is applicable to real estate, land, buildings and permanent structures. The tax is managed, assessed and controlled by local governments (Municipalities) of the administrative district where the property is located.

The taxable base is equivalent to the value of the property registered with the Municipality. Annual real estate tax rates are defined individually by each local government and must range between 0.3% and 1%.

10.7 Import tariffs

At the time of Costa Rica's entry into the General Agreement on Tariffs and Trade (GATT) in 1990, the country had a maximum duty of 55% on imported goods. Under GATT, this rate was lowered in June 1993 to a maximum of 20% and a minimum of 5% with few exceptions.

Nonetheless, luxury items such as automobiles, can be subject to combined tariffs and taxes (such as the selective consumption tax among others) of up to 100%.

A detailed explanation of how imports are taxed is beyond the scope of this book. AmCham strongly recommends consulting qualified professionals if you are considering importing goods.

10.8 Sales tax

The sales tax as in 1997 was recently reduced from 15% to 13% and is applicable to most goods. This tax is payable monthly on sales within Costa Rica for the previous month, Less the amount paid within the same month to suppliers.

In the case o of imports, sales tax is paid as part of the import duties required for the release from customs of the goods. Certain qualifies imports are exempt from sales tax.

10.9 Gross income includes earnings

Companies may deduct from gross income all costs and expenses necessary to produce taxable income or to protect their investments.

Resident and nonresident corporations are taxed the same under Costa Rican law. Partnerships are treated as corporations independent of their partners and are liable for corporate taxes on net profits.

As a general rule, capital gains and losses on non-depreciable assets or shares of other companies are excluded for income tax purposes. Branch income is taxed at the same rate applied to corporations and foreign source income is not taxed. Corporations may request an extension to file their returns with prior approval from the Ministry of Finance.

10.10 Deductions

Following is a summary of the deductions corporations can take against gross income:

- Expenses necessary to produce taxable income are deductible provided they are duly recorded, deemed necessary and the obligation to withhold (if applicable) has been met.
- Bad debts provided evidence of legal action to collect exists.
- Payments to residents or nonresidents for rents, royalties, technical or financial assistance, trademarks, franchises and similar items, provided the proper withholding is made.
- Taxes paid, except income, sales and consumption taxes as well as related penalties.
- Interest payments on business loans, as well as the costs of obtaining said loans.
- Loss of assets not covered by insurance.
- Casualty losses not covered by insurance.
- Contributions to a recognized cultural or charitable institution.
- Local insurance premiums.
- Foreign exchange losses, except when related to the acquisition of fixed assets.

10.11 Depreciation and other allowances

- Unless authorized by the Tax Authorities, depreciation rates cannot be higher than those prescribed by law. A company can choose either the straight line or the sum-of--the-year digits methods of depreciation. However, once chosen, that method must be used consistently. Accelerated depreciation is allowed in certain circumstances.
- Annual depletion allowance is granted to companies that use natural and depletable resources.
- Organizational and pre-operational expenses can be amortized in one or five years.
- Operational losses can only be carried forward up to three years by companies engages in industrial operations and five years for agricultural operations. The amount to be carried forward or used as a deduction is up to the discretion of the taxpayer. Amounts not used during the allotted time periods are lost.

10.12 Invalid deductions

The tax administration can judge a deduction invalid under any of the following circumstances: non-income generating, excessive or unreasonable, or pertaining to another tax period.

Republic of Ecuador

1. Identification of the contact firm
 Moore Stephens Profile Cía. Ltda.
 Moore Stephens & Asociados Cía. Ltda.

1.1 Office, address, telephone
 Av. Amazonas 477 & Roca
 Ríño Amazonas Building
 7th floor, office 720
 Quito – Ecuador

2. Professional Specialists

Dr. Mauricio Esteban Durango-Peñez
 Managing Partner
mdurango@moorestephens-ec.com

Dr. Jorge David Uribe-Reyes
 Partner
duribe@moorestephens-ec.com

Ing. Rafael Moncayo Coello
 Proficonsult partner
rmoncayo@moorestephens-ec.com

3. Country Profile

The Republic of Ecuador is a constitutional state of social justice and rights, democratic, sovereign, independent, united, intercultural, pluri-national and lay (not any particular religion). It is organized as a Republic and governed in a decentralized manner. The country has an area of 283,561 square kilometers (km²) and a population estimated at 14,483,499. The Nation is territorially organized into regions, provinces, cantons and rural parishes.

In Ecuador there are 24 provinces. The Government is divided into five branches, the Executive Branch, the Legislative Branch, the Judicial Branch, the Transparency and Societal Oversight Branch and the Electoral Branch.

4. Investment

4.1 National Investment Norms

The General Code for Production and Investment and the General Law on Incentives for Production and Preventing Fiscal Fraud were issued to regulate production processes, in the stages of production, distribution, exchange, trade, consumption, management of externalities and productive investments oriented toward Living Well.



There are three kinds of fiscal incentives for production in Ecuador:

Ecuador also has the General Law to regulate and control the Power of the Market (Antitrust Law). This Law avoids, prevents, eliminates and penalizes any abuse by economic operators using market power. Additionally, Ecuador enacted a law, which grants tributary incentives and stability to investment projects which are defined as public-private, that is, partnerships between the private sector and the Ecuadorian government. Among the benefits established are exceptions for income tax, currency outflow tax, and foreign trade, among others.

4.2 Public-sector contracts

To become a supplier for the Government, individuals and corporate bodies must qualify as such with the National Institute of Public Contracts (INCOP), and register with the General Roster of Suppliers (RUP). In Ecuador, most public contract procedures are carried out through the “Compras Públicas” Website.

4.3 Corporate Norms

There are several corporate legal arrangements to carry out economic operations in Ecuador, through local companies, through branches and subsidiaries of foreign companies, through holding companies, though consortia, and others.

4.3.1 Ecuadorian Companies

The corporate norms are set forth in Ecuador by the Civil Code, by the Law on Companies and the Commerce Code. When the capital of any of these companies comes from foreign investors, they are called subsidiaries, and must register with the Central Bank of Ecuador,

Description	Joint-stock corporations	Limited-liability companies
Constitution	Submit documents for approval by the respective superintendence (Sup. Of Companies or Sup. of Banks and Insurance) and then file with the Mercantile Register.	Submit documents for approval by the Superintendence of Companies and then file with the Mercantile Register.
Administrative Bodies	General Meeting of Shareholders.	General Meeting of Partners.
Legal Representative (1)	General Manager or President of the Company. The legal representative is appointed pursuant the company's by-laws.	General Manager or President of the Company. The legal representative is appointed pursuant to the company's by-laws.
Partners (2)	A minimum of 2 shareholders.	A minimum of 2 partners, up to a maximum of 15.
Corporate stock (3)	At least US\$ 800.	At least US\$ 400.
Shares / Holdings	Shares are in the name of the holder and may be freely traded on and outside the securities market,	Sale of partners' holdings requires the unanimous consent of all partners.
Other Obligations	Keep a corporate book of Minutes of the General Meeting of Shareholders	Keep a corporate book of Minutes of the General Meeting of Partners.
	Keep a corporate book of Shares and Shareholders.	Keep a corporate book of Partners and their Holdings.
	Entitled to optionally join any of the Chambers and pay the respective dues.	Entitled to optionally join any of the Chambers and pay the respective dues.
	Submit financial balance sheets report on payroll listing, report by manager and by legal overseer to the Sup. of Companies.	Submit financial balance sheets report on payroll listing, report by manager and by legal overseer to the Sup. of Companies.
	Submit a listing of shareholders or partners of the company to the Superintendence, and if any shareholders are corporate bodies submit a listing of the shareholders, partners or members thereof.	Submit a listing of shareholders or partners of the company to the Superintendence, and if any shareholders are corporate bodies submit a listing of the shareholders, partners or members thereof.

Notes:

1. If the Legal Representative (for an Ecuadorian company) or Agent (for a foreign branch) of a company is a foreign citizen, they may obtain a 12-VI or 9-VI visa.

2. Shareholders in Ecuadorian companies may be individuals or corporate bodies. Ecuadorian or foreign. Foreign individuals and companies may be partners in a limited - liability company, with the exception of Banks, insurance companies, capitalization and savings and foreign joint-stock corporations. The Law on Companies forbids Ecuadorian companies from having foreign shareholders or partners whose shares or holdings are to the bearer (not in their name).

3. When constituting the company, a minimum amount of the capital stock must be paid: 50% for limited-liability companies and 25% for joint stock corporations. The remainder must be paid up within no longer than twelve months.

Source: Ecuadorians Companies Norm

according to the type of investment they make (local, direct foreign, subregional or neutral).

In the event that an Ecuadorian company has shareholders or partners that are foreign companies, it must inform the Superintendence of Companies who the shareholders or partners of those foreign companies are. It must also disclose to the Ecuadorian Internal Revenue Service the names of those who appear as

shareholders down to the level at which actual individuals are identified.

4.3.2 Foreign companies

For a company constituted abroad to be able to habitually engage in its activities in Ecuador, it must have a permanent representative in Ecuador with full powers to carry out all actions and legal matters that must be done and have effect in the Nation's territory, and especially to be able to re-

ply to lawsuits and meet contractual obligations.

However, if the activities of a foreign company in Ecuador will entail the implementation of public works, public service provision or extraction of Ecuador's natural resources, it must establish domicile in Ecuador before signing the corresponding contract.

To establish a branch office of a foreign company in Ecuador, a permanent legal representative must be appointed with a notarized general power of attorney, and the branch must have a minimum of two thousand US dollars in capital. This amount may be increased if the General Agent representative is a foreigner (USD 25,000 for each Agent that the Branch has. Further, if the agent is a foreigner, the company's head office must have assets of more than USD 100,000.)

There are other legal arrangements under which one can operate in Ecuador, such as through a Consortium or Joint Venture, a temporary association or a holding company.

5. Audits and accounting

Accounting must be kept using the double-entry system, in the Spanish language and in US dollars, taking into consideration generally accepted accounting principles.

For corporate bodies subject to control and oversight by the Superintendence of Companies Value Market and Insurances or Superintendence of Banks, their accounting must be kept according to International Financial Reporting Standards (IFRS) adopted for preparing financial statements as of 1 January 2009.

Ecuadorian standards oblige to have an external audit lead to domestic companies and corporations mixed economy involving legal persons under public or private law with the social or public, and branches of foreign companies or companies whose assets exceed 100,000,00 dollars of the United States of America, and anonymous national companies, limited by shares and limited liability, whose assets exceed amounts 1000.000.00 dollars of the United States of America.

To be an external auditor of companies, one must qualify as such with the Superintendence of Companies, Value Market and Insurances. Similar, to be the auditor of financial institutions (banks, cooperatives, building and loan associations, etc.) one must qualify as an auditor with the Superintendence of Banks.

6. Work-related standards

According to labor legislation, working is a right and a social duty. The purpose of the relationship with a worker is providing a legal, personal service for the employer, under the latter's instructions. Labor relationships must abide by the labor legislation in effect in Ecuador and collective labor agreements.

6.1 Types of work contracts and terms of employment

Under Ecuadorian legislation, labor contracts may be either written or verbal. That is, even if there is no instrument or contract, the labor relationship can be proven. However, the law provides for certain cases in which a written contract is mandatory. Additionally, there are several modalities of work, and the most important are:

- **Indefinite duration:** Ecuadorian legislation establishes indefinite– duration contracts. This is the standard figure for permanent or stable employment and it does not have a defined termination period.
- **Trial contracts:** In the above contracts, when signed for the first time, a trial period can be stipulated, lasting no longer than ninety days. After that time, it will automatically be understood to remain in effect for the time remaining to complete one year.

After that time, it will automatically be understood to remain in effect for indefinite time.

6.2 Remuneration

A wage is the stipend that an employer pays a worker according to a work contract. A salary is the remuneration that employees receive for their work. A worker's remuneration cannot be lower than the monthly minimum wage, which is USD 366,00 since 2016.

Additionally, there are other additional remunerations, namely:

- **Thirteenth salary:** This remuneration is paid up to December 24 of each year or in a monthly way and is equivalent to one-twelfth of the compensation one has received during the calendar year.
- **Fourteenth remuneration:** This annual bonus is equivalent to one unified basic minimum remuneration for workers in general, paid up to March 15 in the Coast and Island regions and by August 15 in the Highlands and Amazon regions, or it may be paid in a monthly way.

If a worker, for any reason, leaves or is separated from his or her job before the above dates, he/she will receive the proportional part of the 14th remuneration at the time of leaving or separation.

6.3 Worker's benefits

- **Vacations:** An uninterrupted period of 15 days of rest, including non-working days. Workers who have provided services for over five years in the same company or for the same employer will be entitled to an additional day of vacation for each succeeding year, or will receive the money corresponding to the remuneration for these extra days. These additional days shall not exceed 15.
- **Profit-sharing:** The employer or company shall pay its workers fifteen percent (15%) of liquid profits, distributed as follows:
 - Ten percent (10%) divided among the company's workers.
 - Five percent (5%) given directly to the company's workers, in proportion to their family dependents (spouse or partner, children under age 18 and handicapped children of any age).
 - Starting January 1st 2016, profits distributed to employees cannot exceed the equivalent of 24 monthly minimum wages (USD 8.496). In case the amount surpasses this limit, the surplus will be endowed to the solidarity regime of the Social Security System.

6.4 Other work-related aspects

- **Indemnity for dismissal without notice:** Up to three years of employment, this amount is three months of remuneration. After working for over three years, payment is the equivalent of one month's remuneration per year of service, up to a maximum of twenty-five months' pay.
- **Bonus for dismissal:** twenty-five percent of the equivalent of the last monthly remuneration per year of employment with the same company or employer.
- **Employer-supported:** workers who for twenty-five years or longer have provided services, continually and uninterruptedly with the same employer, are entitled to receive a pension from their employer in additionally to the IESS retirement benefits. (A monthly pension paid through the IESS or payment of a lump sum to the worker).

6.5 Social Security

- **IESS Contributions:** : All workers engaged as

employees or independent (self-employed) are obliged to affiliate to the Ecuadorian Institute of Social Security. If employed, it is the employer's obligation to pay a monthly contribution equivalent to 21.60% of earnings (the employer's share is 12.15%; the employee's, 9.45%).

In the case of autonomous workers or independent professionals, they can affiliate themselves to Social Security, but it is not mandatory. If they do, the obligation to affiliate applies to the total income received because of their personal activity and the affiliation rate is 20.60%.

- **Reserve Fund:** All workers who provide their services for over a year are entitled to a month's salary, from their employer, for each full year after the first year of work.

The possibility is currently under study of amending the Labor Code, to reinforce the concepts of direct relationship between the worker and employer, to eliminate any forms of precarious employment.

7. Currency Exchange Oversight

7.1 Incoming Foreign Exchange

All foreign investment must be registered in the Central Bank of Ecuador (BCE) for statistical purposes. This registration may be done by the foreign investor, by someone on their behalf, or by the Legal Representative of the company in which the investment was made. The Central Bank of Ecuador will register these investments as direct, subregional or neutral foreign investment at the prevailing rate on the open exchange market on the registration date.

The BCE also registers foreign loans in foreign currency between individuals or corporate bodies with legal domicile in Ecuador and financial entities, head offices and other residents outside our national territory. Overdrafts in checking accounts are not required to be registered.

7.2 Sending Foreign Currency

There is a tax on Outgoing Foreign Currency, which we will explain in detail below.

8. Tax system

Ecuadorian tax structure comprises taxes, fees and contributions. Taxes can be national, provincial and municipal. The main taxes are outlined below:

8.1 National taxes:

8.1.1 Income tax (IR)

This tax is levied over the total income obtained by Ecuadorian or foreign corporate bodies, individuals and undivided estates. Taxpayers are all individuals, undivided estates and corporate bodies with taxable income.

Ecuadorian and foreign companies are treated the same. Overall, income is understood as all income the taxpayer has received. For the purpose of income tax, this income includes:

- Income from an Ecuadorian source obtained free or for a cost, resulting from work, from capital or from both sources, consisting of money, in kind or services.
- Income obtained abroad by individuals with legal domicile in Ecuador or by Ecuadorian corporate bodies. The taxable base income for this tax is the total taxable income minus the costs and expenses that, according to Ecuadorian norms, are deductible. Some activities are exempt from income tax in order to promote investment, for social reasons, and for other reasons exonerating taxpayers from paying taxes.

According to the legal norms, there is income considered exempt from income tax, such as dividends distributed to shareholders and partners who are individuals or corporate bodies domiciled abroad (but not in a "fiscal paradise") or Ecuadorian corporate bodies, providing they do not effectively benefit an individual who resides in Ecuador, income obtained under international agreements, occasional sale of real property, income from private non-profit institutions among others.

According to the law, the public-private partnerships, which invest and develop projects in Ecuador, are exempt to pay income tax. This kind of associations will enjoy an exemption from payment of income tax for a period of ten years from its first fiscal year in which they generate operating income.

- **Income tax for Individuals.** Individuals and one-owner businesses pay income tax proportionally to their income, at a rate varying according to the income received, up to a maximum of 35%.

Expenses that individuals may deduct for income tax purposes include "personal expenses", which cover: health, education, clothing and food, which are deductible up to an overall maximum in 2012 of 50% of total taxable income, as long as this is

not higher than the equivalent of 1.3 times the basic un-taxed base amount for income tax for individuals (USD 11,700.00 since 2016).

Individuals must liquidate and declare income tax, and present any deductions, in March for the operations done between January 1 and December 31 the previous year.

Individuals are also obliged to submit a sworn statement of their properties (assets) annually and independently of their income tax declaration, when their assets total over USD 216,000 as individuals or USD 432,000 as community property for both spouses.

- **Corporate Income tax.** There is a differentiated tax rate for companies of 22% or 25% (depending on its shareholders have fiscal residence in a tax heaven, preferred tax regime or minor tax jurisdiction) on a taxable amount calculated through the process called "tax reconciliation", explained below. The Tax Administration grants a discount of ten percentage points in the tax rate 12% for companies that decide to reinvest their Available Profits, providing that this reinvested amount is used to purchase new machinery or new equipment, assets for irrigation, vegetative material, seedlings and all plant inputs for agricultural, forestry, livestock and flower-growing production, used for their productive activity, as well as to purchase goods related to research and technology to improve productivity, diversify production and increase employment. As a requirement to take advantage of this tax benefit, the company must formalize the reinvestment (by Capital Increase) in the Mercantile Register by the following year.

Additionally, other types of special deductions may be granted.

Further, individuals must liquidate and declare this tax in April for the operations done between January 1 and December 31 the previous year.

- **Tax Credit for Income Tax:** Tax credit comprises those amounts prepaid and those withheld in the course of a year, and the Tax on Outgoing Foreign Exchange paid to import certain goods pursuant to the listing issued by the tax policy committee, which constitute rights for the company to discount them from their final income tax payment. This credit in-

cludes:

- Advance payment of income tax: Individuals, undivided estates, corporate bodies, companies that have signed or will sign hydrocarbon exploration and extraction contracts under any contractual modality and public companies subject to income tax payment must determine, in their declaration for the preceding fiscal year, the advance payment to be made for the current fiscal year.
 - a. Individuals and undivided estates that are not obliged to keep accounting and companies that have signed or will sign hydrocarbon exploration and extraction contracts under any contractual modality: A sum equivalent to 50% of the income tax determined in the previous fiscal year, minus withholding at the source for income tax from payments to them during fiscal period and the tax credit generated by allocating the tax paid by the company, when there is income from dividends .
 - b. Individuals and undivided estates obliged to keep accounting and corporate bodies: An amount equivalent to the mathematical summation of the following items:
 1. Zero point two percent (0.2%) of total equity.
 2. Zero point two percent (0.2%) of total costs and expenses that are deductible for income tax purposes.
 3. Zero point four percent (0.4%) of total assets.
 4. Zero point four percent (0.4%) of total taxable income for income tax purposes.

The calculated advance payment must be made in two equal amounts in July and September.

There are special provisions regarding fuel dealers and distributors in the automotive sector, taxpayers whose economic activity is exclusively related to agricultural production projects with agroforestry and silviculture of forest species, and taxpayers whose economic activity is exclusively related to developing software or technology projects.

Similarly, for private financial institutions and companies issuing and administering credit cards, subject to oversight by the Superintendence of Banks and Insurance (except for building / savings and loan associations) there is an advance pay-

ment for income tax of 3% of taxable income from the previous fiscal year.

Further, newly constituted companies and newly recognized investments under the Production Code, individuals obliged to keep accounting and undivided estates obliged to keep accounting, that begin activities, will be subject to making this advance payment after their fifth year of actual operation.

- Withholding at the source for Income Tax: Individuals obliged to keep accounting and corporate bodies must perform withholding for income tax from payments that they make locally or abroad which are taxable income for the payee. Percentages of withholding may range from 0,2% to 10% for local payments, and 22% for payments abroad or 35% if the beneficiaries have fiscal residence in a tax heaven, preferred tax regime or a minor tax jurisdiction. If withholding at the source plus advance payments are higher than the tax payable after liquidating Income tax, a rebate may be requested for the overpayment, or that credit may be used for following years (but only if the balance is due to overwithholding at the source).
- ISD paid to import inputs, raw materials and capital goods: Tax credit for the purposes of declaring, liquidating and paying income tax, also includes payments for the Tax on Outgoing Foreign Currency (ISD) on payments to import raw materials, capital goods and inputs for the purpose of incorporating them into production processes that are on the listing made by the Tax Policy Committee.

Additionally as of 1 January 2013, Ecuadorian legislation allows the ISD tax paid (tax credit for income tax) and not offset during the year when it was generated or in the following four fiscal years to be returned by the SRI under the following considerations:

- Apply to the fiscal authority once the income tax declaration has been made,
- Not having been able to offset or use the ISD tax paid as a deductible expense for income tax,
- The rebate will be made by a credit note, which is negotiable and can be used to pay income tax for the same five-year period in which the ISD tax paid could have been

used as tax credit.

- **Tax reconciliation**

This off-the-books process consists of determining taxable income, out of the overall total income received by the company or individual, and subtracting all expenses that can be deducted from this tax that are related to the taxable income, to obtain the taxable base income and apply the corresponding tax rate. The amount of tax payable, minus any tax credit (advance payment of income tax and withholding for income tax), times the respective rate, gives the income tax to be paid.

- **Regulation of Transfer Prices and Full Competition**

In 2005, Ecuador incorporated OECD guidelines in our legislation on regulating transfer prices, to regulate those transactions done between related companies when the sales are at or below cost. This regulates prices so they will not be lower than those current on foreign markets at the time of the sale; whereas for imports it will make sure they are not higher than international prices.

The norms state that related parties are when an individual or company, with domicile in Ecuador or abroad, participates directly or indirectly in the management, administration, control, or stock of the other company; or when a third party (an individual or company, with domicile in Ecuador or abroad) participates directly or indirectly in the management, administration, control, or stock of these companies.

The norms oblige certain taxpayers to present studies and information on their transactions with related parties to the Tax Administration, along with their income tax declaration.

It is important to clarify that local norms have imposed the obligation for the information presented to cover both operations with local related parties and those domiciled abroad.

8.1.2 Value-added tax (VAT)

Value-added tax (VAT) is an indirect tax levied on consumption whenever a taxpayer takes an action or signs a contract for the purpose of transferring or importing physical chattel goods, transferring copyright or horizontal property, at all stages of the selling; and provision of services (local and imported). Rates for VAT are 12% or 0%.

This tax can be transferred by the taxpayer to another taxpayer, because the intention is for the tax burden to be paid by the end consumer, if pro-

ducing goods and services subject to the 12% tax rate. Otherwise, a proportional part of this tax credit can be used.

The taxable base amount for VAT is the value of the goods transferred or the services provided. In the case of imports, the taxable base amount is the sum of the CIF (cost, freight and insurance) amount, taxes, customs tariffs, fees, charges, surcharges and other expenses appearing on importation documents. VAT taxpayers must present a monthly declaration for their operations during the preceding calendar month.

8.1.3 Tax on Foreign Currency Payments (ISD)

The Tax on Outgoing Foreign Currency is levied on all monetary transactions that are done abroad, with or without the intervention of the institutions comprising the financial system. The taxable action for this tax is the transfer or movement of foreign currency abroad as cash or by drawing checks, transfers, sending, withdrawing or paying in any way. The tax rate on Outgoing Foreign Exchange is 5%.

Additionally to the above taxable actions, it will be legally presumed that there has been outgoing foreign currency in the following cases:

- In all payments made abroad by Ecuadorian or foreign individuals or corporate entities domiciled or resident in Ecuador.
- In the case of exports of goods or services generated in Ecuador, done by individuals or corporate entities domiciled in Ecuador, who engage in economic activities of exportation, when the foreign exchange to pay for those exports does not enter Ecuador within 180 days' time.

This ISD is declared annually and may be discounted from the ISD payable on the basis of an estimate for imports.

According to the law, the public-private partnerships that fulfill legal requirements are exempt from tax on foreign exchange outflows for payments made for project implementation.

8.1.4 Tax on Extra Income

This tax is levied on extra income obtained by companies that have signed contracts with the National Government for exploration and extraction of non-renewable resources.

For the purposes of this tax, extra income is considered to be what contracting companies receive, generated on sales at higher prices than

the base price that was agreed or than what was set forth in the respective contracts.

The taxable base amount is the total extra income, i.e., the difference between the selling price and the base price established in the contract, multiplied by the number of units sold at that price. This tax rate is 70%.

Payment of this tax is a deductible expense to liquidate Income Tax, pursuant to the Domestic Tax System Law.

8.1.5. Tax on special consumption

This tax is levied on cigarettes, alcoholic beverages, soft drinks, perfumes and toilette waters, video games, firearms, sports weapons and ammunition, motor vehicles and hybrid or electric vehicles, paid television services, dues, shares or subscriptions to social clubs, whether from Ecuador or imported.

The taxable base amount is the sales price to the public suggested by the manufacturer or importer, minus the VAT and the ICE (as long as this amount is not lower than the result of adding 25% to the presumptive minimum marketing margin to the ex-factory or ex-customs price, as the case may be) or on the basis of the reference prices established by a Resolution annually by the Director-General of the Ecuadorian Internal Revenue Service.

8.1.6 Tax on Rural Land

This tax is levied on land owned or possessed measuring more than 25 hectares in area in the rural sector according to the city limits set by each municipality in their ordinances, located within a 40 km radius from watersheds, conduction canals or water sources defined by the Ministry of Agriculture and Livestock or by the environmental authority.

Taxpayers must pay the equivalent of 0.1 percent (one mill) of the basic untaxed amount for Income tax (individuals and undivided estates) pursuant to the Domestic Tax System Law, per hectare or fraction of hectare of land over 25 hectares.

8.1.7 Tax on holding assets abroad

The monthly tax on funds available and investments held abroad by private entities regulated by the Superintendence of Banks and Insurance and the Intendancies of the Securities Market in the Superintendence of Companies is based on holding any certificate for funds available in entities domiciled outside Ecuadorian territory, whether directly or through affiliated subsidiaries

or offices of the taxpayer abroad; and investments abroad by entities regulated by the National Securities Council.

Taxpayers must pay the equivalent of 0.25% monthly of the average monthly balance of funds available in foreign entities and investments issued by entities domiciled outside national territory.

When the funds are received or the investments held or made through subsidiaries located in fiscal paradises or preferential fiscal systems or through affiliates or offices abroad of the taxpayer, the applicable rate will be 0.35% monthly of the taxable base income.

8.1.8 Environmental Taxes

8.1.8.1 Environmental Tax on Vehicular Pollution

This tax is levied on environmental pollution from the use of motor vehicles for overland transport. The taxpayers are the owners of such motor vehicles for overland transport.

This tax is paid prior to registering vehicles, along with the annual tax on ownership of motor vehicles.

The taxable base amount for this tax is the engine displacement of the vehicle, expressed in cubic centimeters. To establish the amount of the tax, the calculation formula considers, in addition to the taxable base amount (i.e., the vehicle's engine displacement in cubic centimeters) the vehicle's age, using an adjustment factor.

8.1.9 Customs Duty

The customs system is governed by the Code of Production, designed for strategic international interaction, facilitating foreign trade, customs control and cooperation and information exchange through trade policy, with a modern, transparent, efficient customs system. Taxes on foreign trade are:

- a. Customs duty
- b. Taxes established in general and regular laws
- c. Fees for customs services

Customs duty is charge on foreign goods entering or merchandise leaving the customs territory under the customs authority's control. The taxable base amount for customs duty is the value of the imported merchandise in the customs.

According to the public-private law, the projects carried out under this modality shall enjoy the

same benefits, which are enjoyed by the public entities in customs imports.

8.1.9.1 Customs Modalities

Common customs modalities are final export (the merchandise is exempt from all taxes) and import for consumption (the merchandise is subject to certain taxes, including customs duty).

Additionally, importing merchandise involves paying value-added tax (VAT) and the tax on special consumption (ICE) if applicable. In certain specific cases, merchandise can be subject to compensatory duty (anti-dumping) and an additional safeguarding fee. These measures are to prevent unfair trade practices pursuant to WTO and CAN norms.

There are other import modalities, such as: Temporary admission for re-export in the same condition, temporary admission for asset improvement, replacement of merchandise free of customs duty, transformation under customs control, customs deposit, and re-import in the same condition.

8.2 Municipal Taxes

Our legislation, in addition to the above taxes, provides for other taxes on a series of transactions done by taxpayers. Here we are referring to municipal taxes to finance sub-national government. Among the main consist:

- Tax on Urban Property
- Tax on Rural Property
- Municipal Excise Tax
- Municipal Business License
- Tax on Public Shows
- Tax on Profits from the Sale of Urban Property and Surplus Value Thereon
- One Point Five (1.5) Per Thousand Over Total Assets

9. International treaties

9.1 Bilateral Agreements on Investment

Ecuador has signed bilateral treaties on investment with the following countries: Germany, Argentina, Bolivia, Bulgaria, Canada, Chile, China, Costa Rica, Denmark, El Salvador, Spain, United States, Finland, France, Honduras, Nicaragua, Paraguay, Peru, Netherlands, United Kingdom, Sweden, Switzerland, Dominican Republic and Venezuela.

9.2 Agreements to Avoid Dual Taxation

Ecuador has treaties to avoid dual taxation, for income tax, with: Belgium, Canada, Chile, China, France, Italy, Rumania, Switzerland, Spain, Germany, Brazil, Mexico, South Korea and Uruguay; China's agreement is in the final stage of approval.

Additionally Ecuador has signed Decision 578: system to avoid dual taxation and prevent tax evasion among the countries of the Andean Community. (Colombia, Peru). This Treaty uses the overriding principle of taxation in the source country instead of the residence principle. A treaty with Argentina (applicable only for air transport) has also been signed.

To verify payments abroad for agreements on dual taxation for transactions done in a given fiscal year, totaling more than one basic tax-free amount for income tax for individuals (USD 11,700.00 for 2016) requires a certification by Independent auditors. A certificate of fiscal residence, issued by the relevant authority of the other country, with a translation into Spanish, if necessary, and authenticated by the respective Ecuadorian Consul, is also required.

Republic of El Salvador

Identification of contact firm
Audit & Consulting Financial Tax, S.A. de C.V.

Office, address, telephone
7a Calle Poniente and 81 Avenida Norte #509.
Colonia Escalón, San Salvador.
T: (503) 2522-6500
F: (503) 2522-6565

2. Professional specialists

Pedro David Hernandez Fuentes
Managing Partner
Pedro.hernandez@acft.sv

Company profile

El Salvador is advantageously located in Central America; it is located between Guatemala at the West, and by Honduras at the North, having the Pacific Ocean at the South.

Population
6.3 million (2013 estimate)
66% Urban population.

Language
Spanish. English is also understood by many members of the business community in the capital and larger cities.

Currency
US Dollar.

Geography and climate
Area of 21,040 sq. km.
El Salvador has a tropical climate with two seasons; the rainy season (May to October) and the dry season (November to April).

Economy
GDP at market prices (2013) \$9610.1 (Mil).
Current GDP per capita (2013) \$3,857.4.

According to the information compiled by the Central Reserve Bank of El Salvador, economic activities in El Salvador grew by 2.0% in the second quarter of 2014, which reflected an increase of 0.3% when compared with the growth rate of 1.7% for the same period of 2013.

The demand resulting from the different economic factors, has resulted in increases in the following economic sectors: community, social, personal and domestic services (2.7%); Commerce, Restaurants



and Hotels (2.6%); Industrial manufacturing and mines, (2.4%); Agriculture, hunting, fishing and forestry (2.0%); Government (1.9%) and transport, warehousing and communications (1.7%). During the same period, an increase of 1.3% was registered with regard to the number of workers affiliated with the Salvadoran Institute of Social Security.

Main Industries
Agriculture, chemicals, electricity, fishing, food processing, footwear, forestry, petroleum products, textiles and clothing.

Principal trading partners
Its main trading partners are CACM countries, the USA, the EU and Japan.

Political system
Democratic republic (integrated by 14 departments). The president serves one five-year term.

Legal presence in El Salvador
A legal presence in El Salvador generally implies an important investment for foreign investors. A Salvadoran legal entity is required to comply with Salvadoran legal, accounting, and tax requirements. The expenses associated with the compliance of these requirements may be significant.

The establishment of a corporate presence in El Salvador is therefore, a decision that often requires considerable attention. Is a legal presence required? Is it recommendable? What type of presence is most consistent with the needs of the foreign investor?

Salvadoran law strongly encourages the establish-

ment of a Salvadorian legal presence for most companies willing to do business in El Salvador on anything other than a temporary basis.

It is beyond the scope of this document to analyze all the possible circumstances that would lead to the need to establish a Salvadorian legal presence. In practice, however, certain activities will tend to encourage the development of a legal presence. Commercial acts including forms of business enterprise are governed by the Salvadorian Commercial Code that became effective in 1970, and has been modified and supplemented by certain legislation.

Business may be undertaken in the name of individuals and in the name of entities that are granted existence by law as legal person.

The companies in El Salvador are divided into partnership companies and stock companies, both can be of variable capital (C.V.).

Choice of Legal Structure
General Partnership
Limited Liability Company.

Requirements

The company is incorporated before a Salvadoran Notary Public by means of a Deed of Incorporation. In order to grant the Public Deed of Incorporation a minimum two (2) people should appear as founder shareholders, these can be either individuals or companies;

- The Public Deed must be registered at the Registry of Commerce in order to obtain a legal status;
- The stock capital of the company shall be at least US \$2,000.00. At incorporation, at least 5% of the capital must be paid;
- The company's administration shall be performed by a Board of Directors or by a Sole Administrator. The Directors or Sole Administrator may last in their position from 1 to 7 years, and may be reelected by the members of the board;
- It is also necessary that the company registers in the Registry of Commerce its Business and Commercial License. This License must be renewed each year, paying duties during the same month the company was originally incorporated;
- The initial balance sheet must be registered at the Registry of Commerce;
- The company must be registered at the Local City Hall of the city where it will be operating and the Statistics and Census Department (DIGESTYC).

There are no limitations regarding the nationality of the founder shareholders.

If the shareholders are foreigners, they may grant a Special Power of Attorney (authorized by a Notary Public and bear the Seal of Apostille where applicable) to avoid traveling to El Salvador and grant the Public Deed of Incorporation.

Branch and/or Permanent Establishment:

For tax and commercial purposes the branch is having the same rights and obligations as local companies. The legislation that applies to a branch of a foreign company is the Salvadoran law.

In terms of the capital required by law to establish a branch in El Salvador, the minimum capital should be of US\$12,000.00 dollars, such investment is initially registered at the National Investments Office (ONI) of the Ministry of Economy before filing the registration of the entity at the Registry of Commerce.

In addition, the branch must be registered in El Salvador with the following local authorities/entities:

- Ministry of Treasury – Internal Tax Office (DGII),
- Statistics and Census Department (DIGESTYC),
- Ministry of Labor,
- Local Municipality,
- Salvadoran Social Security Institute (ISSS),
- Pension Fund Administrator (AFP).

Registrations

The registration process of a branch in El Salvador is followed at the Salvadoran Registry of Commerce. The following documentation would be filed in the country:

- Certified copy of Articles of Incorporation (By-laws) of the foreign company that desires to establish the branch. Everything must be translated into Spanish;
- Agreement issued by the Administration of the company (i.e. Shareholders Meeting, Board of Directors) approving: (i) the establishment/opening of the branch in El Salvador, and (ii) the designation of the legal representative;
- Power of Attorney granted by the company to a domiciled local person or to a foreigner residing permanently in El Salvador, to act as the legal representative of the branch and to follow the registration process at the competent authorities; and

- The minimum capital must enter the country through a transference of funds to a bank of the local financial system in order to obtain the respective document in support of the remittance received, this investment must be registered with the National Investment office ONI.

De facto societies

In El Salvador, de facto societies are considered to be unions between 2 or more people with the same objective or interest in starting a commercial activity.

Banking system

Central Bank

El Salvador's financial sector is regulated by the Central Reserve Bank of El Salvador (BCR), which is supported by the Superintendence of the Financial System and the Institute of Guarantees and Deposits (IGD).

The Central Reserve Bank of El Salvador is the authority responsible for exchange activity. With the enactment of the actual Law No. 746, dated April 12, 1991, the Central Bank is empowered to promote and maintain the monetary, exchange and financial conditions that most benefit the stability of the national economy.

Commercial banks

Due to various reforms in the financial sector, El Salvador has established a strong banking community, with positive tax laws that attract foreign investment.

To develop the Salvadoran banking sector in line with international standards, the Superintendence of Banks; (an independent regulatory body that supervises the banking sector according to the Basle Committee recommendations, was established in 1990).

During the past years, the legal framework under which the banking system operates has been enforced with the introduction of legislation such as the following:

- Law against Money and Assets Laundry No. 498, dated December 2, 1998. The present Law has the objective of preventing, detecting, sanctioning and eradicating the crime of money and assets laundry, as well as the withholding of information.
- Law for Insurance Companies No. 844, dated October 10, 1996. This Law has the objective of regulating the constitution and functioning of insurance companies, as well as, the participation of

insurance intermediaries, in order to ensure the public rights and facilitate the development of the insurance activity.

- Law of Banks No. 697, dated September 2, 1999, reformed during 2000, 2001, 2002 and 2004. The banking Law has the objective of regulating the functioning of financial intermediation and other bank operations, propitiating that these entities give transparent, reliable and agile service, which contribute to the development of the nation.

- Monetary Integration Law No. 201, dated November 30, 2000. This Law establishes that the legal exchange rate between the "Colon" and the United States Dollar shall be fixed and unalterable starting from the validity of this Law at 8.75 Colones per U.S. Dollar.

- Law for the Creation of the Multi-sector Bank of Investments No. 856, dated April 21, 1994. The present Law created the Multi-sector Bank of Investments, as a public institution for credit. The bank's objective will be to promote the development of investment projects in the private sector in order to:

- Promote the growth and development for all the productive sectors.
- Promote the development and completion among businesses.
 - Propitiate the development of micro and small businesses.
 - Job generation, and
 - Improve the education and health services.

Foreign Banks: According to Article 31 of the Banks Law No. 697, a foreign bank operating in El Salvador shall have the same rights and obligations as Salvadorian banks.

Foreign banks will operate in the country through branches, which must obtain a previous authorization by the Superintendence of the Financial System (SSF). In addition, they will be subject to the same laws and regulations as national banks, and under the supervision of the above-mentioned Superintendence.

Banks in El Salvador

Central Bank

Central Reserve Bank of El Salvador.

State Banks

Banco de Fomento Agropecuario.
Banco Hipotecario de El Salvador, S.A.

Private Banks

Banco Agrícola, S.A.

Banco Citibank de El Salvador, S.A.
 Banco Davivienda Salvadoreño, S.A.
 Banco G&T Continental El Salvador, S.A.
 Banco Promérica, S.A.
 Scotiabank El Salvador, S.A.
 Banco de América Central, S.A.
 Banco ProCredit, S.A.
 Banco Azteca El Salvador, S.A.
 Banco Industrial El Salvador, S.A.
 Banco Azul de El Salvador, S.A.

Labor and Social Security

Labor Law Requirements

Please find below a summary of the most remarkable requirements included in the Salvadorian Labor Code.

Wages and salaries

The Government is empowered to set minimum wages. In January, 2015 the legal minimum salary increased by 4%; at present the minimum salary in the commercial and services sector is \$251.70 per month.

Profit sharing

It is not mandatory; however a bonus may be payable according to agreements with employer and/or goals achieved by the employee.

Christmas bonus

This bonus applies in different categories:

- With more than 1 year but less than 3 years working for the same company, employees receive 15 days of basic salary;
- Workers with more than 3 years but less than 10 years of employment with a company, receive 19 days of basic salary; and
- For workers with more than 10 years of employment with the same company, the bonus is of 21 days of basic salary.

Fringe benefits

Non-cash compensations given to employees (benefits in-kind) for the services rendered in the country, are considered as taxable income for the employee.

Hours worked

The Maximum Labor hours that are permitted by law are 8 hours daily, and should not exceed 44 hours a week; the workweek has to end at noon on Saturday.

Any modification at the end of a workweek at different hour has to be approved by Ministry of

Labor.

Paid holidays and vacations

After each continuously worked year employees are entitled to receive fifteen workdays of paid vacation.

Termination of employment

Section 48 through Section 54 in the Salvadorian Labor Code establishes the causes for termination of contracts.

A Labor contract can terminate with or without legal liability for the parties and can be done with or without legal intervention.

Termination of the contract without legal liability and without legal intervention can be done by means of mutual consent, or by the resignation of the employee.

Severance Payment

Generally the severance payment is payable in case of unjustified dismissal at one month salary per year of uninterrupted service. The law specifies the causes of "just" dismissal.

Economic benefit for voluntary resignation

On January 1, 2015 the Law Regulating the Economic Benefits for Voluntary Resignation came into force, which has the objective of regulating the conditions under which the permanent employees working in the private sector and autonomous entities that generate income, and whose labor relations are subject to the obligations contained in the labor code, even though these are not mentioned in this Law, including the Salvadoran Institute of Social Security and the Comisión Ejecutiva Hidroeléctrica del Río Lempa (CEPA), are entitled to an economic benefit when they resign from their work on a voluntary basis, always summing they have completed a minimum of two years' service on a voluntary basis.

The economic benefit for voluntary resignation by permanent employees who have more than two years of service, will consist of the economic equivalent of fifteen days basic salary for each year of service.

For the purposes of the calculation of the economic benefit referred to in the previous paragraph, the salary cannot exceed twice the current legal minimum daily salary in the sector in which is applicable to the employer's economic activities.

Technical education tax

A payroll based contribution is imposed to em-

employers that have more than 10 employees. Furthermore, in terms of financing the program for the technical instruction and employee training, managed by a specific institution (INSAFORP), the contribution required for employers is 1% of total monthly payroll.

INSAFORP, (the National Institution for Professional Training) ensures that the Salvadorian workforce remains a high quality asset within the region by offering training and courses for employees.

Social Security System of El Salvador

Law No. 1263 of the social security system in El Salvador was enacted December 3, 1953, and was last reformed in 1994.

The Law is also complemented by several regulations on the social security interest. The Salvadorian Constitution in its Article 186 establishes the obligatory social security as an institution of public interest.

The social security system contemplates:

- **Health/Maternity Benefits:** In health disability the employer pays the first 3 days, after the third day social security covers 75% of salary. In case of maternity social security covers 100% of the monthly salary and the employer grants a 16-week period for maternity care.
- **Disability:** If there is a disabled employee for 1 year at least, a percentage of the salary is paid by social security, for over a year pension funds will recognize a percentage of the salary depending on the level of disability.
- **Old Age:** Retirement- men at sixty (60) and women at fifty five (55) years can retire after 30 years of labor services.
- **Death:** Pension funds will pay the victim's family an allowance depending on the victim's amount of savings.
- **Pension Fund (AFP):** Savings are obligatory through pension funds managed by private Pension Fund Administrators- AFP's.

Accounting and audit requirements and practices

Accounting

The Supervisory Board of the Public Accounting and Auditing Professions issued Resolution 113 /2009, which establishes "the adoption of the International Financial Reporting Standard for Small and Medium Sized entities, official Spanish

language version, issued by the International Accounting Standards Board (IASB), as a requirement in the preparation of general purpose financial statements and other financial information, for all of the entities that are not quoted in the stock exchange, except for the entities that, on a voluntary basis have adopted the full version of the International Financial Reporting Standards.

Entities must present their first financial statements on the basis of this standard for the period commencing January 1, 2011. The early adoption of this standard is permitted".

The entities that are not quoted on a stock exchange or that do not have public accountability, may adopt, on a voluntary basis, the full version of the International Financial Reporting Standards (IASB), the entity must disclose this fact in the notes to their financial statements.

Statutory Audit Requirements

In El Salvador, all local companies and branches operating in the country are required by law to appoint an External Auditor. Financial Statements prepared for companies and partnerships engaged on commercial, services or industrial businesses are also required to be audited by public accountants licensed in El Salvador, which must be appointed by the entity as the External Auditor for a 1 year period that can be renewed indefinitely.

Regarding Tax Auditors, according to the Salvadoran Tax Code their appointment is mandatory for:

- Entities having total assets exceeding US\$1,142,857.14,
- Entities obtaining incomes exceeding US\$571,428.57,
- Entities resulting from a merger or transformation process, and
- Companies under a liquidation process.

In El Salvador, the same person or entity may provide external and tax audit services.

Books and records

Both the Commercial Code and the Tax Code prescribe the principal books of accounting to be maintained by business enterprises. The books and records normally required are: Ledger and Major, Financial Statements, purchase book for VAT purposes, book of operations with final consumers and detail of exports, book of operations with VAT registered contributors, as well as other special records and files required for the control of VAT.

These books are authorized by the external auditor, and each page must be numbered and then stamped with the seal of the public accountant.

According to the Commercial Code, all records must be in Spanish, and all accounts recorded in Colones or US Dollars. The books must be located, and the accounting made, in El Salvador, even for branches, agencies or subsidiaries of foreign companies.

Corporate Tax Issues

In El Salvador, national taxes, duties and other special contributions on all types of goods, services and income are created by the Salvadorian Congress, while local governments (Municipalities) may elaborate and submit to the Congress for their approval taxes and contributions by way of a specific regulation.

Tax on corporate income

Applying a tax rate of thirty percent (30% over the taxable income, except for the taxpayers' who have obtained income equal to, or less than, one hundred and fifty thousand Dollars (US\$150,000), to which a tax rate of twenty five percent (25%) will be applied.

Taxable income is net of costs and expenses considered necessary for generating and maintaining the related source of income, and other deductions allowed by law.

Gross income, on the other hand, comprises income or profits collected or accrued, either in cash or in kind, from any sources such as business, capital and all types of products, gains, benefits or profits, whatever their origin might be, as well as conducted debts.

Juridical entities are required to follow the accrual method of accounting, which means that income is reported although not collected, and costs and expenses are reported when incurred and not when paid for.

For tax purposes, income is computed for 12-month periods, also known as taxable periods, and the tax period for judicial entities begins on 1 January and ends on 31 December of each year.

Income tax advance payments

A 1.75% tax rate is applied over the gross monthly revenues obtained, this is paid during the following month and represents an advance tax payments, which are applied against the Corporate Income Tax and the end of the year.

Tax on branch income

In El Salvador, tax rates on branch profits are the same as for domestic corporations. No tax is withheld on transfer of profits to the head office provided the entity distributing them reports and pays the corresponding income tax thereon.

Administrative offices: the law does not provide a separate treatment to administrative offices located in El Salvador. The general regulations in this respect indicate that branches, agencies and/or permanent establishments operating in the country, with owned or leased installed infrastructure, employing domestic staff, and performing their economic activities in a material and perceptible manner in the country are subject to the same taxes as companies duly incorporated.

Value-added tax (VAT)

VAT is levied at a rate of 13% over the taxable amount. As a general rule, the taxable amount is the price or remuneration agreed upon by the parties. For imports, the taxable amount is the custom value.

The following transactions are subject to VAT when performed within the Salvadorian territory:

1. Transfer/sale of tangible movable goods.
2. Withdrawal of tangible movable goods from the inventory made by the company for self-consumption by its parents, directors or personnel.
3. Import of goods and services
4. The supply of services of any type whether permanent, regular, continuous or periodic; technical advice and project designs; lease and sublease agreement over tangible goods; lease sublease agreements over real estate for commercial purposes; lease of services in general; construction of real estate properties or building contracts; auctions; freight; whether inland; air or maritime; lease, sublease and any form of use regarding trademarks.

The following imports are exempt from VAT:

- Imports made by diplomats and consulate representatives of foreign nations with presence in the country according to international agreements adopted by El Salvador.
- Imports made by international organizations to which El Salvador is a party.
- Travelers' luggage according to customs regulations.

- Donations to non-profits organizations.
- Imports made by municipalities, if the good imported are for the public benefit of the community.
- Imports of machinery by taxpayer duly registered for this purposes which will be part of the taxpayer's fixed assets.
- Vehicles for public transportation, which can only be transferred after five years.

The following services shall be exempted from VAT:

- Health services rendered by public institutions.
- Lease and sublease of real estate properties for housing.
- Services rendered under a labor relationship, and those rendered by public and municipal employer.
- Cultural public performances authorized by competent authorities.
- Educational services rendered by authorized entities, (i.e. the Ministry of Education.
- Interest on deposits and loans, provided by local financial institutions or entities registered with the Central Reserve Bank of El Salvador.
- Interest on securities issued by the government and/or private entities traded through a stock exchange.
- Water supplied by public institutions.
- Public transportation.
- Insurance premiums covering individuals, and reinsurance in general.

Exports are levied at 0% VAT. Foreign source income is not subject to VAT.

VAT taxes paid by a registered taxpayer company on it purchases (tax credits) are credited against VAT taxes charged to its customers (tax debits), on a monthly basis.

Tax on simple or sweetened soft drinks

This is an ad valorem tax levied at 10% over the selling price to the public as suggested by the manufacturer, importer or distributor, excluding VAT and returnable bottle taxes.

Tax on the production and importation of alcohol and spirits

This tax is levied on domestic or imported alcohol spirit at rates ranging from 0.0825 to 0.15 over each 1% of alcohol volume per liter or in proportion thereof. At the beginning of 2010 spirits and alcohol also have an ad valorem tax levied at 5%

over the suggested selling price to the public.

Tax on tobacco products

This tax is levied at USD 0.005 per cigarette, cigar, cigarettes or any other tobacco product. Also, an ad valorem tax is levied at 39% over the suggested consumer selling price reported, excluding items such as VAT taxes, the specific tax established by the law.

Municipal taxes

Municipal taxes are assessed according to a progressive tariff issued by each municipality applicable to the company's assets located in each municipality.

Taxes are paid on monthly basis. The tariff list is applied separately to commercial, industrial and financial sectors.

Real estate transfer tax

Transfers on real estate property are taxed according to the value of the real estate, at a tax rate of 3% applicable over amounts exceeding USD 28,571.43.

Tax Law relating to financial operations

Establishes a tax of 0.25% (for amounts over one thousand Dollars), which is applied over the amount paid by check or electronic transfers made in the national territory, in the legal currency in circulation in the country, in accordance with the regulations contained in this Law.

Furthermore, a tax withholding of 0.25% must be made over the excess of \$5,000, which originates from deposits, and cash payments or withdrawals, whether in an individual or accumulated basis during the same month.

Other Tax Regime

Simplified regime for casino and slot machines
No special regime exists for casino, slot machines or betting games. In fact, legal limitations have been issued by local authorities in various municipalities prohibiting the functioning of these activities.

Allowed deductions

All business expenses considered necessary to produce taxable income and/or maintain income source (freight, marketing, power, telecommunication, water, salaries, lease contracts, merchandise and transport insurance, fuel and interest paid on loans used by income generating sources, and other similar items) are deductible for income tax purposes.

Interest

If a loan is made by a foreign company or bank that is not registered by the Central Bank or if the loan is between related parties, income tax is withheld at 20%. If the foreign bank is registered by the Central Bank in 2010, then 0% income tax will be withheld.

Taxes

Other than penalties and interest charges on unpaid taxes, income, VAT and conveyance of real estate property taxes, and state and municipal taxes and duties on imports of goods and services rendered by the company are not deductible.

Depreciation

Depreciation allowances on fixed assets are determined by the declining balance method at the following rates:

Type	%
Buildings	5
Machinery	20
Vehicles	25
Other movable assets	50

Depletion

Amortization of new software is admitted at a constant and maximum 25% over purchases or production costs.

Payments to foreign affiliates

Remittance of royalties, interest income and services fees to foreign affiliates are deductible provided proper contracts are in place and withholding tax of 20% is applied and if these services have actually been received.

Payments to entities located in tax haven regimes, are subject to a withholding tax rate of 25%.

Other significant issues

The deductibility of charitable donations is limited to 20% of the amount resulting from deducting the donation amount from the donors' net income of the respective tax period.

Amortization of goodwill, trademarks and other similar intangible assets are not deductible for income tax purposes.

Net operating losses

Operating losses cannot be carried forward to future years, and Salvadoran legislation does not permit the carry back of losses, for the purpose of being deducted for tax purposes.

Withholding tax (WHT)

Payments or amounts credited to non-residents arising from income obtained in El Salvador are subject to a 20% WHT.

Income earned in El Salvador covers income from assets located in the country, and from any activities performed or capital invested in the land, and from services rendered or used in the national territory, regardless of whether they are provided or paid outside the country.

Income from services used in the country is income earned in El Salvador by the service provider, irrespective of whether the relevant income generating activities are performed abroad.

Payments to foreign entities located in the tax haven regimes are subject to a withholding tax rate of 25%.

Payments to domiciled individuals with respect to services rendered other than under a labor relationship, are subject to a 10% WHT.

The acquisition of intangible goods among domiciled entities in the country is subject to a 10% WHT.

Tax incentives

El Salvador offers a wide range of incentives to attract foreign investments and drive new commercial and industrial developments. There are no restrictions on foreign ownership or on mergers, acquisitions or joint ventures.

There are three specific laws in El Salvador that seek to encourage foreign investment by improving the country's competitiveness in all areas involving the granting of tax incentives.

Three laws are the Industrial and Commercial Free Zone Law, Law of International Services and the Export Reactivation Law, which was replaced in 2011 by the Law of re-imbursement of tariffs over importations.

The industrial and Commercial Free Zone Law No. 405 dated September 3, 1998; grants companies the following incentives:

- Income tax exemptions.
- VAT exemptions.
- Municipal from real estate transfer tax when land is indented to be used for productive activities.
- Exemptions from duties for imports on ma-

chinery, raw material, equipment and intermediate goods used for production.

- Option to sell merchandise or services linked to international trade produced in the free zone in the Salvadorian market is permitted as long as companies pay the corresponding import tax, income tax, VAT, and municipal taxes on the final goods admitted.

Any foreign company may establish and function in a free zone or bonded warehouse if they are engaged in: production, assembly, manufacturing, processing, transformation, or commercialization of goods and services; and/or rendering of services linked to international or regional trade, such as gathering, packaging and repackaging, cargo consolidation, distribution of merchandise and other activities connected or complementary to them.

The Law of International Services Law, No. 431, dated October 11, 2007; grants the same benefits as the Free Zone Law, but the beneficiaries are companies operating in Services Centers specially created according to this law and dedicated to international services as defined therein.

The Export Reactivation Law No. 460 dated March 15, 1990; grants reimbursement of 6% free on board (FOB) value of exports destined outside the region.

This law was derogated and replaced in January 2011 by a return mechanism which was approved for duties paid on raw and input materials imported that were definitively exported out of the country.

Corporate Tax compliance

Taxing authorities: national taxes, fees and other contributions on all type of goods, services and income in El Salvador are levied by the National Congress, with local government (municipalities) may suggest contribution rates and propose their approval to the National Congress by way of specific law.

Ministry of Finance; the Ministry controls the State's finances and defines and guides the government's financial policy, and also harmonizes, directs and implements its policies on taxation, through the following agencies:

- Internal Revenue Service (DGII): was created by Law No. 451, dated February 22, 1990; replacing the former Direct Revenues Services, and is charged with managing and

collecting the country's main internal revenues.

- Customs Authorities (DGA); the DGA was created by Law No. 903, dated December 14, 2005; replacing the former Customs Revenues Services, and its main function in the exercise of its customs powers, to facilitate and control international trade within its domain, and monitor and collect duties and taxes imposed upon merchandise entering and existing the territory.

Returns

VAT returns are filed on a monthly basis within the first ten (10) working days of each month following the period under taxation.

In addition, public and private juridical entities, domiciled in the country for tax purposes, other than farm and cattle concerns, are required to make income tax advance payments at 1.75% of gross revenues.

These advance payments are due, together with the corresponding return, within ten (10) working days following the corresponding calendar month.

CIT annual returns must be filed each year no later than April 30, following the end of the year under taxation. In El Salvador the fiscal year is from January 1st to December 31st.

These formal requirements are mandatory no matter that no tax is ultimately payable.

Tax Payments

Taxes are due on the date established for filling the tax returns. In El Salvador tax payments are made together with the filling of tax returns, and payments shall be made at the banks of the local financial system.

Year-end dates established by the tax code
The year-end is established at December 31.

Individual taxation summary

El Salvador taxes its citizens and all residents on their income earned in the country, and on any Salvadorian source income.

Taxable compensation of employees, covers all types of income whether in cash or in-kind, such as salaries, bonuses, overtime, paid vacations, housing and car allowances, reimbursement for tax and children's educational expenses, and other benefits in-kind.

According to the Income Tax Law, domiciled indi-

Individuals shall compute their income taxes by applying to their net income the tax rate table indicated herein.

Gross income

El Salvador taxes its citizens and all residents on any Salvadorian source income. According to the Income Tax Law, domiciled individuals shall compute their income taxes by applying to their net income the tax rate table indicated herein.

Broadly, the entire remuneration for personal services rendered in the El Salvador is subject to income tax.

Taxable compensation of employees, covers all types of income whether in cash or in-kind, such as salaries, bonuses, overtime, paid vacations, housing and car allowances, reimbursement for tax and children's educational expenses, and other benefits in-kind.

Individual deductions

Current Deductions / Credits

The personal deductions allowed include:

- Yearly exemption of Pension fund contributions.
- Deduction of social security contributions
- Deduction on educational expenses (personal, of spouse or of direct dependents under 25 years of age)

These expenses include education at basic, medium, technical and college levels within the country. The deduction is limited to USD800 per year.

- Deduction on medical expenses (personal, of spouse or of direct dependents under 25 years of age).

These expenses include doctor fees, medicine and hospitalization within the country. The deduction is limited to USD800 per year.

Taxation in El Salvador

Returns

Returns are filed individually. Spouses are required to file separate income tax returns covering their respective income.

Income Tax Returns and Real Estate Returns are due in April of each year corresponding to the previous fiscal year.

Tax payment

Employers are required to withhold income tax on salaries, wages and bonuses. Christmas bonus, Social Security contributions, severance and termination payments are not subject to income tax, according to Labor Code.

Current Tax Rates

The Monthly Withholding Tax Scale for employees is shown below:

<i>Withholding Tax Scale for employees</i>	
Monthly Salary	Rate
Up to USD 487.60	Exempt
From USD 487.61 to USD 642.85	10% over USD 487.60 plus USD 17.48
From USD 642.86 to USD 915.81	10% over USD 642.85 plus USD 32.70
From USD 915.82 to USD 2,058.67	20% over USD 915.82 plus USD 60
From USD 2,058.68 and above	30% over USD 2,058.67 plus USD 228.57

The Annual tax rates on individual income are shown below:

<i>Annual Tax Scale for employees</i>	
Annual Income	Rate
Up to USD 4,064.00	Exempt
USD 4,064.01 to USD 9,142.86	10% of the amount exceeding 4,064.00 + \$212.12
USD 9,142.87 to USD 22,857.14	20% of the amount exceeding 9,142.86 + \$720
USD 22,857.15 and above	30% of the amount exceeding 22,857.14 + \$3,462.86

Republic of Guatemala

1. Firm identification:

Moore Stephens – Orellana Sánchez, Sazo & Asociados S.C.

1.1 Office, address, phone:

6th. Avenue 6-63 Zona 10, Sixtino Building,
Office 1203, Level 12, Guatemala, C. A.

T: (502) 2268-9700

F: (502) 2269-7169

2. Professional Specialists

Lic. Luis E. Orellana

Audit & Consulting Partner

luis.orellana@moorestephens.com.gt

Lic. Ninrod Sazo

Partner -Tax Consulting Division

ninrod.sazo@moorestephens.com.gt

3. Country Profile

The Republic of Guatemala is a country located in Central America, in its far northwest side, with a wide culture product of a native and Mayan heritage and the Spanish influence during the colonial times, it is considered a multicultural, multilingual, multiethnic, as well as rich in wildlife.

Despite its relatively small size, Guatemala has been blessed by a wide variety of climates, mainly due to its mountainous terrain that ranges from sea level up to 4220 meters above sea level. Due to this situation in the country exist several ecosystems including mangroves of the Pacific wet-lands to the high mountain cloud forest. Guatemala is bordered at the west and north by Mexico, Belize and in the east by the Gulf of Honduras, on the southeast by Honduras and El Salvador, and on the south by the ocean Pacific. The country has an area of 108,889 km², which is organized into eight regions, 22 departments and 334 municipalities. Its capital is Guatemala City, officially called Nueva Guatemala de la Asunción. Its population is approximately 14 million people. The indigenous population comprised 51% of the country's population. The official language is Spanish, also has 23 Mayan languages and Garifuna Xinca languages, the latter spoken by the population of African descent in the Caribbean department of Izabal.

4. Investments

4.1 National Investment



Legally establishing a local company in Guatemala is simple and fast, taking about two weeks for provisional registration and up to two months for final registration. A company can start its operations with provisional registration.

Registration requirements for a local company are as follows: At least two persons, natural or legal, are required to form a company. To operate in most sectors of the economy, there is no requirement for local participation in a Guatemalan company.

Similarly, there are no restrictions on foreign ownership.

Types of Guatemalan companies:

- **General Partnership (Partnership):** The owners are all personally liable for any legal actions and debts the company may face. The partners' personal assets are subject to attachment and liquidation to pay the creditor.
- **Limited Liability Company:** A maximum of twenty members, in which each partner is personally liable for the amount of capital paid.
- **Limited Partnership (Limited Partnership):** comprised of two types of partners: one or more general partners that are jointly and severally liable for the debts, and one or more limited partners whose liability is limited to the amount of capital paid in. Limited partners may not have the voice of management in operating the business.

- **Limited Partnership by Shares:** A partnership limited by shares is a hybrid between a partnership and a limited liability company. The capital and ownership of the company is divided between shareholders who have a limited liability and one or more partners who have full liability for the remainder of the company's debts. The partner(s) will usually direct the operations of the company while the shareholders are passive investors.
- **Corporation (Corporation):** Equity is divided and represented in shares of equal value. The liability of each shareholder is limited to shares held. The corporation must have a board of directors, or a sole director, and must hold an annual meeting whose minutes must be notarized.

Enrollment in the Internal Revenue Service (Tax Authority) is required to obtain the tax identification number (number Tax Identification NIT). Registration is immediate at the time of requirement.

4.2 Foreign Investment

It is usually done by establishing a local company or a branch of a foreign company.

4.2.1 Legal Framework for Foreign Investment

A Guatemala law explicitly promotes investment and includes provisions that recognize and guarantee private property rights equally to domestic and foreign investors Guatemala. There are no restrictions for foreigners in possession of any amount of shares in any company Guatemalan.

5. Audits and Accounting

Guatemala's laws require a financial statement audit only for some specials and big contributors; however, most of the companies have the policy to hire external auditors.

The Commerce Code requires the authorization of the books: Journal, Ledger, the book of the Financial Statements, and the book of inventory.

6. Employment regime

6.1 Types of employment contract and employment conditions

Guatemala Labor Law allows two (2) employment contracts: written and verbal, i.e. no instrument or written contract. Labor Law provides for certain cases the mandatory written contract. Further contemplated various forms of work, same as detailed below:

- **Fixed or indefinite period:** Guatemalan law provides one year minimum duration of any

contract for a fixed or indefinite period when they have specific time duration.

- **Time of Proof:** In the above contracts, when subscribed for the first time, may provide a testing time, with a maximum duration of two months. After this period, automatically the employees have all the rights considered to them according to the Labor Code.
- **Casual workers contracts:** those contracts made to solve situational requirements of the employer, such as replacement of staff is absent for vacation, leave, maternity, increased demand for production or services, etc.
- **Occasional contracts:** Emerging needs or extraordinary, not related to the business regular employer, and which must not exceed thirty days in a year.
- **Season contracts:** Those who, because of the discontinuous nature of his work have been held to perform cyclic or periodic work, enjoying stability.
- **Task-work contract:** Developing a certain amount of work or work in the day or at a pre-set time period.
- **Piecework contracts:** The work is done by parts, pieces, surface measurements and, in general, works units, and the remuneration is agreed for each of them, regardless of the time spent on the work.

There are other types of employment contracts under the laws that are not used in the general practice.

6.2 Remuneration

The compensation can be:

- Monetary
- Participation in the profits of the business of the employer
- Mixed (fixed salary + salary or participation in the employer's business product)

As part of their compensation, the employees received the following benefits:

- **Bono 14:** The annual bonus will be equal to one hundred percent (100%) of regular salary wages earned by the worker in a month, for workers who have worked in the service of the employer, for one uninterrupted year and be-

fore the date of pay. If the duration of the relationship it may work less than a year, the benefit will be proportional to the time worked. To determine the amount of the benefit shall be based on the average regular salaries or wages earned by the employee in the year that ends in June of each year. The bonus will be paid during the first two weeks of July each year.

- **Christmas Bonus:** This annual bonus will be equal to one hundred percent (100%) of regular salary wages earned by the worker in a month, for workers who have worked in the service of the employer, for one uninterrupted year and before the date of pay. If the duration of the relationship it may work less than a year, the benefit will be proportional to the time worked. To determine the amount of the benefit shall be based on the average regular salaries or wages earned by the employee in the year, which ends in June of each year.

The Bonus shall be paid fifty percent in the first two weeks of December and the remaining fifty percent in the second half of the following January.

If an employee, for any reason, resign or is removed from his job before the indicated dates above, he is entitled to receive a proportion of these bonuses.

6.3 Employee Benefits

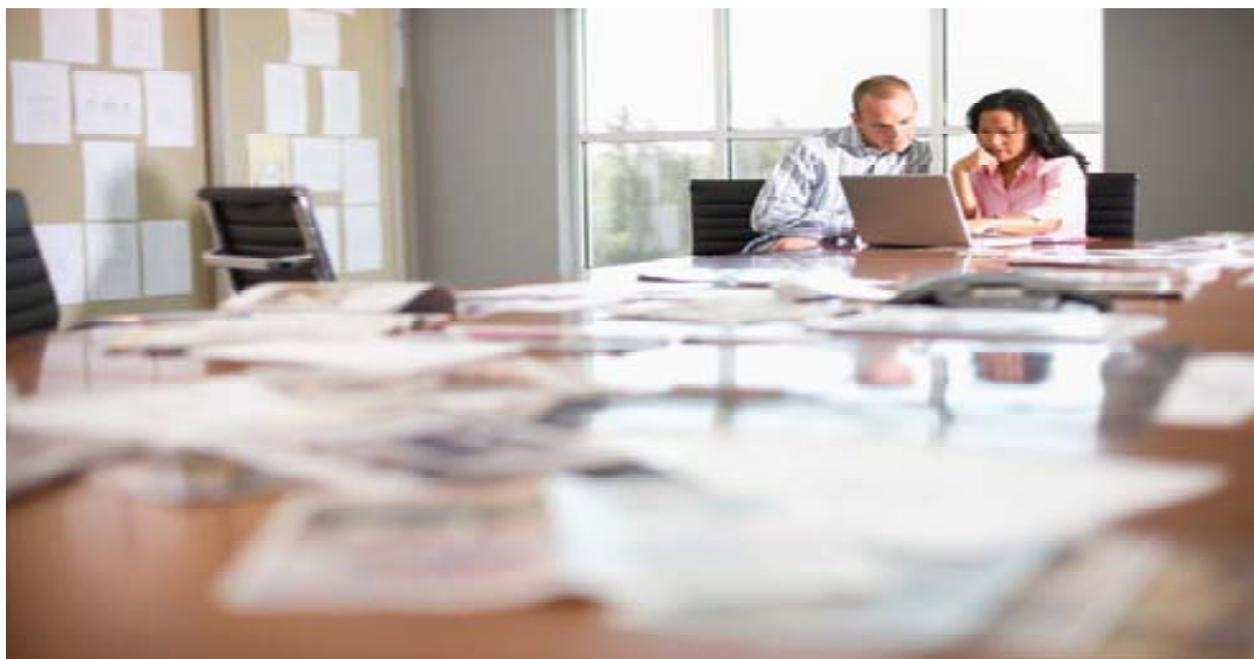
- **Holidays (Vacations):** Workers who have served for more than one hundred and fifty days are entitled to enjoy 15 labor-days as a holidays (vacation)

6.4 Social Security

- **Contribution to IGSS:** All workers are required to join the Social Security Institute. The obligation is for both, employer and employees. The employer pays 12.67% on the gross salaries and the employees 4.83% on the same basis.
- **Contribution to IRTRA:** (Institute of Recreation for workers) is a benefit for the worker to use the facilities.

6.5 Currency Exchange

Individuals and companies are free to possess, exchange, negotiatiate, etc. with foreign currency within the Guatemalan territory.



7. Tax system

7.1 Taxation in Guatemala

7.1.1 Income Tax (ISR)

Income categories according to their origin, the following income are taxed according to their origin

	Category	Applicable rate	Gross income	Taxable Income
1	Income of the profitable activities.	-	-	-
1.1	Regime on the profitable Activities	31% -2013 28% -2014 25% -2015 thereinafter	Total revenue and profits of any kind, taxed or exempt, regular or not, accrued or received during the liquidation period, from sales of goods or services and other lucrative activities. Similarly, gross income is income from foreign exchange gains arising on foreign currency trading, and the benefits arising from the compensation in the case of extraordinary losses incurred in fixed assets when the amount of compensation exceeds the carrying assets	Gross income less exempt income and costs and expenses deductible in accordance with this law and must add up the costs and expenses to generate exempt income
1.2	Optional Simplified Regime on revenue of profitable activities	Q0.01 to Q30, 000 Monthly 5%. Q30, 000.01 or more, Q1,500 fixed and 7% on the excess of Q30, 000 onwards - 2014 -2013-6% -	This concept is not defined in this regime. It is understood that it is the same concept as the regime on profits.	Must deduct from its gross income the exempt income.
2	Income from work	Q0.01 to Q300, 000 of taxable income 5% - Q300, 000.01 or more the taxable income is Q15, 000 fixed and 7% on the excess of Q300, 000.01	It is the sum of taxable and exempt income, obtained in the annual accounting period, and net income as the difference between gross income and exempt income earned.	Is determined by deducting from net income applicable deduction (Q60, 000 conditional, Donations, Contributions to the IGSS, IPM and the state and its institutions by shares welfare regimes, and life insurance premiums to cover risks in cases of death)
3	Investment income and capital gains	-	-	-
3.1	Revenue from Capital Transactions	-	-	-
3.1 a	Dividends, earnings and profits.	5%	-	-
3.1 b	Other Income from Capital Transactions other than dividends, earnings and profits	10%	-	-
3.2	Capital Income Property	10%	-	-
3.3	Capital Gains and Losses	10%	-	-
3.4	Income from lotteries, raffles, lotteries, bingo or similar events.	10%	-	-

Quarterly Payments

To determine the amount of the quarterly payment the taxpayer may choose one of the following formulas:

1. Perform accounting closing, partial or preliminary at the end of each quarter or prepare a settlement of its activities at the end of each quarter, to determine the taxable income, or:
2. Based on an estimated taxable income of eight percent (8%) of the total gross income derived from its taxable activities in the quarter, excluding exempt income.

Activity	Tax Rate
Activities of international freight and passenger-The value of tickets sold in the country or abroad to be wide-spread in Guatemala, regardless of origin or destination of the passenger.	5%
Activities of international freight and passenger-freight value by loading native Guatemala to destinations abroad, even when such freight or contracted to be paid in any form, outside Guatemala. In the case of freight cargo from abroad, when the value of the freight is paid in Guatemala	5%
Activities of international freight and passenger-The amount people dedicated to nonresidents transport as well as their representatives in Guatemala, to charge transport users as a part of the service they provide, including fuel storage, delays, use the port offices, use of electricity or penalties-	5%
Insurance premiums, bond premiums, reinsurance, retrocession and rebonding, obtained by nonresident	5%
Telephony, data transmission and international communications of any kind and by any means, from the communications service of any kind, between Guatemala and other countries. In all cases, regardless of the place of incorporation or domicile of the companies providing the service	5%
Using electric power supplied from outside the country	5%
Dividends, profit sharing, profits and other benefits, and any account transfer or crediting to their headquarters abroad, without consideration by permanent establishments from nonresident entities	5%
The international news provided to user companies in the country, regardless of the form of compensation and the use in Guatemala of films, comic strips, graphic novels, music and audio recordings and any other projection, transmission or dissemination of images like or sounds in the Republic, whatever means are employed	3%
Interest derived from: i) cash deposits, ii) the investment of money in financial instruments, iii) operations and credit agreements, such as the opening credit, discounting, documentary credit or lending money, iv) holdings of debt securities such as promissory notes, bills of exchange, bonds or debentures or other securities holdings, in any case issued physically or through book entries; v) price differentials under repurchase regardless of the name given to the parties, or other income derived from the transfer of capital and vi) leasing, factoring, asset securitization. vii) any credit transactions, financing, capital investment or savings. Paid or credited to non-residents. Excepted tax referred to in this paragraph, the accreditations payments on account of interest on loans granted by banks and financial institutions to entities duly licensed and regulated in their home country, according to the Law on Banks and Financial Groups as well as the latter, and multilateral institutions granted to persons resident in the country.	10%
The royalties: For payments for the use, or the right to use: i. Copyright and Related Rights, literary, artistic or scientific work including films videotapes films, dramas, phonograph, musical recordings and auditory strips comics, graphic novels and any other similar projection, transmission or dissemination of images or sounds, including transmissions from cable or satellite television and multimedia. ii. Brands, advertising slogans or signs, trade names, logos, and GI designations of origin, patents, industrial designs, utility designs, plans, supplies secret formula or process, privileges or franchises iii. Rights or licenses or software updated. iv. Knowledge or information concerning industrial, commercial or scientific experience. v. Personal rights eligible for assignment, such as image rights, names, nicknames and stage names. vi. Rights to other intangible assets.	15%
Wages and salaries, allowances, commissions, bonuses and other compensation not involving reimbursement of expenses	15%
Payments on bank account or credit sportsmen or artists in theater, television and other public entertainment or performance	15%
Fees	15%
The scientific, economic, technical or financial advice	15%
Other taxable income not specified in the preceding	25%

Special Valuation Rules to Related Party (Transfer pricing)

Scope:

The scope of the provisions under Article 57 of the law reaches any operation carried out between the person living in Guatemala with others living abroad and have an effect on the determination of the taxable period in which they performed the economic operation and in the subsequent periods.

Related Parties:

For the purposes of this Act are considered related parties, between a person resident in Guatemala and a foreign resident, when given the following cases:

- When one directs or controls the other, or held, directly or indirectly, at least twenty-five percent (25%) of its share capital or voting rights, either in the state or foreign country.
- When five or fewer people direct or control related parties, or possess a whole, directly or indirectly, at least twenty-five percent (25%) of participation in the share capital or voting rights of both persons.

Also considered related parties:

- A resident of Guatemala and an exclusive distributor or agent there of resident abroad.
- A distributor or exclusive agent resident in Guatemala by a resident entity in, and outside the latter.
- A resident of Guatemala and its permanent establishments abroad.
- A permanent establishment in Guatemala and its parent living abroad, another permanent establishment of the same or a person associated with it.

7.1.2 Solidarity Tax

This tax is determined by calculating the 1% on the gross revenues or the total of assets; which is greater, based on the previous year's financial statements. It can be accredited to the income tax for the next year. It is paid quarterly.

7.1.3 Value Added Tax (VAT)

Value Added Tax (VAT) is charged at a flat rate of 12% applies, among others, the following:

- Sale of movable assets and rights
- Services performed in Guatemala

- Items that are imported in Guatemala
- Sale or rental of real estate

Exporting companies may request a refund of any remaining credit to the Tax Authority (Guatemala IRS)

7.1.4 Stamp Tax

Some of the legal documents require a tax of three percent on the value of the transaction being documented. Transactions subject to the Value Added Tax (VAT) are not subjected to stamp duty tax.

7.1.5 Import Taxes

Except for items covered by special agreements of free trade, incentives or purchased directly by government agencies, imports from outside the Central American region are subject to a fee that ranges from 0 to 20 percent of the value CIF. The Value Added Tax (VAT) is also payable on imports, unless the importation is for special exemptions. Procedure for Guatemalan exports has been greatly simplified since the creation of the Office of Export a single step (Single Window Exports) in the Ministry of Economy. The agency brings together in one office all the organizations and institutions involved in export activities. Export permits are usually issued within hours.

8. International Agreements

Guatemala has signed free trade agreements with United States, Chile, Colombia, Mexico, Panama, Dominican Republic and Taiwan.

9. Free Trade Area (Decree 65-89)

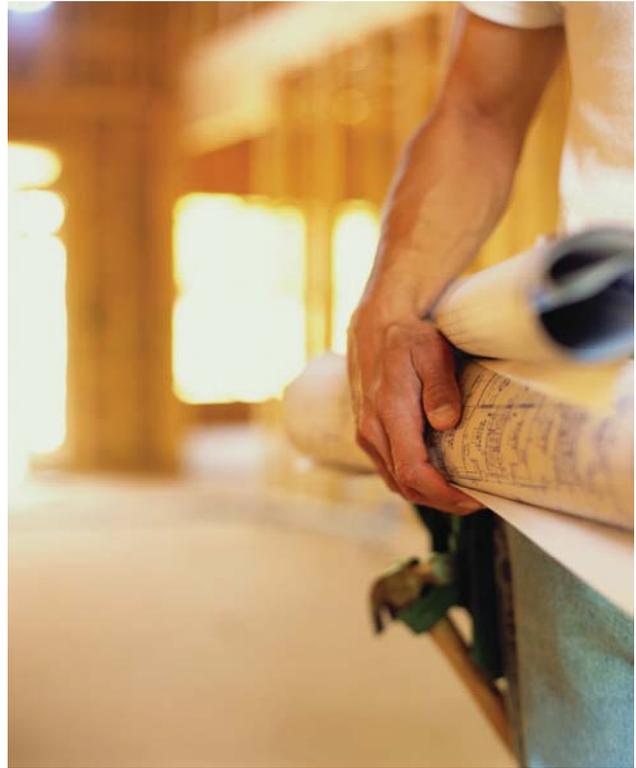
A free trade area is defined as a special designated area of land subjected to a tariff classification, in which people and goods manufacturing companies or goods for export or re-export, or engage in foreign trade services. A free trade zone can be established anywhere in the country for private and public companies. Private companies need to be approved in Regime by the Ministry of Economy.

10. Labor Laws

The Labor Code governs rights and obligations of employers and employees. Payment for the services of an employee must be paid in local currency (Quetzals) on the base of timeshare, task, or profit, or the percentage of common sales or collections made on the behalf of the employer. Wages must to be at least the minimum level of salary set by the government. The minimum wage varies by type of work.

All payroll workers receive two annual bonuses equivalent to one month's salary: to pay year-end (Christmas bonus), and the other in July (July Bono).

When an employer terminates an employee without just cause (good cause, as defined by the Labor Code, and includes dangerous behavior, excessive absenteeism, the disclosure of trade secrets, etc.), the employee is entitled to compensation calculated on the employee's earnings, including bonuses, and the length of time the employee has worked for the employer.



Republic of Honduras

1. Firm Contact Identification

Moore Stephens Baggia & Asociados

1.1 Offices, Address and Telephone

Col. El Prado, 1ª.Calle, No.147,

Tegucigalpa, Honduras,

T: (504) 2239 - 4795

F: (504) 2231 - 0932

San Pedro Sula, Honduras, C.A.

Edificio Dallas, Segundo nivel, Apto.1

Blvd. Suyapa, 4ta.Calle, Ave. Circunvalación

San Pedro Sula, Honduras

T: (504) 2509—2498

M: (504) 9992 - 2029

2. Specialized Professionals

Douglas Baggia

Founder/Partner-Director

dbaggia@hnmoorestephens.com

Leticia Godoy

Audit Partner

lgodoy@hnmoorestephens.com

Attorney Jorge Wilfredo Fonseca

Associated Tax Consultant

jfonseca2002@yahoo.com

3. Country Profile

The Republic of Honduras is located in Central America, with a large indigenous culture of the Mayan heritage and the Spanish influence during the colonial era.

Honduras for its location in the hemisphere is a Sub-Tropical country. The climate is hot and humid on the coast and cooler in the mountains. It is bordered on the northern coast by the Caribbean Sea and the Pacific Ocean and to the south by the Gulf of Fonseca. It shares borders with Guatemala to the northwest, El Salvador to the south and southeast by Nicaragua. The country has an area of 112,492 km². Its capital is Tegucigalpa, Department of Francisco Morazán. Its population is 8.2 million and its official language is Spanish. Honduras also has other aboriginal languages such as Garifuna. Its system of government is republican, democratic and representative. It is exercised by three branches: Legislative, Executive and Judicial: complementary, independent and without subordination.



On the economic front, the currency is the Lempira. Its main exports are:

- Coffee (7.9% of GDP)
- Tilapia
- Cultivated Shrimp
- Bananas
- Fruits
- Woodwork
- African Palm crude oil
- Tobacco

4. Investments

4.1 National Investment

For the legal establishment of a company in Honduras a period of more than two months is required for the entry of the records of the Municipality, and the Executive Directorate of Revenue (Dirección Ejecutiva de Ingresos, DEI).

Types of Commercial Companies:

- General Partnership.
- Limited partnership.
- Limited Liability Company (LLCs).
- Public Limited Company/Corporation
- Company limited by shares.
- Cooperative.

Municipal Tax Records

For the registration of a legal entity in the records of the Executive Directorate of Revenue (DEI), who is the body responsible for the country's tax administration, it is required to provide all documentation of identity, copies of the public deed to apply for and obtain the National Tax Registration Number (Registro Tributario Nacional, RTN), which identifies it as a taxpayer. Also, an operating permit must be requested in the Mayor's office where the Company is established.

4.2 Foreign Investment

Any company that has an interest in operating in Honduras must register locally or possibly proceed to establish a branch office through formalities with the Ministry of Finance.

4.2.1 Legal Framework for Foreign Investment

The laws of Honduras promote foreign investment and include provisions guaranteeing private property rights on an equal basis to both domestic and foreign investors.

Accounting

Starting 2012, the laws of Honduras require the preparation of the financial statements under the International Financial Reporting Standards for Small and Medium Entities (IFRS for SME).

5. Labor Regime

5.1 Employment Contracts and Conditions

The Labor Code establishes that employment contracts shall be oral and written. However, the law provides for certain cases the mandatory written contract.

5.2 Remuneration

Remuneration can be agreed in the following ways:

- Per unit of time.
- Per work or assignment
- For participation in the profit, sales or collections.
- Mixed: a fixed part and a variable part.

There are other obligatory remunerations:

- **Seventh Day:** the employee will enjoy one day of rest, preferably on Sunday for every six days of work.
- **Thirteenth Month Salary:** as an additional salary. It will be paid to permanent employees and retirees during the month of December of each year based on the last salary.
- **Fourteenth Month Salary:** as a social compensation. It will be paid to all the permanent employees as 100% of their fixed salary if they have worked for a complete year to June 30 or the proportion according to the time worked.

5.3 Work Benefits

Vacation Time: vacation time will be paid after one year of continuous work in a range of 10 to 20 days maximum according to the Labor Code

Law.

5.4 The law under the system of social protection:

Legal Basis:

On May 14, 2015, the National Congress approved the Law Under the System of Social Protection, through Decree No. 56-2015 published in the official journal dated July 2, 2015. (Gazette No. 33,771). It shall enter into force on September 04, 2015 The Law under the System of Social Protection includes a system of social protection with a multi-pillar structure that grants cover contingencies arising from the major risks associated with the course of people's lives.

Objet: This law aims to create the legal framework of public policies in the field of social protection, in the context of conventions, principles and best international and national practices that govern the matter, in order to allow residents, to achieve progressive and sustainable financially, decent coverage, through social promotion, prevention and management of risks that it involves people's lives ensuring medical care, livelihood protection and other social rights necessary for the achievement of individual and collective well-being.

Social Security: Year 2015

- **Contributions to the Honduran Social Security Instituto (Instituto Hondureño de Seguridad Social – IHSS):** the employer is required to enroll their employees to the IHSS. Under the new Law of the System of Social Protection from September 4, 2015 the contributions for the year 2015 are as follows: disability, old age and death: employer 3.5%; worker 2.5%, on a wage ceiling of L8,882.30. Health care insurance scheme: employer 5.0%, worker 2.5%, on a wage ceiling of L7,350.00; The Labor coverage insurance scheme: employer 0.66%; The Social protection insurance scheme: employer 2.5%, worker 1.5% payable monthly, above a wage ceiling of L8,882.30.
- **Contribution to Private Contributions Regime (Regimen de Aportaciones Privadas, RAP):** From the entry into force of the new law, the new employer contributions and new individual contributions that may occur in RAP in the framework of the legislative decree No. 107-2013 must be voluntary.
 - **Contribution to the Professional Development Institute (Instituto Nacional de Formación Profesional, INFOP):** The Companies that have five employees or more or whose capital stock is higher

than Lps.25,000 and have less than five employees shall contribute with a monthly 1% of the total salaries and wages.

6. Currency Exchange Control

The currency of the Republic of Honduras is the Lempira (L) and the exchange rate is in relation to the Dollar of the United States of America (US\$). In July 2011 the Board of the Central Bank of Honduras stated that the basic price of the currency will be reviewed monthly taking into account the inflation rate differential, the evolution of the exchange rates of partner commercial countries applying an adjustment to the result of the above factors. However, the exchange rate as of May 12, 2014 is L20.9529. Under this system, the purchase price of the foreign currencies is in constant change.

Regulation of the billing regime, other tax documents and registration tax of printers:

Legal basis: Agreement No. 189-2014. Published in the official newspaper "Gazette" No. 33,407 on April 21, 2014.

OBJECT: This regulation aims to develop the provisions contained in article 57 of Decree No. 17-2010 containing the law of strengthening of income, Social equity and rationalization of public expenditure, published in the official newspaper

"Gazette" on April 22, 2010; as well as the provisions of articles 28, 29 and 30 of the Decree No.51-2003, law of tax equity.

Scope of Application:

This regulation regulates the following:

- The documents prosecutors and modalities of printing that should be used in the generation and spread of these documents.
- The inherent aspects of the registration, operation and control of printers and auto-printers in the tax registration of printers for generation, printing, and extension of tax documents, duly authorized by the Executive Directorate of Revenue (Dirección Ejecutiva de Ingresos - DEI).
- Requirements that must comply with tax documents so that they can be used as tax credit, expenses or cost accounting support and sustenance of the internal transfer of goods.
- Records of control that should be made by taxpayers, as well as the requirements and formalities to be met by these to be valid before the DEI.
- Tax special treatment for cases which by their nature or conditions not possible to apply the general treatment.



7. Taxation System

7.1. Income Tax and Sales Tax

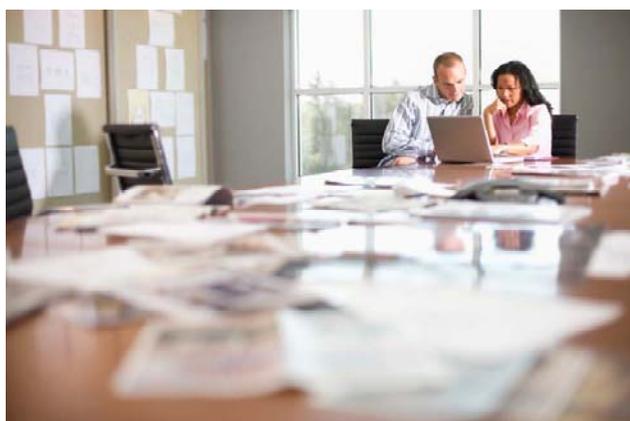
Tax Category	Description	Tax or Applicable Rate	Taxable Income
Over Income: Companies	Taxes the income that comes from capital, work or a combination of both. The fiscal period is from January to December 31 of every year.	25%	Gross income minus exempt income and non-taxable expenses according to the Income Tax Law.
Temporary Solidary Contribution	Legal entities pay a temporary solidarity contribution (5%) applicable on the excess of net taxable income of more than one million Lempiras (L1,000,000) permanently.	Annual calculation and quarterly payment	This surcharge of the income tax is not deductible from the income tax.
Net Asset	Companies shall pay a Total Net Asset Tax of 1% over the total net assets. The amounts paid for this concept are considered a credit against the payable income tax.	1%	The total net asset minus a credit (by law) of L.3, 000,000 and other deductions by law.
Income Tax over salaries: Salary Withholdings	The taxpayers (individuals, companies or independent employers) are required to withhold the income tax to its employees and executives that are liable to the payment of this tax in a progressive scale.	10% minimum 25% maximum	Total income earned less the deductions permitted by law
Income Tax Withholding: Article No. 50 (12.5%)	Taxpayers (entities or individual employers) are required to withhold the income tax to their employees and executives that are liable to the payment of this tax for professional fees, allowances, commissions, gratifications, bonus and remunerations for technical services.	12.5%	The total income received under this concept.
Tax over capital gains	The capital gains or any extraordinary income from the Individuals or legal entities domiciled or not in Honduras.	10%	Capital gains minus direct costs derived from those gains.
Tax over Dividend Distribution in Cash	Income perceived by individuals or legal persons, residents or domiciled in the country or that receive income or any other share or reserve participation as well as dividend distributed by companies protected by special systems. The capitalizations of reserves or profit are exempt from this tax payment.	10%	Dividends declared and not paid, prepaid dividends, accounts receivable partners or related companies that do not arise from a commercial operation period greater than 100 calendar days.
Income Tax Payments on Account and Temporary Solidary Contribution	Results while dividing the income tax from the previous years' tax return divided by four. Three equal payments due on June 30, September 30 and December 31.	Quarterly	Represents a pre-paid sum of the Income Tax of the year.
Pre-paid withholding of 1% Income Tax	Individuals with liabilities and companies with income higher than L15,000,000 per year are assigned as withholding agents of 1% income tax to their suppliers.	1%	For the purchase of goods and services.

Tax Category	Description	Tax or Applicable Rate	Taxable Income
One-Time Income tax to non-domiciled individuals in Honduras	Income from real estate or movables except for the ones included in numeral 5 and 7 of Article No.	25%	Gross income from Honduran sources by individuals or legal entities not resident or non-domiciled in the country, will pay ax according to the percentage detailed by this chart.
	Salaries, wages, commissions or any other compensation for local or overseas' services.	25%	
	Income or profit earned by foreign companies through their branches, subsidiaries, agencies, legal representatives among others that operate in the country.	10%	
	Income, profit, dividends or any other form of participation in the profit or reserves of individuals or legal entities.	10%	
	Royalties and any other amount paid for the use of patents, designs, procedures and secret formulas, factory brands and author rights, except for those included in numeral 12.	25%	
	Interest over commercial operations, bonuses, securities and any other class of obligations.	10%	
		10%	
	Income for the operation of aircrafts, ships and automotive.	10%	
	Income from operations of telecommunication companies, use of software, IT solutions, telematics and other areas of telecommunications.	10%	
	Insurance premiums and deposits of any policy hired.	25%	
Income derived from public shows	25%		
Movies and video tapes for cinemas, television, video clubs and cable TV rights.	10%		
Any other income not mentioned in the previous items.			

Tax Category	Description	Tax or Applicable Rate	Income or Taxable base
Sales Tax	Calculated over the sales of taxable goods and services in national territory; it is applied in a non-cumulative basis during the import and in the sale over the value of the good or service.	15% for sale of goods and services in the national territory 18 % specifically for liquors and cigarettes	Over imports and sales of goods and services liable to the Sales Tax Law.
Sales tax over airline tickets	15% for national and international aircraft transportation and 18% for first and business class aircraft transportation.	15% economy class 18% business class	Over aircraft and service charges and the payment is monthly in the first ten days of the month
Sales Tax Withholdings	Major taxpayers are assigned as sales tax withholding agents of services indicated in the Law.	15% Monthly	Sales tax of the controlled service.
Advance payments, reform to Article 22 -A, Law of income tax	1.5% over net income declared as advance payments of income tax when the taxpayer has net income of ten (10) million Lempiras onwards.	1.5%	Sales or net income of ten million lempiras onwards.

7.2 Municipal Taxes

Tax Category	Description	Tax or Applicable Rate	Taxable Income
Tax over Industry, Trade and Services (Sales Volume)	Monthly tax over annual income from manufacturing activities or services.	Charge per every thousand according to the scale of the Municipality Law.	The total income of the fiscal period.
Personal Tax (Impuesto Vecinal)	Tax over the annual income that individuals receive in the Municipality	Charge per every thousand according to the scale of the Municipality Law.	All the income earned by individuals.
Over Real Estate	Tax over the property equity in the Municipality.	Annual	The payment of this tax is due on August 31 of every year.



7.3 Security Charge (Decree No. 17-2010, Law for Population Security)

Tax Category	Description	Tax or Applicable Rate	Taxable Income
Law for Population Security Financial Transactions	Financial transactions for population security. Transitional measure that will be in force for five (5) years.	Debits (withdrawals), demand deposits to checking accounts performed in financial institutions, in savings account of legal entities, payments or transfers to third parties, transfer or money orders overseas or in the interior of the country. The applicable rate is L2 per every thousand. Cashier check emission, certified checks, traveler's checks and any other financial instrument existent will pay L1.50 per every thousand. Annual credit card membership renovation (applicable only to the cardholder) in agreement with the credit line between a payment range between L500 and a maximum of L1,000.	The taxable amount is the total value of the transaction performed in a financial institution with the exception of the accounts of the Central Bank of Honduras, debits or withdrawals in savings deposits in local currency, with a monthly average of L.120,000; debits or withdrawals of savings deposits in foreign currency with an average balance of US\$6,000; remittances and others included in the Law for Population Security.
Mobile Telephones	Taxes mobile telephone services.	1%	Total Monthly Gross Income
Mining Sector	Taxes the exploitation and selling of minerals.	The special transitory rate of the mining sector is 2%.	FOB (Free On Board) of the export.
Environment protection	Taxes the exploitation and selling of minerals in the country.	5%	FOB (Free on Board) of the export registered in the merchandise declaration.
Food and Beverage Sector	Taxes the selling of food and beverages under a special regime	0.5%	Total Monthly Gross Income
Casino and Slot Machine Sector	Taxes the income of casinos and slot machines.	1%	Monthly Income
Cooperative Sector	Requires a special contribution	An obligatory payment of 3.6% of the annual net profit.	Annual net profit

Special Assessment Norms between related partsIn Honduras, the Law on Transfer Pricing Regulation became effective as of December 10, 2010 and shall be applied effectively for fiscal year 2014. Its scope extends to any operation performed by individuals or legal entities domiciled or resident in Honduras, with individuals or companies linked or related overseas.

Transfer Pricing

These are the prices at which commercial or financial operations are registered between related parties.

The regulations over transfer pricing

The purpose of this Law is to prevent that related companies manipulate prices under which they exchange goods or services. Honduran companies who violate these regulations undergo penalties ranging from US\$5,000 to US\$20,000, in addition to the legal penalties they may face.

8. International Treaties

Honduras has no tax treaties. There are free trade agreements with Chile, Mexico, Panama, Dominican Republic and Taiwan, and the Free Trade Agreement CAFTA, between the United States, Central America and the Dominican Republic.

9. Free Trade Zone

The whole country has been designated as a Free Zone. Largely, the companies are located in these areas and in areas of Export Processing.

The factories in these zones enjoy the following benefits among others: duty free import of machinery, raw materials, supplies and everything required in the operation of the plant; dispatch of incoming and outgoing shipments in less than a day with minimal documentation; foreign ownership permit in a 100% sales tax exemption and unrestricted repatriation of profits and capital at any time.

The profits accruing from operations in the Free Zone are exempt from payment of income tax.

10. Free Tourist Zone (Zona libre Turistica, ZOLITUR):

The benefits to this law were abolished, so that there is controversy and claims from the sectors affected requesting their restitution, due that they considered unconstitutional such abrogation.

United States of Mexico

1. Information of the firm to contact Moore Stephens Orozco Medina

1.1 Office, Address, Telephone
Providencia 1247 - P.A.
Col. Del Valle
Delegación Benito Juárez
03100 México, D.F.

1.2 Professional specialists

CPC Miguel Ángel Orozco Medina
Managing Partner
mangelorozco@oma.com.mx

CP Eduardo Pérez A
Chief Operating Officer
eperez@oma.com.mx

CPC y CPFI Felipe Domínguez P.
Fiscal, Legal and Transfer Pricing Director
fdominguez@oma.com.mx

2. Country profile

Mexico is a country located at the North America's southern region: at north with the United States of America, south with Belize and Guatemala, east with the Gulf of Mexico and west with the Pacific Ocean. It is the fourteenth country with the widest surface nearly to 2 million square km and the eleventh most populated with approximately 121 million people in 2015. Spanish is the native language that government has recognized as the national language along with 67 indigenous languages.

3. Foreign Investment Regime

Mexico is one of the most attractive countries for foreign investment in the Latin American region considering advantages of the Mexican market, the borderline with the United States of America, the North American Free Trade Agreement (NAFTA) among Mexico, United States of America and Canada, the possibilities of the Latin America Integration Association (LAIA), the lack of restrictions to repatriate capital or to pay profits to foreign owners, as well as Mexico's politics stability, above all.

Likewise, within the more important general foreign investment resolutions, related to the criteria to apply article 17 of mentioned Law entered in force as from August 9th, 2012 whereby it is mainly established that based on Free Commerce



Trade Agreements entered by Mexico and the United States of America, Canada, Chile, Costa Rica, Colombia, Nicaragua, El Salvador, Guatemala, Honduras, Uruguay, Japan and Peru, Mexico is engaged to grant investors, coming from these countries, the same treatment as it is provided to national investors.

On the other hand, it is important to remark that the following is considered as a foreign investment:

- Participation of foreign investors at any proportion in Mexican company's capital stock;
- Mexican companies with investment mainly from foreigners and
- Foreign investment participation in activities and acts classified as such by the Foreign Investment Law.

3.1. Direct Foreign Investment

Foreign investors are allowed to directly participate in most of economic sectors without complying with excessive requirements. Nevertheless, an authorization will be required if foreign investment is likely to be more than 49% and its total assets value is higher than the determined amount by the authorities.

3.2 Indirect Foreign Investment

Indirect investment grants limited rights and obligations to foreigners by legal special procedures such as trust and non-share right investment (neutral investment).

3.3 Neutral investment

It is the investment that can be executed in Mexican companies or authorized trustees and will not

be considered as direct foreign investment.

3.4 CNIE (National Commission of Foreign Investment)

This Commission is in charge of granting the authorization related to foreign investments in Mexico that shall be whether accepted or rejected in a term no longer than 45 days.

3.5 RNIE (National Registry of Foreign Investment)

The Registry is directed by the Secretary of Economy (SE) in charge of controlling and registering all foreign investment transactions.

3.5 Energy reform

The foreign investment is welcome by having well set guidelines with benefit political changes from the recent energy reform at the Constitution. Oil, its derivatives and the electricity energies, mainly, are the pretended items which productivity is targeted to be benefited and improved with the energy reform and foreign investment.

4. Trading Corporations

In our country there are different types of capital or persons societies and predominate the following:

- Anonymous Corporations (SA)
- Limited Liability Company (S de RL)
- Civil Society SC
- Civil Association AC

The two first mainly (than can also be of Variable Credit "CV") carry a social trade objective for mercantile purposes and last two a social purpose (however under certain rules they are also able to carry a mercantile objective total or partial). In the corporate provisions to incorporate a company the following opportunities can be observed:

- The indefinite duration of the mercantile societies
- For S de RL de CV companies minimum capital stock value shall be set forth in the articles of incorporation, and appointed by shareholders;
- Likewise in the Anonymous Corporations (SA de CV) shareholders are free to establish the minimum capital stock;
- More flexibility to publish notifications and call for meetings.
- More protection to interests of minor shareholders.

5. Rights Federal Law

Procedures of payment for notifying and requesting the acceptance, test and statement to use a corporation trade name when incorporating a company, were eliminated as from the 2012 amendments.

All previously mentioned does not constitute the new whole legal aspects, but the most relevant aspects to be considered.

For 2015 the aforementioned Law has suffered structural modifications led to establish measures for a better rendering of public and administration services.

6. Accounting registries

The Certified Public Accountants of Mexico College is the main institution governing the rules or guidelines regarding accounting registries matters adjusting them into the Financial Information Standards frame, even though corporations that quote in the National Stock Market shall apply the International Financial Information Standards as from 2012. Likewise, said College keeps updated the accounting, financial, fiscal and legal community in relation to main information for business undertaking.

7. Wages and salaries

This is a main topic in the Mexican legal and tax system since it represents an important financial burden for companies. The Federal Labor Law, the Social Security Law and the Income Tax Law are the set of norms to be followed.

The legal burdens pertaining to this concept are as follows:

- Income Tax (ISR) (Acronym in Spanish)
- Social Security Contributions (IMSS)
- Housing Funds Contributions (INFONAVIT)
- Retirement funds (SAR)
- Local payroll tax of each State.

Mentioned concepts increase the employees' incomes and company's fixed expenses.

8. Federal Labor Law

In December 2012 our labor matters legislation was strongly amended in order to obtain an adequate equilibrium of the working relationship between employer and employee.

With these amendments it is accomplished an important safe protection to employers, highlighting the new regulation of subcontracting

(outsourcing), an annual limit for accrued and salaries (by settlements), new type of testing or training contracts, payment of salaries by electronic means and a better control and supervision of unions.

Labor amendments benefit foreign investment allowing to having a better certainty and labor environment clarification that affect employers and employees directly.

9. Mexican Taxing System (MTS)

It is a set of laws and legal-taxing norms arisen from the United States Mexican Political Constitution, where by it is established the liability to contribute in order to defray the States, Federation and Municipality expenses along our country.

The main objective is to collect the obligatory resources from taxpayers by applying jurisdictional faculties from the State as fiscal authority.

Contribution classification:

1. Taxes.
2. Social Security Contributions.
3. Improvements Contribution.
4. Rights.
5. Use of public services contributions.

9.1 Taxes

They are divided as following:

9.1.1. Income Tax (ISR)

This tax assesses corporations and individual's income that modifies their patrimonies, and it is classified as follows:

Main Concepts of incomes from foreign without permanent establishment coming from Mexico

Along the chapter of resources from México obtained by abroad residents, when it is mentioned the applicability of the maximum income tax rate for individuals, 35% will be such rate, otherwise the tax rate mentioned therefore will be the applicable one.

9.1.2. Individuals living in Mexico

Fiscal Regimes. individuals pay taxes according to their type of income:

- I. Wages and salaries.
- II. Business activities and professional services.
- III. Temporal use and enjoyment of goods.

Corporations as

- Residents in Mexico: 30% rate on Taxing Result (income less deductions)
- Foreign resident having permanent establishment: 30% rate on Taxing Result from income obtained from such establishment
- Foreign residents without a permanent establishment: different rates on incomes obtained from México as follows:

I. Salaries and wages:

- It is exempt by the first \$125,900 (\$6,994 dollars)
- 15% on income between \$125,900 and \$1,000,000 (\$55,556 dollars)
- 30% on income exceeding \$1,000,000.00

- II. Fees income for the rendering of independent professional services: 25% on total income without any deduction.
- III. Temporal use or enjoyment of real state properties: 25% on total income without any deduction.
- IV. Temporal use or enjoyment of goods or assets: 25% on total income without any deduction.
- V. Alienation of Real State: 25% on income without any deduction
- VI. Alienation of Shares: 25% on sales price without any deduction.
- VII. Interests: different rates from 4.9% up to 30% depending on each type of interest.
- VIII. Royalties and technical assistance: Different rates from 5% up to 30% depending on the operation.
- IX. Artists, show business, sportiest: 25% without

- IV. Alienation of goods.
- V. Acquisition of goods.
- VI. Dividends.
- VII. Interests.
- VIII. Other incomes.

Payable tax is obtained assessing a progressive rate. For 2015 (same as 2014) 30% rate will be applied on income up to \$750,000 Mexican pesos (\$41,667 dollars), 32% rate on income superior to the previous amount and up to \$1'000,000 (\$55,556 dollars), 34% will be applied on income exceeding the previous amount and up to \$3'000,000 Mexican pesos (\$166,667 dollars) and 35% rate on income superior to the last mentioned amount.

9.2 Business on standard rate tax (flat tax) IETU

This tax was abolished as from 2014 that used to assess the following acts at a 17.5% rate on a cash flow basis:

- Alienation of goods
- Rendering of independent services.
- Granting the temporal use or enjoyment of goods

Despite IETU is a non-in-force contribution, it could be possible to have a hybrid of it (cash flow basis) in the coming years.

9.3 Value Added Tax

The following acts or activities are VAT taxed by applying the three general rates, depending on the act or activity:

- Alienation of goods.
- Rendering of independent services.
- Granting the temporal use and enjoyment of goods.
- Importation of goods.

The applicable rates are as following:

- 16% general rate
- 0% some certain acts or activities (such as exportation and sale of food and medicine)

Likewise some acts and activities can be exempted or considered VAT free.

9.4 Cash Deposit Tax Law (IDE)

This tax was abolished as from 2014 that main objective was to assess the informal economy by taxing cash deposits higher than \$15,000 Mexican pesos (\$833 dollars) in the financial institutions at a rate of 3%. Nevertheless, banks will continue informing to tax authorities about those taxpayers who receive deposits in cash higher



than such amount.

9.5 Taxes on Products and Services (IEPS)

Telecommunications, tobacco, beverages with alcohol, among others special transactions are aimed to be IEPS taxed. The rate of mentioned tax varies from each performed activity.

Business on standard rate tax (flat tax) IETU

This tax was abolished as from 2014 that used to assess the following acts at a 17.5% rate on a cash flow basis: Alienation of goods Rendering of independent services.

Granting the temporal use or enjoyment of goods

Despite IETU is a non-in-force contribution, it could be possible to have a hybrid of it (cash flow basis) in the coming years.

Value Added Tax

The following acts or activities are VAT taxed by applying the three general rates, depending on the act or activity:

Alienation of goods.
Rendering of independent services.
Granting the temporal use and enjoyment of goods.

Importation of goods.

The applicable rates are as following:

16% general rate
0% some certain acts or activities (such as exportation and sale of food and medicine)



Likewise some acts and activities can be exempted or considered VAT free.

Cash Deposit Tax Law (IDE)

This tax was abolished as from 2014 that main objective was to assess the informal economy by taxing cash deposits higher than \$15,000 Mexican pesos (\$833 dollars) in the financial institutions at a rate of 3%. Nevertheless, banks will continue informing to tax authorities about those taxpayers who receive deposits in cash higher than such amount.

Taxes on Products and Services (IEPS)

Telecommunications, tobacco, beverages with alcohol, among others special transactions are aimed to be IEPS taxed. The rate of mentioned tax varies from each performed activity.

As from 2014 this contribution taxes the products with a higher caloric quantity of 275 kilocalories (soft drinks, desserts) with the purpose of reducing the obesity indexes in México. Besides, IEPS rates were increased to certain energetic products and special services.

9.6 Social Security Contribution

They are contributions for the employee's social well-being mainly in charge of employers; however these contributions are granted in three parts: Employer, Employee and Government. The workers and their economical dependent families are the beneficiaries, considering also hospital medical attention, medicines, economical support, retirement funds and mortgage credits (pertaining to INFONAVIT).

9.7 Improvement Contribution

This contribution shall be paid when taxpayer obtains a direct benefit from Federal public infrastructure.

9.8 Rights

They are contributions for the use or enjoyment of Nation public domain properties.

9.9. Use of public services contributions

These are incomes collected by the State for its public and legal functions and duties.

9.10. Electronic invoicing

In 2010 Mexico started a tax technological process (by internet means) and as from 2014 electronic invoicing of sales and purchases is mandatory to support any business transaction. One of the most controversial subjects was the liability of issuing electronic invoices to support the payroll payments.

9.11. Dividends

As from 2014, dividends generated as from such year will be taxed with a definitive 10% income tax only for Mexican individuals and foreign corporations.

9.12. Nondeductible exempt wages

On One of the most analyzed 2014 reforms was the reduction of salaries deduction in the part exempt for employees. Employer will only deduct (i) 57% of the exempt part or (ii) 47% in case the wages items were reduced in the previous fiscal year. This situation remains in 2015.

9.13. Sending the accounting registries by internet

Another new liability for taxpayers, companies and individuals, is to submit by electronic means part of the accounting registries (e-conta), to be received and reviewed discretionally by the authority. The items to send are (1) chart of accountants, (2) monthly balance and (3) accounting registries, in different moments and under different rules for each tem. During 2015 certain companies started to accomplish with this controversial obligation.

10. Auditing and fiscal opinion

As of 2013 it had been set forth the fiscal liability for taxpayers to audit their financial statements for fiscal purposes when they were within grounds whether income higher to \$39'140,520 Mexican pesos (\$2'174,473 dollars approximately), assets with a higher value of \$78'281,070 (\$4'348,948 dollars) or having a monthly average of more than 300 workers during the year to be audited. Auditing main objectives had been to provide credibility to financial numbers and to the correct compliance of an entity's fiscal obligations. The revision and evaluation has been only performed by a Certified Public Accountant (CPA) who issues a fiscal opinion at the end of his work. The fiscal audit had been representing a protection to taxpayers who had audited their financial figures as a liability or as option, as long as in case of practicing a direct revision, the au-

thority would request the CPA paper works firstly.

As from 2014 the fiscal audit was abolished and it will only be exercised as an option for those whose income gets to be higher than \$100'000,000 Mexican pesos (\$5'555,556 dollars), average of assets higher than \$79'000,000 (\$4'388,889 dollars) or had had an average of 300 employees on monthly basis (2016 exchange).

11. International Treaties to avoid Double Taxation

Internationally Mexico has played a main role in fiscal evasion in the world by entering different international treaties to avoid double taxation as well as agreements with wide interchange of financial and fiscal information. At the end of 2015, Mexico has entered into more than 70 agreements to avoid double taxation, to interchange fiscal information, others related to international transportation, plus those in process to be agreed. In Latin American region Mexico has entered agreements with the following countries:

- Argentina: international transportation.
- Argentina: Double taxation in negotiation.
- Belize: information interchange.
- Brazil: to avoid double taxation.
- Colombia: to avoid double taxation.
- Costa Rica: information interchange and for penal matters. Chile: avoid double taxation.
- Ecuador: to avoid double taxation.
- Nicaragua: Double taxation in negotiation.
- Panamá: to avoid double taxation.
- Peru: Double taxation in negotiation
- Uruguay: to avoid double taxation.
- Venezuela: Double taxation in negotiation.

12. Foreign Commerce

A relevant progress in this item is the VUCEM (acronym in Spanish) Single Window Web Page of Foreign Commerce. This application has the aim to connect the different Federal Public Administration entities in order to ease the administrative paper work regarding customs. The use of this Web Page is obligatory from June 1st, 2012 for all individuals and company's entities performing imports and/or exports with the following benefits:

- Delivering electronic information in one single contact point.
- Permanent attention from any place.
- Less cost and time.
- Better logistics.
- More transparency.

- More legal certainty.
- Elimination of hard paper formats.
- Better information safety.

Regarding Free Commerce Agreements, Mexico made a lot of progress in South and Central America.

Regarding Peru, the Agreement of Economical.

Complementation N°8 was agreed to be extended for two more years (up to 2011), reactivating the business process of this agreement. Mentioned countries finished the negotiations and signed the Mexico-Peru Trade Integration Agreement on April 11th, 2011 that is in force as from February 2012.

The Unique Free Trade Agreement Mexico- Central America (Guatemala, El Salvador Honduras, Costa Rica and Nicaragua) replaces the three current commercial agreements entered into between Mexico and Central America. It unifies the commitments and areas applied to commerce between

Central and South America Free Trade Agreements	In fore since
Costa Rica	Jan 1, 1995
Colombia. Trade with Venezuela stopped operatring on Nov 19, 2006	Jan 1, 1995
Nicaragua	Jul 1, 1998
Chile	Ago 1, 1999
Norh Triangule	Salvador and Guatemala, mar 15, 2001; and Honduras as from Jun 1, 2001
Uruguay	Jul 15, 2004
Central America	El Salvador and Nicaragua Sep 1, 2013. Costa Rica, Guatemala and Honduras will be entering in force subsequently

the parties. Besides, mentioned agreement deeps the countries integration and updates the customs and commercial situation.

The reestablishing of the Economical Complemen-

tation Agreement (ACE 55) represents another important progress between Mexico and Argentina in the automotive field by keeping in force its application and Annex I "About the Commerce in Automotive Field", among other related paragraphs.

Free Trade Agreements Mexico has entered into with the countries of the zone are the following:

12.1. Certification of companies

By virtue of the 2014 fiscal reforms, the IMMEX (mainly importing activities) companies, the automobile and auto transport industries, the taxed strategy place (storage), and to elaboration, transformation and repairing in taxes-place, shall pay the value added tax VAT and in case the Special Tax on Products and Services IEPS by the time of temporary importations of goods destined to their productive processes.

In order to avoid paying such contributions VAT and IEPS, the corresponding rules establish that taxpayers shall be certified; nevertheless if they do not wish to do it, they shall guarantee such contributions for each temporary importation practiced.

The certification protection will be subject to its type (A, AA, AAA) that might be for one, two or three years with an automatic renewal as long as they credit that remain continue fulfilling with all of the certification requisites.

13. Related Parties

Based on Income Tax Law, transactions among related parties (corporations or individuals) take place when one party participates directly or indirectly in the other party or parties' management, control or share stock.

Among other cases, related parties are present in:

- One party participates direct or indirectly in the administration, control or stock of another or other parties.
- An Association in Participation (Joint Venture) with respect to its members.
- The corporate headquarters of a permanent establishment or other establishments of the same one.

The operations performed between the Related Parties (intercompany transactions) required to be analyzed by a Transfer Price Study except for the following cases (2016 exchange average):

- Companies aimed to business activities

obtaining income in the previous fiscal year up to \$13'000,000 (\$722,222 dollars).

- Companies aimed to render services obtaining incomes in the previously fiscal year up to \$3'000,000 (\$166,667 dollars).

In Mexico this concept has rapidly gained importance due to the opening of the multinational companies' market and the growth of domestic entities towards abroad, and also nowadays the permanency and feasibility in company's operations can be easily reached. In view of above mentioned, in the fiscal audit the CPA shall provide the information of the transactions among related parties in order to provide his opinion about the reasonableness of the income prices and deductions on market's values.

14. Transfer Pricing

14.1 Legal frame

Generally, the main obligations from taxpayers that perform operation with related parties are:

- a. To obtain and keeping supporting documentation (Transfer Price Study) of said operations with related parties.
- b. Jointly present the annual return and the operations informative report with foreign related parties (both of them based on the transfer price study information).
- c. To demonstrate that accrual income and authorized deductions were agreed on market values through the application of any Income Tax Law method.

Requisites that supporting documentation shall include regarding transfer price studio matter:

1. Related parties names, trade names, addresses, and fiscal locations;
2. Documentation to demonstrate the direct or indirect participation between related parties;
3. Information related to activities or functions carried on, assets used and taken risks by the taxpayer in each type of operation;
4. Information and documents about operations with related parties and their amounts for the related party involved and by each type of operation;
5. The applied methodology to be analyzed.

14.2. Authority faculties regarding transfer pricing study.

Some of the authority powers regarding transfer pricing are as following:

- Verifying processes
- To perform adjustments
- To use confidential operations to determine the payments between related parties.
- To solve APA's (anticipated pricing agreements with the fiscal authority)

14.3. Consequences of not having supportive documentation of Transfer Pricing

- The Independent Auditor shall report it in his fiscal opinion.
- The benefit of fines reduction is lost.
- Classification and computation of prices by the authority estimating process.
- In case Transfer Pricing Informative Tax Report is not submitted payments made abroad shall not be deductible.

14.4. Additional benefits of the transfer price study

Some of the additional benefits by elaborating the transfer price study are as following:

- Improvement market analysis where the company is acting;
- Improvement of the group corporate structure;
- Allowing the proper taking of decisions regarding the internal control of different areas;
- Developing of strategic alliances;
- Defining competence strategies and the organizational structure, sales and marketing.

For the 2015 year this related parties item did not suffered adjustments, so it continues being imperative that national taxpayers carry on the fulfillment of the aforementioned liabilities when enter into transactions between related parties located in México or abroad.

14.5. New related parties' transactions reports 2016

Companies with intercompany transactions with related parties shall comply with the conditions listed in article 76-A of the Income Tax Law and file the following fiscal reports (no longer than December 2017):

- Master Informative Return of the Group. It includes duties, assets and risks of the multinational group to which the company belongs to, as well as data related to its financial position and tax.
- Local Informative Return of Related Parties. It refers to the duties, assets and risks of the company, as well as details of intercompany transactions.
- Information Return Country by Country of the Group. It includes information of each jurisdiction where each participant is located. This information is highly specialized and applies only to groups with consolidated revenues of more than \$817.5 million dollars.
- Certain Mexican companies would be exempt to file the aforementioned returns when income is less than \$35.811.056 dollars.

Panamá

1. Contact's signature Identification AG Accounting&Consulting, S.A.

1.1 Address, phone, email and web site
Obarrio
Edificio AFRA, Piso 8
Ciudad de Panamá, República de Panamá
T: +507 3979293 /94

2. Partner's profile

Delia García, CPA., M.B.A.
Managing Partner of Taxes and Audit
delia.garcia@agco-consultores.com

Alvaro Ayala, CPA.
Partner of Audit and Outsourcing
alvaro.ayala@agco-consultores.com

3. The country's profile

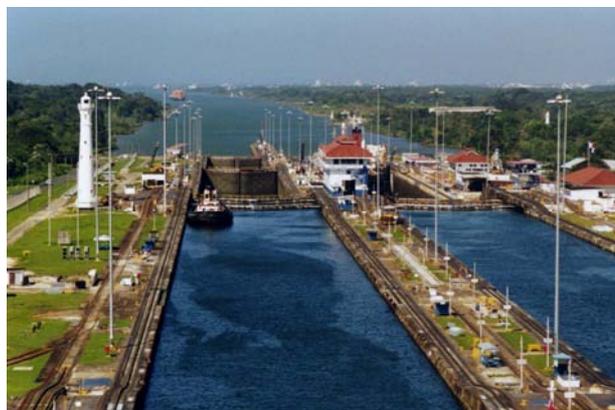
The Republic of Panama is a sovereign country with a democratic government with political, financial and economic stability. The Government of Panama is by constitution, unitary, republican democratic and representative. The public power emanates from the people and is exercised by the state through three organs:

1. Legislative, enacts the laws
2. Executive, is the ruler of the country, including the president and ministers of state
3. Judicial, administers justice.

Its capital is the City of Panama and the country is divided into 10 provinces, 3 indigenous regions and 2 indigenous municipalities. Panama is the isthmus linking Central and South America, bordered to the north by the Caribbean Sea, south by the Pacific Ocean, east of the Republic of Colombia, and the West with the Republic of Costa Rica. Panama is located in northwestern South America and South-Central America and extension territory of 75,517 square kilometers.

Its population according to the last census of 2013 is 3,662,009 inhabitants, composed by age; 29.2% under 15 years, 63.4% between 15 and 64 years and 7.4% over 65 years.

The geographical position of Panama has become one of the most important logistical centers of world trade, mainly because the isthmus is located between North and South America, bordered by the Caribbean Sea and Pacific Ocean. This was



one of the reasons why France, in 1881, then the United States, in 1904, decided to build the Panama Canal, which opened on August 15, 1914. Today is the most important logistics point for the trade world, and transiting annually, are more than 14,000 ships bound for 144 sea routes.

Panama also has free zones for transit of goods, as the Colon Free Zone, which is today the largest in the Western Hemisphere, where more than 3,000 companies are established. In addition, there is the Special Economic Zone, for business establishments with special activities like house performances, regional corporations, and high-tech services or call center operators. Panama has a strong financial and banking structure with more than 100 banks and financial institutions established in the country.

The legal currency in Panama is the Balboa (B /.) which is at par with the US dollar (USD) and its use is legal since 1904.

The official language is Spanish, but English is commonly spoken because it is the commercial language. Other languages spoken in Panama are French, Italian, Portuguese and Mandarin.

The climate in Panama is tropical and has two stations in the year: dry season occurs between the months of January to April, this time of year the weather is sunny and the rainy season from the months of May to December. The average temperature throughout the year is between 20C to 27C or 68F to 80F.

4. Foreign Investment Regime

In Panama, according to Panamanian constitution, any foreigner can come to invest in the country, but must meet the basic requirements of starting a business and operating legally authorized busi-

ness activities in the Republic. However, foreigners are restricted from operating retail activities and professions requiring suitability licenses for exercise.

The official list of restricted professions in Panama is:

- Nursing. Law № 1, 1954
- Barbering and Cosmetology. Law № 4, 1956
- Dentistry. Law № 22, 1956
- Architecture. Law № 15, 1959
- Agricultural Sciences. Law № 22, 1961
- Pharmacy. Law № 24, 1963
- Chiropractors. Decree № 8, 1967
- Nutrition. Decree № 362 of 1969
- Medicine. Decree № 196 1970
- Psychology. Law № 56, 1975
- Medical Assistant. Decree № 32, 1975
- Accounting. Law № 57, 1978
- Journalism. Law № 67, 1978
- Laboratory Technicians. Law № 74, 1978
- Public Relations. Law №37, 1980
- Speech Therapy, therapists and the like. Law №34, 1980
- Economics. Act № 7, 1981
- Social Work. Law № 17, 1981
- Veterinary Medicine. Act № 3, 1983
- Physiotherapy. Law № 47, 1984
- Medical Radiology. Law №42, 1980
- Advocacy and Law. Act № 9, 1984
- Dental Assistant. Law № 21 1994
- Sociology. Law № 1, 1996
- Chemical. Law № 45, 2001
- Education. Law №47 1946.

5. Corporate regime

Today, more companies are incorporating are:

- Limited companies
- Limited Liability Companies and
- Private interest foundation

But there are also in our legislation the following entities:

- Trusts,
- Cooperatives,
- Civil Partnership, and
- Non Profit Association.
- The codes that govern the societies are
- Commercial Code, and
- Fiscal Code,
- Special Laws.

And government agencies are:

- General Directorate of Revenue, Ministry of Finance (DGI).
- Ministry of Trade and Industry (MICI).
- Public Registry.

5.1 Foreign Companies

According to the Commercial Code, foreign commercial companies that want to establish or create branches in the Republic, submitted to the Registrar for registration, besides the testimony of the notarization of its statutes, contracts and other documents relating to its constitution, the final balance operations and a certificate to be incorporated and licensed under the laws of the respective country, issued by the Consul of the Republic in that country, and in his absence by a friendly nation. If the scriptures are in another language they must be translated into Spanish; They must also appoint a legal representative in Panama, which must be a lawyer.

5.2 Types of Companies

5.2.1 Limited company

Law N°32 of February 26, 1927, creates the Corporations (SA). This law applies equally to all Corporations incorporated in the Republic of Panama, either performing local businesses, within the Republic, or companies whose activities are carried out outside the territory.

To form a corporation is required to prepare the public deed and its registration with the Public Registry. By law three directors and three officers are needed, which will form the board of the company, taking the positions of President, Secretary and Treasurer, the President being the legal representative of the company, if not expressed about appointment is made.

In writing the purpose and business of the company, the activities detailed must be lawful or legally authorized in Panama. There is no minimum capital requirement and the shares may be par value or no par value and capital need not be paid. The document should also detail the period of existence of the society that is normally at perpetuity. Any change has to be done in relation to the company must be made through a public deed and register with the Public Registry. To clarify a question always made by an investor, one person can own a 100% of the shares constituting the entire share capital without the company losing its legal status.

5.2.2 Limited liability company

Law 4 of January 9, 2009, is when the Limited Liability Companies (SRL) or Limited Partnerships (SL) in Panama are established. The SRL or SL companies may have commercial activities anywhere in the world. In Panama the SRL or SL are incorporated through a private document or also by a public deed both have to be registered in the Public Registry of Panama.

The incorporation of the company is carried out with a minimum of two partners. Besides its partners may be natural or legal persons. The authorized equity capital contribution has no minimum or maximum, but the amount must be written in the document of incorporation. Such companies do not have a time limit, since its lifetime can be defined or undefined.

The SRL or SL have an administrator who is responsible for the company and manages assets on behalf of the other partners and must be appointed in writing. A Social Shares book should be carried where the assets invested by each partner is recorded. The limited liability companies must have a resident agent who must be a lawyer or a Panamanian law firm.

5.2.3 Private interest Foundation

Law 25 of June 12, 1995, creates the Private interest Foundation companies. This company is registered with the Public Registry through a public deed. The purpose of the Private interest Foundation companies is to protect all assets registered in the company. Including the assets in the foundation, this protects the heritage, and help in estate planning. Under the legislation, the Private Interest Foundation cannot conduct business unless it is done sporadically and serving the accomplishment of the purposes of the foundation. This has no members or shareholders but is governed by a body that manages the assets on behalf of the beneficiaries and the administrative body it

must be detailed in writing. The minimum capital to form the foundation is B / 10,000.00, and must have a resident agent who is a lawyer. Also, you must keep the register of goods, where the details of the goods you have in the foundation remains.

6. Audit and Accounting

The Law № 57 of September 1, 1978, is the one that regulates the profession of the certified public accountant. This law states that the Technical Board of Accountancy; which is under the Ministry of Trade and Industry (MTI) is responsible for ensuring that the meter complies with the law and with the regulations in the private sector, on this last point, the public sector is the responsibility of the Office of the Comptroller General of the Republic.

Since 2005, legally accounting standards adopted in Panama, they are the International Financial Reporting Standards (IFRS). Other entities may also establish rules and different to IFRS accounting practices, and are accepted in Panama, are the Superintendency of Securities, the Superintendency of Banks and Insurance and Reinsurance, and is allowed because of the kind of business They are depending on their relationship with the international market. Also, the generally accepted accounting principles (GAAP / USGAAP) are used because there are subsidiaries of US companies that need to consolidate, but you have to use the IFRS for the official books.

The required accounting records that all merchant should bear are: A Journal and Mayor. Commercial companies must also keep records of Minutes and a register of shares and shareholders, and a Record of quotas or contributions from proprietary interest or Social Participation. These can be in the form of books or folios can be in the form of accounting system, provided it is authorized by the Directorate General of Revenue, Ministry of Finance (DGI).

Legal entities that do not perform transactions that are perfected, consummated or have effect in the Republic of Panama are not obliged to keep its accounting records necessary unless domiciled and operating in the Republic of Panama. Any merchant that has a commercial establishment in the Republic of Panama, without exception in terms of location, shall be obliged to bring their accounting records in Spanish and in the legal or trade currency in the Republic of Panama. The documents supporting transactions and correspondence may be in the language in which it originates and, if a translation is required by any competent authority, the trader must deliver

within a reasonable time and cost, a translation of the same.

6.1 Employment regime

Anyone over 18 may work in the Republic of Panama. Foreigners who wish to work in the Republic must have a residence visa and their respective work permit. There are different ways to obtain residency, but if a foreigner wants to work abroad in the Republic of Panama can get your resident visa as an investor or through a foreign or local company, which is responsible to help you get your resident visa and work permit, if agreed by both parties. In both cases, you must have an immigrant visa either permanently or for

the period that he will be working in Panama. The resident visa is granted by the National Immigration Service (DGM) and the work permit is granted by the Ministry of Labor and Workforce Development.

In the Labour Code it is defined and established that the employment relationship is equated with the existence of an employment contract and has the same effects and sets out criteria to establish that legal subordination and economic dependence. The employment relationship may be of definite or indefinite or permanent.

Description	Bajo Relación de Dependencia	
Regulation	Labour code	
Governmental Authority	Ministry of labour and	
Relation	Employer-Employee o Patron-Worker	
Sustenance	Work contract	
	1.Indefinite	2.Fixed period/ definite
Liability	The contract is an agreement for the provision by lawful services of the worker in exchange for payment. The worker is legally subordinated to the	
	Personnel Costs	Dependence relationship
	Wage or Salary	Minimum wage is US \$ 624 and depends on the service, The company's business and its operating location.
	Thirteenth month	Additional payment made in 3 quotas in April, August and December and corresponds to one month's salary further divided into three parts.
	CSS contribution	For employees lies a contribution in respect of future retirement, disability and applied to 100% of salary. Employee contribution is 9.75% and 12.25% for the employer
		For independent concept lies a contribution for pension and disability that is discounted over 52% of their gross
	Vacations	A day of rest for every eleven days of the employment relationship, which equals thirty (30) days annual paid
Cese de relación laboral	Pagos	
Unjustified	Proportional thirteen month, proportional vacations, notice, seniority premium	
	Compensation	
Justified or resignation	Proportional thirteen month, proportional vacations, seniority premium.	

The Labour Code governs the protection and safety of the employee, establishing the day breaks, holidays, contracts, and obligations of the worker, employer obligations, employee health and safety. In addition, other laws have been established as the law 59 of 2005, which protects people with chronic, involuntary and / or degenerative diseases when they are not included in the labor code.

The Caja de Seguro Social (CSS) is the entity in charge of being the collecting agency of the income tax of natural persons, so at the end of each fiscal year, a report, Form 03 is prepared in which it detailed per employee proceeds and presented to the DGI for this entity to collect taxes from the CSS.

According to the Organic Law of the Social Security Fund, a compulsory membership is required for all nationals or foreign workers who provide services within the Republic of Panama, including employees and self-employed.

Therefore, whether or not there is a work permit and appropriate visa, the employer is obliged to register their foreign employees on the same terms and conditions as national employees.

Once affiliates, the company is obliged to calculate, withhold and pay to the state corresponding labor-management fees, as established by the law itself.

7. Exchange controls and regulations

The monetary unit of the Republic of Panama is the Balboa. The current dollar of the United States and its multiples and divisions will be legal tender in the Republic for his equally to the respective nominal value Panamanian currency.

This has been one of the determining factors for the economic stability of the country and therefore has no foreign exchange regulations.

8. Tax system

The tax system is established under the Constitution of the Republic of Panama. Taxes and national contributions, as well as tariffs and customs duties are set to become law by the Legislature. The law ensures that any tax or charge on the taxpayer is in direct proportion to their economic capacity.

In the Republic of Panama there are two sub-systems tributaries:

1. National and
2. Local,

The national system is administered by the Directorate General of Revenue (DGI) of the Ministry of Economy and Finance. Instead the local system is managed by the respective municipality.

The Panamanian tax system is essentially territorial, in the sense that is considered taxed at the income tax only those operations and assets located within Panamanian territory.

8.1.2. Tax import

The Tax import is applied on any product entering the country which has to pay tax according to tariff table.

This table contains detail, class, equipment, use and disclosure, indicating the tariff to be applied to products being imported on the territory.

8.1.3. Income taxes for natural persons and their related

The taxes paid by individuals are on their taxable income, which are the result of all revenues generated during the fiscal period less expenses and costs authorized by the tax code. The tax rate is described below:

- From B/. 0.0 to B / 11,000.00 annual taxable income is exempt,
- From B/. 11001.00 to B/.50000.00 pays a rate of 15%
- From B/. 50,001.00 onwards, pays a rate of 25%

Payment is made through a Sworn Statement of Tax Income for Natural person and his presentation is until 15 March following the fiscal year end. There is an extension period of one-month, which expires on April 15 and this prevents a fine of B/.100.00 for late filing, but not the surcharges and interest for the payment of tribute.

8.1.4. Income taxes for legal persons

Income tax of legal persons is applied to the net income, from taxable income generated in the country.

The income tax rate is 25%. The tax assessment is done by a Sworn Statement of Income tax for legal persons and should be submitted by 31 March following the fiscal year end, with an extension of one month which expires on April 30.

The Tax Code provides that legal persons pay income tax to 25% of the greater of:

1. The net taxable income calculated by the

- method called Traditional; or
2. The net taxable income resulting from applying the 4.67% to the total taxable income.

If by reason of payment of income tax, the legal person were to be in losses, he may request to the Directorate General of Revenue, the non-application of paragraph 2 of this article. Same application may request the taxpayer whose effective rate of income tax exceeds twenty-five (25%).

Sworn Statement of Revenue excluding natural persons, or legal with taxable income less than B / 250,000.00 should prepare its tax return on the basis of the International Financial Reporting Standards (IFRS).

Micro, small and medium sized enterprises (SMEs) pay the tax according to the rate of natural persons on that portion of its net taxable income attributable to their annual gross income not exceeding B / 100,000.00 and according to the normal rates applicable to legal persons on the part of the net income exceeding the annual gross income of B/.100,000.00 without exceeding the amount of B/.200,000.00.

The period of fiscal closing of taxpayers is 12 months and usually is from January 1 to December 31. However, if the company requires another fiscal year or what is known as special periods, you can get permission from the DGI. Taxpayers need to file your Affidavit of Income Tax, and have up to three months after the fiscal closing. An extension ordered can be of one (1) month to submit the same, so that B./500.00 fine for late filing can be avoided, but not, of surcharges and interests should pay the tax.

Taxpayers must file and pay their taxes by paylips, although you can pay online, it is preferable to ensure which will be credited and the use of ballots is advised.

These ballots are identified according to the tax they have to pay. If the tax generates interest, surcharges and fines are to be paid at the same time.

Tax returns and tax reports are prepared and sent electronically via the internet. There may also be special cases in which the presentation of the same via diskette, CD or portable memory that engages USB will be requested.

The tax is levied on taxable income less costs and expenses that are deductible in accordance with established regulations. Deductions for expenses incurred must comply with the provisions of the Tax Code in force.

8.1.5. Accumulated losses

Accumulated losses may be amortized over five years, at a rate of 20% per year, and up to 50% of taxable income. Unused amounts are lost.

8.1.6. Carry-forward tax credit

Carry-forward tax credit is made up of the amounts paid to the Treasury for estimated tax in the next year based on the amount paid in the previous period and any amount that has been overpaid. This credit can be applied for the payment of income tax you have to pay in the next fiscal period.

8.1.8. Complementary and Dividend tax

According to Article 733 of the Tax Code, the applicable tax rates on dividends are:

- 10% if dividends are derived from local operations or Panamanian source;
- 5% in the case of foreign dividends, foreign source or exempt.

If dividends are not distributed or if the distribution is less than 40%, you must pay a supplementary tax rate of 4%.

The rate is 20% for bearer shares. Branches of foreign legal entities in Panama will pay 10% for 100% of their taxable income obtained in Panama, minus taxes paid by the same income in the country. In this case when you pay the tax is a flat fee.

Whenever dividends are distributed must first exhaust the incomes of Panamanian source before distributing dividends exempt income, foreign or export operations.

8.1.9. Capital gains tax

The capital gain on any sale of bonds, securities, stocks, real estate, when the latter is not part of the ordinary course of business of the company. These transactions are taxed at 10% on the gain on the sale. When it comes to selling securities, it is required to pay 5% of the total sales price as advance tax. This can be claimed if the result of this tax is more than 10% of the profit or you can opt for this advance as a final payment of tax. In the case of real estate the same process is followed on the gain value, with the difference that the percentage is 3%.

8.1.10. Tax on Transfer of Personal Property and

Services (I. T.B. M. S.)

This tax is applicable to the ultimate consumer and in other countries is known as the IVA or VAT. In Panama the rate is 7%, being the lowest in Latin America.

It is a land tax to specific transactions listed in the tax base and its scope are the economic activities within Panamanian territory. It is not decisive:

- The place where the contract is concluded;
- The residence or nationality of the parties;
- The place where payment is made;
- The place where payment is received

This tax is considered as an exemption of the same on food supplies, health services, medicines, educational services, ships and aircrafts, among others.

In sworn statements-liquidations, the taxpayer determines the tax difference between the debt and the tax credit. The tax debit shall consist of the sum of the tax payable on taxable transactions of the calendar month. The tax credit will consist of:

1. The sum of the tax included in the purchase invoices on the domestic market for goods and services corresponding to the same period, provided they meet the requirements for documentation.
2. The tax paid during said period as a result of the importation of goods.

8.1.12. Remittances abroad:

It is considered taxable and therefore subject of Income Tax by Withholding, the income received by natural or legal persons whose domicile is outside the Republic of Panama product of any service or act, documented or not, that benefit individuals or corporations, domestic or foreign, which are located within the Republic of Panama.

For purposes of this provision the concept of minimum income equals to the concept of residual income. The concept of taxable income includes, but is not limited to fees and income from copyright royalties, key brands or trademarks, patents, "know-how", technological and scientific knowledge, trade or commercial secrets. It includes services rendered abroad.

Such income shall be the income tax over the income retention, to the extent that such services have an impact on the production of income from a Panamanian source or the conservation of this and the expenditure has been considered as ex-

penses deductible by the person who received them.

The natural or legal person, national or foreign, located in the territory of the Republic of Panama who benefits from the service or act concerned shall apply the general tariffs laid down in Articles 699 and 700 of the Tax Code on the fifty percent (50%) of the amount to be remitted. In the case of a foreign legal entity, the effective holding will be 12.5% (25% over 50%). The retention of the Income Tax applies over the consignment or gross pay, ie regardless of any costs.

Every natural or legal person not resident in the Republic of Panama is obliged to withhold the income tax to, on any Panamanian source income paid or credited by:

- Public entities, be they the central government, semi -autonomous bodies, local governments, state enterprises or joint stock companies in which the state owns 51% or more of its shares;
- Entities which are not taxpayers of the income tax; and/or
- Taxpayers who are in loss.

If the services are rendered in Panama, the ITBMS retention should also be made by those who pay or credit retributions for taxable transactions made by resident individuals or incorporated entities abroad, in case they do not have a branch, agency or establishment in Panama.

The thus determined amount withheld will be a tax credit in case the taxpayer is a withholding agent. Such credit shall be included in the liquidation of the month in which the withholding is made.

It is applied to the entire bill, retention 0.065421 and no later than within 10 days from the date of the retention the payment of the ITBMS should be sent to the Tax office through a multiple payslip.

8.1.13. Transfer Price Regime

From 2012 onwards, is mandatory the documentation of transactions with related parties made by the taxpayers in Panama, with entities located outside of Panama, provided that these transactions generate taxable income or deductible costs or expenses.

Taxpayers are responsible for reporting to the DGI if they perform transactions with related entities established outside Panama that could be subject to the regulations of transfer pricing, provided that

such transactions exist, they are accountable to the entity to present the Annual Report of the Transfer Pricing (Article 762-I of the Tax Code) and Study of Transfer Pricing (Article 762-J of the Tax Code) accordingly.

For the interpretation of the provisions contained in this field apply the Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations, adopted by the Council of the Organization for Economic Co-operation and Development in 1995, or those that replace them insofar as they are consistent with the provisions of the Tax Code.

8.1.14. Property Tax

The property tax is levied on all real estate and the tax is levied on property owners, depending on the value of the property which includes land and buildings or permanent structures that have been made over the territory. In this law there is also the exemption of tax on new property with a maximum of 20 years and owned by the state, municipalities, autonomous, semi-autonomous institutions used by the state, schools, universities, hospitals and exempt under international treaties, and family heritage.

The application of the combined rate of this tax is as follows:

- a. 1.75% of taxable income over thirty thousand dollars (B/.30,000.00) to fifty thousand dollars (B / 50,000.00).
- b. 1.95% of taxable income over fifty thousand dollars (B / 50,000.00) to seventy-five thousand dollars (B / 75,000.00).
- c. 2.10% of taxable income over seventy-five thousand dollars (B / 75,000.00).

The exemption of the first thirty thousand dollars (B / 30,000.00) of this fee does not apply to the land of estates subject to the Horizontal Property Regime, during the period that is legally exempt the value of improvements; in these cases the rate of one percent (1%), other buildings for affordable housing will be applied. This tax is paid in three batches, the first due on April 30, the second on August 31 and the third on 31 December.

8.1.15. Ship tax

At present, worldwide, registering ships in Panama remains the vessel registration number 1 in the world by tonnage, followed by Liberia, UK and Bahamas. Because of that, the Law No. 8 of 1925 adopted the open registration system and restrictions on nationality and residence were removed. Since then, the Ship Registration in Panama accepts vessels owned by nationals and foreigners alike. The condition is that they must com-

ply with the provisions, especially those concerning the management of ships, safety standards for pollution control, technical standards and taxation.

- The Ship Registration in Panama offers owners the following advantages:
- An open register. Any person or company, regardless of their nationality or place of incorporation, is eligible to register ships under the flag of Panama.
- Registration fees are low compared to other countries.
- Total exemption from tax on income derived from the operations of ships engaged in international trade.
- Double registration, provided that the country that issued the original record of the ship still allows it.

8.1.17. Excise tax

It is a tax on consumption of soft drinks, spirits, wines, beers and cigarettes domestically produced and imported, hereinafter the encumbered assets and certain services, such as mobile phones and luxury goods and prizes in games of chance. The general rate is 5%.

8.2. Municipal tax

Municipalities in Panama are the ones applying the local tax and each municipality in the country imposes the tax in their municipality. In the municipality of the city of Panama, you must submit the Affidavit of gross annual income during the month of January following the closing fiscal year. The tax is applied is based on a table prepared by the municipality according to business operations. Currently it has two municipal taxes

- Label tax paid once a year and
- Municipal tax paid monthly depends on this table and according to their operations.

9.1. Colon free Zone

The Colon Free Zone (ZLC), since its inception in 1948, is a secreted free trade wholesale operations located on the Atlantic coast, near the entrance to the Panama Canal area. This area is located in a unique international center for trade.

The goods coming into the ZLC can be imported, stored, re-packaged and re-exported without being subject to charges or import taxes. Companies operating in the ZLC require authorization from the Free Zone Administration to settle in the ZLC. The Free Zone Administration gives permission to be free from export taxes, capital gains or dividend payments of external operations, transfer or direct operations. Among the benefits there are no

consular fees or any other charges on shipments to or from the ZLC.

Customs authorities make a service charge on Surveillance custody of goods re-exported and this charge is applied as appropriate and Free Zone Administration does an annual fee of B/.200.00 by a key operation, this charge applies to all companies.

9.2. Special areas:

Panama Pacifico Special Economic Zone

The special economic zone of Panama Pacifico was established by law 41 of 2004. This zone grants tax benefits to business such as:

- Regional International corporations,
- Administrative Offices or representation
- Call or Operators centers
- Logistics Services
- Technological Institutions
- Maintenance and repairs of aircraft
- Any business related to aviation services
- Foreign companies Source (offshore)
- Film industry
- Scheduled Radio TV, audio and video transmission
- Transfer of inventory between companies
- Travel services; cruise ships, aircraft and passengers
- Export of products manufactured in countries outside of Panama.

Tax incentives that Panama Pacifico offers the legally established and release form companies in the special area are listed below:

Exemption from

- Income Tax
- Tax or complementary dividend tax
- Transfer Taxes
- Exempt from any tax rate of import duty

on products, equipment, services and other kinds of equipment sent to Panama Pacifico.

- Tax-exempt Transfer of Personal Property and Services (I.T.B.M.S.) this is a value-added tax is charged for each business transaction.
- Exempt from paying import tariffs on fuel storage and its derivatives.
- Exempt from tax license and register their taxes,
- Exempt from real estate taxes and improvements to the land.
- Exempt from paying duties on imports of any product, equipment or services,
- Exempt from paying taxes on loans, interest, fees and royalties on any financing granted to entities established in Panama Pacifico prolonging business operations.
- Furthermore, the institutions have payment as work incentives,
- Overtime is paid 25%
- Day festive weeks the surcharge is 50%
- An entity may ask for more foreign workers than the previous limit is 10%, ie for every 10 employees in January Panamanian abroad.
- Note: Any entity established in Panama Pacifico, is subject to pay direct taxes:
 - Income tax,
 - Dividends and additional taxes
 - Transfer Tax

A waiver of the above and the respective permit exemption.

Republic of Paraguay

1. Contact identification:

AYCA - Accountants and Consultants Associates

1.1 Oficina, address, phone

Nuestra Señora de la Asunción N° 865
Asunción, Paraguay
T: 595.21.492.252/3

2. Professional Specialists

Lic. Manuel Stark Robledo

Partner

mstark@ayca.com.py

Dr. Fernando José Estigarribia Lezcano

Partner

festigaribia@ayca.com.py

Lic. Gustavo Fernandez Petter

Audit Manager

gfernandez@ayca.com.py

3. Country profile

The Republic of Paraguay, located between Brazil, Bolivia and Argentina, whose territory is divided into seventeen departments, each with an independent Government. It has an area of 406,752 square km, with a population of 7,200,000 inhabitants. It has three branches: legislative, consisting of the Senate and Chamber of Deputies, the judiciary and the executive.

The powers of the state are divided into five functions:

- **The Executive:** It is exercised by a President and Vice President, both elected for a term of five years as well as the Ministries of State and other agencies and institutions to meet, within their competence.
- **The Legislature:** It is exercised by two chambers: the Senate and the House of Representatives. In both cases the number of representatives is based on the number of people available to each department of the Republic. Performs the functions of law making and enforcement, including the possibility of raising impeachment against the President, the Vice President and the Ministers of State, Ministers of the Supreme Court, and Magistrates in general.
- **The Judiciary:** is exercised by: a) Court of nine ministers, who are responsible for the



administration of justice, and is shaped by the Supreme Court, the Courts of Appeals and the Courts. b) The Supreme Electoral Tribunal, wielded by three Ministers Election, who are responsible for administering justice Voters, along with their courts.

Currently the legal tender in the country is the Guarani. In Paraguay the annual change in consumer price index in 2014 stood at 4,2%.

4. Investments

4.1 National Investment Regulations. Legal Framework of Investment in Paraguay

Legislation on foreign investment

Paraguay has a very liberal regime on the issue of foreign investment, which required no government authorization to conduct investment. The investment regime is based on four laws: Law 60/90 which establishes a system of tax incentives for investment by domestic and foreign capital. "Law 117/91 Investment, which gives foreign investors the same rights and the same obligations, required it to nationals.

Maquila Act, which allows foreign companies to settle in Paraguay as maquiladoras is introduced through the temporary admission into the country foreign raw materials with a series of fiscal and tax incentives, to assemble and manufacture their products using hand national force, and finally re-export it, adding to it the added value of the transformation process.

Law 2.421/04 July 2004, Fiscal Adjustment and Administrative Reorganization repealing some of

the investment incentives established by Law 60/90. The entry into force of the Law on fiscal adjustment in 2005 has meant a decrease in the processing and approval of investment projects under the 60/90.

Overall investment activity in Paraguay presents business opportunities arising from both the maquila system, modeled Mexican, and derived from membership of the Mercosur, a customs union once perfected, will allow access to a market of more than 230 million (25 million more if you include Venezuela, recently incorporated into the agreement as a full member, once you overcome the technical difficulties of access to the Customs Union). The main problem is the high level of legal uncertainty.

4.2 Procurement

To become the provider of state natural and legal persons should be enabled as such in the National Public Procurement, registering in the Register of Providers.

4.3 Corporate regime

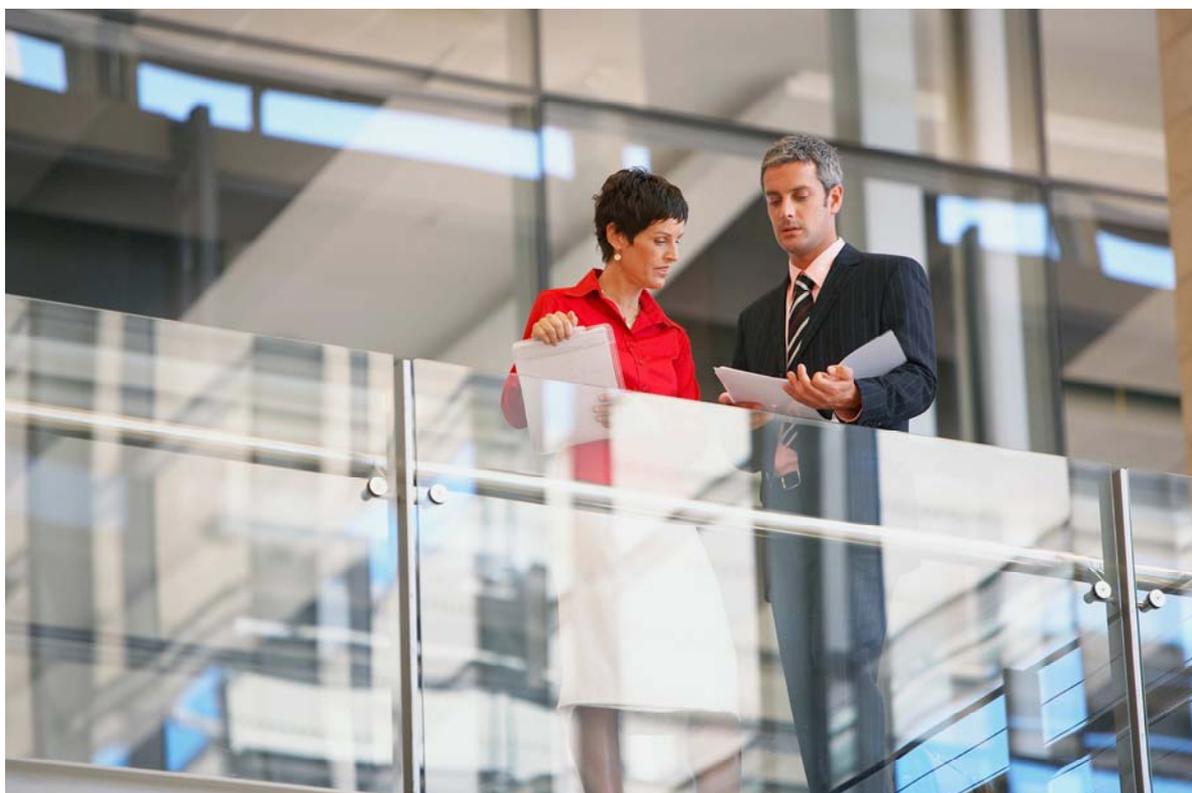
There are various legal forms that allow corporate economic operations in Paraguay, as AUNIPERSONALES SOCIETY, THE ANONYMOUS SOCIETY,

THE LIMITED LIABILITY COMPANY, COOPERTAVIAS SOCIETIES. There also Consortia, Transnational Corporations, branches, subsidiaries, but there is still no regulations to enable Holdings.

4.3.1 National Companies

The corporate regime is regulated in Paraguay by the Civil Code and the Commercial Code. There are several classes of companies: AUNIPERSONALES SOCIETY, THE ANONYMOUS SOCIETY, THE LIMITED LIABILITY COMPANY, COOPERTAVIAS SOCIETIES. There also Consortia, Transnational Corporations, branches, subsidiaries, but there is still no regulations to enable Holdings.

- **Companies:** These are companies that are made up of two or more individuals or corporations and are subject to the rules of the Civil Code. They are called corporations.
- **Limited Liability:** Those that are made up of two and up to twenty-five people or corporations. They are called party companies by quotas.
- **Impersonal:** Those that are made up of a natural person. They are defined for professions or occupations that require tools or machinery for the provision of their services.



Description	Companies	Limited Liability
Constitution	Are presented documents for preparation before a notary public and then to the Department of Public Records and finally to the Tax Authority.	We present the documents to be made up before a notary public and then to the Department of Public Records and finally to the Tax Authority
Governing Bodies	Shareholders	Cuotapartistas Council
Legal Representative (1)	Directors or proxies or attorneys	Directors or proxies or attorneys
Partners (2)	Least two shareholders	2 partners minimum to a maximum of 25 members.
Social Capital (3)	No minimum	No minimum established set
Shares / Units	Are bearer shares, except where the financial system must be registered and free trading on the stock exchange and OTC.	To trade shares requires the consent of 75% of the partners.
Other Liabilities	Bring Social Book of the Acts of the General Assembly of Shareholders.	Bring Social Book of Minutes of General Meeting of Shareholders.
	Bring Social Book of Shares and Shareholders.	Bring Social Book of Shares and Partners.
	Optional enrollment in both House and pay fees.	Optional enrollment in both House and pay fees
	Presentation of Financial Statements.	Presentation of Financial Statements.
	For companies who bill annually Gs. 6,000 million or more (U.S. \$ 1,052,631. - A T / C of 5,700 Gs. Per U.S. \$) must report Tax Compliance prepared by its external auditors.	For companies who bill annually Gs. 6,000 million or more (U.S. \$ 1,052,631. - A T / C of 5,700 Gs. Per U.S. \$) must report Tax Compliance prepared by its external auditors.

Notes:

- If the Directors of the companies are foreign, they must be at least resident in Paraguay.
- The shareholders of the companies may be individuals or corporations, domestic or foreign. Foreign legal and natural persons may be members of the limited company, with the exception of banks, insurance companies, capitalization and savings.

5. Audit and accounting

Accounts shall be kept by the double entry system, in Castilian and Guarani language, taking into account the generally accepted accounting principles. Specific rules for financial, insurance, publicly traded companies and the cooperatives.

For companies who bill annually Gs. 6,000 million or more (U.S. \$ 1,052,631. - A T / C of 5,700 Gs. Per U.S. \$) must report Tax Compliance prepared by its external auditors.

6. Labor system

According to the labor law is right and a social duty. The object of the employment relationship is the provision of personal and lawful for the employer under the command of this. The em-

ployment relationship must comply with labor legislation in Paraguay and collective bargaining agreements.

6.1 Wages, employment contract rates and conditions of employment

- Minimum monthly wage: Gs.1.824.055 - (US\$320)
- Salary p / day monthly workers: Gs. 76,000 (U.S.\$ 12)
- Regular labor day:
 - Day time: (06:00 a 20:00 hours)
 - Night time: (20:00 a 06:00 hours)
- Maximum daytime business hours: 8 (eight) hours per day or 48 (forty eight) hours.

The maximum duration of the trial period is:

- 30 (Thirty) days for domestic workers and unskilled workers.
- 60 (Sixty) days for skilled workers or apprentices, and
- For highly skilled technical workers, the parties may agree a different period as the modalities of work

Social Charges by Employee

Contribution Social Security Institute (IPS) 9.00%

Social charges paid by the employer Social Security Institute (IPS) 14.00%

6.2 Employer obligations Registration in the Employer

All employers in the Republic should proceed to registration in the Management Authority authorized by Labor - Labor Department - within 60 days from the beginning of the employment relationship by submitting the following documentation:

- Certified copy of Identity Card;
- RUC;
- Registration in the Social Security Institute;
- List of Employees;
- Writing S.R.L contract, S.A. and
- Corporations other documents, Act of Assembly, etc.
- Foreigners must also submit:
 - Paraguayan identity card p / foreign
- Certificate of Filing and the country under penalty of fines.

7. Exchange control

7.1 Join Currency

There is a currency revenue control exercised by the Department of Prevention of Money Laundering who has control of money laundering and terrorist financing. Also exporters must sell dollars, their export products on the open market and thus download the required changes that are generated when clearing his goods for export.

7.2 Exit Currencies

Actually there is a tax on profit remittances amounting to commercial 20% of them.

8. Tax system

The Paraguayan tax structure consists of taxes, fees and contributions. Regarding taxes can be national and municipal.

Here are the main taxes:

Government taxes

IRACIS: The Income Tax to commercial, industrial

or services other than personal. Are taxed Paraguayan source income coming from commercial, industrial or services other than personal.

Obligated: Sole proprietorships, partnerships with or unincorporated, associations, corporations and other private entities of any nature. Public companies, autonomous bodies, decentralized and mixed companies. Person domiciled or entities incorporated abroad and its branches, agencies or establishments carrying out taxable activities in the country. The parent must pay tax on the net income than those you pay or credit. Cooperatives, with the scope established by Law No. 438/94 "From Cooperatives".

Residence: They are made by the tax only those activities within the country, regardless of nationality, domicile or residence of persons involved in the operations and venue contracts.

However, there are some exceptions to this general rule such as interest, commission, capital gains or income invested abroad and exchange differences, when the investing institution or beneficiary incorporated or established within the country.

Determination of the taxable income or loss: Gross Income is considered the difference between total revenue from commercial operations, industrial or service and the cost thereof. Within the taxable income is the sale of fixed assets or capital gain, except resulting from revaluations of fixed assets and capital contributions or activities from untaxed or exempt from tax.

International Income Base: Persons or entities located abroad, with or without Branch performing taxable activities in the country determine their income under the presumptive regime on the perceived, becoming the payer withholding agent.

Base of imputed income: Tax Administration is authorized to establish net income over alleged basis for those taxpayers who are not required to keep accounting records.

Fees: The overall rate is 10% on net income but dividends distributed. If it does, add an additional 5% (total 15%).

Dividends or profits distributed: For resident income taxpayers. The tax on dividends is (5%) five percent of the amount of profit to be distributed. For foreign income taxpayers: The tax on dividends when they are transferred abroad is given a further additional rate (15%) fifteen percent, which, in this case, the taxpayer paid a total (30%)

Thirty percent.

Tax incentives: The law provides tax incentives for those making capital investments either domestic or foreign. **Stimulus to create jobs:** It has issued a special law to occupy the national workforce by Maquila law, which is achieved with a minimum tax rate (1%) percent. Tax treaties to avoid double taxation agreements have been signed to avoid double taxation with Argentina and Chile.

IMAGRO: Income Tax on Agricultural Activities this tax is levied on sales from agricultural activities (agriculture and livestock).

Obligated: All natural and legal persons performing agricultural activities within the country. **Determination of the taxable income or loss:** Gross Income, Net Income: The gross income determination should be performed in all cases, regardless of whether the property is realized or not a productive use efficient and rational. The determination of gross income, net income and the tax is made according to the surface property agro logically helpful and efficient and rational exploitation according to the following criteria: The taxable event is set annually at the end of the fiscal year.

Great Estate:

- a. **Gross Revenue:** the gross annual income for rural properties individually or jointly meet or have a useful agro logically area exceeding 300 hectares. (Three hundred acres) in the Eastern Region and 1500 hectares. (Fifteen hundred acres) in the Western Region, with an efficient and rational productive use will be the total income generated by agricultural activities.
- b. **Net Income:** Net Income to set deducted from gross income all expenditures relating to the business of the activity, expenditure and investment from relevant to obtaining the taxable income and the maintenance of its source, provided they are real and are properly documented in accordance with the provisions of this law and its regulations. **Division of plots in large, medium, and small producers.** These latter are free from tax. **Tax base:** The tax base in terms of land area that agro logically are useful, that is, which are not accounted for those taxable parcels are not suitable for agricultural production, such as rocky ground, flooded forests etc.

Taxes: Form of tax assessment. In all cases, the taxpayer has the option to use three different

methods.

- a. For the actual utility system, as balance the rate is 10% (ten percent).
- b. For the simplified system, which consists of assessment of VAT on the difference between admission and discharge, the rate is 10% (ten percent).
- c. **Alleged System:** Based on a presumed production according to a pre-set scale according to the characteristics of each production area multiplied by the average price of goods produced and whose result applies a rate of 2.5% (Two, five percent)

Exemptions': You are exempt from tax for small taxpayers, according to the following taxpayers classification. Is considered small with less than 20 hectares in the Eastern Region and 100 in the Western Region.

RPC: Rental's Small Taxpayers

Obligated: The gravel event also commercial, industrial or services other than personal and whose income does not exceed about (20,000) twenty thousand dollars a year.

Taxable: Determined on a real or perceived, at the option of the taxpayer. Net income will be considered as real positive difference between revenues and total expenses and net income is alleged 30% (thirty percent) of the gross annual turnover.

Rate: The tax rate is also the (10%) ten percent

IRP: Income Tax Personal Service: The tax rate is the (10%) ten percent.

Obligated parties: They are taxed source income coming from Paraguay conducting personal income generating activities when the activity takes place within the country, regardless of nationality, residence, or place of the contract.

Be considered included among others: The exercise of professional services, trades or occupations or the personal services of any kind independently or dependency relationship, whether in public or private, decentralized, autonomous, mixed economy, binational entities, whatever is the name of profit or remuneration. The 50% (fifty percent) on dividends. Interest, fees, and other income from capital and income not subject to other taxes on income.

Capital gains arising from the occasional sale of property transfer of rights and income securities,

equity shares and Corporations.

Taxpayers: a) Individuals b) simple societies.

Determination of the taxable income or loss:

Presumption of Taxable Income: For any taxpayer, it is presumed, unless evidence to the contrary, that any enrichment or equity increase comes from income subject to the tax.

Net Income: For Individuals. All deductible personal expenses and investments of the taxpayer and his family, since the expenses relating to the maintenance, education, health, clothing, housing and recreation.

For simple societies: They are deductible expenditures and investments that relate to obtaining taxable income and font handling.

Exemptions: You are exempt from income tax for pensions and retirement, salaries of diplomats on a reciprocal basis, interest, and fee income from investments in banks, etc.

Estate Tax: This tax Municipalities perceive.

Determination of the taxable income or loss: The tax base is the assessed value of property established by the National Cadastre. Additional tax on vacant: The wastelands are additionally taxed with a rate of 4% (four thousand) in the capital and 1% (one per thousand) in the inland municipalities. Property tax in addition to very long and estates. As the tax base and appraisal of Property Tax is the percentage (0.5%) to 1% according to the amount of area and location of the property location. If whatever large estate, (there is a special law that clarifies the rules on large estates) tax is charged an additional fee of 50%.

Rate: The tax rate is 1% (one percent). For rural properties, under 5 hectares the tax rate is 0.50% (zero point fifty percent).

9. International Treaties

9.1 Agreements to avoid double taxation

Paraguay holds treaties to avoid double taxation on income tax, with: Germany, Belgium and China. Argentina, Chile, and Uruguay (Applicable only to air transport), Switzerland, Spain, Germany, Brazil, Mexico, (not entered into force for lack of ratification).

Republic of Peru

1. Contact Firm

Moore Stephens Peru

1.1 Office, address, phone number

Jr. El Polo No. 670, office C-602

Lima 33 - PERU

T: (511) 208-1720

2. Specialized Professionals

Jaime Vizcarra Moscoso

Managing Partner

jvizcarra@moorestephensperu.com

Alberto Viale Rendón

Tax Partner

aviale@moorestephensperu.com

Justo Manrique

Partner

jmanrique@moorestephensperu.com

3. Country Profile

Peru is a democratic, independent, and sovereign republic. The government is unitary, representative, and decentralized, and it is organized according to the principle of separation of powers. It is located in the South American Pacific region and has an area of 1.285.216km², being the third largest country in the region and is characterized by a territory geographically divided into three regions: Coast, Highlands and Rainforest

It is politically divided in 24 departments and has an estimated population of 31 million people, being its capital the city of Lima.

It also has several ports, of which the main one is the Port of Callao, which is strategically located in the middle of the Pacific coast of South America, being therefore an important point of exchange of goods and circulation of people for various countries in this region, especially those states that are on the Atlantic South American side, Thus, it is consolidation as a bridge of connection between markets of South America, Asia and the United States is expected.

Peru as an ancient country, collects within its population and native communities, the same ones that have their own native languages. These communities are derived from ancient cultures that inhabited Peru, specifically in Cuzco, the Inca culture remains as one of which has had more



recognition worldwide.

In this sense, the Spanish are official languages, and in areas where they predominate, so are the quechua, Aymara, and other Aboriginal languages, according to law.

With respect to its strategic location, has the Inter-Oceanic Highway and the Amazon River to access the regions located in the Atlantic side of South America. Also through the Andes Peru is interconnected with five South American States.

Through the Pacific Ocean, Peru is interconnected with the APEC countries, the most important, rich and fastest growing market in the world, of which Peru is a member.

Since late 2014, the official currency is the SOL, and it is possible to use other currencies. The second most used currency is the U.S. Dollar; the currency exchange is tax free.

The last five years, Peru has made great progress in its development, including high growth, low inflation, macroeconomic stability, and debt and poverty reduction. It is expected that the country will grow around 6.0%-6.5% during the period 2012-2015 and will remain the most stable economy in the region.

In Latin America, Peru is a member of the Andean Nations Community – CAN and the Latin American Integration Association - ALADI, also has signed an agreement of Economic Complementation (AEC) with MERCOSUR.

4. Foreign Investment Regime-Types of companies

In Peru there are no restrictions for the incorporation of companies and other local entities by foreigners, except certain exceptional cases provided by the respective regulations.

Law 26887, General Corporations Law, effective from January 1, 1998, governs Corporation's regime, without prejudice to special regimes governed by other rules. The General Corporations Law recognizes various types of companies; the most common and widely used are the corporations, the Limited Liability Company and branches of foreign companies, and is also common to use joint ventures, consortiums and other business collaboration contracts and Partnerships.

4.1 Common Corporation (Corp.)

In the Corporation, the capital is represented by shares and is constituted by contributions from shareholders, who are not personally liable for corporate debts. The number of shareholders is at least two and no more than 725. No minimum capital is required.

Shares representing the capital must be fully subscribed and paid at least in 25%. The supreme governance body of the Corporation is the General Shareholders Meeting.

The Common Corporation has in the General Corporations Law three modalities: The ordinary that is which has been described, the private and open.

4.2 Private Corporation (Private Corp.)

Used for middle or small businesses with no more than 20 shareholders. Shareholders are not personally liable for corporate debts.

They must meet the same requirements of Constitution which is required for others Corporations regulated in the General Corporations Law, and in case of failure to comply with any of the requirements to be considered as such is you should change of regime and adapt to the Common Corporation or Open Corporation.

4.3 Open Corporation (Public Corp.)

Used for business that requires large capital, there is no limit to the number of shareholders s. It is open to the contribution of any person or entity through the Securities Market and is under the control of the Superintendence of Securities Market. Shareholders are not personally liable for corporate debts.

Is liable to control of the Superintendence of Securities Market - SMV and no restrictions on trading

or transmission of shares he admits.

4.4 Limited Liability Company (LLC)

The capital is divided into participations, which may not be incorporated in certificates. The will of the Company does not need a General Shareholders Meeting to form it.

4.5 Single Member Limited Liability Companies (SM LLC)

This type of company is regulated under a special regime; it is a legal entity established by decision of an individual and for the purpose of conduct a small business. The liability of the company is limited to its assets. The initial capital of the company is formed by the contributions of the individual.

The company bodies are composed by the individual and the Management and its social capital may be constituted in money or movable or Immovable assets.

4.6 Branches

Local and foreign corporations can freely establish branches in Peru. The branch must be registered within Legal Entities Record of the place of operation.

The branch has no legal individuality; however for tax purposes is considered as an independent taxpayer. The branch must have a permanent legal representative with appropriate powers and faculties to develop the business and activities of its parent.

The legal representative of the branch, must have sufficient powers to resolve any matter relating to the activities of the company, to bind the corporation by the operations that perform the branch and the general's procedures representation required by the law.

4.7 Collaboration Agreements

The objective of Collaboration Agreements is to create and regulate the participation and integration of independent corporations or parties in a common business. The agreement does not create an independent legal entity from its parties and is not subject to registration in the Public Record.

The General Corporations Law recognizes three types of Collaboration Agreements: the "Asociacion en Participacion", the Consortium and the Joint Venture.

The resources destined to the contracts mentioned above, shall be considered as foreign direct investment when:

- Be granted to the foreign investor a form of participation in production capacity, without involving capital contribution.
- It corresponds to contractual commercial operations through which the foreign investor provides goods or services to the recipient company in exchange for a share in physical volume of production, the overall amount of sales or in net profits of the mentioned receiving company.

5. Audit and Accounting

The accounting profession in Peru is ruled by the provisions of the International Federation of Accountants - IFAC, which emits the International Accounting Standards.

Also, to the preparation and presentation of financial statements companies should be based on Peruvian Generally Accepted Accounting Principles, which involve the application of IFRS, internationally adopted as established by the International Accounting Standards Board - IASB. Additionally, according to IAS 21 in force in Peru, companies are allowed to prepare their financial statements considering the functional currency prevailing in their operations.

6. Labor Regime

Peruvian labor legislation recognizes different types of employment contracts, including fixed-term contracts, contracts for sporadically activities and service contracts.

In relation to working hours, the general labor regime establishes a maximum of 8 hours per day or 48 hours per week, for people over 18 years old.

6.1 Contracts subject to special conditions

For all labor contract subject to form, should be understood that an employment relationship exists, the mode may be contained in the duration of the contract, because it can be for definite or indefinite period, so that the employer may determine the time by which require the employee or, if it were indefinite, the worker works for as long as your account and if the conditions for this effect are given, except as may legitimately limit the duration of employment or termination of specific causes .

Under Article 53 ° of the Labor Law, employment contracts subject to special conditions may be entered in case of market needs or increase of production, both of them for a fixed term (in accordance with the nature of the activity to be performed). Contracts for intermittent or seasonal

activities can be permanent.

6.1.1 Contracts of Temporary Nature

- The contract for new activities or a new business: These contracts are caused by the start of a new business. The maximum term is three years.
- The contract for market needs: Entered to face temporary increases in production caused by substantial changes in the market demand. This contract may be renewed, not exceeding a total period of five years.
- The contract for corporate restructuring: entered to face the variation or increase of the activities developed in the corporation, and in general to face technological changes or the variation of internal procedures. The maximum term is two years.

6.1.2 Contracts of Accidental Nature

- The occasional contract: entered in order to face temporary needs not covered by the existing workers. Its maximum term is six months per year.
- The substitution contract: entered in order to temporary replace a stable worker whose employment relationship is suspended by any justified cause under the current legislation or by contractual provisions applicable in the workplace. Its duration depends of the circumstances.
- The emergency contract: entered in order to face a disaster or events occurred by force majeure. Its duration depends of the emergency.

6.1.3 Construction contracts or Service contracts

- The specific contract: entered in order to perform a specific activity or service. They have an object previously established and a fixed duration.
- The intermittent contract: entered in order to perform permanent but discontinuous activities. In this contract there are not necessity of a new celebration or renovation.
- The seasonal contract: In order to apply specific needs of the business of the company or establishment, in an specific seasonal requirements.

6.1.4 Hiring Foreign Staff

Peruvian companies can hire foreign staff not exceeding 20% of total employees. Remunerations of the foreign staff may not exceed 30% of the total payroll of the company.

The contracts of foreign employees must be concluded in writing and for a specified term, for a minimum of 12 months and maximum of 3 years renewable successively for similar periods. The employer can be exempted of accomplishing the referred limit in case of specialized professionals or technical staff, as well as in the case of management and/or directional employees of a new business. Employees from any country member of the Andean Community are not subject to the abovementioned limits, being considered as local employees.

6.2 Employment Benefits

- **Public Health Contribution (ESSALUD):** in charge of the employer and is equivalent to 9% of the employee's remuneration.
- **National Pension System (SNP) or Private Pension System (SPP):** in charge of the employee and is equivalent to 13% - 12.75% of the employee's remuneration.
- **Life Insurance:** in charge of the employer and applicable to employees with more than 4 years.
- **Compensation for unfair firing:** 1 ½ remuneration per worked year with a maximum of 12 remunerations.
- **Compensation for Time of Service (CTS):** in charge of the employer and is equivalent to 1 remuneration each year. The employer must deposit the CTS in an especial bank account opened on behalf of the employee.
- **Vacations:** 30 days for each complete year of service.
- **Two (2) legal rewards per year,** one in July and one in December of each year, equivalent to a monthly remuneration.
- **Distribution of the net income among employees:** equivalent to a percentage that varies between 5% and 10% of net income, depending on the type of activity they perform. Companies with fewer than 20 employees are not required to distribute the net income.

The minimum remuneration in Peru is PEN 850 Soles (approximately USD 260).

6.3 Outsourcing

Companies established to perform specialized activities or services, at their own risk, using their own financial, technical and human resources, being responsible for the results of their activities.

7. Exchange Rate Regime

The Peruvian State guarantees the free possession, use, and disposition of the foreign currency.

It also guarantees the free convertibility of the national currency to a single exchange rate. There is no tax on currency exchange.

8. Peruvian tax system

The Peruvian tax system is composed by the following taxes:

8.1 Taxes for Central Government

- Income Tax
- Value Added Tax
- Excise Tax
- Financial Transaction Tax
- Temporary Tax on Net Assets
- Customs Duties

8.2 Taxes for Local Governments

- Real Estate Transfer Tax
- Real Estate Tax
- Tax on Vehicles
- No Sports Public Entertainment Tax
- Tax on Games
- Tax on Gambling

8.3. Other taxes

- Tax of Garbage Disposal and Maintenance of Parks
- Special Contribution of Public Works
- Municipal Taxes
- Social Security Contributions, if applicable
- Housing Fund Tax- FONAVI
- Technical Training- SENATI
- Construction Industry (SENCICO)

8.4 Income Tax

Applicable on profits originated from the use of capitals, from the work and from business activities.

For tax purposes, income is divided into five categories:

- **First Category:** lease or sub lease of goods and real estate.
- **Second Category:** interests, royalties, patents, capital gains and others.
- **Third Category:** Business, industrial, and services activities.
- **Fourth Category:** fees for the development of any profession, science or art.
- **Fifth Category:** remunerations and salaries obtained within a labor relationship.

For jurisdictional purposes, there are two types of taxpayers, the resident and non-resident. The first ones are taxed on their worldwide income, while the second ones, including permanent establishments of foreign companies, are taxed on their

Peruvian source income. Residents are required to make monthly advance payments along the fiscal year. The payment performed by a non-resident via withholding is of immediate realization. For the Income Tax purposes, a foreign individual will be considered as resident in case he stays in the country for more than 183 calendar days during any period of 12 months.

8.4.1 Corporate Income Tax

In the general regime, the corporate income tax applicable to residents is determined by applying the rate of 28% (2015-2016), 27% (2017-2018) and 26% (2019 and followings) on net income.

In the case of non-residents, different rates are applicable according to the source of income on gross income. For services provided by non-resident entities that are classified as Technical Assistance, the applicable rate is 15% on the gross income and required of a report from an auditing firm certifying that technical assistance has been provided effectively if the consideration for the service is in excess of 140 UIT (S/ 3,950 for the 2016). This report can be elaborate by resident companies with current registration in the Audit Company Register in an Public Accountants School or other audit companies empowered according to the country where are established.

8.4.2 International Fiscal Transparency System

From the year 2013, Peruvian Income Tax introduced the International Fiscal Transparency System to avoid the reduction of the Income Tax taxable through the application of international tax planning. This new section of the Peruvian Income Tax applies to Peruvian residents who own a controlled foreign corporation (CFC) located in a tax-haven jurisdiction or countries when the Income Tax rate is less than 22.5 %. They will be taxed in Peru by passive incomes (dividends, leas-

es, royalties, capital gains and interests) obtained by CFC, attributing these incomes as their own.

8.4.3 Mutual Funds and y contributions for non-pension

From the year 2013, the pension fund management companies and mutual fund management companies should have withholding the Income Tax when the participation fees will be sold or redeemed. Therefore, the type of investment (shares, sovereign bonds, corporate bonds, bank interest and others) that performed the mutual fund is not considered to determinate the quality or source income of the sharer.

8.4.4 Income Tax on Individuals

The income tax payable by resident individuals is determined by applying to the sums of labor net income and the following cumulative progressive scale to the total net income originated from work and foreign source income:

8.5 The Value Added Tax (VAT)

The value added tax is technically structured as a Value Added Tax, being applied to each stage of the production and commercialization of goods and services, being the final consumer, who finally takes the total tax burden, as befits the indirect taxation.

The applicable rate is 16% plus 2% for Municipal Promotion Tax, both by the total of 18% applicable to the incomes perceived to operations taxed by the VAT.

This tax applies to the following operations:

- The sale of goods located in the country.
- The use or rendering of services in the country.

Sums total net income originated from work and foreign source income	Rate
Up to 5 UIT	8%
In excess of 5 UIT and up to 20 UIT	14%
In excess of 20 UIT and up to 35 UIT	17%
In excess of 35 UIT and up to 45 UIT	20%
In excess of 45 UIT	30%
UIT: Reference Unit Tax, cuyo whose value for 2016 is S/. 3,950, equivalent approximately to	USD 1,200

Dividends and other type of profit distribution received from legal entities are subject to withholding tax at a rate of 6.8% (2015-2016), 8.0% (2017-2018) y 9.3% (2019 and followings), which is a definitive payment.

Additionally, individuals are subject to income tax for their income derived from the use of capital and goods, with a rate of 5% on the gross income.

In case of non-resident individuals, they will be subject to tax for their Peruvian source income according to the following rates:

Tipo de Renta	Tasa
Dividends and other type of profit distribution, except those listed in paragraph f) of Article 10 of the Law.	6,8% (2015-2016), 8.0% (2017-2018) y 9.3% (2019 and followings)
Income from the sale of real estate	30%
Interests. If the operation is involves related parties or the beneficiary is located in a tax haven, the applicable rate is 30%.	4,99%
Capital gains derived from the sale of securities held abroad.	30%
Other income derived from capital	5%
Income from business activities	30%
Remunerations and salaries	30%
Royalties	30%
Income of artists for shows performed in the country	15%
Other Incomes	30%

- Construction contracts.
- The first sale of real estate made by the construction company.
- The import of goods.

From 01st August, 2012 the sale of "future goods" and sale transactions subject to a "suspensive condition" (whereby the payment is made prior to the existence of the good) have been included as transactions subject to VAT.

Likewise, earnest, deposits and guarantees that are delivered to the provider as a consequence of a sale, service or construction agreement, will also be subject to VAT if those exceed 3% of the purchase price agreed by the parties in the particular transaction.

The Peruvian VAT Law regulates the non-taxable transactions, for example the export of services,

whose treatment is summarized in the following chart:

8.6 Financial Transactions Tax (ITF)

This tax is applicable on any transaction or operation made within the banking system, in domestic or foreign currency. The rate is 0.005% and is a deduction from the Income Tax.

8.7 Temporary Tax on Net Assets (ITAN)

This tax is Applicable to business activities. Is applicable on the net assets at the December 31th of last year and the obligation arises on January 1st from each year. The tax is equivalent to 0.4% of the value of net assets exceeding US 1 million.

8.8 Mining Taxation

The Law 30230 published in July 02 th, 2014 modified the 82 Article of the General Mining Law. Also, the 82-A and 83-B Articles were incorporated.

Transaction	From 08.01.12
Maintenance and repair of furniture to non-domiciled	VAT: 18%
Managing investment portfolios in the country to non-domiciled	VAT: 18%
Complementary services of international freight in primary zone to non-domiciled	Exportation: 0%
Services part of tour package in favor of the agencies tour operator or non-domiciled.	Exportation: 0%
Transaction	From 08.01.12
Data processing services	Exportation: 0%
Commercial commission to non domiciled for the sale in the country of goods from abroad.	VAT: 18%

The payable tax will be determined based on the difference between the VAT applicable on purchases and the VAT charged on sales.

A relevant modification is the 83-B Article, it was incorporated by the Law 30230 that determines the extent of tax stability to additional investments when they gave for not less than US \$ 250 million amount, among other requirements.

The Executive has consider that that amount is not appropriate since in trying to predict with certainty the amount of additional investment after initial investment; and also are associated with the investment project, it would be ignoring a large number of additional investments for smaller amounts that are essential for the development of the mining activity in the country.

For this reasons, it was agreed to change the minimum amount of the additional investment of US \$ 250 million to US \$ 25 million. In the Eight Complementary Provision the Law establishes the resignation of the companies that had signed stability agreements, they will require the resignation of the contracts or agreements that they had signed their shareholders or investors for investments in companies that choose to give up to the stability to benefit from the provisions identified.

9. Transfer Pricing

The transfer pricing rules is in force in Peru since 2006 and they have the following details:

- They are required to submit an Annual Informative Return.

Taxpayers who, according to the Income Tax Law, have the status of domiciled in the country must submit an Annual Informative Return when in the taxable period to which the corresponding affidavit:

- a. The amount of transactions exceeding two hundred thousand soles (S/. 200,000); and/or,
- b. Sell goods to its related companies and / or from, to or through countries or territories considered in low-tax jurisdictions (tax havens), whose market value is less than his calculated cost.

The transactions will be subject to the statement referred to in the previous paragraph will be all included in the amount of operations.

The formal obligations shall apply only in respect of transactions that generate income taxable and / or costs or expenses deductible for determining the tax.

Required to have and submit Technical Study of Transfer Pricing - ETPT

As from fiscal year 2012, taxpayers who, according to the Income Tax Law, have the status of resident in the country should have a Technical Study of Transfer Pricing - ETPT when the taxable year:

- a. Accrued income exceeding six million soles (S/. 6,000,000); and,
- b. The amount of transactions exceeds one million Soles (S/. 1,000,000); and/or
- c. Sell goods to its related companies and / or from, to or through countries or territories considered in low-tax jurisdictions (tax havens), whose market value either less than his calculated cost.

The transactions will be subject to the statement referred to in the previous paragraph will be all included in the amount of operations.

10. Agreements to avoid double taxation

Now, there are agreements to avoid double taxation signed with Chile, Canada, Brazil, México, Portugal, Switzerland and Korea. Also, the agreement signed with Spain is in the process of ratification by the Congress.

In addition, for investments performed between countries member of the Andean Community, it is applicable the agreement to avoid double taxation contained in Decision No. 578.

11. Legal and Tax Stability

Through the subscription of a contract, the State may grant legal and tax stability.

There is a system of general legal stability, including stability of the regime of income tax, which is accessible for investors, both domestic and foreign, and domestic companies receiving investments.

In order to promote the development of productive investments, there are other promotional regimes that include tax stability, such as mining, hydrocarbons and petrochemicals.

Dominican Republic

1. Contact Information

Moore Stephens ULA, SRL

1.1 Address

Avenida Pedro H. Ureña Núm. 150
Torre Diandy XIX, tercer piso
La Esperilla, Santo Domingo, R.D.

2. Professionals

Lic. Pedro Urrutia
Executive Director

purrutia@moorestephensula.do

Licda. Joseina Liriano
Managing Partner

jliriano@moorestephensula.do

Lic. Lazaro Arias
Outsourcing Partner

larias@moorestephensula.do

3. Country Profile

The Dominican Republic is located in the center of the Caribbean, sharing with Haiti the island of Hispaniola, with an area of 48,442 km². It is the second largest nation in the Caribbean, occupying two thirds of the island.

Thanks to its geographical position, it enjoys a competitive advantage because of its easy access for North and South America, the Caribbean and the European continent. It's an independent and sovereign country, committed to the sustainable development of its people and its resources, geared toward globalization.

Santo Domingo is the capital of the country, founded in 1496. Dominican Republic is a country of young people discovered by the Spanish. Declared its independence on February 27th, 1844 and in 1966 began the process of democratic consolidation. As of this date, the country has carried out thirteen electoral periods, alternating power between the three main political parties.

3.1 State Powers

The structure of the government system of the Dominican Republic is composed of three main state powers:

- The Legislature: Within the constitutional hierarchy, the legislature power is the first power of the state. It is represented by the



Senate and the House of Representatives.

- The Executive: The Constitution establishes that the Executive Power is exercised by the President of the country, elected every four years by direct vote. The President may opt for a second consecutive single constitutional term.
- The Judiciary: The third power of the state is, according to the Constitution and laws, the institution responsible for managing justice through special committees called "Supreme Court". Its function is to ensure the protection or guardianship rights that have been established in the norms or laws. The set of all these courts constitute the Judicial Branch.

4. Investments

Dominican Republic is a country with excellent investment opportunities due to political and social stability, offering multiple business opportunities. Statistics show that it is a country with a steady growth in the various business areas. Economic indicators show that growth is sustained by the dynamics of the Dominican economy.

The Dominican Republic has developed a physical infrastructure for the requirements of a company focused on the production and marketing of goods and services:

- Roads that link all destinations within the country.
- 8 international airports.
- 11 ports, in which the DP World Caucedo is located, world class terminal, located in Punta Caucedo, 25 kilometers from the city of Santo Domingo, capital of the Dominican Republic.

- Telecommunications systems provided by private suppliers, ranked among the most advanced and efficient worldwide.

4.1 National Investment Regulations

For the past years, some laws have been revised or approved, as well as some institutions have been created to promote foreign investment and national competitiveness, under a favorable legal environment, including:

- Centro de Exportaciones e Inversión (*Export and Investment Center ~ CEI-RD*), whose mission is to promote the attraction of foreign capital by strengthening the overall investment atmosphere.
- Consejo Nacional de la Competitividad (*National Council of Competitiveness*), whose mission is to formulate, implement, and develop the competitive strategies of the main productive sectors of the economy.
- Adoption of the Law on Prácticas Desleales del Comercio y Medidas de Salvaguardas (*Unfair Trade Practices and Safeguard Measures*), which establishes the rules of behavior of economic agents to promote free competition and prevent distortions caused by unfair trade practices.
- A law, which declares national priority to the sectors belonging to the textile, clothing and accessories chain; skins and leather footwear manufacturing, creating a national regulatory regime for these industries.
- Adoption of the Ley General de Defensa de la Competencia (*General Law on Protection for Competition*), which confirms and recognizes the constitutional right for free enterprises, trade and industry, supporting the economic efficiency, effective competition, and good commercial faith.
- Ley de la Competitividad e Innovación Industrial (*Competitiveness and Industrial Innovation Law*), enacted in order to create a new institutional framework allowing the competitive development of the manufacturing industry, proposing policies and support programs that encourage the renewal and industrial innovation.
- Ley de Sociedades Comerciales y Empresas Individuales de Responsabilidad Limitada (*Corporations and Individual Limited Liability Companies Law*), proposing a modernization of the regulation on corporate matters in the country.

Among the main investment areas are:

- Telecommunications.

- Banking.
- Insurance.
- Duty-Free Zones.
- Tourism.
- Agriculture.
- Mining.
- Construction.
- Electricity.

4.2 Procurement

Ley de Contratación Pública (*Public Procurement Law*) is to establish the general principles and rules governing public procurement, related to the goods, works, services and concessions from the State, as well as detailed rules within each specialty that can be considered. The Sistema de Contratación Pública (*Public Procurement System*) consists of these principles, standards, and governing bodies used by government agencies to purchase goods and services, hire public works, and giving concessions with public funds.

They are subject to regulations provided under this Law and its rules, public sector agencies that comprise the following institutional aggregates: the Central Government; the autonomous decentralized institutions financial and non-financial; the public institutions of the social security; the municipalities and the National District; the non-financial and financial public enterprises, and any other entity that hires the acquisition of goods, services, works and grants from public funds.

4.3 Corporate Regime

The Ley General de Sociedades Comerciales y Empresas Individuales de Responsabilidad Limitada (*Corporations and Individual Limited Liability Companies General Law*) number 479-08 which came into force on December 11, 2008 modernizing the corporate regime of the Dominican Republic mainly because it introduces three new vehicles in order to conduct business in the country:

- Sociedades en nombre colectivo, *General partnership*;
- Sociedades en comandita simple, *Limited Liability partnership*;
- Sociedades en comandita por acciones, *Limited partnership by shares*
- Sociedades de responsabilidad limitada (S.R.L.) *Limited Liability Companies*";
- Sociedades anónimas (S.A.), *Corporation incorporated*
- Sociedades anónimas simplificadas (S.A.S) *Simplified Corporations*;

And:

- Sociedad accidental o en participación, *Joint venture*;

- **Empresa individual de responsabilidad limitada (E.I.R.L.) *Individual Limited Liability Companies.***

This legislation incorporates corporate practices of new corporate figures and enterprise outline, which makes it ideal tool for the organization and operation of business in the Dominican Republic, focused on proper estate planning and adequate development within the market.

General partnership (Sociedades en nombre colectivo): entities with two (2) or more partners liable for the obligation of the partnership to a limited extent, supportive and subsidiary.

The company creditors may only pursue the payment of social debts against an associate after putting in arrears to society by extrajudicial act.

Limited partnership (Sociedad en comandita simple): It is the one that exists under a corporate name and consists of one or more general partners who respond subsidiary, unlimited and joint social obligations, and each one or more limited partners who are only required to pay their contributions.

Limited partnership by shares (Sociedad en comandita por acciones): this society is made up of one or more general partners, who respond in a supportive, unlimited, and subsidiary way to social obligations, and three (3) or more limited partners, who have the quality of actions and as such, should only withstand the losses in the proportion of their contributions.

Limited Liability Company (Sociedades de Responsabilidad Limitada): It is formed by two or more individuals under a corporate name, with contributions from all partners (called social quotas), who are not personally liable for the debts and whose liability for losses is limited to the contributions of partners. It requires less capital in comparison with Corporations (the minimum capital of the SRL is one hundred thousand Dominican pesos (RD\$100,000.00)), they have a more flexible and simple corporate regime, and are the vehicles of preference for the vast majority of businesses and commercial activities taking place inside the country, especially recommended for family businesses, employees and freelancers for any business that has a single organizational structure.

Corporation incorporated (Sociedades Anónimas): It is formed by two or more individuals under a corporate name and consists exclusively of partners whose liability for losses is limited to the con-

tributions of partners. Its capital will be represented by negotiable securities primarily denominated shares, which must be fully subscribed and paid before issuance. The type of corporate governance defined by law is oriented towards transparency of financial information, with the idea of boosting the stock market.

These are the vehicle recommended for large investments and businesses and its mandatory for companies (partnerships) to appeal to public resources for training or in order to increase capital. It is worth mentioning that almost all societies of the Dominican Republic were organized as Corporations Incorporated (S.A.) or companies for shares in the old legal regime, but since a few of them had a capital of thirty million pesos (RD\$30,000,000.00) or unwilling to submit to a much stricter regulation and meet additional requirements, many have had to go through a process of transformation into *Limited Liability Companies* (SRL).

Simplified Corporations (Sociedades anónimas simplificadas): made-up of two (2) or more people, liable only for the amount of their contributions having full legal rights. This type of company is designed for large companies that do not capture public resources. Its share capital shall be fixed by the statutes, which shall not be less than RD \$ 3,000,000.00. The capital will be divided into negotiable securities denominated shares, which must be paid in cash or contributions, and will have a expressed in domestic or foreign freely convertible currency value. various classes and series of shares may be created, including but not limited or preferred shares with or without voting rights.

Accidental or venture companies (Sociedades accidentales o en participación): They constitute a contract by which two or more individuals who have the quality of traders take interest in one or more specific and transitional trade operations, which must run one of them in his name alone and under his personal credit, charged to account and stakeholders divide their gains or losses in the agreed proportion. These companies lack the name, address and social heritage. They are not subject to formal requirements or registration and may be approved by all means.

Individual Limited Liability Companies (Empresas individuales de responsabilidad limitada (E.I.R.L.): It is an individual limited liability company owned by an individual and is possessing its own self entity, with the capacity to have rights and obligations, which form an independent herit-

age and separate from other property of the individual owner of such company. You can perform all kinds of civil and commercial operations, services, industrial and commercial activities.

4.4 Foreign Companies

These are companies incorporated under the laws of a jurisdiction other than the Dominican Republic. Among the provisions of the Ley General de Sociedades Comerciales y Empresas Individuales de Responsabilidad Limitada (*General Law of Corporations and Individual Limited Liability Companies*) Number 479-08 dated December 11, 2008 (Law 479-08) that have generated major controversies are those contained in Article 11, which states that any foreign companies performing legal acts or operates businesses in the Dominican Republic is obliged to make their entries in both the Registro Nacional de Contribuyentes (*National Taxpayers Registry*) within the Dirección General de Impuestos Internos (*General Directorate of Internal Revenue – DGII*) as well as in the Registro Mercantil (*Commercial Register*) at the Cámara de Comercio y Producción (*Chamber of Commerce and Production*) corresponding.

5. Audit and Accounting

Law 479-08 "Law of Corporations and Limited Liability Companies Singles" provides that the operations of commercial companies should be settled in accounting records in accordance with accounting principles generally accepted nationally and internationally, in accordance with national regulations and therefore should generate information to enable the preparation of financial statements reflect the financial position, results of operations, changes in equity and cash flows and disclosures to be contained in the notes to the financial statements.

The Act also provides that any commercial company that uses credit financial intermediaries, or issue any obligations or have higher gross annual income hundred (100) minimum wages in the public sector will have to audit its financial statements in accordance with law and standards recognized by national regulations. It is expressly understood that the reference to statements audited by law, shall apply only when under this section a company is required to make their financial statements audited, although the Tax Code does not discriminate, indicating that any tax returns must be accompanied by their respective Audited Financial Statements.

The Institute of Public Accountants of the Dominican Republic, is the entity that law regulates the accounting profession in the country, which has

instituted the use of International Financial Reporting Standards (IFRS), IFRS-SME, the NIC-SP and the Clarity Auditing Standards. Companies according to their size and sector policy must choose to use.

The public interest companies regulated by: La Superintendencia de Valores (SIV); La Superintendencia de Bancos (SIB); La Superintendencia de Seguros (SS); La Superintendencia de Salud y Riesgos Laborales (SISALRIL); La Superintendencia de Pensiones (SIPEN) are allowed to register their operations in accordance with the regulations issued by the agencies said.

Shall additionally comply with guidelines, resolutions, regulations, and procedures required by these organisms. One of the applicable requirements of these institutions is the submission of Audited Financial Statements as of each fiscal period. The issuance of the audited financial statements is conducted under the rules set forth above and International Standards on Auditing. This function is carried out by specialized firms that are registered and licensed to operate as such by the Institute of Public Accountants of the Dominican Republic.

6. Employment system

The employment relations in the Dominican Republic are governed by the Law number 16-92 dated May 29, 1992, commonly known as the Código de Trabajo de la República Dominicana (*Labor Code of the Dominican Republic*), and its amendments, as well as its 'Reglamento de Aplicación' (*Regulation Implementations*) number 258 - 93. The 'Ministerio de Trabajo' (*Labor Ministry*) is the agency responsible for implementing the labor standards.

6.1 Employment Contract

Generally, any relation to a person obliging to provide a personal service to another, under the authority and immediate direction or delegation to this one, in exchange of a remuneration, is considered to be an employment contract (Article 1 in the Labor Code). Not mattering if the relation is done by writing or as the product of a purely verbal agreement. The existence of an employment contract is presumed from the fact of service provision (Article 15).

Either part of an employment contract may require to the other for the oral contract to be formalized in writing (Article 19). The existence of a written agreement requires any changes to be made in writing (Article. 20), in order to establish clear rules governing the workplace. It is always

recommendable to establish written contracts.

6.2 Benefits

- **Christmas Salary:** The employer must pay the employee during the month of December, the twelfth part of the ordinary salary earned by the employee during the calendar year, subject to the customs and practices of the company.
- **Vacations:** Employers are required to give all workers a vacation period of fourteen days, annually, including a salary scaled as follows: Starting from the first to five years of service, fourteen days of ordinary salary, after five years or more, eighteen days. The employee obtains the right of take vacations each time a period of one year is accomplished regarding any interruption inside the company. The vacations may not be divided into periods less than one week and should not be replaced by additional payments of salary.
- **Sharing the Benefits of the Company with the Employees:** It is mandatory for every company to grant a share equal to ten percent (10%) of the annual net profits or benefits to all employees (Article 223). However, this participation should not exceed the equivalent of 45 days' wages for workers who have served for less than three years, and 60 days of salary for employees with more than three years. The ones exempt from this participation are: a) agricultural entities, industrials, forestry and mining, for the first three years of operation, b) agricultural companies whose capital doesn't exceed one million pesos, and c) the duty-free zone companies.
- **Work Periods:** The normal workweek is of 44 hours, with a normal eight-hour a day work schedule. Common practice is to work from Monday to Friday and, in some companies, on Saturday. The work hours of part-time employees cannot exceed 29 hours.

6.3 Other labor aspects

6.3.1 Terminación Contratos de Trabajo de Empleados (*Termination of Labor Contract*):

The employment contract may be terminated, among other reasons, in which is not necessary to plead a cause; layoff, when there is a reasonable cause and by mutual consent. During the first three months of work, employees can be laid off without having to pay some sort of compensation. After this period, the employee is entitled severance depending on seniority. In case of dismissal for a cause in accordance with the causes

and procedures under the Código de Trabajo (*Labor Code*), the employer does not have to pay any compensation to the worker, if the dismissal is declared unjustified; workers are entitled to compensation corresponding to the termination of the contract. The employer must give an advance notice of layoff to the worker in accordance with the deadlines established, in which they can be ignored almost always the employer pays to the worker the corresponding salary. These payments are not subject to tax on income.

6.3.2 Withholdings and Taxes

- **Income Tax:** The employer has the obligation to act as a withholding agent of the income tax and pay said amount to the tax authorities. Currently, the employer should only act as withholding agent for workers who earn higher wages than RD\$399,923.00 per year or RD\$33,326.92 per month, as these are the minimum wages to pay income tax.
- **Social Security:** The Law number 87-01 on Social Security requires employers and employees to contribute to the insurance scheme established by the Law, which provides for three types of assistance: a) health insurance, b) old-age insurance, disability and survival (Pension Funds), and c) insurance against labor hazards. The employer must finance 70% of the cost of all health pensions, while each employee must pay the remaining 30%. The employer must fund 100% of the labor risk insurance and 0.4% of the wages to contribute to the Fondo de Solidaridad Social (*Social Solidarity Funds*).
- **INFOTEP:** All employers must contribute 1% of their monthly payroll to the Instituto de Formación Técnico Profesional (*Technical and Vocational Training Institute - INFOTEP*), which aims at the technical training of all Dominican employees. In the event that the employee receives the payment of the participation in the profits of the company, he or she must provide the one percent of such payment.

7. Exchange Regulations

The Exchange Regulation has been implemented under the provisions of the Monetary and Financial Law, in order to establish "rules, policies and procedures" governing foreign exchange transactions in our country, in order to maintain an environment of "competitiveness and efficiency" and to preserve price stability. This document defines the entities authorized to conduct foreign exchange operations and the rules and laws to be followed by them. In addition, the following are

highlighted notes:

- For statistical, countable and similar purposes, the dollar is the countable unit used to express all foreign currencies.
- The Banco Central (*Central Bank*) will publish a reference exchange rate of a purchase and a sale price based on the weighted average number of daily transactions by exchange intermediaries and financial institutions. This resulting type of reference exchange rate shall be applied for accounting, legal, and reporting purposes.
- All foreign exchange transactions must be channeled through the exchange intermediaries and authorized financial institutions.
- The purchase of financial services by individuals or legal entities located in Dominican territory to financial service providers from abroad, shall be subject to the foreign exchange regulations adopted or maintained by the Junta Monetaria (*Monetary Board*) under the current legislation. (*Source: Exchange Regulation: General Provisions. Banco Central de la República Dominicana*).

8. Dominican Republic's Tax System

Taxes in the Dominican Republic are governed by the Código Tributario (Tax Code) (Law #11-92) and its amendments, by implementing regulations (Decree 50-13, 293-11 and 79-03), and its amendments, tax reforms (253-12, 288-04, 557-05 and 495-06), and its amendments, and the rules issued by the Dirección General de Impuestos Internos (General Directorate of Internal Revenue – DGII), an independent body responsible for the collection and administration of taxes (Article 3 Law #227-06).

8.1 Income taxes on individuals

Gravel labor income as employees or liberal exercise of profession or trade, business or financial gains and investments abroad. A progressive tax scale of 15%, 20% or 25% of the value of the income earned during the year applies.

8.2 Income taxes of companies or entities

Gravel net taxable income in a given fiscal period.

- 28% corporate tax
- 27% corporate tax for 2015

8.3 Advanced income tax

Must be paid by individuals subject to the annual affidavit income tax, and those presenting commercial activities in their annual income tax affidavit.

The calculation of the advanced payments for individuals or entities is determined from the effective tax rate (TET= tax paid ÷ gross income). If the TET is greater than 1.5%, the liquidated tax is taken as a base; and if less than or equal to 1.5% the result of applying the 1.5% is taken as a base for the reported income in the fiscal year. For individuals, single business owners, and undivided, the calculation of the advance payment is made from the liquidated tax paid in the income tax affidavit. The resulting amount must be paid in twelve equal and consecutive fees, which are a deductible tax credit of the tax paid in the next fiscal period.

8.4 Withholding Income Tax

Entities that act like withholding agents are public entities, commercial companies and other institutions mandated by the Law, which shall deduct from the amount payable to individuals and undivided successions, the amount of the appropriate tax, delivering to the Tax Administration within the prescribed period. Services subject to withholding tax and tax rates are :

- 27% on remittances abroad.
- 10% from foreign lending institutions.
- 10% on dividends paid in cash.
- 10% on fees, commissions, and rents paid to individuals not performing as an employee.
- 5% on awards from RD \$100,001.00 to RD\$500,000.00.
- 10% on awards from RD\$500,001.00 to RD\$1,000,000.00.
- 25% on awards from RD\$1,000.001.00 onwards.
- 5% on payments made by the state to individuals and legal entities.
- 10% on other income.
- 2% on other Withholding tax. (Norm 07-2007).
- 1% on capital gain when companies or entities acquire shares and stocks.
- 27% on donations (norm 7-10).
- 1% of the interest paid to legal entities (companies) by financial institutions (norm 13-11).

8.5 Additional Compensations or Supplementary Remunerations

Taxes are applied to all compensation or individualized benefits that an employer gives to their employees in addition to their salaries in cash. Within the compensation or payments made by companies that are subject to the payment of supplementary remuneration are:

- Education coverage.
- Life insurance, health, and pensions in addition to those stipulated by Law.
- Housing allocation.
- Food subsidy.
- Special discounts and bonuses on goods or services acquired in the same company.
- Vehicle allocations and fuel consumption.
- Maintenance staff. A 29% rate is applied on the value of the supplementary remuneration.

8.6 Tax on assets

Taxes on the total value of assets, including properties listed on the balance sheet, not adjusted by inflation and applied after the deduction for depreciation, amortization and provisions for uncollectible accounts; as well as net fixed assets for financial intermediaries, among others.

When the value of calculated income tax (27% on net taxable income) is less than 1% of assets, the company must pay the difference as complete your annual tax return.

Starting in 2015 it should be reduced to 0.5% and eliminated by the year 2016, as long as the indicators and targets of the Law 01-12 National Development Strategy are met. Once eliminated this tax, the payment of the Real Property Tax will be applied to the legal entity, only will pay for 1% of real estate assets that have the company but in addition to income tax.

8.7 Impuesto sobre las Transferencias de Bienes Industrializados y Servicios (*Tax on Industrialized Transferences of Goods and Services- ITBIS*)

It is a general consumption tax rate, serving as an added value concept in the shape and manner prescribed by the Law, to the following operations:

- The transfer of industrialized properties.
- The import of manufactured properties.
- The provision and location of services.

Entering into force, Law 253-12, the rate applied is 18%, which will remain until the year 2014, it also provides decreasing it to a 16% for year 2015. The Tax Administration may designate, as withholding agents, recipients of certain services or purchasers of certain goods, accurately identifying those services and goods.

Retention of 100% of the "ITBIS" is set and charged for the following services:

- Services offered by individuals.
- Rental of real estate and securities billed by individuals.
- Commission paid by airlines to the travel agents from the sale of airline tickets.

The 100% withholding tax is established for the following services:

- Commission paid by hotels to the travel agents, brokers, and others, when they are billed for lodging, accommodations.
- Commission paid by insurance companies in favor of brokers, insurance agents and others, when they are billed for service brokerage.
- Companies engaged in providing security services.
- Property or services billed by companies that operate under the PST (method which helps with the tax compliance of the medium and small taxpayers, whether legal or natural, that can help settle the income tax based on purchases and/or income and pay the tax on the transfer of goods and services (ITBIS) based on the added gross value).

Companies of any nature are instituted as ITBIS withholder agents when they pay the liberal professional services to other companies or non-profit societies. The applicable withholding tax for these services will be 30% of the billed ITBIS. Among the services in which the withholding taxes apply are the following:

- Engineering services in all its branches, architecture, accounting, auditing, law, computing, management, design, consultancy and general consultancy.
- Rental on property goods.

8.8 Real estate tax, urban housing and solar sumptuary not edified (IPI / VSS).

- Taxed homes and commercial establishments in urban or rural and urban areas unbuilt plots owned by individuals.
- A tax of 1% of total property assets which exceeds RD\$6,752,200.00

8.9 Selective Consumption Tax (ISC)

It is the tax on transfers of some domestically produced goods manufacturing level, and their importation; telecommunication services, insurance and payments by check.

This tax is paid with varying rates depending on

the good or service to which it applies, among which we quote:

- Alcohol products: Specific amounts depending on the amount of liters of alcohol.
- Snuff products: Specific amounts depending on cigarette packs and 130% for cigars
- Telecommunications services: 10%
- Checks and Electronic Transfers: 1.5 mil (0.0015)
- Insurance services in general: 18%
- Other assets established by Law: Specific amounts as good.

8.10 Successions and Donations

Any transfer of real or personal property by inheritance or donation is taxed. A rate of 3% is applied on the successors' amount and 27% on donations. The law increases by a 50% rate when the heirs are foreign or Dominicans living abroad, which means that this type of heirs pays 4.5% on the inherited wealth if they have this condition.

9. Other taxes managed by the Dirección General de Impuestos Internos (*General Directorate of Internal Revenue – DGI*)

- Tax on Company Incorporations.
- Tax on casinos.
- Tax on lottery banks.
- Tax on sport betting banks.
- Tax on slot machines.
- Tax on telephone games.
- Tax on online games.
- Tax on Duty-Free Zones.
- Tax on Commercial Banks, Savings and Loan Associations, Savings Banks and Credit and Corporate Credit.
- Tax on motor vehicle.
- Tax on real estate transfers.
- Ad-valorem tax on fossil fuels and petroleum.
- Tourist Card.

10. International Treaties, Bilateral Investment Agreements

International trade plays an important role in the Dominican economy. For this reason the government and the private sector have made efforts to strengthen it through regional integration, bilateral and multilateral agreements with various countries.

- Free Trade Agreement between the United States, Central America and the Dominican Republic (DR-CAFTA).

- Lomé and Cotonou for EU cooperation with the Dominican Republic, through the ACP countries (Africa, Caribbean and Pacific).
- Letter of intent for FTA with Taiwan.
- Economic Partnership Agreement between the CARIFORUM States and the European Union and its member states.
- Bilateral Investment Promotion and Protection of the Kingdom of Spain, Ecuador, France, Republic of China, Argentina, Chile, CARICOM and Central America.

11. International Agreements

- Agreement between the Government of the Dominican Republic and the Government of the United States of America, for the exchange of tax information.
- Agreement between the Dominican Republic and Canada to avoid double taxation and prevention of fiscal evasion with respect to taxes on income and capital.
- Agreement between the Dominican Republic and the Kingdom of Spain for the avoidance of double taxation and prevention of fiscal evasion (pending approval by the Senate of the Dominican Republic).

10. Transfer Price

Starting the fiscal year 2011, taxpayers reporting income taxes by operating with related or affiliated companies, must submit to the Dirección General de Impuestos Internos (*DGI*) an informative declaration of enabled operations with related or affiliated parties.

The documentation and information forming part of the declaration will contain the details of each transaction and the identification of the related parties, according to the established format. In addition, a report must be submitted on the assessment process of the transfer prices agreed on with their related companies.

If after applying the methods to determine the market price that fits the reported transaction, the price or amount declared or established differs from the market price, will be by either over- or undervaluation, the Dirección General de Impuestos Internos (*DGI*) shall proceed to challenge it, making the settlement for the acquirer and the transferor.

11. Special Regimes

With the entry of the Law 253-12, several benefits were eliminated under incentive laws.

Oriental Republic of Uruguay

1. Identification of the contact firm

Moore Stephens – Posadas, Posadas & Vecino

1.1 Office, address, telephone

Juncal 1305 21^a floor, 11000,
Montevideo - Uruguay

1.2 Professional specialists

Cr. Francisco Obes
Managing Partner
Fobes@PPV.com.uy

Cra. Ximena Furtado
Auditing Partner
auditoria@MSAA.com.uy

Cr. Daniel González Coteló
Taxation Partner
dgonzalez@PPV.com.uy

2. Country profile

With a geographic area of 176,215 sq. km and a population of 3.3 million inhabitants, Uruguay is one of the smallest countries of South America. Its economic annual growth is around 5.0%.

Uruguay has a legal system based on written laws approved by the Parliament and promulgated by the Executive branch. The country is politically organized as a presidential system divided into three independent branches: Executive, Judicial, and Legislative.

Uruguay is politically divided into 19 departments, each with its own Departmental Government which is composed of a Mayor and a Departmental Board, both elected by democratic vote.

2.1 Foreign investment

The Government promotes investments and has a specific policy to attract foreign investment.

The general regime is fully open and, from a fiscal tax point of view, it does not discriminate between foreign and local investors. Foreign investors are entitled to the same incentives as local investors.

No authorizations are required for foreign investment in Uruguay.

The incentives available to foreign and local investors are focused on the creation of jobs, the establishment of high-tech industries and the increase



in exports.

Tax exemptions for certain investments are the most generic incentives.

2.2. The framework of the economic policy

There are no restrictions on the free entry and exit of foreign currency in Uruguay. Foreign currency can be freely exchanged and all foreign currencies are legal tender (this allows the awarding of contracts in any currency). Local and foreign investors are considered equal under the law.

2.3. International trade agreements

In 1991, Argentina, Brazil, Paraguay and Uruguay signed the MERCOSUR Treaty, which creates a single free trade market with a common external tariff, which varies between 0% and 23%. The Treaty establishes free movement of goods, services, people and capital between member States, eliminating customs duties.

Taxes within MERCOSUR countries are almost 0% for most products (there are exceptions) provided that products from those countries comply with origin requirements. Bolivia and Chile have partially subscribed to MERCOSUR and have preferences regarding international trade.

The countries that subscribed the MERCOSUR have also signed agreements with other parties such as Israel, India and the Andean Community. Uruguay also has a free trade agreement with Mexico that provides import and export tax benefits.

Uruguay has recently signed an agreement on economic cooperation, trade and technology with the State of Qatar.

3. Commercial entities

Commercial companies are regulated by law N° 16.060. According to regulations, companies may carry out activities under different legal forms, among which are corporations and branches of foreign companies.

3.1. Corporations

Corporations must be incorporated by at least two founders (national or foreign). The incorporation includes the approval of its bylaws by the Government; their inscription in the Public Trade Registry and publication in the Official Journal and another private newspaper.

After the incorporation process is complete, the share capital may be owned by a single shareholder and may be issued in registered or bearer shares. In this regard, under new legal obligations, those who choose to incorporate with bearer shares must communicate to the Uruguayan Central Bank (BCU) certain information relating to the Directors, the company capital and shareholders, along with other information relating to the corporate standing; failure to comply with this obligation would lead to sanctions.

The company has three corporate bodies: the Board, the Shareholders Meetings (ordinary – AGOA and extraordinary - AGEA) and the Fiscal Commission or the Trustee (optional in the case of "closed" corporations, which are the companies that do not offer their shares to the public).

The AGOA must take place at least once a year at the corporation's domicile, to approve the year-end financial statements, discuss the performance of the Board and appoint its members and the trustee of the company if it were the case.

The board may have one or more members, both individuals and/or legal persons, of any nationality and, domicile or residence. Company shareholders may be appointed to the board and the meetings are not required to be carried out in the country.

Shareholders are forced to attend the meeting and to vote personally or represented by an attorney in fact.

With respect to the share capital, at least 25% of the contractual capital must be integrated at the time of incorporation, there not being a minimum or maximum capital requirement with regards to the contractual capital.

Corporations must additionally comply with obligations to carry company's books and prepare tax

returns, well as with the payment of the applicable taxes.

3.2 Limited liability Companies (SRL)

SRL's require a minimum of two capital quota holders (partners).

The obligations of the partners are limited to their capital contributions, except regarding IRAE and wage debts. Social capital shares are nominative.

SRL's are managed and represented by one or more individuals, partners or not, and appointed in the incorporation minutes. In general, resolutions from partner meetings are adopted by those who possess the majority of the social contributions of capital, in cases where there are less than 20 partners. If there are 20 or more partners, resolutions, in general, are adopted by simple majority of votes of the present partners, computed with a vote by contribution (in this case the system is identical to that of Corporations).

3.3 Branches of Foreign Companies

Branches of foreign companies may carry out business in Uruguay subject to the bylaws of their headquarters. They must be registered in the Public Trade Registry and its incorporation must be published in the Official Journal and another private newspaper. They must also be registered with the Tax Authority and the Social Welfare Bank.

4. Taxation of legal persons

In general, different taxes are applied only on the activities carried out within the country, the tenure of property located within the country and the revenues generated by them.

4.1. Corporate Income Tax ("Impuesto a las Rentas de las Actividades Económicas – IRAE")

IRAE levies Uruguayan net income of economic activities of any nature (industrial, commercial, agricultural and services), obtained by national companies and foreign legal persons with permanent establishment in the country, at an annual rate of 25%.

Uruguayan sourced income is defined as all income generated in activities carried out, goods located or rights used economically in Uruguay, regardless of the nationality, domicile or residence of those involved in the transactions, and the place of celebration of the legal business.

The taxable amount is determined by the difference between gross income and the expenses required to obtain it, which are duly documented

(income and expenses based on the accrual regime).

Furthermore, only those expenses which constitute for the counterparty an income taxed by IRAE, IRPF, IRNR, or by an effective taxation on foreign income, may be deducted.

In the case of expenses which the counterparty considers taxed income at a rate lower than IRAE's, the deduction is limited by the difference in rates.

To recognize the result from exposure to inflation, our tax system sets a simplified global system that involves the application of the Consumer Price Index (IPC) on the equity of the taxpayer at the beginning of the financial period, duly adjusted according to the rules governing IRAE. This adjustment should be recognized only in the event that inflation of the year exceeds 10%.

Tax losses may be deducted over a period of five years, updated by the IPPN.

The existing regime of transfer prices is in line with those of other countries in the region, with the exception of Brazil, and is also in accordance with the guidelines of the OECD.

Forestry

The sale of wood is exempted from Corporate Income Tax if:

- a) The forest was planted before July 2007 in forestry priority areas; or
- b) The forest was planted after July, 2007. In this case the wood should accomplish certain standards of quality.

To be included in b), the forest must be subject to management systems with pruning and thinning that ensure the production of wood free of knots and with specific measures. The Forestry Department of the Agriculture Ministry must qualify the forest and issue a certificate exempting the sale of each forest from Corporate Income Tax.

Off shore international trading

Companies doing international trading of goods or services may determine Uruguayan source income taxed by IRAE as 3% of the difference between the sale and the purchase price of those goods or services.

This regime is applicable when goods have not origin or destination the national territory and the services are utilized exclusively abroad.

These companies could determine the taxable amount on a real basis or choose to pay by this fictitious regime. In that latest case, the only cost that could be deducted is the cost of purchasing of goods and services. Any additional expenses associated to this activity cannot be deducted.

The application of this regime reduces the effective rate of corporate income tax to 0.75%.

International trading through Uruguay customs areas Income derived from the purchase and sale of goods of foreign origin manifested in transit or stored at the Uruguayan customs area, port customs area, customs warehouses and free zones are exempt from IRAE.

The exemption applies when the referred goods not have as origin or destination the national territory and also are not destined to such territory.

The exemption will also apply when the goods have as their destination the national territory, but such operations do not exceed in the year a 5% of total sale of goods in transit or stored at customs areas carried out in this period. In that case the importer shall apply the transfer pricing regime.

If this limit is exceeded, the exemption will only apply to transactions with goods not destined for national territory.

4.2 Tax on Sale of Agricultural Property/Goods ("Impuesto a la Enajenación de Bienes Agropecuarios – IMEBA")

It is an indirect tax which levies the first sale of agricultural products, carried out by producers to buyers who pay IRAE, Public Entities and exporters.

All agricultural producers must pay IMEBA, but those who must mandatorily contribute IRAE, will compensate their IMEBA payments against their IRAE obligations. In the case of small producers, IMEBA takes the place of IRAE as final tax.

Agricultural producers who must pay IRAE as their final tax obligation (without option), are, among others, corporations and permanent branches of non-resident companies as well as those taxpayers whose income exceeds an amount predetermined by the Executive Branch and those who obtain income from the sale of assets for agriculture but which are not included in IMEBA.

IMEBA rates range from 0.1% to 2.5% of sales or export prices, depending on the kind of product in question.

4.3 Net Worth Tax (“Impuesto al Patrimonio – IPAT”)

4.3.1 Agricultural Net Worth Tax (Impuesto al Patrimonio agropecuario”)

Annual tax that levies the agricultural net worth of local or foreign companies or individuals located in the country, adjusted according to tax regulations, on the closing date of the fiscal year. In order to determine the Surcharge applicable rate or, eventually, an exemption of Agricultural IPAT, it will be exclusively considered the rural real estate seat of the business, the movables and livestock of same (Affected Assets).

For such purpose, real estate must be calculated by the value set by the Dirección de Catastro (Cadastral Value). The movable and livestock is estimated by applying 40% on the mentioned Cadastral Value and it should be considered both by owners of the rural properties –even though they do not manage the enterprise- as well as by those who manage the enterprise without being the owners.

4.3.1.1 Taxpayer’s classification

For IPAT and Surcharge purposes, taxpayers are classified in two groups.

From this classification depends the possibility of be exempted from IPAT and will also determine the applicable Surcharge rate.

Each group of taxpayers has particular valuations rules for assets and liabilities.

Group A) composed by:

- a) Foreign entities; and
- b) Uruguayan companies with capital expressed in bearer or nominative titles on behalf of legal persons.

Group B) composed by the remaining taxpayers:

- a) Individuals (residents and non-residents); and
- b) Uruguayan entities with capital expressed in nominative titles on behalf of natural persons.

4.3.1.2 Exemption

Only taxpayers of Group B) with an amount of Affected Assets lower than 12 million of Indexed Units at the closing date, are exempted from IPAT.

To this end, the sum of the Affected Assets must be made individually for each taxpayer or jointly with the rest of the members of the EAU, as appropriate.

4.3.1.3 Affected Assets

The amount of Affected Assets is composed by rural real state destined to the agricultural activity plus the movable and livestock.

For such purpose, real estate must be calculated by the value set by the Dirección de Catastro (Cadastral Value) for the year 2012, and actualized by the Agricultural Index (IPGCS) to the closing date.

The movable and livestock is estimated by applying 40% on the mentioned Cadastral Value and it should be considered both by owners of the rural properties –even though they do not manage the enterprise- as well as by those who manage the enterprise without being the owners.

4.3.1.4 Rates

The applicable rates are:

- 0.75% when Affected Assets are lower than 30 million of Indexed Units (approximately USD 3.100.000); and
- 1.5% when Affected Assets exceeds such amount
- To determine the IPAT rate it must be considered the Affected Assets individually even when the taxpayer constitute an EAU with others taxpayers.

4.3.1.5 Valuation rules

Group A) taxpayers must use IRAE valuation rules for assets and liabilities.

The only exception is the rural real state that must be valued by the highest value resulting from comparing the Cadastral Value at 2012 actualized by the IPAGCS with the value arising from the application of the regulations of the Corporate Income Tax (IRAE).

Group B) taxpayers must use individual’s rules of valuation (see 4.2).

Personal companies included in Group A), under some circumstances, could use valuations rules of Group B).

4.3.1.6 Forestry

Planted areas in forestry priority zones as well as the land affected to them are exempt from IPAT.

4.3.1.7 Economic Administrative Unit

Each taxpayer must determine the value of the Affected Assets individually, and together with other taxpayers if it is verified that they both integrate an Economic Administrative Unit (EAU).

The EAU is a group of entities that respond to a common interest with respect to agricultural activities.

Common interest is verified when a company has or is under control or significant influence of some owners on others or of the same owners.

In the event that the sum of the Affected Assets belonging to the EAU exceeds the limit mentioned above, all of its members shall apply the rate determined by the EAU to calculate their Tax.

4.3.2 Surcharge of Agricultural Net Worth Tax ("Sobretasa")

The Surcharge levies the agricultural net worth at the closing date of fiscal year. The taxable amount is determined by the difference between assets and deductible liabilities (valuated according 3.3.1.5).

Rural real state must be valued by the Cadastral Value at 2012 actualized by the IPAGCS.

The applicable Surcharge rate depends of the taxpayer classification and the amount of Affected Assets (considered individually or jointly with all EAU's members).

4.3.2.1 Forestry activity

For Surcharge purposes, the forests value is considered as included in the rural real estate value.

The following table shows the applicable Agricultural IPAT and Surcharge rates depending of the amount of the affected assets involved and the taxpayer:

Affected assets		Agricultural IPAT		Surcharge	
From (USD)	To (USD)	Group A	Group B	Group A	Group B
-	1.247.306	0,75%	Exempted	Exempted	Exempted
1.247.306	3.118.266	0,75%	0,75%	0,70%	Exempted
3.118.266	6.236.532	1,50%	1,50%	1%	1%
6.236.532	15.591.330	1,50%	1,50%	1,30%	1,30%
15.591.330	-	1,50%	1,50%	1,50%	1,50%

4.3.3 Net Worth Tax for others, non-agricultural activities

It is an annual tax that levies the net worth of Uruguayan or foreign companies located in the country at the rate of 1.5%, adjusted according to tax regulations, on the closing date of the company's fiscal year.

Assets abroad and some local assets such as governments bond, negotiable debt securities and shares or capital of companies which are taxpayers of this tax are not included towards the liquidation of this tax.

The taxable amount of IPAT is basically determined by the difference between: assets located in Uruguay, which should be valued according to fiscal regulations, and deductible liabilities.

The followings constitute deductible liabilities for IPAT purposes: The amount of the average monthly debts loans with local banks, commercial debts with suppliers of goods and services of all kinds (except debts originates on imports and debts with Public Entities who are not contributors), debts from non-due taxes (except the debts for IPAT) and debts documented in bonds or debentures with stock exchange quotation if certain conditions are met.

When the company has assets abroad, assets exempted from IPAT or non-included assets for IPAT purposes ("Non-Liable Assets"), only the deduction of Deductibles Liabilities exceeding the value of Non-Liable Assets is admitted.

4.4 Value Added Tax ("Impuesto al Valor Agregado – IVA")

VAT levies the domestic circulation of goods, the rendering of services within the national territory, the introduction of goods into the country and the value added originated in the construction of buildings. It is a basic rate is 22% and is applicable to most of the taxed goods and services in national territory.

The minimum rate is 10% and is applied to some basic food, drugs, and some hotel services. It is also applicable to the first sale of real estate made by IRAE contributors. Included in this latter concept is the first sale of real estate with certain repairs.

The tax to be paid is determined by the difference between VAT invoiced and VAT purchase.

The latter is constituted by the VAT paid to local suppliers of goods and services and the VAT paid in opportunity of the introduction of goods into the country (imports).

Purchase VAT deduction is conditioned on the fact that the goods and services referred to are direct or indirectly linked to taxable transactions.

Exports of goods are not levied by this tribute. In relation to services, they are not levied by VAT only if they are qualified as an export of services strictly mentioned by the law.

The concept of export of services includes, among others, services provided in customs areas, provisioning of ships, as well as services provided from Uruguay to companies or people domiciled abroad to be used exclusively abroad.

The exporter of good or services retrieves the VAT included in the purchase of goods and services that constitutes a direct or indirect cost of the exported goods or services, through credit certificates issued by the Tax Authority.

There are certain transactions that the law has exempted from VAT, such as the movement of foreign currency and securities, transfer of credits, transactions related to fuel, books and educational materials, water supply; passenger transportation services, real estate rental and interests of public securities.

The agricultural products sold are not taxed by VAT.

Moreover, most of the supplies and materials these companies need for their production are not taxed by VAT.

However, when the goods and services purchased are taxed by VAT at the rate of 22%, such VAT paid to suppliers can be used by the company to pay its IRAE, IPAT or Surcharge.

If the amount of VAT paid to suppliers exceeds the amount of sales VAT, the difference can be recovered through a special mechanism in which

the Uruguayan fiscal authority issues certificates that can be used to pay other taxes, payroll taxes and VAT invoiced by the suppliers.

4.5 Excise Tax ("Impuesto Especifico Interno – IMESI")

This tax levies the first sale in the country and the importation of certain products (vehicles, beverages, tobacco and cigarettes, fuel and lubricants, etc.). Exports are not levied.

In most cases the taxable amount is equal to the public selling price of the levied assets. In other cases (drinks, cigarettes, lubricants, etc.), estimated prices on which tax rates are applied, are periodically set by the Executive Power.

Rates vary depending on the product concerned. The highest correspond to vehicles, cigarettes and alcoholic beverages.

4.6 Corporations Control Tax ("Impuesto de Control de las Sociedades Anónimas – ICOSA")

Corporations must pay an annual tax that is calculated by applying a proportional 0.75% on a value set annually by the Executive Power. The tax to be paid for the business years ended in 2016 is approximately USD 450.

Payments made with respect to this tribute are charged as payment towards IPAT generated in the business year.

4.7 Social Security Contributions ("Contribuciones Especiales a la Seguridad Social – CESS")

Companies must make social security contributions on all salary related wages paid to their employees based in Uruguay.

There are three kinds of CESS:

- (a) Pension Contribution,
- (b) Health Insurance and
- (c) Labour Reconversion Fund.

The three kinds of contributions mentioned levy both, the employer and the employees. They are also subdivided in contributions paid by the company (Employer Contributions) and contributions payable by employees (Personnel Contributions). Personnel Contributions are deducted from the wages of the employee and deposited by the company into the Social Security System.

In general, Employer Contributions are calculated on the nominal value of the wages paid to the

employee, with the exception of agricultural activities, which contribute according to the managed hectares.

The Rates applicable on the different wage items are as follows:

Contributions	Employer	Employee
Retirement	7,5% up to a max.of USD 320	15% up to a max.of USD 640
Health insurance	5%	from 3% to 8%
Labour reconversion	0,125%	0,125%

4.8 Tax incentives for investments

The benefits are classified into three groups:

- (a) Benefits obtained automatically through the acquisition of certain assets,
- (b) Non-automatic benefits that depend on that a particular activity is declared of national interest by the Uruguayan Government, and
- (c) Benefits that can be obtained by submitting an investment project approved by the Uruguayan Government.

4.8.1 Automatic Benefits

Exemption from IRAE: the law allows for deductions in the following cases:

(a) 40% of the investment made in several assets, such as machinery, equipment for data processing and communications, hotel moveable assets, etc.; and

(b) 20% of investments in the construction or expansion of buildings destined to industrial or hotel activity.

Income exempted by these concepts cannot exceed 40% of net income of the financial year, once the exemptions for other provisions have been deducted.

This benefit can be applied only for taxpayers whose income in the immediately preceding year do not exceed approximately USD 1.100.000 and professional cargo transportation companies duly registered without limitation income.

Exemption of IPAT, VAT and IMESI: the most important investments that are exempt from (a) IPAT, (b) VAT and IMESI on imports and (c) VAT on domestic purchases are: machinery and industrial installations, agricultural machinery and utility vehicles.

4.8.2 Activities declared promoted by the

Executive Branch

Within the framework of the sector promotion of the investment law, activities such as those developed by public works concessionaires, tourism projects and activities developed by Call Centres have been promoted under certain conditions.

In the case of public works concessionaires, benefits of auto channelling of savings, IPAT exemption for fixed and intangible assets and VAT exemption on imports or VAT credit on domestic purchases of machinery and equipment, have been granted.

Furthermore, tourism projects have been granted benefits of VAT exemption or VAT credit on domestic purchases, as well as the benefit of accelerated depreciation for goods and services destined to construction, improvement or expansion of projects and IPAT exemption for investments in infrastructure, civil works and fixed assets.

The Government has also promoted the activity of energy generation through non-traditional renewable sources such as wind, solar thermal energy, biomass, etc., and the domestic manufacturing of equipments intended for their production.

Such activities have significant exemption with regards to IRAE, as well as in what concerns Net Worth Tax on certain fixed assets and a VAT exemption on the import of certain goods and services related with the civil work.

Finally, the Government has added to the list of promoted activities the introduction of natural gas in the energy matrix of Uruguay and Shared Services Center.

4.8.3 Benefits of Projects approved by the Government

IRAE taxpayers can get important tax benefits by submitting an investment project to the Executive Branch:

- a. IRAE exemption. The amount and term to have the benefit depend on the rating of the project based on the activity indicators;
- b. Exemption of IPAT on movable property and civil works;
- c. Exemption of rates and taxes on the importation of movable fixed assets which are not competitive with the national industry; and
- d. Return of VAT for the acquisition in the domestic market of materials and services for civil works.

The projects are evaluated by the Application Commission, dependent of the Ministry of Economy, based on the following activity indicators:

Employment generation; Geographical decentralization; Increase in exports; Use of clean technologies; Increase in Research and Development and Innovation (I+D+I) and sector indicators.

5. Taxation on Individuals

In this chapter we will present a brief description of:

(a) Taxation applicable to natural persons not engaged in business activities in our country; and
(b) Incomes and assets not affected to the business activity by natural persons who carry out business activity.

5.1. Income Tax on Individuals (“Impuesto a las Rentas de las Personas Físicas – IRPF”)

It is an annual tax applicable on individuals with tax residence in the country.

An individual is considered a tax resident when he stays for more than 183 days in the calendar year in national territory or when he places on national territory the core of his activities or vital economic interests.

It shall be presumed, unless there is evidence to the contrary, that the taxpayer has tax residence in Uruguay when the spouse and their underage children’s usual place of residence is in our country.

Within the source of this tax are included

(a) the income from capital and the equity increases set by the law and (b) the labour income derived within or outside the dependency relationship.

The Law classifies the mentioned income in two categories:

Category I: Capital Income. This category comprises income derived from capital, equity increases and income of a similar nature.

Category II: Work Income. This category includes income derived from work within or outside a relationship of dependency, with the exception of those incomes levied by IRAE.

5.1.1 Category I Income (Income from capital)

This category includes: a) Real estate capital income: leases, subleases, rights of use, etc. of Uruguayan source; (b) Interest and dividends from Uruguayan and foreign sources; and c) income from equity increases of Uruguayan source.

The general tax rate is 12%; however the following exceptions exist:

- 3% interest on deposits in local currency or indexed units in financial institutions, on a one-year term; interests of other investments (bonds, debentures, etc.) on a three-year term; income of participation certificates issued by financial trusts through IPO and listed on the Stock Exchange of national entities with more than three-year terms.
- 5% interest on deposits (local currency without adjustment index) in financial institutions, for the term of one year.
- 7% for dividends or profits paid by IRAE taxpayers (except dividends or profits paid by IRAE taxpayers to Uruguayan residents originating from interest or dividends obtained abroad which are taxed at 12%); income from author rights on literary, artistic or scientific works.

The following income among others, are exempted: interest on Public Debt Titles; dividends and profits distributed by IRAE taxpayers derived from results exempted from the tax; profits distributed by personal companies earning less than a certain amount set by the Executive Power and the lenders of personal services outside the relationship of dependence that pay IRAE; increases in equity originating from rescues in the equity of entities contributing IRAE and IMEBA and entities exempted from such taxes in accordance with constitutional regulations; income from the sale of shares to the bearer, and other social participations represented in titles to the bearer, of IRAE contributing entities and entities exempted from such tax under constitutional regulations.

5.1.2 Category II Income (Personal Work income)

This category includes income obtained from:

- (a) personal services in dependency relationship; and
- (b) the provision of personal services outside the dependency relationship.

Rates are progressive between 10% and 30% as

from a non-taxable minimum

5.2 Net Worth Tax on Individuals (“Impuesto al Patrimonio de las Personas Físicas – IPPF”)
Individuals and undivided estates pay this tribute when their assets calculated according to fiscal criteria, exceeds a non taxable minimum (MNI), which currently amounts to approximately USD 107,000 and double this amount for family groups.

Rates vary from 0.7% to 1.5%, depending on the level of wealth as from the aforementioned MNI.

Individuals			Family groups		
Taxable amount		Rate	Taxable amount		Rate
From	To		From	To	
1	107.485	0,70%	1	214.971	0,70%
107.485	429.941	1,00%	214.971	859.883	1,00%
429.941	-	1,50%	859.883	-	1,50%

Individuals			Family groups		
Taxable amount		Rate	Taxable amount		Rate
From	To		From	To	
1	107.485	0,70%	1	214.971	0,70%
107.485	-	1,00%	214.971	-	1,00%

The first table shows the amount of assets and rates applicable to non-resident IPAT taxpayers who do not pay IRNR. The second table shows the amount of assets and rates for other taxpayers.

The taxable amount is determined by the fiscal value of the goods located in the country (with some exceptions), less certain liabilities. Some of these exceptions are:

- Real estate is valued by the Cadastral value;
- The value for motor vehicles is annually determined by the Executive Branch;
- The building to be used as dwelling is computed by 50% of its fiscal value.
- The household furnishings and furniture of the dwelling are estimated by applying a percentage of 10% or 20% on the value of the remaining assets.

Furthermore, only liability debts with local banks and companies allowed to grant loans on a regular basis that exceed the value of the assets located abroad are admitted as deductible.

6. Taxation on non-residents

6.1 Non-Residents Income Tax (“Impuesto a las Rentas de los No Residentes – IRNR”)

It is a tax that levies Uruguayan sourced income of any nature obtained by non-resident persons. The tax legislation considers non-resident any person who is not established permanently in Uruguay.

In substance, there is a permanent establishment of a non-resident when his activity is carried out through a fixed place of business in Uruguay.

Income from activities carried out, property situated or rights used economically in Uruguay, regardless of the nationality, domicile or residence of those involved in the operations and legal business venue are considered Uruguayan source.

Also, income obtained for technical services and advertising services carried out from abroad to taxpayers resident in Uruguay, whenever services are affected by whoever receives them to obtaining income included in IRAE, are considered Uruguayan source.

The legislation classifies income in the following categories:

- a) business income;
- b) work income;
- c) capital income; and
- d) capital increases.

In the case of revenues identified in paragraphs a) and b), the taxable amount is equivalent to all of the proceeds from these concepts.

IRNR regulations apply to the other incomes. Positive and negative results cannot be offset between the incomes of the different paragraphs.

The general rate is 12% however, there are the following exceptions :

- 3% interest on deposits (local currency or indexed units) in financial institutions for a period of one year; Interests from other investments (bonds, obligations, etc.) for a period of three years; income from participation certificates issued by financial trusts through public offering and listing on the stock exchange in national institutions, with terms longer than three-year.
- 5% interest on deposits (local currency without adjustment index) in financial institutions for less than a year.
- 7% for dividends or profits paid by IRAE tax-

payers to non-residents and profits derived from copyrights of literary, artistic or scientific work.

6.2 Net worth Tax of Non-Residents ("Impuesto al Patrimonio de los No Residentes – IPNR")

Non-resident natural persons pay Net worth Tax on their assets located in the country the same as resident individuals.

Foreign legal persons that do not constitute a permanent establishment pay Net worth Tax at the rate of 1.5% on their net worth based in our country, valued according to the rules applicable to resident entities.

7. Free-Trade Zone Corporations (ZF)

Commercial companies who obtain the capacity of users of a Free-Trade Zone are exempted from all national taxes, with the exception of the CESS.

ZF companies may carry out commercial, industrial, services and financial activities and the entry and exit of goods to and from the ZF, all the while being exempted from any tribute.

ZF companies must employ at least 25% Uruguayan staff, although the Authorities have been known to grant certain exceptions to this obligation in particular cases where said exceptions are requested in a justified manner.

As to the CESS, expatriates under a dependency regime may choose to tribute IRNR and give up Uruguayan Social Security benefits, in which case social security contributions shall not be applicable to their salaries.

In this case, foreign personnel would pay IRNR at the rate of 12% instead of IRPF (progressive rates between 10% and 30%).

The payment of dividends by ZF companies is not subject to taxation.

8. Treaties for Avoiding Double Taxation

As part of the compliance with international

standards and trying to improve investment conditions, our country has begun working on several agreements to avoid double taxation (CDI) and to exchange tax information: CDIs currently in force: Germany, Argentina (tax credit clause to avoid double taxation), Republic of South Korea, Ecuador, Spain, Finland, Hungary, India, Liechtenstein, Malta, Mexico, Portugal, Switzerland and Romania.

Information exchange treaties in force: Argentina, Denmark, France, Iceland, Norway, Australia, Canada, Greenland, Feroe Island and Sweden.

Information exchange treaties signed but not yet in force: Brasil

9. Free Trade and Free Competition Preservation

The N° 18.159 law that promotes free trade, under the understanding that the preservation of free competition protects the welfare of present and future consumers, promoting economic efficiency and equal access of companies and products to the general market.

This law forbids: (a) the abuse of dominant position, and (b) the promotion of practices, behavior or recommendations, either individual or concerted, that seek or whose purpose is to restrict, limit, obstruct, distort or inhibit present or future free competition in the relevant market.

10. Immigration

Any person who has entered the country legally may request a permanent or temporary residence permit. Both the "permanent" and "temporary" residents may carry out their work activity as dependent or on their own.

Non-residents may not carry out any work other than that which is expressly authorized by the National Immigration Administration, usually granted when such activity does not exceed the period of six months.

Bolivarian Republic of Venezuela

1. Identification of the firm to contact Cifuentes, Lemus & Asociados, S.C.

1.1 Office, address, telephone
Caracas: Av. La Salle con Calle Lima, Torre Phelps,
Piso 26, Plaza Venezuela.
Caracas, Venezuela
T: (Master) (58-212) 781.88.66, 793.88.98
F: (58-212) 781.29.32

1.2 Specialized Professionals

Maffalda Lemus
Tax Partner
mlemus@moorestephens.com.ve

Zaidet Cotoret
Tax Partner
zcotoret@moorestephens.com.ve

2. Country's Profile

Venezuela has a population of 27,150,095 inhabitants, according to the last census performed in 2011. The official language is Spanish, but the aboriginal languages are of official use for ethnic groups. There is freedom of religion with predominance of the catholic religion. The legal time corresponds to the Greenwich Meridian, decreased by 4.5 hours. The legal measurement unit system is the International Unit System (SI), adopted by the General Conference of Weights and Measures. The currency is the Bolivar and for the year 2015, the inflation rate was 180.9%, according to the accumulated variation of the National Consumer Price Index.

It is a Social Democratic State of Law and Justice. The government is democratic, participatory, voted in elections, alternate, responsible, pluralistic and of revocable governing periods. National Public Power is divided into Legislative, Executive, Judicial, Citizen, and Electoral. The Constitution is the supreme law and the foundation for the national legal system.

3. Foreign Investment System

According to the Decree with Rank, Value and Force of Foreign Investment Law there is a system in place to record foreign investments, essential for the protection of such investments and for



guaranteeing the subsequent repatriation of capital equity and dividends. This system requires the compliance with a series of procedures before the National Center of Foreign trade (CENCOEX).

The rights to foreign investors will have their effects from the moment in which to grant the Registration of Foreign Investment. The constitutive value foreign investment should be represented in assets that are in the country composed of equipment, supplies, or other goods or tangible assets required for the initiation of productive operations in at least seventy-five percent (75%) of the total amount of the investment.

In order to obtain the registration of a foreign investment, contributions must be constituted at the official rate exchange in effect for a minimum amount of one million dollars from the United States of America (USD 1.000.000,00) or its equivalent in currency. The CENCOEX may establish a minimum amount for the constitution of foreign investment which may not be less than ten percent (10%) of the estimated quantity, according to sectoral interest, promotion of small and medium industry, and other organizational ways of productive economic character.

Foreign investment must remain in the territory of the Republic for a minimum period of five (5) years, from the date that registration has been granted. Completed this period, investor may, upon payment of taxes and other liabilities that have place, make remittances abroad by concept of the capital originally invested, recorded and updated.

Foreign investor shall be entitled to remit abroad annually and from the close of the first fiscal year, up to eighty percent (80%) of the profits or proven dividends arising from its foreign investment, registered, and updated in freely convertible cur-

rency, prior compliance with the object of the investment; in case of partial remission, the difference can be accumulated with the profits obtained, only in the following annual exercise for the purposes of its referral abroad.

Foreign investors are entitled to reinvest total or partially the profits obtained in national currency for the purpose of being considered as foreign investment. Any reinvestment must be notified to the CENCOEX who within sixty days following the date of its presentation may make observations.

4. Different Kinds of Companies

4.1 General Partnership

Responsibility that is unlimited, joint and severally, for all the partners, having partners' names or some of the partners' names as the name of the company.

4.2 Silent Partnership:

Three or more partners, in which at least one shall be the general partner (responsibility that is unlimited, joint and severally) and the rest shall be partners in commendam (responsibility that is limited to the amount of capital contributed).

4.3 Limited Liability Company

The capital stock is divided into parts and the responsibility of the partners circumscribes exclusively to the capital contributed individually (it should not be exceeding Bs. 2,000).

4.4 Stock Company

Participation in capital stock through bonds or shares that are distinctive due to their different nominal value or due to the different privileges associated to such bonds or shares. Responsibility is limited to the capital contributed.

4.5 Personal Signature

It has only one participant, no other signature or commercial name can be used other than the participant's last name with or without a first name.

4.6 Cooperative Associations

Groups of at least five partners, which operate for the equal benefit of all its members, without contributing yields to external investors. The Cooperative Association Law regulates these associations.

4.7 Joint Ventures

Joint ventures are considered as consortiums formed by companies with the objective of carrying out a specific economic activity in a joint man-

ner. In the cases of equity participation agreements, the associating member and the associates should calculate their corresponding parts in the periodic results of the operations relating to the equity account, within their respective annual economic periods.

5. Auditing and Accounting

Generally accepted accounting principles are constituted by International Financial Reporting Standards (IFRS) adopted: VEN-NIF GE (big companies) and VEN-NIF PYME (small and medium companies). Also adopted were International Auditing Standards (IAS), issued by the International Federation of Accountants (IFAC).

6. Labor System

6.1 Different Kinds of Employment Agreements and Terms

Employment agreements must be in writing. These can be for undetermined periods or for determined jobs. Unless there are causes justifying the termination of the work relationship, labor stability is guaranteed for:

- Workers contracted for undetermined periods, as of the first month in which service is rendered (first day after the second month in which uninterrupted services are rendered);
- Workers contracted for determined periods until expiration of employment agreement, and;
- Workers contracted for a particular job, until completing the tasks for which contracted.

Employees holding directive positions are the only ones excluded from the absolute stability system of employment.

There is labor immobility (job freeze) in certain cases set forth in the Organic Labor Law, The Workers, and other Special Law, among which the following can be highlighted:

- Pregnant workers (and their partners), from beginning of pregnancy up to 2 years after giving birth;
- Workers that adopt children under 3 years of age, for a term of 2 years as of adoption date;
- Workers with handicapped children or with illnesses that make them dependant of others;
- Workers during any suspension of the work relationship.

Work schedule has daily and weekly limits on the amount of hours, for day, night, or mixed shifts. Minimum salary is adjusted every year by mandate from the National Executive Government.

A 30% salary plus is added to the night shift, having to notify the corresponding Work Inspection Office thereof; if not, these extra hours must be paid at a 100% salary plus.

For employers of 10 or more workers, workers of foreign nationality cannot be over 50% of the total count of employees and their salaries cannot exceed 20% of total payroll paid.

6.2 Participation in employees' profit sharing
Employees' profit sharing is distributed at no less than 15% of the liquid incomes obtained at the closing of the economic year. Employees' profit sharing should have a minimum amount of 30 days up to a ceiling of 120 days of salary.

6.3 Vacations

At least 15 remunerated working days must be granted to workers (plus 1 additional day for every cumulative year of service, up to a ceiling of 15 days).

A vacation bonus is due that corresponds to at least, 15 days of salary (plus 1 day for every year of permanence on the job up to a maximum of 30 days).

6.4 Payment of Social Benefits

Upon termination of the work relationship, the worker shall receive for the concept of social benefits, the higher amount of that deposited for social benefit guarantee and the equivalent to the social benefits as computed at job withdrawal date.

6.4.1 Guarantee of Social Benefits

This is related to a fund, the purpose of which is to guarantee payments of social benefits to the workers, which is calculated during the course of the work relationship, as follows:

- Quarterly guarantee: 15 days of salary for every quarter calculated based on the last salary earned in said quarter.
- Additional days: after the first year of service, 2 additional days per year are added, cumulative up to 30 days.

Concept	Limits to amounts to be contributed for each worker	Employer's Contribution	Worker's Contribution
Social Security	5 Minimum Salaries	9%-10%-11%	4.00%
Employment Benefit System	10 Minimum Salaries	2%	0.50%
Compulsory Public Housing Savings Trust (FAOV)	No limit	2.00%	1.00%
INCES	No limit	2.00%	0.50%
Food Program	No limit	Tickets or Food	Not applicable
Children's Day Care Program	5 Minimum Salaries	Up to 40% enrollment fee and school registration fees	Not applicable

6.6 Other Labor Aspects of Interest

- Maternity: leave of 6 weeks prenatal and 20 weeks postnatal; job freeze during pregnancy and up to 2 years after giving birth.
- Paternity: License for 14 consecutive days as of birth. Job freeze up to 2 years after birth.
- Special job freeze: general system ordered by decree from the National Executive Government. Workers protected cannot be dismissed without a qualified justified cause by work authority.
- System for workplace safety, conditions, and

environment related to health, hygiene, security, and wellbeing.

7. Exchange Control

The National Center for Foreign Trade (CENCOEX) is the organ responsible for the administration of official foreign exchange and establishes the criteria for the Corporación Venezolana de Comercio Exterior (Venezuelan Foreign Trade Corporation) that qualify who can be part of the register of natural and legal persons that request access to the official foreign exchange.

The special exchange rate denominated as

“protected” by the government (DIPRO acronyms in Spanish) of Bs 9,975 per 1,00 US\$ for purchase and Bs. 10,00 per 1,00 US\$ for sale, is solely applicable to import goods included in a list of products related to food and health industries as well as raw materials and supplies required for their production, specifically authorized for the respective Ministers and subject to previous approval of CENCOEX.

In addition, there is another type of exchange rate which fluctuates according to market conditions, denominated as DICOM (acronyms in Spanish). This DICOM exchange rate is applicable to foreign currencies transactions processed through others and regulated mechanisms but included within the Exchange Control Regime and exchange regulations.

Natural persons or legal private (companies) dedicated to the export of goods and services, may retain and manage up to 60% of the income they receive in exchange, because of exports made, to cover the costs incurred under the export activity, other than financial debt. The rest of foreign exchange earnings will be sold to the BCV, who shall acquire them at the exchange rate of reference DICOM, that applies to the acquisition date.

As part of the regulations on foreign exchange is the Against Illegal Foreign Exchange Law, which sets monetary and criminal penalties for violations of this rule.

8. Tax System

8.1 General

Tax Unit (U.T. due to its acronym in Spanish) is the measure of value created for tax purposes, and it is updated every year by the National Assembly. The current value is Bs. 177,00.

8.2 Taxes on Incomes of Companies

8.2.1 Kind of System

World income system; taxation on annual incomes, net and available, obtained in money or kind, originating from economic activities performed in Venezuela or from properties located in the country. All residing individuals and domiciled companies must pay taxes on their incomes regardless of origin, and regardless of whether the cause of source of income is located in or outside the country.

8.2.2 Tax Period

The calendar year or the period of 12 months chosen. Once the period is chosen, it cannot be changed without the authorization from the Tax Administration Bureau. The final income tax return is presented within 3 months after closing the period.

8.2.3 Taxpayers

All companies are taxpayers, including irregular ones; associations, funds, corporations, and other juridical or economic entities; permanent establishments, centers or fixed bases located in the country. Companies of individuals, communities, and joint ventures are liable for taxes applicable to the partners, associate members, or joint ventures.



8.2.4 Rates

Rate No. 2	Segments	Rate 2	Reductions
From 0 U.T.	Up to 2,000 U.T.	15 %	- 0 -
From 2,001 U.T.	Up to 3.000 U.T.	22 %	140 U.T.
From 3.000 U.T.	And over	34 %	500 U.T.

Rate N° 3-A: Royalties for exploitation of mines: 50%.

Rate N° 3-B: Exploitation of hydrocarbons, refining and transportation, or the purchase or sale of hydrocarbon and derivatives for exports: 60%.

Special Rate: Banking, financial, insurance and reinsurance activities: 40%.

8.2.5 Incomes liable for taxes

Increases in equity resulting from subtracting costs and deductions allowed by law from gross profits, plus or minus the effect of the tax adjustment for inflation. (taxpayers involved in banking, financial, insurance and reinsurance activities and the taxpayers qualified as special taxpayers are excluded of the adjustment by inflation system).

8.2.6 Carrying forward losses

- Non-offset net losses from exploitation: up to 3 years, but only imputing to 25% enrichment in each year where moves
- Losses from adjustment for inflation: cannot be transferred.
- Losses from foreign source: these can only be offset by incomes of foreign source.

8.2.7 Withholdings on local payments

Payments of remunerations for different concepts are subject to income tax withholding at the source of 5%, in the case of agreements for work projects and service rendering is 2%, and for freight transportation, it is 3%.

Concepts paid	Tax Base	Withholding	Concepts paid	Tax Base	Withholding
Professional service fees	90%	Rate 2	Technical assistance	30%	Rate 2
Commissions	100%	5%	Technological services	50%	Rate 2
Interest financial institutions	100%	4,95%	Premiums from insurance and re-assurance	30%	10%
Interest other non-domiciled companies	95%	Rate 2	Execution of project works/ service rendering in Venezuela	100%	Rate 2
Freights for transportation Venezuela-Abroad	5%	Rate 2	Leasing of movable property	100%	5%
Freights for transportation only in Venezuela.	10%	Rate 2	Publicity, propaganda and spaces	100%	5%
Exhibition of movies and similar items	25%	Rate 2	Purchase of shares of Venezuelan companies outside of stock market	100%	5%
Royalties and similar participations	90%	Rate 2			

Rate 2 is always applied in a cumulative manner: the amounts paid at previous dates are added to the amount paid at each date, within the same economic period; Rate 2 is applied; the total amount withheld at previous dates are subtracted from the resulting amount, within the same economic period.

8.3 Income taxes of individuals

8.3.1 Tax Period

Calendar year. The final income tax return is presented within 3 months following the closing of the economic period.

8.3.2 Liable for taxes:

The following are considered domiciled in the Bolivarian Republic of Venezuela for tax purposes:

- Individuals having stayed in the country for a period consecutive or interrupted of 183 days in one calendar year, or in the previous year.
- Individuals having their residence or place of abode in the country, unless having stayed in another country for a period consecutive or interrupted of more than 183 days, and they prove having acquired residence in that other country for tax purposes.
- Fixed bases in the country of individuals residing abroad by means of which freelance personal services are rendered (any place where independent personal services of a scientific, literary, artistic, pedagogical educational nature, among other, are rendered besides the independent professions).

8.3.3 Rates

Rate No. 1: Only for residing individuals: from 6% to 34% (progressive rate, with deductions).

Proportional tax: Only for non-residing individuals: 34%.

8.3.4 Incomes liable for taxes

The same rules set forth for companies apply.

8.3.5 General Principles for Costs and Expenses

The same rules set forth for companies are applicable, except for the effect of adjustment for inflation. In the case of purchases of no monetary assets, special adjustment for inflation can be imputed. Individuals have the right to make deductions (being able to choose one sole amount without supporting document or one variable amount subject to restrictions and supporting documents).

8.3.6 Withholdings on Local Payments

Payments of remunerations for different concepts are object of income tax withholdings at the source of 3%; in the case of agreements for project works and service rendering, 1%.

8.3.7 Withholdings on Payments to Abroad

Payments of remunerations for different concepts are object of income tax withholding at the source of 34%; the same tax bases set forth for non-domiciled companies are applied. In the case of salaries and similar items, the tax basis is 100%.

8.4 Incentives

8.4.1 Income Tax Deductions due to Activities and

Investments, calculated based on the amount of such New Investments

- Rendering of tourist services: 75% (checking for special legal requirements).
- Deductions for shipping investments: 75% (checking for special legal requirements).

8.5 Anti-evasion Rules

8.5.1 Transfer Pricing

All taxpayers carrying out operations with foreign related parties are required to present an informative declaration and to document a transfer pricing analysis. This system is based on the Arm's Length Principle.

8.5.2 Thin Capitalization

The deduction of interest paid directly or indirectly to related parties depends on whether the amount of debts held direct or indirectly with related parties, added to the amount of debts held with independent parties do not exceed the taxpayer's net equity. The amount of debts considered as excessive shall be treated as net equity. Two procedures are established: objective method with a fixed ratio of Debt/Capital 1:1 and a subjective method based on market conditions.

8.5.3 Tax Transparency

An electronic informative declaration is required of taxpayers related direct or indirectly with countries of low fiscal taxation carrying out activities or having any kind of investment in said territories, in which any such investments must be reported.

8.6 Equity Tax

Not applicable concerning taxes on income, however, there are state revenue stamps that tax capital stock upon incorporating companies or if subsequent capital increases are made.

8.7 Taxes on Capital Gains

- Games: Gains obtained from games are taxed at 34% and prizes from lotteries and from horse racing tracks: 16%.
- Dividends in general: 34% in proportion with the net book income exceeding net taxed fiscal income and not originating from exempted or exonerate incomes. For dividends originating from foreign companies 34% is applied.
- Dividends originating from exploitation of hydrocarbons and related activities: 50%.
- Dividends originated from royalties for exploitation of mines: 60%.
- Dividends in shares: 1% advance (this can be

credited to the tax when such shares are sold).

- Presumed dividends: there are suppositions for the case of branches of foreign companies and for withdrawals of stockholders.
- Purchase of shares in domiciled Stock Market: 1% of gross income.

8.8 Taxes on successions and donations

This tax is applied to gratuitous transmissions of rights, movable property, immovable property, or shares located in the country, caused by death or by acts between living individuals. The tax base is computed based on the market value of the property. Exemptions and exonerations are included. The rate varies from 25% (first degree of relationship) up to 50% (no relationship).

8.9 Value Added Tax

8.9.1 Taxed operations

Liable for this tax are the sale, importing, and exporting of movable property; also, the rendering and importing of services and it is managed over a system of tax debits and credits.

8.9.2 Rates

The general rate can vary from 8% to 16.5%. Currently, the general rate is 12%. There is a reduced rate of 8% for certain special operations. Besides, an additional between 15% and 20% rate is applied that is added to the general rate for goods classified as luxury items. Exports are taxed with 0%. The Law includes exempted goods and services and the National Executive Government may grant exonerations. There is a withholding system at the source for Value Added Tax (IVA due to its acronym in Spanish), of 75% or 100%.

8.10 State Taxes

The states are entitled to create taxes for the use of their property and services, as well as to collect fiscal revenues (official seal-printed paper, revenue stamps).

8.11 Municipal Taxes

The main tax applies to Economic Activities of Industry, Commerce, Services, or of a similar nature (where variable rates are applied according to the activity and municipality, on gross incomes received). Other taxes are Urban Real Estate Tax, Tax on Propaganda and Publicity, Tax on Public Shows and Tax on Vehicles.

8.12 Other National Taxes

Other national taxes are applied by sector, such

as: on betting and gaming activities; on alcohol and alcoholic beverages; on cigarettes and manufacture of tobacco; on the industry and commerce of hydrocarbons; on the exploitation of mines; on telecommunications; on idle lands.

There are also rates for public acts; public recording, revenue stamps, court costs.

There are also certain contributions, such as; for the broadcasting of images and sounds within the national territory; for the rendering of tourist services; on the agro-industrial producers; on the national cinematographic activities.

Special contributions stand out in the following matters:

- Prevention of Drugs: applicable to companies employing 50 or more workers (1%) or manufacturers of alcoholic beverages, tobacco and their blends (2%), calculated based on the profit in operations for the year.
- Sports: applicable to companies carrying out economic activities within the country (1%), calculated based on the net income in excess of 20,000 TU.
- Science, Technology and Innovation (LOCTI due to its acronym in Spanish): Applicable to companies incorporated or domiciled in the country, a percentage calculated based on the gross incomes for the previous year in excess of 100,000 T.U.: stake games sectors and gambling, alcohol beverages and tobacco (2%); Mining and hydrocarbons (1%); and big companies from other sectors producing goods and services (0.5%).
- Tax on Large Financial Transactions: applicable to entities qualified as special taxpayers and entities related thereto, with a rate of 0.75 % levied on bank debits and debt cancellation made without intermediation of the financial system for the payment or other species.

9. Other Laws or Regulations of High Impact on Businesses

Fair Pricing Law: since 2012 the government has paid special attention to the pricing on the products of the basic basket, creating different mechanisms and regulations designed at this. During the second half of 2013, with the goal of slowing the rate of national inflation, began inspections, audits and measures forced occupation of companies and establishment by setting their sales prices to an "profit margin" without that had to date no specific regulations to regulate the profit margin.

Thus, as in 2014 the Government promulgated a decree law in order to establish fair prices for goods and services, by analyzing cost structures, setting the maximum percentage of gain and effective control of economic activity and commercial. Because of this new regulation, the companies feel the need to review its cost structure and accounting records thereof, since that date, registered accounting costs will be the main basis for calculating their income source. Also currencies that are assigned by the competent authority under the foreign exchange administration rules will be strictly monitored and controlled to ensure that the object and purpose for which they were requested and granted.

In order to be able to carry out economic and commercial activities in the country, it is prerequisite for the subjects of application of this Law, the registration and updating of data in the National Register of People who Develop Economic Activities (RUPDAE).

The maximum profit margin will be established annually, following scientific criteria, by the National Superintendency for the Defense of Socio Economic Rights (SUNDDE), taking into consideration the recommendations of the Ministry of Popular Power competent in matters of Commerce, Industries and Finance. In any case, the profit margin of each actor in the supply chain exceed 30 percentage points of the cost structure of the good or service.

In case of violations of the rules under this Law, the National Executive may initiate the expropriation proceeding. In cases of expropriation, it can compensate and reduce the amount of compensation for fines, penalties and damages caused, without prejudice of what established other laws.

MOORE STEPHENS

We believe the information contained here in to be correct at going to press, but we cannot accept any responsibility for any loss occasioned to any person as a result of action or refraining from action as a result

of any item herein. This brochure is not a substitute for professional advice. Printed and published by © Moore Stephens LLP, a member firm of Moore StephensInternational Limited, a worldwide association of independent firms. MSIL and its member firms are legally distinct and separate entities. Moore Stephens LLP is registered to carry on audit work by the Institute of Chartered Ac-