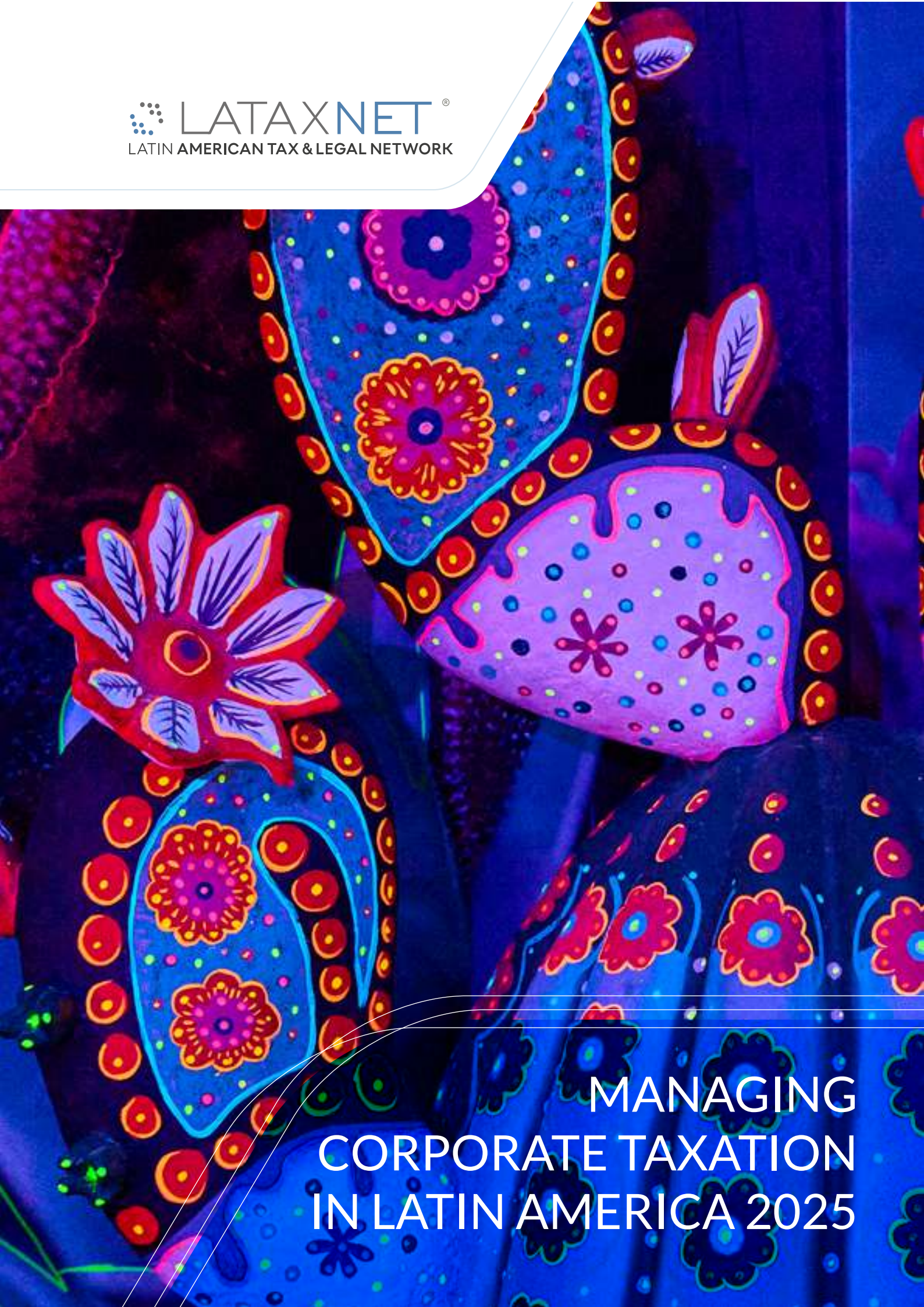
LATAXNET®
LATIN AMERICAN TAX & LEGAL NETWORK



MANAGING CORPORATE TAXATION IN LATIN AMERICA 2025

LATAXNET

Latin American Tax & Legal Network

We are a network of advisors comprised of Latin American and Caribbean professional firms. The network was formed with the goal of offering the highest-level advisory services in participating countries, with special emphasis on keeping our clients up to date on the latest developments.

Our organizational structure allows us to share experiences and professional know-how, always keeping in mind the perspective and reality of each individual country. Our experience with laws and tax cases at the Hemispheric level, along with constant information sharing regarding the latest tax trends, ensure that our clients are well informed and prepared to deal with their tax issues.

LATAXNET®
LATIN AMERICAN TAX & LEGAL NETWORK

wts global

WHAT MAKES US UNIQUE

LATAXNET is a tax network of highly specialized Latin American professional firms covering 17 countries running all the way from Mexico to Argentina. Since LATAXNET was formed in 2003 its goal is to offer in-depth tax and legal advisory services in all participating countries combining global state-of-the-art tax and legal knowledge with the understanding of the particularities of each Latin American jurisdiction tax system and practices. As such, LATAXNET provides its client base with a platform for a consistent and coordinated approach in structuring and dealing with their tax and legal duties arising from their investments into, from or across Latin America, offering efficiencies from accumulated knowledge and synergies resulting from close to two decades of shared experience.

We can proudly say that our accumulated experience and in-depth knowledge in dealing with tax issues for our clients is further enhanced by our shared view for positively influencing fiscal policy and tax practice and compliance in Latin America through the exchange of ideas in academia, international professional associations, local chambers and associations, and with the competent authorities and the judiciary.

WHAT WE DO

LATAXNET offers integrated tax advisory services in Latin and Central America and the Caribbean, proposing multi-jurisdictional solutions that take account of the opportunities presented by each country's legislation. We are a network of specialists who belong to some of the most highly-regarded independent professional firms in the region, organized for the purpose of offering tax and legal services of the highest quality.

www.lataxnet.net

© Lataxnet, 2021 All rights reserved. No part of of this publication may be reproduced without the prior permission of Lataxnet

LATAXNET®
LATIN AMERICAN TAX & LEGAL NETWORK

CONTENT

Argentina Chapter	5
Bolivia Chapter	26
Brazil Chapter	37
Chile Chapter	67
Colombia Chapter	91
Costa Rica Chapter	133
Dominican Republic Chapter	144
Ecuador Chapter	170
El Salvador Chapter	222
Guatemala Chapter	230
Honduras Chapter	240
Mexico Chapter	260
Panama Chapter	294
Paraguay Chapter	307
Peru Chapter	322
Uruguay Chapter	330
Venezuela Chapter	352

ARGENTINA ROSSO ALBA & ROUGÈS ABOGADOS

IN-COUNTRY MEMBER FIRM:

www.rossoalba.com
(5411) 4877-7000/05/06
311 Corrientes Avenue, 11th floor
(C1043AAD)
Buenos Aires, Argentina

CONTACT PARTNER(S):

Cristian E. Rosso Alba
crossoalba@rayrlaw.com

Juan Marcos Rougès
jrouges@rayrlaw.com

Christian Fleischer
cfleischer@rayrlaw.com

María Cecilia Burgos Baranda
cburgosbaranda@rayrlaw.com

Daniel Dominguez
ddominguez@rayrlaw.com

HIGHLIGHTS

NATIONAL LEVEL TAX RATES:	
Corporate Income Tax:	25%, 30% and 35%[1]
Capital Gains Tax (shares, bonds and other stock):	25%, 30% and 35%[2] (local corporations, branches and other business taxpayers) 5 or 15%[3] (local individual taxpayers) 5% or 15%[4] (foreign beneficiaries)
Gains Tax (other capital gains, such as interests):	25%, 30% and 35% (local corporations, branches and other business taxpayers) 35%[5] (local individual taxpayers)
Real Estate Profits:	25%, 30% and 35%[6] (local corporations, branches and other business taxpayers) 15%[7] (local individual taxpayers)
Branch Profits Tax:	25%, 30% and 35%[8]
Withholding Taxes on:	
- Interest:	15.05% / 35%
- Royalties:	21% / 28 %/ 31.5%
- Other Services:	31.5%
Tax losses carry-forward term:	5 years
Transfer Pricing Rules:	OECD like[9]

1 Law No. 27.630, published on the Official Gazette on June 16, 2021, established a scale with three brackets of tax rates of 25%, 30% and 35% respectively, which is applied according to the entity's accumulated taxable income. In addition, Law No. 27.346, published on the Official Gazette on December, 27, 2016, introduced a specific tax rate (41,5%) for Income Tax in the case of rents deriving from gambling exploitations in casinos and bets done through electronic gambling machines and/or automatized bets and/or through digital platforms, even if it is obtained by individuals or companies. Also, the regime created (i) a specific tax on gambling through electronic gambling machines or automatic bets and (ii) an indirect tax on- line bets through any kind of digital platform which uses internet, regardless of the servers' location.

2 Law No. 27.630, published on the Official Gazette on June 16, 2021, established a scale with three brackets of tax rates of 25%, 30% and 35% respectively, which is applied according to the entity's accumulated taxable income.

3 Schedular tax: the applicable rate depends on the type of instrument, currency and the adjustment procedure. The results from sale, transfer or disposition of shares, securities representing shares, certificates of deposit of shares, public bonds, negotiable obligations, quotas of investment funds, debt securities of financial trust and similar agreements that are carried out through stock exchanges or stock markets authorized by the Argentine Securities and Exchange Commission will be exempt.

4 The applicable rate depends on the type of instrument, currency and the adjustment procedure. The 5 or 15 % rate is applied over a deemed net income of 90% of the transacted amount, amounting the final tax burden to 4.5% or 13.5% of the gross selling price. The results from sale, transfer or disposition of shares, securities representing shares and certificates of deposit of shares that are carried out through stock exchanges or stock markets authorized by the Argentine Securities and Exchange Commission will be exempt and so the results arising from investments in public securities, negotiable obligations, quotas of investment funds, debt securities of financial trusts and similar agreements.

5 Law No. 27,541 eliminated the schedular tax for the income arising from interest. Therefore, the general tax rate of 35% is applicable. However, it should be noted that such Law also reintroduced specific exemptions for certain types of interest income earned by individuals.

6 Law No. 27.630, published on the Official Gazette on June 16, 2021, established a scale with three brackets of tax rates of 25%, 30% and 35% respectively, which is applied according to the entity's accumulated taxable income.

7 A 15% capital gains tax rate is applied to the sale of real estate performed by individuals, for properties acquired as of January 1, 2018.

8 Law No. 27.630, published on the Official Gazette on June 16, 2021, established a scale with three brackets of tax rates of 25%, 30% and 35% respectively, which is applied according to the entity's accumulated taxable income.

9 Except for commodities, tested party rules and other set exceptions.

Tax-free Reorganizations:	i) mergers; ii) divisive reorganizations, and iii) sales and transfers within an economic group.
VAT on Sales:	21%[10]
VAT on Services:	21%
VAT on Imports:	21%
Custom Duties:	from 0% to 35%
Excise Taxes[11]:	0.1% to 75%
Bank Debits and Credits (Transfers) Tax Rate:	0.6%[12]
Personal Assets Tax:[13]	0.5% to 1.5%
Local Level Tax Rates[14]:	
Stamp (Documentary) Tax[15]:	1%
Gross Turnover Tax:	1% to 7%

TREATY TAXATION:

Countries[16]	Interest	Dividends	Royalties
Australia	12%	10%[17]/ 15%	10% / 15%
Austria[18]	12%	10%[19]/15%	3%/ 5%/ 10%/ 15%
Belgium	12%	10%[20] / 15%	3%/ 5%/ 10%/ 15%
Bolivia[21]	No limits	No limits	No limits
Brazil[22]	15%	10%[23] / 15%	10% /15%

10 There are lower (10.5%) and higher (27%) differential rates.

11 Goods subject to excise taxes are: cigarettes (70%), alcoholic beverages (20%-26%), cars and certain engines (20-25%); insurances (0.1%-23%); mobile and satellite phone services (5-5,26%), among others.

12 An increased rate of 1.2% applies whenever there has been substitution for the use of a checking account. The tax withheld is partially creditable against other Federal Taxes.

13 Law No. 27,743 gradually reduces the rates to 0.25% by 2027, unifies the rates for assets located in the country and abroad, and increases the tax-free minimum to AR$100,000,000 for general assets and AR$350,000,000 for primary residences. In addition, Law No. 27,743 provides for a special regime of advance payment for the periods from 2023 to 2027, with a rate of 0.45% per tax period, based on the taxable base as of 12.31.2023.

14 Reference is made to the most usual rates, but other rates may be applicable in certain jurisdictions.

15 Local Governments had committed to eliminating this tax by 2023 ("Consenso Fiscal", signed on November 16, 2017 and September 13, 2018). However, the "Consenso Fiscal" was suspended on December 17, 2019.

16 DTT with Colombia and Israel were negotiated but not subscribed yet.

17 If they are franked, according to Australian income tax laws and subject to a maximum of 15% in other cases.

18 Negotiated. Not approved by domestic legislation yet. The legislative branch has approved its parliamentary procedure on May 15th. However, the law has not yet been approved by domestic legislation yet, and therefore the DDT is not yet in force.

19 The tax may not exceed 10% of the dividends if the beneficial owner is a company holding at least 25% of the capital and 15% in other cases.

20 The tax may not exceed 10% of the dividends if the beneficial owner is a company holding at least 25% of the capital and 15% in other cases.

21 This treaty does not establish specific limits on the taxes but rather specifies which country has jurisdiction to impose taxes.

22 The Protocol of Amendment entered into force on July 29, 2018.

23 The tax may not exceed 10% of the dividends if the beneficial owner is a company holding at least 25% of the capital and 15% in other cases.

Canada	12.5%	10%[24]/15 %	3% /5% /10% /15%
Chile[25]	4% / 12% / 15%[26]	10%[27]/ 15%	3% /10% /15%
China[28]	12%	10%[29]/15%	3%/5%/7%/10%
Denmark	12%	10%[30]/ 15%	3% /5% /10% /15%
Finland	15%	10%[31]/ 15%	3% / 5% /10% /15%
France[32]	20%	15%	18%
Germany[33]	10%[34] / 15%	15%	15%
Great Britain	12%	10%[35]/15%	3%/5%/10%/15%
Italy	20%	15%	10%/18%
Japan[36]	12%	10%[37]/15%	3%/5%/10%
Luxembourg[38]	12%	10%[39]/15%	3%/5%/10%
Mexico[40]	12%	10% / 15%[41]	10% /15%
Netherlands	12%	10%[42]/15%	3%/5%/10%/15%

24 The tax may not exceed 10% of the dividends if the beneficial owner is a company holding at least 25% of the capital and 15% in other cases.

25 The treaty entered into force on October 11, 2016, and became effective on January 1, 2017, for both annual tax burdens and withholding taxes triggered at the income payment source.

26 The 4% limit applies if the interests arise from sales of commercial or industrial equipment. The 12% limit applies if the interests arise from bank loans or from bonds or other negotiable securities regularly and substantially traded on known stock markets. The 15% limit applies in all other cases.

27 The tax may not exceed 10% of the dividends if the beneficial owner is a company holding at least 25% of the capital and 15% in other cases.

28 The treaty entered into force on October 18th, 2024 and became effective on January 1st, 2025.

29 The tax may not exceed 10% of the dividends if the beneficial owner is a company holding at least 25% of the capital (during a 365-day period that includes the day on which dividends are paid) and 15% in other cases.

30 The tax may not exceed 10% of the dividends if the beneficial owner is a company holding at least 25% of the capital and 15% in other cases.

31 The tax may not exceed 10% of the dividends if the beneficial owner is a company holding at least 25% of the capital and 15% in other cases.

32 Protocol amending the DTT has been signed but not yet approved by domestic legislation.

33 Protocol amending the DTT was negotiated but not yet subscribe by both estates.

34 The 10% limit applies if the interests arise from bank loans or from sales of commercial or industrial equipment. The 15% limit applies in all other cases.

35 The tax may not exceed 10% of the dividends if the beneficial owner is a company holding at least 25% of the capital and 15% in other cases.

36 Negotiated. Not approved by domestic legislation yet.

37 The tax may not exceed 10% of the dividends if the beneficial owner is a company holding at least 25% of the capital and 15% in other cases.

38 Negotiated. Not approved by domestic legislation yet.

39 The tax may not exceed 10% of the dividends if the beneficial owner is a company holding at least 25% of the capital and 15% in other cases.

40 The treaty entered into force on August 23, 2017, and became effective on January 1, 2018.

41 The tax may not exceed 10% of the dividends if the beneficial owner is a company holding at least 25% of the capital and 15% in other cases.

42 The tax may not exceed 10% of the dividends if the beneficial owner is a company holding at least 25% of the capital and 15% in other cases.

Norway	12.5%	10%[43]/15%	3%/ 5%/10%/15%
Qatar[44]	12%	5%/10%/15%[45]	10%
Russia	15%	10%[46]15%	15%
Spain[47]	12%	10%[48]/15%	3% / 5%/10%/15%
Sweden	12.5%	10%[49]/15%	3%/5%/10%/15%
Switzerland	12%	10%[50]/15%	3%/5%/10%/15%
Turkey[51]	12%	10%[52]/15%	3%/5%/10%
United Arab Emirates[53]	12%	10%[54]/15%	10%

On April 23, 2012, Argentina and Uruguay entered into an agreement for the exchange of tax information. The agreement stipulates that the competent authorities shall assist each other through the exchange of relevant information with respect to taxes and tax criminal matters. In order to obtain such information, the states shall send the other a request for information, which must indicate the identity of the person under investigation, the nature of the information required, the period during which the information is requested, and the reasons to believe the information is relevant. This agreement also sets forth a tax credit methodology for the elimination of double taxation.

On December 23, 2016, Argentina and the United States of America ("US") signed a Tax Information Exchange Agreement ("TIEA"), in force since December 13, 2017. The TIEA had enabled the exchange of tax information "upon request" between both countries, under certain circumstances. Despite that fact, the information must be provided whether the requested party needs such information for its own tax purposes or whether the conduct being investigated would constitute a crime under the laws of such party. Furthermore, the Agreement intends to avoid "fishing expeditions" and, hence, compliance guidelines are designed for the exchange of information, with clear instructions to provide the information with the greatest degree of specificity possible.

43 The tax may not exceed 10% of the dividends if the beneficial owner is a company holding at least 25% of the capital and 15% in other cases.

44 The treaty entered into force on April 19, 2018, and became effective on January 31, 2021.

45 The tax may not exceed: 5% of the dividends if the beneficial owner is one the Government of a Contracting State, or 10% of the dividends if the beneficial owner is a company holding at least 25% of the capital and 15% in other cases.

46 The tax may not exceed 10% of the dividends if the beneficial owner is a company holding at least 25% of the capital and 15% in other cases.

47 After the unilateral repeal by Argentina of the 1994 Treaty in July 2012, a new treaty has been negotiated, executed and ratified by Law No. 26.918. According to its provisions, the agreement –which came into force on December 24th, 2013, will be enforced retroactively, from January 2,013, so as to avoid the lack of double taxation protection for Spanish companies investing in Argentina.

48 The tax may not exceed 10% of the dividends if the beneficial owner is a company holding at least 25% of the capital and 15% in other cases.

49 The tax may not exceed 10% of the dividends if the beneficial owner is a company holding at least 25% of the capital and 15% in other cases.

50 The tax may not exceed 10% of the dividends if the beneficial owner is a company holding at least 25% of the capital and 15% in other cases.

51 The treaty entered into force on September 9th, 2024, . and became effective on January 1, 2025.

52 The tax may not exceed 10% of the dividends if the beneficial owner is a company holding at least 25% of the capital (during a 365-day period that includes the day on which dividends are paid) and 15% in other cases.

53 The treaty entered into force on February 4, 2019 and shall apply as of January 1, 2020.

54 The tax may not exceed 10% of the dividends if the beneficial owner is a company holding at least 25% of the capital and 15% in other cases.

The intention of the Agreement is to allow both countries to exchange the information that is relevant for the determination, assessment and collection of taxes, the recovery and enforcement of tax claims, as well as the investigation or prosecution of tax matters. It includes all federal taxes in the case of the US, and all national taxes administered by the AFIP (Argentinean Revenue Service) in the case of Argentina, including any identical or substantially similar taxes that are imposed in either one or the other Contracting States, after the date of signature of this agreement.

Furthermore, on December 5, 2022, Argentine and US government signed an Intergovernmental Agreement ("IGA") in order to facilitate implementation of the US Foreign Account Tax Compliance Act (FATCA) and allow the automatic and reciprocal exchange of tax information between both countries. The IGA entered into force on January 1, 2023, enabling the exchange of information regarding taxable periods beginning on such date.

According to the provisions of the IGA, the US will collect and send to Argentina the name, address and tax identification of any person resident of Argentina who is the holder of an account opened in US financial institutions to the extent that interest (at least USD 10 in the year), dividends or other income from US sources have been received in the accounts.

Additionally, the information received will also include the account number, the name and identification number of the financial institution in the US and the gross amount of income received (interest, dividends, other income).

On May 7th, 2025, Argentina formally ratified the OECD's Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (BEPS), commonly referred to as the Multilateral Instrument (MLI), through the enactment of Law No. 27,788[55]. This ratification marks a significant step in Argentina's alignment with global tax transparency and anti-avoidance standards promoted by the OECD and G20.

The MLI allows for the swift modification of Argentina's existing bilateral tax treaties by incorporating standardized provisions designed to prevent treaty abuse, neutralize hybrid mismatch arrangements, and enhance dispute resolution mechanisms. Argentina's ratification will become effective three months after it deposits its instrument of ratification with the OECD.

OVERVIEW

1. Income Tax

1.1. General Aspects

1.1.1. Income Tax Rate

The general statutory corporate income tax rate for entities incorporated in Argentina, including branches or permanent establishments of foreign companies, varies from 25% to 35%[56]. Indeed, the ITL provides a scale of rates with three differentiated brackets according to the level of accumulated taxable net profit of the taxpayer. The tax rate brackets applicable for fiscal year 2024 are as follows[57]:

55 Law No. 27.788, published on the Official Gazette on May 28th, 2025.

56 Law No. 27.630, published on the Official Gazette on June 16, 2021, established a scale with three brackets of tax rates of 25%, 30% and 35% respectively, which is applied according to the entity's accumulated taxable income.

57 All the amounts of the table are denominated in US dollars (1 USD = 1195 AR$).

Net Income from	Fixed amount	Applicable tax rate	Tax rate in excess of
0 to $85.087,51	0	25%	0
$85.087,51 to $850.875,11	$21.271,88	30%	$85.087,51
$850.875,11 onwards	$251.008,16	35%	$850.875,11

These amounts will be updated considering the annual variation of the Consumer Price Index, published by the Argentine Census Bureau.

1.1.2. Taxable Base

All revenues are subject to income tax unless otherwise excluded by law from the taxable base. Excluded Items of Income are subtracted from Gross Income. The result is the Gross Taxable Income from which all expenses incurred in obtaining taxable income are deducted. The after-deductions result is the Net Taxable Income. The Exempted Items of Income are subtracted, resulting in the Taxable Base to which the 25%, 30% or 35% statutory corporate tax rate is applied. The result of applying the 25%, 30% or 35% tax rate is the Resulting Income Tax from which applicable Tax Credits are subtracted to find the Income Tax Liability.

[+] Sum of All Revenues

[=] Gross Income

[–] Deductible Expenses

[–] Exempted Items of Income

[=] Net Taxable Income (Minimum Presumptive Income Tax)

[=] Taxable Base

[*] 30% Corporate Tax Rate [=] Resulting Income Tax

[–] Tax Credits

[=] Income Tax Liability

[=] Income Tax Charge Payable

1.1.3. Deductions

As a general rule, all costs and expenses incurred in obtaining taxable income may be deducted, including organization costs, taxes (other than income tax, except for the grossing up paid by a local resident on behalf of a foreign contracting party), and donations to certain entities, amongst others. The Argentine ITL includes thin capitalization rules which impose limits on the deduction of interest payments made to affiliated parties in the cross-border context. Expenses are generally allocated to the fiscal year in which they accrue.

The ITL allows for the deduction of the following concepts:

a. Extraordinary losses resulting from natural hazards, theft or force majeure are deductible to the extent that they are not included in insurance or otherwise indemnified, provided they involve assets which generate taxable income.

b. Losses arising from crimes committed by employees against business property that contributes to the generation of taxable income are deductible to the extent they are not covered by insurance or otherwise indemnified.

c. Fees paid to resident directors are deductible to the higher of: 25% of the book earnings or the statutory amount. Fees to non-resident directors are deductible up to 12.5% of book earnings if all earnings have been distributed as dividends.

d. Representation expenses are deductible up to a maximum of 1.5% of the salaries paid during the calendar year.

e. The ITL sets limits to the deduction of depreciation and other expenses related to automobiles.

f. Payments for technical assistance from abroad are deductible up to 3% of sales on which the fees are based or 5% of the investment made as a result of the assistance.

g. Expenses incurred or contributions made to personnel for purposes of sanitation, education and cultural improvement are deductible. In general, all payments made for the benefit of employees are deductible (e.g. end of the year bonus payments).

h. Start up costs and expenses may be deducted as they are incurred, or capitalized and amortized over a five-year period, at the taxpayer's option.

1.1.4. Depreciation

Buildings used to generate taxable income may be deducted at a 2% annual rate calculated over the cost of such buildings. Other depreciation rates may be used if they are technically supported.

Annual depreciation of all other depreciable assets used to generate taxable income is determined by dividing the acquisition cost of the asset by its estimated years of useful life (straight line depreciation method). The ITL does not provide standard depreciation rates.

Other depreciation methods, such as those based on units of production or time of use, may be used if they are technically justified. Amortization of goodwill, trademarks and similar intangible assets is not deductible, except when they have a set useful life.

At the taxpayer's option, organization costs may be deducted either in the year in which they are incurred or capitalized and then amortized over a period not exceeding five years.

1.1.5. Transfer Pricing

Argentina has OECD like transfer pricing rules[58] applicable to:

i. transactions with related companies,

ii. transactions with parties located in tax havens[59];

iii. transactions between Argentine residents and their permanent establishments situated abroad;

iv. transactions carried out by permanent establishments situated abroad (owned by Argentine residents) with companies incorporated in low tax jurisdictions.

Export and import operations channeled through an international intermediary are subject to additional scrutiny by tax authorities as the taxpayers must show that the intermediary´s margin is reasonable considering its functions, risks and assets. This additional scrutiny applies only where: (i) the intermediary is controlled by or related to the local entity; or (ii) the local entity and the final

58 Except for transactions with commodities, tested party rules and other set exceptions.

59 "Low tax jurisdictions" and "non-cooperative jurisdictions" (concepts incorporated by Law no. 27.430)

exporter/importer are related entities[60].

Under the OECD like transfer pricing rules, the Argentine party must keep and file supporting documentation with the tax authorities; it must also perform a transfer pricing study showing that its prices or profit margins on the transactions are within the comparable arm's-length prices or profit margins ranges for its activity and similar transactions.

Exports of commodities (and goods having listed prices) between related parties that are channeled through an international intermediary have specific rules as to its tax point. The legal framework requires the exporter to: (i) evidence that the margin charged for the intermediation is in accordance with the arm´s length standard; and (ii) register the export agreement with the Tax Authority. This registration must include relevant economic information as to the export agreement, as well as comparability standards vis a vis the relevant listed price on the shipping date.

Regulatory Decree No. 1170/2018, issued on December 26, 2018, further aggravated such standards, by providing for a long list of new requirements to file properly export agreements with the Tax Authority. In addition, it burdened commodity exporters subject to the previous

registration with the additional need to evidence that the international trader´s transaction volume is commensurate to its assets, risks and functions. All these new, burdensome rules are under review.

If the taxpayer does not comply with the mandatory registration, the Argentine source income will be determine based on the market price at the shipping date, rather than on the export agreement´s term; further and taking into account the necessary comparability adjustments and excluding the intermediary´s fee.

Law No. 11,683, as amended by Law 25,795, sets forth a wide range of penalties aimed at compelling taxpayers to comply with transfer pricing rules and regulations; be they compliance-type of provisions or substantive ones.

1.1.6. Inflationary Adjustments

The deductibility of foreign exchange gains and losses was traditionally complemented (though working oppositely) by the inflationary adjustment norms. In this sense, taxpayers were conceptually allowed to net out differences incurred by foreign exchange differences with the inflationary adjustment. Until recent ITL amendments that effectively allowed the "Inflation Adjustment", there was an anomalous situation in which, in order to optimize income, the government-maintained norms referred to foreign exchange gains and losses but ceased to publish inflationary adjustment indexes, so that the adjustment was no longer effective. There were a number of judicial claims on this matter. In 2009 the Federal Supreme Court issued a ruling on this matter, establishing that the Congress had acted within its constitutional powers when it derogated all legal norms and statutes authorizing adjustments, cost variations and any other form of adjusting debts, taxes, prices, services, etc.; because of its authority to determine the value of the currency and to legislate over taxes. The Judicial Branch, according to the Supreme Court, cannot argue over the merits taken into account by Congress when exercising its powers.

However, the limit that should have been applied to Income Tax remains unresolved, given that the Supreme Court decided that the effective rate resulting from the ban on inflationary adjustments (48%) was confiscatory and therefore unconstitutional but did not indicate where to draw the line between legality and illegality of the rate.

60 Since Law No. 27.430, taxpayers are not forced to use a specific transfer pricing method to validate the fee charged by the intermediary. Therefore, the most appropriate method rule applies to this fact pattern.

The majority of the Court found that the rate that was actually being charged to the plaintiff was absorbing a substantial portion of his profits and thus decided in his favor. Clear evidence of a confiscatory rate must be presented for this case law to be applicable. Note that in Argentina Supreme Court rulings are not mandatory for lower courts and apply only to the case subject to analysis. Tax planning is of the essence to avoid pitfalls and to take advantage of circumstantial opportunities.

In view of the level of inflation and a series of amendments to the ITL, as of fiscal year 2021 taxpayers are allowed to apply an "inflation adjustment" for income tax purposes comprehensively.

1.1.7. Tax Loss Carry-forward

Argentine taxpayers may carry-forward tax losses for a maximum term of 5 fiscal years. There is no carry-back possibility.

Losses arising from the sale or disposal of stock or shares may only be computed against capital gains of the same nature. Furthermore, losses arising from activities not considered to be Argentine source income may only be set off against foreign source income.

Tax losses cannot be transferred to other taxpayers (not even to the shareholders), except as provided in the cases of reorganizations.

The Argentine Tax Law allows for three types of tax-free reorganizations:

a. Statutory tax-free mergers;
b. Statutory tax-free divisive reorganizations, and
c. Sales or transfers within an economic group. In these cases, and provided that a number of statutory requirements are complied with (view 1.1.8 "Tax Free Reorganizations") the tax attributes of the target company are transferable to the surviving or resulting corporation.

A long-standing interpretation of the Argentine Tax Authorities is that the associated tax incentives –i.e. transfer of fiscal attributes (e.g. NOLs) and no recognition of gain or loss- are only granted when business reasons are attached to the restructuring, such as the improvement of production, efficiency conditions or productivity, and to optimize the use of production factors. Accordingly, tax-driven reorganizations are not allowed on a tax-free basis.

Additionally, in order for the NOLs to be transferred from one entity to another in the context of a tax-free reorganization, at least 80% of the equity of the predecessor companies should have been owned by the same persons for the two years preceding the reorganization date. This is the so-called Preexisting-Identity-of-Interest Requirement.

The carry-forward period is not refreshed by the occurrence of a tax-free reorganization.

1.1.8. Tax-Free Reorganizations

In order to qualify for a tax-free reorganization, requirements are as follows:

a. **Continuity of interest:** The majority of the shareholders of the companies subject to reorganization shall remain the same (i.e. a minimum of 80%), for at least two years subsequent to the reorganization date.
b. **Identity of Activities:** At the time of reorganization, the predecessor companies must be effectively performing their corporate purpose (or have ceased to perform it within the last 18 months). The nature of the activities performed by the predecessor companies during the last 12 months prior to reorganization must be identical or related to the activities performed by the surviving company.

c. **Continuity of Activities:** The reorganized company shall maintain the same or related activities of the predecessor companies, for a minimum period of two years as of the reorganization date (as defined below). The goods or services produced and/or rendered by the surviving company shall be substantially similar to the ones produced and/or rendered by the predecessor company. In fact, taking into account this requirement, the local IRS may reasonably understand that the activity to be maintained should be the one previously performed by the predecessor company.

d. **Notification:** The reorganization must be notified to the local IRS within 180 days as of the reorganization date, computed as from the date in which the reorganized entity starts performing the activities of the predecessor.

e. **Compliance with the Corporate Law requirements:** the publication and registration requirements set forth by Law 19,550 must be observed.

f. **Other requirements:** Additionally, in order for the NOLs to be transferred from one entity to another in the context of a tax-free reorganization, as stated above, according to the Preexisting-Identity-of-Interest Requirement, at least 80% of the equity of the predecessor companies should have been owned by the same persons for the two years preceding the reorganization date.

1.1.9. Leasing Tax Treatment

Pursuant to the amended leasing law, assets which may be subject to leasing include movables and immovable property, patents, brand names or software.

Income Tax treatment of assets subject to leasing ultimately depends on the type of leasing. The law provides for three different types of leasing, namely: i) contracts assimilated to financing operations; ii) contracts assimilated to renting operations; and iii) contracts assimilated to installment sales.

A contract is to have a financing operation tax treatment whenever the lessee is a financial entity, a financial trust or an enterprise whose main activity is the celebration of these types of contracts and the duration of the contract exceeds 50% of the useful life of the movable asset, 20% of the useful life of real estate property destined for living space or 10% of the useful life of real estate property with commercial purposes.

When a contract is deemed to have the tax treatment of a renting operation, the lessor may amortize the cost of the good, while lessee may deduct rental payments. Whenever the option to buy is exercised, the set amount will be computed as purchase cost for lessee and as sale price for lessor and subject to taxation.

A contract is deemed to have the tax treatment of a sale, whenever the price established for the sale is less than the adjusted basis of the asset for lessor at the time such option is exercised.

1.2. Foreign Exchange Gains and Losses

Since transactions are to be valued in Argentine currency for income tax purposes, fluctuations in foreign exchange currencies generate foreign exchange gains or losses. Income Tax Law provisions that govern the tax treatment of foreign exchange differences do require Argentine resident companies to account both foreign exchange gains and losses on an annual basis, disregarding whether there has been realization or not of the underlying assets or liabilities that trigger such FX results[61]. The ITL Implementing Decree provides that taxpayers should account all FX results related to taxable transactions, as well as those resulting from credits that have been incurred to finance such business activities. Deposits, credits and debts are to be valued according to the applicable foreign exchange rate issued by the *Banco de la Nación Argentina* on the closing date of the fiscal year. The ITL Implementing Decree impedes FXs resulting from

61 In the case of individuals and undivided successions, foreign exchange gains coming from foreign source are no longer taxable, since the entry into force of Law No. 27.260 (Published on the Official Gazette on July 22, 2016).

the mere conversion of a debt denominated in one currency to another one, unless there was either a novation or the FX results were triggered by the time of payment. The goal of this provision is to prevent taxpayers from artificially manipulating foreign exchange operations, thus triggering tax losses resulting from unsubstantiated transactions in different currencies.

1.3. Payment and Filing

For any given fiscal year, the corresponding income tax return must be filed before the beginning of the fifth month following the end of the taxpayer's fiscal year. Note that for corporations the tax year must not necessarily coincide with the calendar year as is the case with physical persons. Companies, in fact, do have a fiscal year that overlaps the financial statement's year.

Corporations and foreign company branches are required to make ten monthly prepayments, as from the sixth month of the fiscal year. Prepayment amounts are established on the basis of the tax paid in the preceding fiscal year.

1.4. Tax Deficiencies

The differences on the payable tax which come from tax deficiencies (and its interests) will be deductible in the fiscal year in which the difference is enforceable[62].

1.5. Penalties on Unpaid Tax or Tax Paid Belatedly

The Tax Procedure Law ("TPL") sets forth certain penalties for incompliance with formal requirements and for incompliance with substantial obligations.

Penalties for incompliance with formal requirements include not only different type of fines but also the close down of the business.

Amongst penalties for incompliance with substantial obligations: (i) tax omission is fined with a penalty of 100% of the omitted tax, whenever the omission is by means of: a) lack of presentation of sworn statement; b) when the sworn statement is inexact; c) withholding agents failing to act as such; and 200% of the omitted tax if the omission involves transactions with foreign individuals, companies or other entities; (ii) furthermore, the TPL sets the penalty for tax fraud at 2 to 6 times the amount of the evaded tax. The fine amounts may be reduced whenever the incompliance is not repeated and upon rectification or voluntary filing of the tax.

The Criminal Tax Law also sets forth that in the case of tax fraud, evasion or willful misconduct the taxpayers are subject to prison, depending on the evaded amount, the type of willful conduct and whether third parties or supposed exemptions were used to evade the tax.

The effective interest rate in each bimester is the equivalent to 1.3 (compensatory interest) and 1.5 (punitive interest) times the effective monthly lending rate for unsolicited current account overdrafts from the Argentine National Bank in force on the 20th of the month immediately before the start of the bimester. Each bimester will be published by the AFIP[63].

62 Reform introduced by Law No. 27.346, published on the Official Gazette on December 27, 2016, which also established amendments to the Income Tax and the Value Added Tax Laws, among others.

63 According to AFIP General Resolution No. 3/2024.

1.6. Dividends Tax / Branch Profits Tax

Law No. 27,630[64], established that dividends paid by local companies and profit distribution from resident branches of foreign companies will be taxed at the rate of 7% on the net income distributed. This additional tax burden should be computed to assess the overall level of corporate income taxation, in addition to the tax brackets elaborated in 1.1.1. above.

1.7. Cross-border Payments

1.7.1. Withholding Taxes

When Argentine source income is remitted abroad to a beneficiary that is a non-resident alien, individual, or entity, the payment should be subject to a withholding tax. In any of the cases set forth below, if the local payer assumes the obligation to pay the tax for the non-resident recipient, then the net amount must be grossed up in the amount of the tax. Note that the withholding rates set forth below are applicable in the absence of a pertinent double tax treaty.

1.7.1.1. Dividends

A withholding of 7% applies on dividends (see 1.6 above).

1.7.1.2. Royalties

Royalty payments on account of agreements complying with the Copyright Law are subject to a 12.25% / 13.96% (with grossing up) withholding tax.

1.7.1.3. Technical Assistance, Engineering and Consulting Services

If the given contracts refer to services deemed unavailable in Argentina and provided that the contract is registered before the National Institute of Industrial Property ("INPI") according to Transfer of Technology Law, such agreements are subject to a withholding of 21% (26.58% with grossing up). If the contracts are registered pursuant to the Transfer of Technology Law but the given contract is not included amongst the above, then a withholding rate of 28% applies (38.89% with grossing up). Unregistered transfers of technology are subject to 31.5% withholding.

1.7.1.4. Interest On Loans Obtained Abroad

Interest payments on loans obtained abroad are subject to a withholding rate of 35% (53.85% with grossing up). However, if the beneficiary is a bank or financial institution incorporated in a country not considered to be a low tax jurisdiction, or in a jurisdiction which signed agreements providing for the exchange of information and where bank secrecy or secrecy referring to stock exchange cannot be alleged upon request of information by the pertinent tax authorities, then the withholding rate is reduced to 15.05% (17.72% with grossing up).

1.7.1.5. Payments To Non-Resident Individuals

Payments to non-resident individuals working on a temporary basis in Argentina for a period not exceeding 6 months are subject to a withholding of 24.5% (32.45% with grossing up).

1.7.1.6. Rental Payments on Moveable Property.

They are subject to a withholding rate of 14% (16.28% with grossing up).

64 Published on the Official Gazette on June 16, 2021.

1.7.1.7. Rental Payments on Real Estate Property.

They are subject to a withholding rate of 21% (26.58% with grossing up).

1.7.1.8. Proceeds From the Sale of Any Type of Property.

They are subject to a withholding rate of 17.5% (21.21% with grossing up).

1.7.1.9. Others.

The general withholding rate applicable to other cross-border payments not included within those mentioned above are subject to a general withholding rate of 31.5% (45.99% with grossing up).

2. Value Added Tax (VAT)

2.1. General Aspects

2.1.1. Tax Rates

The general VAT rate is 21%. There are reduced and increased rates for certain goods and services; e.g., a 10.5% rate applies on passenger transport services, health care and certain interest payments, amongst others, and an increased rate up to 27% applies on telecommunications, amongst others.

There are also some VAT exemptions for specific public entities of the national or local territorial level and for private schools, religious institutions, transportation for less than 100 km, and rent of housing for personal use and of land for agricultural purposes, amongst others.

2.1.2. Taxable Transactions.

Transactions subject to VAT are the sale of goods and the provision of services in Argentina and the importation of goods and services[65].

In some cases, services rendered outside Argentina are deemed as subject to VAT because they are effectively used or exploited in Argentina.

VAT is paid at each stage of the production or distribution of goods and services on the value added during each of the stages.

2.1.3. Withholding Agent For Foreign Residents Who Render Taxable Services In Argentina

In the case of foreign residents who render services in Argentina without having taxable presence in the country -i.e.: without having a permanent establishment-, and whose services are taxed by VAT, the feature of the withholding agent or "Substitute Taxpayer" applies[66].

65 Generally, the importation of services is subject to VAT provided that the recipient is a VAT registered person. Additionally, by means of Law No. 27.430, a new VAT taxable event has been introduced: the provision of digital services by individuals domiciled abroad whose use or effective exploitation is carried out in Argentina, as long as the customer is not subject to the tax for other taxable events and does not assume the quality of registered taxpayer.

66 In that sense, whoever "are lessees, payees, representatives or intermediaries of foreign residents who render services taxed in Argentina, as Substitute taxpayers" are subject to VAT. Additionally, Substitute taxpayers could be: National, Local and Municipal States, cooperatives, civil and sport associations, charities, administrators, legal agents, representatives, proxies and other intermediates.

Substitute taxpayers will determine and pay for VAT corresponding to the transaction, even in the cases in which it is impossible to withhold that tax from the foreign resident. Also, the tax paid will be considered as Tax Credit if in favor of the Substitute Taxpayer in its own affidavit.

2.1.4. Taxable Base

The taxable base is the price or value of the consideration paid for the goods or services.

2.1.5. Creditable VAT

As a general rule, the VAT taxpayer has a right to credit against payable VAT and all VAT indicated in the invoices of the suppliers of goods and services contracted by the taxpayers.

The VAT paid in the acquisition of goods that the company destines to exempt operations is not creditable against VAT. Acquisition of cars and services rendered by restaurants and hotels are not creditable against VAT either.

2.2. Selected VAT Incentives

These are some VAT incentives selected among the many incentives available in the VAT law:

2.2.1. VAT Incentive for Purchase of New Capital Assets.

There is a special VAT regime applicable to the acquisition and import of capital assets. Law 24,402 provides a financing possibility for the payment of fiscal credit corresponding to the acquisition of capital assets whenever these are to be applied to the productive process destined to the sale in the external market. The applicable entity may receive a financing equivalent to the fiscal credit.

The financing is received through a bank or financing entity, which is later repaid by the state in the applicable amount. In 2008 new incentives were granted for the acquisition and import of capital assets for the industry as well as infrastructure projects.

2.2.2. Investments on Mining Activity

Investments on physical infrastructure for the mining industry also benefit from the financing possibility set forth in Law 24,402 (later amended by Law 25,429).

2.2.3. Tax Credit Refund[67]

Tax credits originated in the purchase, construction, manufacture or definitive importation of capital assets -excepting automobiles- that after 6 consecutive fiscal periods, counted from the one in which its computation resulted, created a balance in favor will be refunded as established by the regulations.

2.3. Payment and Filing

VAT returns must be filed on a per month basis. In the case of definitive imports, the tax is determined and paid along with custom duties.

67 Incorporated by Law No. 27.430 (published on the Official Gazette on December 29, 2017).

3. Other Taxes

On June 27, 2024, the Argentinean government enacted Laws 27,742 and 27,743[68], which include a series of tax measures collectively known as the "2024 Tax Reform." The aforementioned measures modify the income tax for employees, eliminate a real estate tax[69], and amend the tobacco law.

However, the most significant tax measures introduced by the 2024 Tax Reform are the amendments to the Personal Assets Tax, which include an increase in the non-taxable minimum to AR$100 million and an elevation of the exemption from tax on residential property to AR$350 million. The maximum applicable rate was reduced from 1.75% to 1.50%, with a projected reduction to 0.25% by 2027. Moreover, taxpayers who are amenable to prepaying the wealth tax may be eligible for the special advance payment regime for the periods between 2023 and 2027, with a rate of 0.45% per tax period based on the taxable base as of December 31, 2023.

The 2024 Tax Reform introduces the implementation of a tax amnesty and a tax moratorium. The amnesty provides taxpayers with the opportunity to declare previously sheltered assets without facing prosecution or penalties, while paying a moderate tax ranging from 0% to 15%, contingent on the circumstances of each disclosure. The tax moratorium offers significant interest reductions and flexible payment plans for those who have accrued liabilities pertaining to wealth tax, income tax, and social security tax. Furthermore, the 2024 Tax Reform includes a substantial investment incentive regime (see on section 5), which has been established as a special incentive regime with the objective of promoting strategic industries.

3.1. Gross Turnover Tax

The Gross Turnover Tax is a local tax applicable on gross income. Although the rate varies from jurisdiction to jurisdiction, the general rate in the City of Buenos Aires is 3%, being burdensome tax rates on other activities, like financial intermediation. The different jurisdictions have signed an agreement (the "Multilateral Agreement") in order to avoid double taxation whenever activities subject to taxation have been carried out in more than one jurisdiction. The Multilateral Agreement sets forth a formula in order to allocate income between the different provinces.

Some jurisdictions are pretending to collect this tax in case of services rendered outside Argentina but effectively used or exploited inside the jurisdiction, through the intervention of a local withholding agent.

3.2. Debits and Credits in Bank Accounts Tax

This tax is a national level tax withheld by Argentine banks (and other savings institutions). It applies on any deposited funds that are either withdrawn or transferred from checking or savings account. The taxable base is the amount withdrawn or transferred. The tax rate is 6 per thousand. There are very limited exemptions. The tax rate gets doubled in set cases where the elusion of the use of banks accounts is deemed to take place. This tax is partially creditable against other Federal Taxes. Law 27,432 allows the Federal Executive to increase this credit up to 100% by year 2022.

68 Published on the Official Gazette on July 8, 2024.

69 Law No. 27,743 repealed the Tax on the Transfer of Real Estate, which applied to sales -by individuals- of properties acquired before December 31, 2017. However, sales of real estate acquired after that date remain subject to taxation.

3.3. Stamp Tax[70]

The Stamp Tax is a local tax levying the instrumentation of onerous contracts. In the City of Buenos Aires[71], the tax applies on all contracts and monetary operations as of 1.1.09. Although the rate may vary from jurisdiction to jurisdiction, the general rate is 1% (except in the sale of real estate property where the rate is increased in most jurisdictions to about 3.6%). The tax is paid by means of sworn statements or fiscal stamps. During 2004, several Federal Supreme Court rulings[72] have decreed the inapplicability of the tax whenever acceptance of the contract takes place through unwritten means (e.g. the written offer provides that the contract will be considered accepted if the party performs a certain activity).

3.4. Personal Assets Tax

The Personal Assets Tax ("PAT") is a tax levied on the non-productive assets held by physical persons or undivided estates domiciled in Argentina by December 31, both within the country and abroad.

The 2024 Tax Reform has recently introduced several amendments to the PAT. The minimum amount of the PAT that is not subject to taxation has been increased to ARS 100,000,000 (or ARS 350,000,000 for properties utilized as a primary residence). Moreover, the tax rates applicable to assets located in Argentina and abroad have been unified. The rates will undergo a gradual decrease from 2023 onwards, from 0.50% to 1.50%, until they reach a flat rate of 0.25% by 2027. It is noteworthy that a reduction in the rates for foreign assets has been implemented, with the previous range of 0.70% to 2.25% now being superseded. Small and medium-sized enterprises (SMEs) that fulfill their tax obligations may be eligible for a 0.125% reduction in the tax rate for the 2023-2025 periods.

Taxable assets include both assets held within the country and abroad. Foreign residents shall be subject to the same rates indicated for Argentine residents for all their assets held in Argentina. Non-resident aliens are subject to an annual 0.5% levy on the net-equity value of their participations in Argentine companies and branches of foreign entities. The same tax applies on Argentine resident individuals -other than local companies- who are required to exclude their equity participations in Argentine companies from their annual PAT tax returns. The companies, who issued the stock or shares, or the branches, as the case may be, are responsible to collect and pay the tax to the government. In turn, such withholding agents are entitled to a refund from the equity holders.

Moreover, the 2024 Tax Reform introduced a special advance payment regime for taxpayers who are amenable to prepaying the tax for the periods between 2023 and 2027, with a rate of 0.45% per tax period based on the taxable base as of December 31, 2023.This optional regime, which covers fiscal years 2023 to 2027, permitted taxpayers to consolidate their PAT obligations for these periods under a single regime. Taxpayers had until September 30, 2024, to join the program, with the possibility of extending this deadline if they also opted into the Asset Regularization Regime. A significant advantage of the regime is the exemption from the obligation to file tax returns and pay the PAT or any analogous national taxes for the periods covered by the regime. Furthermore, participants are granted "fiscal stability" until 2038, which ensures that the tax burden will not increase beyond the stipulated rates of 0.45% or 0.50%. However, additional taxes are applied to certain donations received by participants from non-participating relatives.

70 Local Governments had committed to eliminating this tax by 2023 ("Consenso Fiscal", signed on November 16, 2017 and September 13, 2018). However, the "Consenso Fiscal" was suspended on December 17, 2019.

71 Note that the City of Buenos Aires is an autonomous jurisdiction with taxing powers similar to that of the provinces.

72 See CSJN, 15.04.2004, "Shell Compañía Argentina de Petróleo c/ Neuquén, Provincia de s/ acción de inconstitucionalidad", and CSJN, 15.04.2004, "Transportadora de Gas del Sur S.A. (TGS) c. Provincia de Santa Cruz".

3.5. Tax On Donations and on Free Transfer of Property in the Province of Buenos Aires

Any increase in the assets of a person or company domiciled in Buenos Aires due to a free transfer of property is taxed at a rate of 4% to 9.513% plus a fixed amount, depending on value of the assets transferred. Donations, legacies, inheritances, anticipated inheritance, are only a few examples of what the law considers a free transfer of property.

3.6. Tax for an Inclusive and Solidary Argentina (PAIS)

The Tax for an Inclusive and Solidary Argentina applied to purchases of goods and services abroad using credit and debit cards, the acquisition of foreign currency for savings, and the importation of products. However, as of December 23, 2024, the tax is no longer in effect, as its validity period has expired.

3.7. Solidarity Contribution

Law No. 27.605, published on the Official Gazette on December 18, 2020, established an extraordinary tax denominated "Solidarity Contribution" applicable only once.

The Solidarity Contribution applied to individuals who were resident in Argentina on December 31, 2019, on their assets, whether located in Argentina or abroad, and to non-residents individuals only over their assets in Argentina.

In addition, this tax also applied to individuals who with Argentine nationality or individuals domiciled in "non-cooperative" or "low or no-tax jurisdictions". The Solidarity Contribution applied to the assets existing at the date of entry into force of the law. However, the Tax Administration might presume variations of the assets owned by a taxpayer during the immediate previous 180 days to the law´s entry into force, as an evasive scheme.

The Solidarity Contribution applied to the extent that the total value of the assets exceeds AR$ 200.000.000[73].

There were progressive tax rates from 2% to 3.50% for assets located in Argentina and an aggravated rates for assets located abroad from 3% to 5.25%.

4. Customs Regime – General Aspects

4.1. Custom Duties

Importation of goods and the rendering of services abroad which are effectively utilized in Argentina are subject to import VAT at a general rate of **21%** plus **10.5%** VAT withholding and **3%** Income Tax withholding. In addition to import VAT, imports of goods are also subject to custom duties that range between **0%** and **36%** (i.e. standard ones), also depending on the type of asset imported, and except for assets with special treatment. The Ministry of Economic Affairs may alter rates and does so frequently. Other taxes include a statistics tax, established on the CIF value of the good and excise taxes.

Additionally, Law No. 27,541 delegated on Executive Branch until January 1, 2022 the power to established **export duties**, setting several caps depending on the tariff position of the goods (33% for soybean; 15% for merchandise not subject to export duties at 09.02.2018; 5% for some merchandise

73 The AR$200,000,000 converted at the exchange rate as of 12/31/2019 was equivalent to USD 3,339,455.66.

and products from regional economies defined by the Executive Branch; 5% for industrial assets and services; and 8% for hydrocarbons and mining). When Congress rejected the budget bill for 2022, the delegated powers held by the Executive Branch to determine the quantitative aspect of export duties expired. In the budget bill for the fiscal year 2023, Executive Branch attempted to amend this anomalous situation by seeking to amend the original text of Law No. 27,541 and establish an extension of those delegated powers. However, this modification was excluded from the final text of Law 27,701 (budget bill 2023, which was prorogated to 2024 and 2025), making the validity of these export duties -at least- controversial.

4.2. Taxable Base

As a member of the WTO and having subscribed the Agreement for the Application of Section VII of the GATT, the value of the goods is established on account of the price paid. If this is not possible,

other methods of valuation and the corresponding adjustments are applied. Duties are computed on the CIF value of the goods.

4.3. Transfer Pricing

Custom valuation rules are those of the GATT (1994) valuation code.

4.4. Filing and Payment

An import return must be filed and the pertinent tax must be paid before the good is nationalized.

4.5. Selected Custom Duties Regimes Available

There are several importation regimes applicable in Argentina:

4.5.1. Ordinary Importation Regime

It applies to all goods that will remain permanently in Argentine territory without any use or jurisdictional restrictions. Full payment of custom duties and import VAT is required upon nationalization.

4.5.2. Temporary Importation Regime

It applies to merchandise that is to remain in the country for a given set period of time and with a determined purpose. Once the finality has been fulfilled and the time span has passed, the asset must be re-exported.

The assets imported under the temporary regime may:

a. Remain in the same state. In this case, the maximum term of the temporary import regime depends on the good, but in general is up to 3 years for capital assets and 3 or 8 months for other goods (this would have to be checked on a case by case basis); or
b. Re subject to an industrial process of transformation. In this case, the temporary import regime lasts for 1 year (which may be extended for an additional year).

Goods generally subject to this regime include: machinery and equipment for a trial period or for controlling purposes; machinery or equipment for expositions or congresses; vehicles for sporting events; vehicles and other assets to be used by non-residents in the country.

5. Large Investment Incentive Regime (Régimen de Incentivo a las Grandes Inversiones, the "RIGI")

In addition to the 2024 Tax Reform, the reform established the RIGI[74] which is a special incentive regime designed to promote strategic industries under specific conditions. The program is designed to accommodate projects in a range of sectors, including infrastructure, forestry, mining, oil and gas, energy, and technology. Applications may be submitted between July 8, 2024, and July 8, 2026, with the possibility of an extension to July 8, 2027.

It is a requirement that holders of the RIGI be single-project vehicles ("SPVs."). These may assume the form of domestic stock corporations (SA or SAU), limited liability companies (SRL), registered branches of foreign entities, or joint ventures of any nature (UTEs and other associative agreements). In all cases, these entities must have the sole and exclusive purpose of developing an investment project (or a segment thereof) entitled to RIGI.

RIGI provides extensive tax, customs, and foreign exchange benefits over a stability period of 30 years.

Tax benefits:

- Corporate income tax rate: 25% applicable to SPVs. This rate is equivalent to the current floor of ITL progressive scale of rates on domestic companies and local branches which currently ranges between 25% and 35%.
- Optional accelerated depreciation: For tangible movable assets 2 annual, equal and consecutive installments for depreciable personal property and at least a number of annual, equal and consecutive installments that result from considering the property estimated useful life reduced to 60%, for mines, quarries, forests and similar assets, and infrastructure works.
- Elimination of the 5 years carryover limitation for tax losses. Option to transfer to third parties. Inflation adjustments IPC: will be made in accordance with tables to be prepared to that end by AFIP.
- Rate applicable to dividends distributions 7%, and reduction 3.5%. Payments made by SPVs which are holders of long-term strategic exportation projects to foreign (nonresident) beneficiaries for maritime charter services, outbound international cargo services, and engineering, procurement and construction management services do not trigger the withholdings at source otherwise applicable under Title V of ITL.
- Non limitation for deduction of interest and foreign exchange differences arising from financing the project.
- VAT input credit certificates for the VAT amounts invoiced to SPV: which may be used for the payment of VAT (including perceptions) to their suppliers, or to the tax authorities in case of payment of the VAT on definitive importations. Certificate-recipient suppliers may request a refund for the Certificates or freely transfer the Certificates received from SPVs to third parties without prior approval from the tax authorities when the latter does not issue a decision regarding a requested refund or transfer within a 3-month term. If the tax authorities later find differences concerning the accuracy and existence of the tax credits, such differences may only be claimed to the SPVs. In no case SPVs may compute actual input credits paid with input credit Certificates.
- 100% IDC: SPVs will be allowed to compute as income tax credit 100% of the amount paid for the Tax on Bank Debits and Credits

74 Incorporated by Law No. 27.742 (published on the Official Gazette on December 8, 2024).

- Exemption for M or X taxes: The importation of capital goods and supplies shall be exempt from import duties, statistics and from any regime of reverse withholding, prepayment or withholding of national or provincial taxes.
  Exports of goods obtained under a RIGI approved project would be exempt from export duties after three years from the date of adhesion to the RIGI. In the case of SPVs, which are holders of long-term export-strategic projects, after 2 years.

Customs and Foreign exchange-benefits:

- No M/X restriction: No restrictions are to be imposed on the import and export of goods and services manufactured or rendered by an SPV (including long-term export-strategic project), as well as on assets for the construction, operation, and development of the project. These includes direct restrictions, quotas, and any other governmental measure that might alter the value of imported or exported goods.
- Accounting records in US dollars: SPVs may choose to keep their accounting records in US dollars, in accordance with the International Financial Reporting Standards (IFRS).
- Less requirement to the reorganization of companies: SPVs do not need to comply with ITL requirements on the continuity of same business activity, prior tax authorities' approval of partial transfers of business on-going concerns, and publicity and registration otherwise required under ITL.
- Exemption for the obligation to repatriate and exchange exports: For SPVs the exemption of the obligation to repatriate and exchange exports proceed for Argentine pesos (AR$) is 20% after 2 years, 40% after 3 years, and 100% after 4 years. In the case of Long-term strategic exports, the exemption is 20% after de first year, 40% after 2 years and 100% after third years.
- No exchange regulations: No exchange regulations would apply to an SPV, restricting the access to the Argentine exchange market to repay loans, repatriate investments or pay out dividends, if the amount of such payments does not exceed the amount of currency repatriated and exchange for AR$ in the Argentina exchange market under indebtedness, capital contributions or other direct investments. Besides, no restrictions would apply to SPVs on the holding of foreign financial or other assets, provided that its application to the repayment of external debt may be required as a condition for the access to the Argentine exchange market. Exchange restrictions or prior authorizations for accessing to the exchange market, otherwise applicable for the payment of profits, dividends or interests to non-residents beneficiaries would not be applicable to SPVs, to the extent that such profits, dividends or interests have been originated in foreign capital contributions or other direct investments, or by loans or other financial facilities, entered and settled in the exchange market as from the date of accession to RIGI, in which case the quantitative limit contemplated in the preceding paragraph would not apply.
- SPVs will have full availability of the products resulting from the project, with no obligation to sell on the local market.
- The assets and investments shall be available and shall not be subject to confiscatory or expropriatory acts.
- The SPVs will have the right to continue operation of the project without interruption except by court order.

BOLIVIA
PPO ABOGADOS

IN-COUNTRY MEMBER FIRM:

ppolegal.com

+(591) 620 02 020

Av. San Martin N° 155, Edif. Ambassador Business Center | Piso 18, Santa Cruz, Bolivia.

CONTACT PARTNER(S):

Pablo Ordoñez

pordonez@ppolegal.com

HIGHLIGHTS

National Level Tax Rates:	
Corporate Income Tax:	25%
Capital Gains Tax	25%
Branch Profits Tax:	25%
Dividend Tax:	0%
Withholding Taxes on:	
Interest:	12.5%
Royalties:	12.5%
Technical Assistance:	12.5%
Technical Services:	12.5%
Other Services:	12.5%
Dividends	12.5%
Tax losses carry-forward term:	Three Years. Five years for mining and Oil & Gas
Tax losses carry-back term:	Not applicable
Transfer Pricing Rules:	1. Comparable Uncontrolled Price Method 2. Resale Price Method 3. Cost Plus Method 4. Profit Split Method 5. Transactional Net Margin Method 6. Publicly quoted Prices in Transparent Markets Method
Tax-free Reorganizations:	Mergers, Spin-offs, and Transformations
VAT on Sales:	13%
VAT on Imports:	14.94%
Custom Duties: Net-worth (Assets):	from 0% to 40%
Tax: Stamp (Documentary)	None
Tax: Bank Debits (Transfers) Tax Rate:	0.30% when dealing with foreign currency
Local Level Tax Rates:	None
Tax on Industrial Activities:	None
Tax on Commercial Activities:	None
Tax on Service Activities:	According to the Periodical Charts issued by Municipal Governments
Real Estate Tax:	According to the Periodical Charts issued by Municipal Governments
Taxes on Other Property:	None
Document Registration Tax:	None
Excise Taxes:	Taxed depending on the good
Statute of Limitations:	8 years
Time to keep accounting and tax information:	8 years

Treaty Taxation:

Withholding rates table			
Countries	Interest	Dividends	Royalties
Andean Pact[1]	12.5%	12.5%	12.5%
Argentina	12.5%	12.5%	12.5%
Spain	12.5%	10% - 12.5%[2]	12.5%
Sweden	12.5%	0% - 12.5%[3]	12.5%
France	12.5%	10% - 12.5%[4]	12.5%
United Kingdom	12.5%	12.5%	12.5%
Germany	12.5%	12.5%	12.5%

OVERVIEW

1. Income Tax

1.1. General Aspects

1.1.1. Income Tax Rate

The general statutory corporate income tax rate for Bolivian entities, including Bolivian branches of foreign companies, is 25%.

An additional rate of corporate income tax of 12.5% is applied to mining operations that benefit from favorable prices for minerals and metals.

An additional rate (bracket) applies to any income generated by entities carrying out banking and/or financial intermediation activities in the country and currently regulated by the Banking Regulation Entity ("ASFI," by its Spanish acronym). Consequently, any income obtained by a financial banking or non-banking institution-, leasing entities, deposit agencies, fund administration entities, stock and securitization agencies, and insurance and reinsurance companies that exceed six percent (6%) of the profitable ratio to its net equity, is taxed by an additional rate on the Corporate Income Tax of twenty-five percent (25%). Such payment will not be compensated with future monies owed under the Transaction Tax ("IT," by its acronym in Spanish).

1.1.2. Taxable Base

All income is subject to income tax unless it is excluded by law from the taxable income. The result is the Gross Taxable Income from which Costs and Expenses are deducted. The result after deductions is the Net Taxable Income, to which a tax rate of 25% is applicable.

1 Andean Pact Commission, Multilateral Act No. 578 of 2004 (Peru, Ecuador, and Colombia).

2 A 10% rate applies in cases where the effective beneficiary owns at least 25% of the distributor's capital. Otherwise, a 12.5% rate will be applicable.

3 A 0% rate applies in case the effective beneficiary owns at least 25% of the distributor's capital. Otherwise, a 12.5% rate will be applicable.

4 France activated the most favored nation clause about the Bolivia – Spain Income and Capital Tax Treaty 1997.

1.1.3. Minimum Taxable Income

There is no minimum Net Taxable Income.

1.1.4. Deductions

Generally, all costs and expenses are deductible if they are related to the income-producing activity. Any costs or expenses related to Excluded and/or Exempted Items of Income are not deductible. Some costs and expenses are limited or forbidden, depending on the facts and circumstances of each case, e.g., related party charges (interests), commissions, among others.

1.1.5. Depreciation

Depreciation of tangible fixed assets is deductible. Depreciation terms vary depending on the nature of the asset: 40 years for real estate, 10 years for all other tangible fixed assets, except for motor vehicles and computers, for which regulations establish a 5-year term. Intangibles with a fixed cost may also be depreciated over five years. Globally accepted methods are commonly used in Bolivia for tax purposes, including the straight-line method and the declining balance method.

1.1.6. Transfer Pricing

Bolivia has issued Transfer Pricing rules through Act 549, dated July 21, 2014. To regulate the act as mentioned above, Supreme Decree No. 2227 was issued on December 31, 2014. The Tax Administration is developing specific administrative regulations to standardize previous regulations and, therefore, clearly define the taxpayer's obligations regarding the new regulations recently enacted. The law sets forth that to readjust or revalue transaction values between related parties, any of the following methods could be used:

a. Comparable Uncontrolled Price Method;
b. Resale Price Method;
c. Cost Plus Method;
d. Profit Split Method;
e. Transactional Net Margin Method;
f. Publicly quoted Prices in Transparent Markets Method; and
g. Suppose it is not possible to determine the value of the transaction using any of the previous methods. In that case, a different method may be applicable, considering the nature and economic reality of the operation.

1.1.7. Tax Losses Carry-forward / Carry-back

A Bolivian taxpayer can carry forward tax losses for up to three years. Losses will not be updated under inflation adjustments. Companies in the oil and mining production sector, as well as new productive enterprises with a minimum capital of One Million Bolivianos, may carry forward tax losses for a period of five years. This also applies to Hydrocarbon and mining enterprises. Losses will not be updated. Financial and/or banking entities will not carry forward losses generated before 2010. However, losses accumulated from 2011 onwards will be carried forward for three years, and five years for Mining and Oil & Gas, subject to certain conditions.

There is no carry-back possibility.

Tax losses can be credited towards (and are capped by) the taxpayer's net income for the deduction's taxable year. Therefore, a tax loss deduction cannot generate further tax losses.

Tax losses cannot be transferred to other taxpayers (not even to the shareholders) except as provided in the cases of reorganizations. There are three types of tax-free reorganizations authorized by Bolivian

law: statutory tax-free mergers, statutory tax-free spin-offs, and statutory tax-free transformations.

In all cases, the tax attributes of the target company are transferable to the surviving or resulting corporation. In the case of tax-free mergers, the above-mentioned general limitations still apply. Nonetheless, in this case, tax losses are transferable to the new or surviving entity.

For tax-free spin-offs, a portion of the tax losses of the target entity is transferred to the resulting entities. A supreme decree set forth a limitation, restricting the carry-forward of losses resulting from any previous reorganizations to a period of four years.

Considering the previous limitation and taking into account that the law sets forth no limitation whatsoever on the carry forward of losses, it is highly likely to have a favorable ruling in case the supreme decree is challenged.

1.1.8. Tax-Free Reorganizations

In general, operations involving statutory tax-free mergers, statutory tax-free spin-offs, and statutory tax-free transformations are not taxed with the Corporate Income Tax, the Value Added Tax, or the Tax on Transactions. Some local jurisdictions (municipal governments) have issued local regulations limiting the mentioned exclusion by taxing the transference of real estate goods and vehicles regardless of whether such conveyance is carried out as a result of a reorganization procedure.

1.2. Payment and Filing

For any given taxable year, the corresponding income tax return and tax liability must be filed and paid within 120 days following the closing of the fiscal year. The closing of the fiscal year varies depending on the type of enterprise and the line of business, as detailed below.

a. March 31 - Industrial and oil and gas companies.
b. June 30 - Agricultural, agroindustry, and cattle companies.
c. September 30 - Mining companies.
d. December 31 - Banking, insurance, commercial service companies, and others.

1.3. Penalties on Unpaid Tax or Tax Paid Belatedly

Unpaid taxes are subject to late interest, which should be assessed at the official rate specified in the corresponding regulations. The Tax Debt (DT) is the total amount to be paid once the term for paying the tax obligation is due. The DT is constituted by the Omitted Tax (TO) plus interests, expressed in U.F.V's (Housing Promotion Unit, a referential index), under the following formula:

$$DT = TO + I$$

The interest rate may vary depending on the days/years delinquent: 4% up to 4 years; 6% from 5 to 7 years and 10% from the 8th year.

In addition to the applicable interests, failure to pay a tax may be sanctioned with the payment of 60% of the unpaid tax, depending on the facts and circumstances of each case. This sanction may be reduced from 40% to 80%, depending on when the taxpayer pays the penalty.

Other penalties apply for non-filing or inaccurate filing, which may range from fixed fines determined by regulations applicable to individuals or legal entities, depending on the facts and circumstances of each case.

1.4. Dividends Tax / Branch Profits Tax

There is a 12.5% withholding tax (WHT) on dividends and branch profits remitted abroad to non-resident alien entities or individuals. It applies to all dividends remitted abroad and to all branch profits obtained during the fiscal year, whether they are remitted abroad or not.

For the 2025 fiscal year, there is a WHT exemption incentive for companies or branches that reinvest their profits obtained in Bolivia under the following criteria[5]:

a. For reinvestment of profits from 75% onwards, an exemption of 75% WHT on the dividends paid or remitted abroad.
b. For reinvestment of profits from 50% to 74.99%, an exemption of 50% WHT on the dividends paid or remitted abroad.
c. For reinvestment of profits from 25% to 49.99%, an exemption of 10% WHT on the dividends paid or remitted abroad.

1.5. Cross-border Payments

1.5.1. Withholding Taxes

When Bolivian-sourced income is paid, credited, and remitted abroad to a beneficiary who is a non-resident alien individual or entity, the payment is subject to withholding tax.

1.5.1.1. Dividends

In addition to the corresponding profits taxed at the corporate level, a withholding tax of 12.5% applies.

1.5.1.2. Royalties

Royalty payments are subject to an effective 12.5% withholding tax for income and remittance taxes.

1.5.1.3. Technical Services, Technical Assistance, and Consulting Services

Whether rendered in Bolivia or abroad by a non-resident, technical services and technical assistance payments are subject to 12.5% withholding for income and remittance taxes.

1.5.1.4. Other Services

Payments for services rendered from abroad (no matter their nature) are subject to a 12.5% withholding tax.

1.5.1.5. Interest and Leasing Payments

Generally, payments performed under foreign debt agreements and cross-border leasing agreements are subject to a 12.5% effective withholding for income and remittance taxes.

1.5.1.6. Equity Reimbursements

Equity reimbursements not corresponding to dividends or profit distributions are not taxable items of income for the foreign shareholder. Therefore, no withholding taxes should apply.

5 Article 10 of Act N° 1613, for the General Budget of 2025.

1.5.1.7. Tax Havens

For Transfer Pricing purposes and when dealing with related entities, current tax laws require the Tax Administration to determine which jurisdictions are deemed to have no or low taxation based on the lists issued by the OECD and South American countries.

Additionally, the Tax Administration issued a list in 2019, which included 83 countries, ranging from Alderney to Yemen.

1.5.2. Limitations for Costs and Expenses Incurred Abroad by Bolivian Taxpayers

Costs and expenses incurred abroad may be deducted as long as they are related to the company's activities and are properly documented.

1.5.3. Tax Treaties

Bolivia has entered into the following tax treaties to avoid double taxation:

a. Andean Pact Countries, Decision 578;
b. Republic of Argentina (October 30, 1976);
c. Federal Republic of Germany (September 30, 1992);
d. Kingdom of Sweden (January 14, 1994);
e. United Kingdom of Great Britain and Northern Ireland (November 3, 1994);
f. Republic of France (December 15, 1994); and
g. Kingdom of Spain (May 30, 1997);

2. Value Added Tax (VAT)

2.1. General Aspects

2.1.1. Tax Rates

VAT's general rate is 13%. Since VAT must be included in the price, VAT's effective rate is 14.94%.

2.1.2. Taxable Transactions

Sale, lease, or importation of movable tangible property and services rendered in Bolivia.

2.1.3. Taxable Base

As a general rule, the taxable base is composed of the price or value paid for the goods and/or services.

2.1.4. Creditable VAT

As a general rule, all VAT paid to providers for tangible movable property leased, bought, or imported, and for services hired, is creditable, provided that they constitute a cost or expense of the taxpayer's income-producing activity and are related to its core business.

Tax credits may not be fully credited when applied to specific purchases, such as gasoline or diesel, where only 70% of the invoice amount is reimbursable.

2.2. Selected VAT Incentives

The temporary importation of goods is exempt from import VAT. Among others, the following transactions are exempt from VAT: Interests generated from banking operations, the Transfer of shares, debentures, and other securities, the Transfer of goods resulting from a securitization process, the Assignment of banking, insurance, and pension fund portfolios, and cultural activities rendered by Bolivian artists. Several incentives exist for tourism activities in the country.

The importation of certain goods intended for the agricultural and industrial sectors is exempt from value-added tax (VAT). Likewise, their sale in Bolivia will be taxed at a zero rate. These incentives will remain in effect until December 31, 2025.

Individuals with incomes lower than BDT 9,000 (approximately USD 1,293.10) may be eligible for a 5% VAT refund on purchases made or services contracted.

2.3. Payment and Filing

VAT has a one-month taxable period. Therefore, the tax must be assessed, and a VAT return must be filed on a monthly basis. The VAT tax return must be filed and paid in full on the dates scheduled by the Tax Administration for these purposes, which are usually the fifteenth day of each month following the end of the corresponding monthly period.

3. Other Taxes

3.1. Transactions Tax

Levies the exercise -in the Bolivian territory- of commerce, industry, profession, occupation, business, rental of goods, services, or any other activity –remunerated or not- notwithstanding the nature of the individual who exercises any of the detailed activities. The tax base is the gross income generated during a fiscal period resulting from taxed activity, taxed at a rate of 3%.

3.2. Tax on Windfalls

None during the detailed year.

3.3. Property Taxes

There are municipal (local, territorial level) taxes on real estate and vehicles. The rate for these taxes is set in municipal ordinances adopted annually by each locality; therefore, they may vary.

3.4. Financial Transactions Tax

This tax is a national-level tax. It was created to tax any credit or debit in the taxpayer's account, and it is withheld by Bolivian banks (and other financial entities). It applies to any deposited funds that are either withdrawn or transferred from a checking or savings account. The taxable base is the amount withdrawn or transferred. The tax rate is 0.30 per thousand. There are minimal exceptions.

It is a crucial tax to consider when structuring a transaction's cash flow. Although the tax was created with a two-year term limit, Law 1135 (dated December 20, 2018) extended this term for an additional year, until 2023, beginning January 1, 2019.

3.5. Excise Tax

This tax applies to the sale or definitive importation of certain luxury goods (e.g., cigarettes, Vehicles, alcoholic drinks etc.).

3.6. Tax on Games

Taxes, gaming, and gambling activities, as well as commercial participation, are typically carried out by legal entities. Those legal entities providing gaming and gambling activities or entertainment are taxed at a rate of 30% over the gross income obtained under the prices determined, minus VAT. The tax also applies to individuals participating in gaming activities or commercial transactions, with a 15% rate over the sale price minus VAT.

3.7. Personal Income Tax (Complementary Regime to the Value Added Tax)

Bolivia does not have a personal income tax as such; thus, it only taxes individuals when they are under a labor relationship (detailed in section 5) and/or are carrying out independent commercial activities on a habitual basis (lease of real estate and goods, serving as board directors, comptrollers, etc.). The tax rate is 13%.

3.8. Wealth Tax

A wealth tax was enacted to tax the wealth of individuals, including, but not limited to, real estate, movable goods, financial assets, rights, cash, and any other material or intangible goods with economic value.

Tax base (Bolivianos/USD)	Rate	With a discount of:
From Bs. 30.000.001 to 40.000.000 (USD 4.310.344,97 to USD 5.747.126,44)	1,4%	Bs. 150.000 (USD 21551,72)
From Bs. 40.000.001 to 50.000.000 (USD 5.747.126,44 to USD 7.183.908,04)	1,9%	Bs. 350.000 (USD 50.287,35)
From Bs. 50.000.001 (USD 7.183.908,04) onwards	2,4%	Bs. 600.000 (USD 86.206,89)

Taxes paid on Real Estate. Movable goods subject to registry and income paid by professionals may be compensated with the tax.

4. Customs Regime: General Aspects

4.1. Custom Duties

Importation of goods is subject to import VAT at a general rate of 14.94%. In addition to import VAT, imports are also subject to customs duties (GA) that range between 5% and 40%, depending on the type of machinery and equipment (M&E) being imported. It is worth noting that Bolivia has entered into the Preferential Customs Duties Agreement (PCDA) with several countries, reducing the applicable customs duties for certain manufactured goods (M&Es) from a certified origin.

Zero-rated customs duty regimes are available for certain activities or importers. These must be checked further on a case-by-case basis.

4.2. Taxable Base

Custom duties are computed on the CIF value of the goods, while import VAT is computed on the CIF value plus the corresponding customs duties. Custom valuation rules in place in Bolivia are based on the GATT (1994) valuation code, which is similar to the current WTO valuation rules. For valuation purposes, the Andean Pact valuation rules, as outlined in Decisions 378 and 379, apply. These rules are also similar to the rules mentioned above.

4.3. Transfer Pricing

Bolivia has issued Transfer Pricing rules through Act 549, dated July 21, 2014. To regulate the law as mentioned above, Supreme Decree No. 2227 was issued on December 31, 2014. The Tax Administration is developing specific administrative regulations to standardize previous regulations and, therefore, clearly define the taxpayer's obligations regarding the new regulations recently enacted.

The law sets forth that to readjust or revalue transaction values between related parties, any of the following methods could be used:

a. Comparable Uncontrolled Price Method;
b. Resale Price Method;
c. Cost Plus Method;
d. Profit Split Method;
e. Transactional Net Margin Method;
f. Publicly quoted Prices in Transparent Markets Method; and
g. Suppose it is not possible to determine the value of the transaction using any of the previous methods. In that case, a different method may be applicable, considering the nature and economic reality of the operation.

4.4. Filing and Payment

As a minimum requirement, an importation tax return must be filed upon nationalization of the goods.

4.5. Selected Custom Duties Regimes Available

Importation of M&E can be performed through various customs regimes, differing from the ordinary importation regime. Each of these special customs duty regimes has different customs duties and import VAT treatment. 4.5.1. Ordinary Importation Regime.

It applies to all goods that will remain permanently in Bolivian territory without any use or jurisdictional restrictions. Full payment of customs duties and import VAT is required upon nationalization.

4.5.1. Temporary Importation Regime

It applies to M&E and spare parts listed by the applicable regulations as capital goods. This regime is used whenever the goods are expected to remain in Bolivia for 90 days, with the option to extend for an additional 90 days. During this time, payment of customs duties and import VAT will be suspended.

4.5.2. Temporary Importation Regime for Leased Equipment

The rules of this regime are similar to those explained above.

4.5.3. Free Trade Zone Regime

Bolivia has a convenient industrial Free Trade Zone regime that importers and other parties with business interests or permanent operations in Bolivia should carefully explore.

5. Payroll Taxes/ Welfare Contributions

5.1. Payroll Withholding Tax

Employers should withhold an amount equal to 13% of the salary paid to each employee, unless the employee can offset this tax with a sufficient VAT credit resulting from goods and services they have purchased.

In 2025, this withholding applies to employees earning a monthly salary higher than Bs9,451 (approximately USD1,358).

5.2. Retirement Contributions

The contribution to private funds made by the employee is equal to at least 12.71% of the employee's wage. Employers are responsible for withholding such contributions from employees' wages.

Depending on the employee's salary, he/she may be subject to further contributions ranging from 1% to 10% of his/her salary.

5.3. Health Contributions

The employee must be affiliated with any Health Administering Entity (HAE) approved by the National Health System. Contributions to the HAE by the employer are equal to 10% of the employee's wage.

5.4. Other Contributions

The employer must also fund amounts equal to 1.71% of the worker's salary for the employee's professional risk insurance, 2% corresponding to the Social Housing Plan, and 3% under a solidarity contribution.

BRAZIL
MACHADO ASSOCIADOS

MACHADO ASSOCIADOS

IN-COUNTRY MEMBER FIRM:

www.machadoassociados.com.br
+55 (11) 3819-4855
Address: Av. Brig. Faria Lima, 1.656, 11th floor
01451-918, São Paulo, Brazil

CONTACT PARTNER(S):

Stephanie Makin
sjm@machadoassociados.com.br

Isabel Bertoletti
iab@machadoassociados.com.br

HIGHLIGHTS

National Level Tax Rates:	
Corporate Income Tax (IRPJ)	25%[1]
Social Contribution on Net Profit (CSLL)	9%[2]
Capital Gains Tax	up to 34%
Branch Profits Tax	up to 34%
Dividends Tax	0%[3]
Tax losses carry-forward term	unlimited years[4]
Tax losses carry-back term	not applicable
Transfer Pricing Rules	Yes
Withholding Income Tax (WHT) on	
Interest:	15%
Royalties:	15%
Technical Assistance:	15%
Technical Services:	15%[5]
Administrative Assistance Services	15%
Other Services:	25%
Remittances to "tax havens"	25%[6]
Contribution for the Social Integration Program (PIS)[7]	
Non-cumulative system	1.65%
Cumulative system	0.65%
Contribution for Social Security Funding (COFINS)[7]	
Non-cumulative system	7.6%
Cumulative system	3%[7]
Custom Duties (II)	from 0% to 35%[8]
Excise Tax (IPI)	from 0% to 300%[9]
Tax on Financial Transactions (IOF)	from 0% to 25%
Tax on Rural Property (ITR)	from 0.03% to 20%

1 The regular rate is 15% but a 10% surcharge is applicable to taxable profits exceeding BRL 240,000 per year (USD 43,636 - estimated exchange rate: BRL 5.50 for each USD 1.00).

2 This contribution is also levied on corporate profits. The current applicable rate to financial institutions in general is 15% and 20% for banks.

3 See Section 1.1.2.9.

4 Tax losses offsetting shall not reduce taxable profits in more than 30% in any given period.

5 See Treaty Taxation – Additional Remarks.

6 See Section 1.1.2.3.

7 Financial institutions and insurance companies are subject to a 4% rate of COFINS.

8 The tax rate varies according to the tax classification number and, in general, the lower rate is applicable to food and medicine meanwhile the higher rate is applicable to superfluous products, such as alcoholic beverages and cigarettes.

State/Municipal Tax Rates:	
VAT on Sales and Services (ICMS)	from 4% to 40%[9]
Tax on Services (ISS)	from 2% to 5%[10]
Tax on Urban Property (IPTU)	from 2% to 5%[11]
Tax on Vehicles' Ownership (IPVA)	from 1% to 1.5%[12]
Document Registration Tax:	from 1.5% to 4%[13]
Tax on Real Estate Transfer (ITBI)	3%[12]
Tax on Donation and Inheritance (ITCMD)	up to 8%[14]
Import Taxes:	
Import of services[15]	
WHT	15% or 25%[16]
ISS[17]	from 2% to 5%
PIS-Import	1.65%
COFINS-Import	7.6%
Economic Intervention Contribution (CIDE)	10%[16]
IOF	3,5%[18]
Import of goods	
II	from 0% to 35%
IPI	from 0% to 300%
ICMS	from 12% to 40%[19]
PIS-Import	2.1%[20]
COFINS-Import	9.65%[19 21]

9 The tax rates vary according to the State and the type of good or service. We informed the lowest and the highest ICMS rates considering all Brazilian States.

10 The tax rate varies according to the Municipality and the type of service rendered.

11 The tax rate varies according to the Municipality and the type of service rendered.

12 The tax rate varies according to the Municipality. The tax rates mentioned apply to the city of São Paulo.

13 The tax rate varies according to the State. The tax rates mentioned apply to the State of São Paulo.

14 The tax rate varies according to the State, subject to a maximum rate of 8%. In the State of São Paulo, a 4% rate applies.

15 Communication services are also subject to the ICMS (rate varies according to the State).

16 WHT rate is 15% if the service is technical (see Section 1.4.1.2) or 25% if not. CIDE (see Section 2.6) is only charged in case of technical services.

17 International transport services are not subject to the ISS. The value of the international transport services of imported goods is comprised in the Customs Value, and hence being subject to the taxes due on the import of goods.

18 Decree 12466, published on May 22, 2025, introduced significant changes to the IOF-Exchange tax framework by increasing the general rate applicable to remittances abroad from 0.38% to 3.5%. Currently, several bills are under discussion in the National Congress seeking to revoke the decree and reinstate the previous rate.

19 The ICMS rates generally applicable on imports vary according to the State where the importer is established and the goods imported. We informed the lowest and the highest ICMS rates, generally applied considering all Brazilian States.

20 The following rates of PIS and COFINS apply: (i) general import of goods: 2.1% and 9.65%; (ii) pharmaceutical products: 2.76% and 13,03%; (iii) perfumery, toiletries and personal hygiene products:3,52% and 16.48%; (iv) some machines and vehicles: 2.62% and 12.57%; (v) tires and inner tubes: 2.68% and 12.35%; (vi) some auto parts: 3.12% and 14.37%; and (vii) paper for printing books, newspapers and periodicals: 0.8% and 3.2%.

21 Some products are subject to a surcharge of 0.8% on 2025 and 0.6% on 2026.

Treaty Taxation:

Items of Income[22]					
Countries	Interest	Dividends	Royalties	Tech. Services	Tech. Assist
Argentina[23]	15%[24]	0%	10/15%[25]	10%[26]	10%[24]
Austria	15%[22]	0%	10/15%[27]	0%[28]	0%[26]
Belgium	10/15%[29 30]	0%	10/15%[31]	10%[24,26]	10%[24,26]
Canada[32]	10/15%[22,28]	0%	15%	15%[24]	15%[24]
Chile[30]	15%[21, 33]	0%	15%[22]	15%[24]	15%[24]
China[30]	15%[22]	0%	15%	15%[24]	15%[24]
Czech Rep.[30]	10/15%[22,27]	0%	15%	15%[24]	15%[24]
Denmark	15%[22]	0%	15%	15%[24]	15%[24]
Ecuador[30]	15%[22]	0%	15%	15%[24]	15%[24]
Finland[30]	15%[34]	0%	10/15%[29]	0%[26]	0%[26]
France	10/15%[27,28]	0%	10/15%[29]	0%[26]	0%[26]
Hungary[30]	10/15%[22,27]	0%	15%	15%[24]	15%[24]
India[30]	15%[22]	0%	15%	15%[24]	15%[24]
Israel[30,35]	15%[22,31]	0%	10/15%[23]	10%[24,26]	10%[24,26]

22 This table provides information about the applicable taxation on remittances of funds overseas from Brazil. When the domestic rate is lower than the rate applicable based on the relevant treaty, we informed only the local rate. Tax treaties apply not only to IRPJ but also to CSLL.

23 Such reduction is not applicable if the main purpose or one of the main purposes of any party involved in the transaction from which the income arises is taking advantage of the treaty provisions.

24 Exemption is granted if the beneficiary is the government of the other State, its political subdivisions or government owned entities.

25 The 15% rate applies to royalties arising from the use, or right to use, trademarks and 10% for other cases.

26 Deemed as royalties according to the corresponding royalties article of the treaty or the treaty protocol.

27 The 10% rate applies to royalties arising from the use of, or the right to use, any copyright of literary, artistic or scientific work, but not including cinematographic films, films or tapes for television or radio broadcasting and the 15% rate applies to all other cases.

28 See Additional Remarks.

29 The 10% rate applies to loans that meet some conditions (e.g., minimum repayment terms).

30 Exemption is granted if the beneficiary is the government of the other State.

31 The 10% rate applies to royalties arising from the use of, or the right to use, any copyright of literary, artistic or scientific work, including cinematographic films, films or tapes for television or radio broadcasting and the 15% rate applies to all other cases.

32 Such reductions are only applicable to the beneficial owner of the income.

33 Applies to interest on net equity.

34 Exemption is granted if the beneficiary is the government of the other State or the Bank of Finland.

35 A legal entity that is a resident of a Contracting State and derives income from sources within the other Contracting State will not be entitled in that other Contracting State to the benefits of the treaty if more than 50% of interest in such legal entity is held by persons who are not resident of the first-mentioned State or of any of the Contracting States. However, such limitation of benefits does not apply if that legal entity carries on a substantial business activity in the Contracting State of which it is resident.

Italy[30]	15%[22]	0%	15%	15%[24]	15%[24]
Japan	12.5%[22]	0%	12.5/15%[36]	0%[26]	0%[26]
Luxembourg	10/15%[22,27]	0%	15%	15%[24]	15%[24]
Mexico[30]	15%[21,22,31]	0%	10/15%[21,23]	10%[21,24,26]	10%[21,24,26]
Netherlands[30]	10/15%[22,28]	0%	15%	15%[24]	15%[24]
Norway[30]	10/15%[27]	0%	10/15%[23]	10%	10%
Peru[30,33]	15%[30,31]	0%	15%	15%[21,24]	15%[21,24]
Philippines[30]	15%[32]	0%	15%	15%[24]	15%[24]
Portugal[30]	15%[22,31]	0%	15%	15%[24]	15%[24]
Russia[34]	15%[21,22,31]	0%	15%[21,37]	15%[22,24]	15%[22,24]
Singapore	10/15%[27,28]	0%	10/15%[23]	10%[21, 24, 26]	10%[21,24,26]
Slovakia[30]	10/15%[22,27]	0%	15%	15%[24]	15%[24]
South Africa[30,33]	15%[21,22,31]	0%	10/15%[21,23]	10%[21,24,26]	10%[21,24,26]
South Korea[30]	10/15%[22,27]	0%	10/15%[23]	10%[24,26]	10%[24,26]
Spain	10/15%[22,27]	0%	10/15%[25]	10%[24,26]	10%[24,26]
Switzerland	10/15%[27]	0%	10/15%[23]	10%	10%[24,26]
Trinidad and Tobago	15%[21,22,31]	0%	15%	15%[24]	15%[24, 26]
Turkey	15%[31,38]	0%	10/15%[23]	10%[24,26]	10%[24,26]
Ukraine[30]	15%[22,23,32]	0%	15%[22]	15%[24,27]	15%[24,26]
United Arab Emirates	10/15%[28]	0%	15%	15%	15%[24,26]
Uruguay	15%[39]	0%	10/15%[24]	10%[40]	10%[41]
Venezuela[33]	15%[21,22,31]	0%	15%[22]	15%[24]	15%[24]

36 The 15% rate applies to royalties arising from the use of, or right to use, trademarks and any copyright on cinematographic films, films or tapes for television or radio broadcasting. The 12.5% rate applies to all other cases.

37 Payments of any kind concerning any transactions with respect to computer programs shall be taxable by a Contracting State in accordance with its domestic legislation.

38 Exemption is granted if the beneficiary is the government of the other State or the Central Bank of Turkey or the Import and Export Turkish Bank.

39 Exemption is granted if the beneficiary is the government of the other State, its political subdivisions or the Central Bank of the other State or any agency owned by the government of the other State or its political subdivisions. Interest derived from obligations, bonds and debentures issued by the government of one State, its political subdivisions or any agency owned by the government of the other State or its political subdivisions will only be taxable in such State.

40 The 10% rate is established by an article that specifically refers to fees for technical services, defined as any payment in consideration for any service of a managerial, technical or consultancy nature, unless the payment is made to an employe, for teaching in/by an educational institution or by an individual for services for the personal use of an individual.

41 The 10% rate established by an article that refers to fees for technical services also applies to technical assistance according to the treaty protocol.

Additional Remark

Brazil has signed tax treaties with Colombia, Poland and United Kingdom/Northern Ireland which depend on the analysis by the National Congress. Brazil has also signed protocols to amend tax treaties with Chile, China, India, Singapore and Sweden, which still need to be analyzed by the National Congress. Therefore, these treaties and protocols are not currently in force.

In some specific cases, the tax treaties may not impose an actual reduction of the taxation nor provide for a more beneficial treatment in Brazil. For example, since payment of dividends by a Brazilian company are usually taxed at a zero rate according to Brazilian rules currently in force, the treaty provisions that limit the rate applicable to such payments in the source State do not produce any practical effect.

It is also worth mentioning that the Interpretative Declaratory Act 5/14 ("ADI 5/14") of the Brazilian Federal Revenue Service (RFB) establishes that service remittances shall fall under: (i) article 12 (royalties) of the tax treaties when the tax treaty establishes that technical services fall under said article; (ii) article 14 (independent professions) when the rendering of the service is based on the technical qualification of a person or a group of people; or (iii) article 7 (business profits) in all other cases.

Thus, remittances for the payment of technical services made to beneficiaries resident in: (i) Austria, Finland, France, Japan and Sweden should not be subject to WHT in Brazil (article 7); and (ii) Argentina, Belgium, Israel, Mexico, Singapore, South Africa, South Korea, Spain and Turkey remain subject to WHT in Brazil, at a 10% rate (article 12); and (iii) other countries, remain subject to the general 15% WHT rate.

According to local legislation, technical service is a service rendered with the use of any specific knowledge or that involves administrative assistance or consultancy services, irrespectively of any transfer of technology, performed by independent professionals or under labor agreements or related to automated structures with clear technological content. Such definition was also included in the tax treaty with Argentina.

Brazil has rules in place for individuals and legal entities residing in Brazil to request a Mutual Agreement Procedure in case Brazil or both Brazil and the other contracting State have taken measures that lead or may lead to improper taxation under the tax treaties.

Following the worldwide exchange information tendency, Brazil has also entered into several agreements providing for the exchange of tax and financial information, such as the Convention on Mutual Administrative Assistance in Tax Matters and Tax Information Exchange Agreements with some jurisdictions[42].

42 Brazil has signed tax exchange information agreements with Bermuda, Cayman Island (pending analysis by National Congress), Guernsey (pending approval by Decree), Jamaica, Jersey, San Marino, Switzerland, United Kingdom, United States and Uruguay (pending analysis by National Congress).

1. OVERVIEW

1.1. Income Tax

1.1.1. IRPJ and CSLL Rates

The general IRPJ rate for Brazilian entities (including Brazilian branches of foreign companies) is 15%. A surcharge of 10% is applicable for taxable income exceeding BRL 240,000 per year (USD 43,636[43]) or BRL 20,000 per month (USD 3,636) in case of base periods shorter than one year.

CSLL is due at a 9% rate, except for financial entities which are currently subject to 15% or 20% rates.

1.1.2. Taxable Base

Brazilian legal entities may use one of the three following systems to calculate their taxable income: (a) the Actual Profit; (b) the Deemed Profit[44] or (c) the Arbitrated Profit[45]. Since the most usual is the Actual Profit, the considerations below relate to this system. Generally speaking, the taxable income corresponds to the net profit reported in the company's financial statements (according to the Brazilian Generally Accepted Accounting Principles – "BR GAAP"), adjusted in accordance with the additions and exclusions set forth by the tax legislation.

As a result, from the convergence of the BR GAAP with the International Financial Reporting Standards (IFRS) and seeking to adapt the rules for the calculation of IRPJ, CSLL, PIS and COFINS to these accounting rules, Law 12973/14 introduced significant changes on the legislation of such taxes.

Such law requires that companies maintain several additional accounting controls in order to: (i) ensure the tax neutrality of transactions occurred before the initial adoption date; and/or (ii) allow the deferral deduction of Present Value and Fair Value adjustments, among others.

Law 12973/14 also introduced, among others: (i) modifications to the tax deduction of depreciation expenses[46]; (ii) the setting out of additional requirements for the tax deduction of goodwill amortization expenses[47]; and (iii) the provision of specific tax treatments for certain transactions previously not regulated by tax legislation such as:

- Borrowing Costs (IAS 23), which may be included in the cost of the asset but deducted for tax purposes in the year they are incurred, at the taxpayer's option;

43 Estimated exchange rate: BRL 5.50 per each USD 1.00.

44 Usually applicable to small-size companies with total revenues of less than BRL 78 million (approximately USD 14,1 million) in the previous year, that are not subject to restrictions otherwise imposed by law (e.g., financial institutions, companies earning profits/income from abroad etc.). The taxable basis (deemed profit) is calculated on a quarterly basis upon the applicability of certain percentages on the company's gross sales revenue which may vary per activity performed by the company. The general percentages are 8% (for IRPJ) and 12% (for CSLL). In case of services the percentage is 32% for both taxes. Other revenues may be subject to other specific percentages or may be fully added to the taxable basis.

45 For a long time used at the sole discretion of the tax authorities. Nowadays, the companies are authorized to use this income tax system in some specific cases, such as when their accounting records are not reliable for the calculation of the taxes due. It is similar to the "Deemed Profit System" (also calculated on a quarterly basis), but the percentages applicable on the companies' revenues are 20% higher for IRPJ purposes.

46 See Section 1.1.2.1.

47 See Section 1.1.2.1 .

- Share-based Payments (IFRS 2), which expenses are only considered as tax deductible after the actual payment or definitive delivery of the shares or equity instruments by the entity to the employee;
- Intangibles (IAS 38), which amortization expenses shall be considered as tax deductible under certain conditions;
- Leases (IFRS 16), allowing the deduction of the installments paid or credited provided some conditions are met;
- Service Concession Arrangements (IFRIC 12).

A summary of the calculation of the IRPJ and the CSLL taxable basis could be illustrated as follows:

Net profit before IRPJ and CSLL

[+] Additions

[-] Exclusions

[=] Taxable income before tax losses offsetting

[-] Tax losses offsetting (up to 30% of the taxable income above)

[=] Taxable income

[x] 15% IRPJ rate

[x] 10% IRPJ surcharge (on taxable income exceeding BRL 240,000 – USD 43,636 – per year)

[x] 9%, 15% or 20% CSLL rate

IRPJ and CSLL are levied on the worldwide income of Brazilian legal entities as detailed in Section 1.1.2.6 below. Such rules were also extensively modified by Law 12973/14.

Under the Actual Profit system, the tax base period shall be closed on each quarter (Quarterly Actual Profit) or year (Annual Actual Profit), at the taxpayer's option. If the Annual Actual Profit is chosen, monthly advance payments are required. Section 1.2 below details IRPJ and CSLL payment and filing rules.

1.1.2.1. Deductions

As a general rule, all costs and expenses paid (or accrued) for the performance of the company's activities/undertakings (necessary, normal or usual expenses) are tax deductible, even if related to excluded and/or exempt income. Some expenses, however, are subject to deductibility requirements or limitations among which we highlight the following:

Provisions: even if necessary for accounting purposes, they are not regarded as deductible expenses for IRPJ and CSLL purposes, except for those expressly authorized by law (e.g., vacations, 13th month salary and certain technical provisions). Impairment of assets (IAS 36) is treated as a provision for tax purposes.

Fringe Benefits: fringe benefits paid to the companies' administrators, officers, managers and/or their assistants can be considered tax deductible expenses provided that the amounts are included in the taxable income of the corresponding beneficiaries, which shall be individually identified.

Taxes: these expenses are deductible on accrual basis, except for: (i) taxes that are being discussed in Courts and (ii) the IRPJ and CSLL.

Royalties: these expenses are deductible, except if royalties are paid, credited, delivered, used or remitted to related parties resident or domiciled abroad (as per the definition of the Brazilian transfer pricing rules) and the corresponding deduction results in a double non-taxation in any of the following cases: (i) when royalties are treated as a deductible expense for the foreign related party, (ii) if royalties deducted in Brazil are not treated as taxable income of the beneficiary by the legislation of the jurisdiction where the foreign related party resides, or (iii) when royalties are intended to finance, directly or indirectly, deductible expenses of foreign related parties which result in the situations described in previous items. These exceptions to the deduction also apply to the deduction of amounts paid, credited, delivered, used or remitted as technical, scientific, administrative or similar assistance to foreign related parties.

Bonus or Profit Sharing: if paid to officers, these expenses are not tax deductible for IRPJ purposes, whereas, if paid to employees, they are fully tax deductible[48].

Depreciation: despite of the criteria and method adopted for accounting purposes, companies may deduct the depreciation calculated on the acquisition cost using the straight-line method and the rates established by RFB, among which we highlight:

Asset	% per year	No. of years
Buildings	4%	25
Vehicles (depending on type/use)	10 to 25%	4 to 10
Hardware and software	20%	5
Furniture and fixtures	10%	10
Machine and equipment	10%	10

(rates may vary depending on tax classification)

Depreciation may be accelerated: (i) by use (16 hours of use: additional of 50% on the depreciation rate; 24 hours of use: additional of 100%); or (ii) by incentive (sometimes also applicable to the CSLL).

If the asset is sold or written-off, the difference between the total depreciation considered for tax purposes and the total depreciation registered in the accounting books must be included in the IRPJ/ CSLL taxable base.

Losses Resulting from the Equity Pick-up Method of Accounting: such expenses are non-deductible (the revenues are not taxable).

Amounts paid by Brazilian companies for the acquisition of equity stake in other companies (investments subject to the equity pick-up method of accounting): the investment acquisition cost must be segregated into: (i) proportional net equity of the target company; (ii) the surplus or deficit arising from the difference between the fair value of the net assets and item (i); and (iii) goodwill, which corresponds to the remaining balance from items (i) and (ii) or gain from a bargain purchase, which results from the positive difference between the fair value of the net assets and the acquisition cost.

48 The profit sharing paid to employees is taxable exclusively at source according to a specific table of progressive rates.

The amounts paid corresponding to the surplus or deficit of net assets and/or goodwill shall only be tax deductible in the following cases: (i) sale, disposal, or liquidation of the relevant equity stake (the premium is deducted as cost of the relevant investment); and (ii) merger of the Brazilian investor into the target company, or vice-versa. The bargain purchase amount shall only be taxable at the sale, disposal, or liquidation of the equity stake or in case of a merger of the investor into the target, or vice- versa.

The appraisal report must be registered before the RFB or with the Public Register for Deeds and Documents up to 13 months after the acquisition.

After the merger, the surviving company:

i. may consider as part of the cost of the assets the surplus corresponding to the assets for the purposes of depreciation, amortization or write-off provided the target company was acquired from a non-related-party;
ii. shall consider as part of the cost of the assets the deficit corresponding to the assets for the purposes of depreciation, amortization or write-off;
iii. may consider as deductible expense 1/60 per month of the goodwill balance provided the target company was acquired from a non-related-party; and/or
iv. shall consider the bargain purchase amount at the minimum rate of 1/60 per month in the calculation of taxes.

1.1.2.2. Exclusions (Non-Taxable Income or Income with Deferred Taxation)

a. Profits arising from the sale of investments, fixed and/or intangible assets: IRPJ and CSLL may be ascertained and paid on a cash basis in case the price is agreed to be paid, partially or entirely, after the end of the tax base period following the one in which the sale was performed; and
b. Premium received in the issuance of shares or other kind of securities: exempt from taxation provided that the issuer is a corporation ("Sociedade por Ações") and that the amount received is registered in a capital reserve.

1.1.2.3. Tax Havens and Privileged Tax Regimes

The concept of tax haven encompasses countries or locations (i) that do not tax income or tax it at rates lower than 17% (compliance with international tax transparency standards set out by RFB is necessary until 2023[49]); (ii) that ensure the secrecy regarding the shareholding structure or ownership of legal entities; and or (iii) whose legislation does not allow the identification of the actual beneficiary of the income paid or credited to a nonresident.

The privileged tax regimes are those that meet one or more of the following requirements:

(i) do not tax income or tax it at rates lower than 17% (compliance with international tax transparency standards set out by RFB necessary until 2023[48]); (ii) grant tax advantages to non- residents without requiring the performance of substantial economic activities in the relevant jurisdiction or conditioned to the non-performance of substantial economic activities in the relevant jurisdiction;

49 Normative Instruction 1530/14 establishes that jurisdictions that comply with international tax transparency standards shall be the ones that: (i) have executed a tax treaty providing for the exchange of information or a Tax Information Exchange Agreement or concluded negotiations for such with Brazil; and (ii) are committed to the criteria set out by international forums on tax evasion of which Brazil is part, such as the Global Forum on Transparency and Exchange of Information for Tax Purposes. As of 2024, the legal definition of tax havens and privileged tax regimes refers to rates lower than 17%, and compliance with international tax transparency standards is no longer required for the application of the 17% rate in the qualification of tax havens and privileged tax regimes.

and (iii) do not tax the income earned outside the relevant territory, or tax it at rates lower than 17%; and/or (iv) do not allow access to information about the shareholding structure of legal entities, ownership of assets and rights or economic transactions performed.

Normative Instruction 1037/10 of the RFB (as amended) lists the jurisdictions considered as tax havens and privileged tax regimes[50].

Despite the general deductibility requirements foreseen in Section 1.1.2.1, the transactions carried out with parties domiciled in tax havens or under privileged tax regimes are subject to burdensome tax consequences in Brazil, to wit:

a. presumption of non-deductibility of costs and expenses incurred in such transactions, for IRPJ and CSLL purposes;
b. application of Brazilian transfer pricing rules (see Section 1.1.2.4), even if the involved parties are not related; and
c. application of stricter thin capitalization rules (see Section 1.1.2.5), even if the involved parties are not related.

The presumption described in item (i) shall be overruled if the following requirements are met, concurrently: (ii) the beneficial owner of the foreign entity, who is entitled to the relevant payment, is identified (the beneficial owner is defined as the individual or legal entity that is not incorporated with the main or sole purpose of achieving a tax saving and that earns income on their own account, rather than as an agent, fiduciary manager or attorney-in-fact acting on behalf of a third party); (b) the operative ability of the non-resident to carry out the transaction is proved; and (c) documental

50 The countries or locations considered as tax havens are: American Samoa, Andorra, Anguilla, Antigua and Barbuda, Aruba, Ascension Island, Bahamas, Bahrain, Barbados, Belize, Bermuda, British Virgin Islands, Brunei, Campione D'Italia, Cayman Islands, Channel Islands (Alderney, Guernsey, Jersey and Sark), Cook Islands, Curacao, Cyprus, Djibouti, Dominica, French Polynesia, Gibraltar, Granada, Hong Kong, Ireland, Isle of Man, Kiribati, Labuan, Lebanon, Liberia, Liechtenstein, Macao, Maldives, Marshall Islands, Mauritius, Monaco, Montserrat Islands, Nauru, Niue, Norfolk Island, Panama, Pitcairn Islands, Qeshm, Saint Helen, Saint Lucia, Saint Martin, Saint Pierre and Miquelon, Saint Vincent and Grenadines, Seychelles, Solomon Islands, Sultanate of Oman, Swaziland, Tonga, Tristan da Cunha, Turks and Caicos, , US Virgin Islands, Vanuatu, and West Samoa. The privileged tax regimes are those applicable in Denmark and in the Netherlands (holding companies that do not perform substantial economic activities); in Costa Rica (Free Trade Zones – RZF); in Iceland (International Trading Company – ITC); in Mal- ta (International Trading Company – ITC – and International Holding Company – IHC); in Spain (Entidad de Tenencia de Valores Extranjeros – ETVE); in Portugal (International Business Centre of Madeira – CINM); in Singapore (special rate of tax for non-resi- dent shipowner or charterer or air transport undertaking; exemption and concessionary rate of tax for insurance and reinsuran- ce business; concessionary rate of tax for Finance and Treasury Centre; concessionary rate of tax for trustee company; conces- sionary rate of tax for income derived from debt securities; concessionary rate of tax for global trading company and qualifying company; concessionary rate of tax for financial sector incentive company; concessionary rate of tax for provision of processing services for financial institutions; concessionary rate of tax for shipping investment manager; concessionary rate of tax for trust income to which beneficiary is entitled; concessionary rate of tax for leasing of aircraft and aircraft engines; concessionary rate of tax for aircraft investment manager; concessionary rate of tax for container investment enterprise; concessionary rate of tax for container investment manager; concessionary rate of tax for approved insurance brokers; concessionary rate of tax for income derived from managing qualifying registered business trust or company; concessionary rate of tax for ship broking and forward freight agreement trading; concessionary rate of tax for shipping-related support services; concessionary rate of tax for income derived from managing approved venture company; and concessionary rate of tax for international growth company); in Switzerland (holding company, domiciliary company, auxiliary company, mixed company, administrative company and other companies with ruling granted by tax authorities, which tax treatment results in the levy of Corporate Income Tax at a combined rate lower than 20% according to federal, cantonal and municipal legislation); and in the United States (State LLCs – Limited Liability Companies – owned by non-residents and not subject to federal income tax). Governments are allowed to file pleads for the revision of their classification within the Brazilian lists of tax havens or privileged tax regimes. Based on such reviews, Spain has been temporarily excluded from the list of privileged tax regimes until a final decision is granted to its request.

evidence of the payment of the price and the receipt of the goods, assets, rights or the use of the services is presented.

This presumption does not apply in certain cases described in the law or regulations.

In addition to the foregoing, payments from Brazilian sources to non-residents in tax havens are generally taxed at a higher WHT rate (25% instead of 15%).

1.1.2.4. Transfer Pricing Rules

Law 14596/23, further regulated by Normative Instruction 2161/23, introduced into Brazilian tax legislation new transfer pricing rules based on the arm's length principle and generally aligned to the Organization for Economic Cooperation and Development ("OECD") guidelines. Such new rules entered into force in 2024, but companies were allowed to apply them in 2023 at their discretion.

New Brazilian transfer pricing rules are significantly different from previous rules and, at the current stage, they have not been fully regulated yet by RFB. Current scenario of implementation of new rules requires specific measures and attention from companies.

In summary, Brazilian transfer pricing rules apply to all transactions performed with related parties abroad and parties domiciled in tax havens or subject to privileged tax regimes, including payment of royalties and business restructuring.

Applicable transfer pricing adjustments may be done by Brazilian companies: (i) in the IRPJ and CSLL calculation; or (ii) or by means of adjustments in the value of transactions agreed with the foreign party based on appropriate documents (i.e., debit notes, credit notes or tax and commercial invoices) and accounted by both Brazilian and foreign companies up until the end of the calendar-year in which the controlled transaction took place.

Documentation requirements follow the OECD standards, consisting of Master File, Local File and Country by Country Report. In addition, information on the compliance with the transfer pricing rules must be provided in the Tax Bookkeeping (ECF), which is the IRPJ and CSLL tax return.

1.1.2.5. Thin Capitalization Rules

Brazilian legal entities must comply with thin capitalization rules to be able to deduct interest, when calculating their IRPJ and CSLL, arising from any form of debt, for any term, irrespectively of the registration of the relevant transaction with the Central Bank of Brazil, with (i) related parties; (ii) residents in tax havens; and/or (iii) non-residents subject to privileged tax regimes.

The concepts of tax havens and privileged tax regimes are outlined in Section 1.1.2.3.

Payments or credits of interest arising from transactions covered by the thin capitalization rules shall only be tax deductible up to the debt/equity ratios below:

Creditor			
Limit	Related party with (direct) equity stakes in the Brazilian company	Related party with no equity stakes in the Brazilian company	Resident in tax haven or subject to privileged tax regime (related or unrelated party)
Individual	Debt shall not exceed twice the value of the equity stake held by the related party in the Brazilian company's net worth	Debt shall not exceed twice the value of the Brazilian company's net worth	Debt shall not exceed 30% of the Brazilian company's net worth
Collective: debts with related parties with equity stakes or not (direct) in the Brazilian company	Total debts shall not exceed twice the value of the equity stakes of all the related parties abroad in the Brazilian company's net worth		
Collective: exclusively for debts with related parties with no (direct) equity stakes in the Brazilian company	Not applicable	Debts shall not exceed twice the value of the Brazilian company's net worth	

Non-deductible interest must be added to the Brazilian legal entity's profits or losses (i) ascertained on suspension or reduction balance sheets, on a temporary basis (see Section 1.2) (ii) ascertained in the end of each relevant tax base period (year or quarter, according to the method chosen to calculate the IRPJ and CSLL, as explained in Section 1.1.2), on a definite basis.

1.1.2.6. . Profits and Other Revenues Earned Abroad

The IRPJ and the CSLL are levied on the worldwide income, which means that Brazilian companies must also consider, when calculating such taxes, the capital gains and profits arising from Brazilian investments abroad, including profits of foreign branches, affiliate or controlled companies.

In summary:

i. the profits of directly or indirectly controlled companies shall be taxed individually on December 31 of the calendar year in which they were accrued (accrual basis). The losses may only be offset against future profits earned by the same (direct or indirectly) controlled company;
ii. if certain requirements are complied with, positive and negative results ascertained by foreign (directly or indirectly) controlled companies may be consolidated for Brazilian tax purposes, until 2029[51].Positive consolidated results shall be added to the taxable basis of IRPJ and CSLL on December 31 of the calendar year in which they were ascertained (accrual

51 The tax consolidation shall not include amounts ascertained by companies: (i) located in a country with which Brazil does not have a Tax Information Exchange Agreement or clause (unless the Brazilian company provides digital accounting bookkeeping); (ii) located in tax havens or subject to privileged tax regimes or subject to nominal tax rate lower than 20% ("regime de subtributação"); (iii) controlled, directly or indirectly, by a legal entity subject to the tax treatment mentioned in item (ii); or (iv) that have active income lower than 80% of its total income.

basis). In case of negative consolidated results, the remaining amount of losses (after the consolidation) of each legal entity may be offset against future profits of the same foreign legal entity; and

iii. profits of qualifying foreign affiliate companies will be subject to taxation in Brazil on a cash basis or on an accrual basis, at the taxpayer's choice. Otherwise, profits shall be subject to tax in Brazil on December 31 of the calendar year in which they were accrued and losses shall only be offset against future profits of the same affiliate company.

Taxes due in Brazil on an accrual basis may be paid proportionally to the profits distributed to the Brazilian investing company, in up to 8 years (with interest), under certain conditions.

In the context of the implementation of Pillar Two rules in Brazil, an additional levy to the CSLL has been introduced, in force as of 2025, to comply with the requirements of a Qualified Domestic Top-up Tax (QDMTT). Although referred to an additional of the CSLL, the characteristics of this additional are significantly different from the general rules to the CSLL.

In line with Pillar Two rules, the additional CSLL may be due by entities that are part of a Multinational Enterprise (MNE) group with annual consolidated revenues of at least €750,000,000.00 in the Consolidated Financial Statements of the Ultimate Parent Entity (UPE) in at least 2 of the 4 fiscal years immediately preceding the one under analysis.

1.1.2.7. Foreign Tax Relief

Taxes paid abroad can be offset against IRPJ and CSLL due on profits and dividends of foreign controlled companies (limits must be observed). In the case of qualifying affiliate companies, only the tax paid abroad on dividend distribution can be offset against IRPJ and CSLL on such income.

Until 2029, Brazilian taxes due on profits of controlled companies that develop listed activities may be reduced by a deemed tax credit of 9%, as long as certain requirements are complied with[52].

1.1.2.8. Tax Losses Carry-forward / Carry-back

Tax losses can be carried forward without any statute of limitations, provided that the offsetting does not exceed 30% of the taxable basis ("actual profit") of any given period. No carry-back is allowed.

Non-operating tax losses (i.e., negative results from the disposition of fixed assets, investments and intangibles) may be offset only against non-operating profits, except in the tax base period when the non-operating tax losses accrue (such losses are subject to the 30% limit mentioned above).

A restriction to the tax losses' offsetting is imposed in case of change of control and business activities. Accordingly, a company cannot offset its tax losses if from the date of the accrual of such losses to the date of their offsetting, a change in the control of the company and in the company's business activities occur concurrently.

In case of a spin-off, the company forfeits tax losses proportionally to the spun-off part of its net worth. In the case of a merger, the merged company's tax losses cannot be offset against the profits of the surviving company.

52 The invested company shall not: (i) be subject to a nominal income tax rate lower than 20% ("regime de subtributação"); and (ii) have active income lower than 80% of its total income.

1.1.2.9. Dividends and Capital Reductions

Distribution of profits/dividends arising as of January 1, 1996, is exempt from income tax, regardless of the beneficiary of the income (individual or legal entity, resident or non-resident).

The payment of interest on equity[53] (a kind of dividend that is considered as an expense of the legal entity provided some limits are observed) is subject to a 15% WHT[54] (25% in case of beneficiaries located in tax havens). RFB issued a rule that does not allow the distribution of interests on equity from previous years. Such provision, however, does not have a legal basis.

Capital refunds may generate taxable capital gain for the quotaholder or for the legal entity, on a case-by-case basis.

1.2. Payment and Filing

Under the Actual Profit System, the IRPJ and the CSLL may be quarterly or annually calculated (according to the taxpayer's option)[55].

Taxpayers that calculate their corporate taxes quarterly must pay such taxes up to the last business day of the month following the end of each quarter.

Taxpayers that calculate their corporate taxes annually must make advance monthly payments until the last business day of the month following the one to which it refers. Such advance payments are calculated either on estimated income (calculated as in the Deemed Profit system) or on actual profits shown in intermediary balance sheets (so-called suspension or reduction balance sheets) whichever is lower (at the option of the taxpayer). The difference between the IRPJ and the CSLL due and the advance payments must be paid up to the last working day of January or March following the end of the fiscal year, increased, in the last case, by legal interest as from February 1 or, if negative, can be offset against taxes due by the taxpayer as from January 1.

The Tax Bookkeeping (ECF) must be filed, in general, up to the last business day of July following the end of the fiscal year (the Brazilian fiscal year coincides with the calendar year).

1.3. Penalties for Unpaid Tax or Tax Paid Belatedly

Unpaid taxes or taxes paid belatedly are charged with interest calculated based on the SELIC ("Sistema Especial de Liquidação e Custódia" – Special System for the Settlement and Custody) rate. For 2024, the SELIC corresponded to 12,25%.

Fines are also imposed on the principal. At the federal level, the following fines apply: (a) delayed payments: daily 0.33% up to a maximum of 20%; (b) tax assessments: 75% (general rule), 112.50% (cases in which the taxpayer does not present documentation if requested by the tax authorities), 100% (clear evidences of fraud), 150% (clear evidence of fraud when the taxpayer is a repeat offender or fraud combined with the refusal by the taxpayer to collaborate with the tax authorities), and 225% (repeat offender combined with refusal to collaborate with tax authorities). Discounts can be granted if the payment is made within certain deadlines.

53 Law 14789/23 established new calculation rules for interest on equity paid as of 2024, generally limiting the calculation basis.

54 There is a Bill of Law under discussion to increase WHT rate to 20%.

55 Under the Deemed Profit and the Arbitrated Profit such taxes must be calculated on a quarterly basis.

1.4. Cross-border Payments

1.4.1. Withholding Income Tax (WHT)

The WHT is levied on the income earned by non-residents from a Brazilian source (income paid, transferred, credited, delivered or otherwise made available to a non-resident).

1.4.1.1. Dividends

Remittances of dividends arising from profits generated as of January 1, 1996, are not subject to WHT, regardless if the beneficiary is an individual or legal entity, resident or non-resident. Interest on equity is subject to 15% (25% if paid to beneficiaries in tax havens). For more details, please see Section 1.1.2.9.

1.4.1.2. Royalties, Technical Assistance and Technical / Administrative Services

Such remittances are subject to a general 15% WHT (other taxes are levied on such remittances as shown in the Highlights above – Imports of Services). Such 15% rate may be reduced by applicable provisions of Double Taxation Treaties (for more details, please see Additional Remarks of Treaty Taxation Section). A higher 25% rate is applicable to remittances made to tax havens.

According to local legislation, technical service is a service rendered with the use of any specific knowledge or that involves administrative assistance or consultancy services, irrespectively of any transfer of technology, performed by independent professionals or under labor agreements or related to automated structures with clear technological content.

1.4.1.3. Other Services

Remittances for services not qualified as technical services or not included in the previous item are subject to a 25% WHT (other taxes are levied on such remittances as shown in the Highlights above – Imports of Services).

1.4.1.4. Interest

Payments of interest on foreign loans are generally subject to a 15% WHT (or a reduced rate applicable due to the provision of a Treaty). A higher 25% rate is applicable to remittances made to tax havens. Certain reductions are granted to foreign investors provided some requirements are met, e.g., in case of bonds issued to fund investments.

1.4.1.5. Capital Gains

Capital gains ascertained by non-resident individuals and legal entities domiciled abroad upon the disposal of goods and rights located in Brazil are subject to WHT progressive rates of 15% up to 22.5%, depending on the amount of the capital gain. If the beneficiary of the capital gain is domiciled in a tax haven, a WHT of 25% rate applies, regardless of the amount of the capital gain.

1.4.1.6. Tax Treaties

Tax treaties generally limit the WHT on certain remittances to 10% or to 15%.

2. Other Taxes

2.1. Excise Tax (IPI)

IPI is a federal tax charged on the domestic shipment of goods from a manufacturing entity (or held equal to), or on the import of goods (upon customs clearance of manufactured products). The law defines that, for IPI purposes, manufacturing is the process which modifies the nature, functioning, finishing, presentation or purpose of a product or that improves a product for consumption, such as its conversion, improvement, assembly, packaging, repackaging or restoration.

The taxable basis on imports is the customs value (in compliance with customs valuations rules), which generally is the cost, insurance and freight (CIF) price, plus custom duties (II). The taxable basis on the shipment of goods in the domestic market is the value of the relevant transaction, as provided by the law. The transactions between related parties are subject to a minimum taxable basis defined by law.

IPI rates vary according to the essentiality of the good (pharmaceutical products, for instance, are subject to zero rates, whereas sumptuous or superfluous articles can be taxed by rates of up to 300%) and its classification under the IPI Table of Rates ("TIPI"), which adopts the same nomenclature used in the Mercosur Common Nomenclature / Harmonized System ("NCM/SH"). IPI rates generally range from 3.25% to 19.5%.

IPI is a value added tax, calculated by netting of credits for imports and domestic purchases of inputs, and debits from taxable transactions. Exports are not taxed by IPI, but the exporters have the right to keep the related tax credit. The purchase of fixed assets does not imply the appropriation of IPI credit.

2.2. VAT on Sales and Services (ICMS)

ICMS is a state tax levied on:

a. imports of goods;
b. domestic circulation of goods (the tax triggering event is the shipment of the goods, which includes the sales and other taxable transactions);
c. intermunicipal or interstate transport services (including services originating from abroad); and
d. communication services (including services originating from abroad);
e. exports of goods and services and financial transactions with gold (financial asset) are not subject to ICMS. Export exemptions shall not impair the taxpayers' credit rights, as provided by the Constitution; and
f. transportation services rendered within the territory of the same municipality are not subject to ICMS, but rather to ISS. ICMS can be levied on services rendered with the sale of goods, if such services are not reached by the competence of the municipalities to charge ISS.

Generally, ICMS taxable basis are:

a. for imports of goods: the customs value (in compliance with custom valuation rules), which generally is the CIF price, plus Customs Duty, IPI, PIS-Import, COFINS-Import, any other taxes, fees, contributions, customs expenses and ICMS itself (which must be included in its own taxable basis);
b. for domestic circulation of goods: the total sales price or value of other taxable transactions, as provided by the law, including PIS, COFINS and ICMS itself (IPI shall not be included in the ICMS taxable when the goods are intended for use in manufacturing or for resale);

c. for transportation and communication services: total service value, including PIS, COFINS and ICMS itself (which must be included in its own taxable basis).

The applicable rates on imports and circulation of goods within the territory of the same State vary from state to state. Generally, ICMS rates are:

a. generally, 17% to 20.5% (higher and lower rates apply depending on the goods) on imports and circulation of goods within the territory of the same State;
b. generally, 17% to 20.5% on communication services, depending on the State; and
c. 12% on transportation services.

According to the Federal Constitution, a Senate resolution shall provide for interstate rates on transactions executed between ICMS taxpayers. Currently, the resolutions establish that such rates are:

a. 4% on interstate transactions carried out with imported goods that are not submitted to manufacturing process after their customs clearance and goods submitted to manufacturing if it results in a final product, with an import content higher than 40%;
b. 7% on shipments from taxpayers based on the South/Southeast to taxpayers based on the North/Northeast/Middle West and state of Espírito Santo; and
c. 12% on other interstate transactions.

Regarding the circulation of goods, the tax shall be paid to the state of origin of the goods, as a general rule, except for interstate transactions with petroleum, including lubricants and liquid and gaseous fuel derived therefrom, and energy not destined for resale or manufacturing.

For transportation services, ICMS shall be paid to the state where the service starts (where the goods are shipped), irrespective of the place where contractors and service providers are based.

In case of communication services, ICMS shall be paid to the state: (i) where the sound and image broadcast service is provided; (ii) where the user is domiciled, when the service is rendered through satellite; (iii) where the service is charged; or (iv) where the service provider is based, in case the service is pre-paid by card or similar instruments.

Interstate transactions involving end consumers are subject to the payment of the difference between the internal rate (of the State of destination) and r9the interstate rate to the State of destination. Such tax shall be paid by (i) the seller if the recipient is not an ICMS taxpayer; or (ii) the recipient if this one is an ICMS taxpayer.

ICMS is a value added tax. Hence, taxpayers shall book (i) credits for the ICMS paid on imports or domestic purchase of goods and some services and (ii) debts for sales or other taxable transactions. The tax related to the domestic circulation of goods and services to be periodically collected shall be calculated by netting credits and debts.

Generally, taxpayers cannot book ICMS credits for exempt or non-taxable acquisitions and some services and will cancel ICMS tax credits in the case of subsequent exempt or non-taxable operations.

Several transactions are subject to the ICMS tax substitution regime (ICMS-ST), which consists of the collection of the ICMS by the manufacturers or the importers (the "tax substitutes"), who are liable to pay the ICMS levied on their own transactions, as well as the ICMS levied on future taxable transactions, in the same State, with the same goods, up to the end consumer. The tax substitution regime may apply to interstate transactions, case in which an agreement between the states must be executed to allow the state

of destination to charge the ICMS-ST from the taxpayer (shipper) located in another State. If no agreement is executed between the specific states involved in the transactions, the ICMS-ST is usually charged from the receiver of the goods in the state of destination (local laws must be evaluated in the specific case).

ICMS incentives and benefits can only be granted by Agreements signed by all states to avoid harmful competition between them. However, several states, aiming at attracting new investments, unilaterally grant ICMS incentives, such as ICMS refunds, deemed credits, tax exemptions, without proper approval – unanimous votes – by the National Council of Tax Policy (CONFAZ). This states' procedure has often been challenged and declared unconstitutional by the Supreme Federal Court. We point out that the Supreme Federal Court has some precedents determining that the declaration of unconstitutionality of a benefit will be effective as of the decision's date, forbidding the States to charge ICMS based on an unconstitutional benefit. In any case, in 2020, the Supreme Court deemed constitutional that the states of destination of the transactions subject to unconstitutional benefits may impair the booking of ICMS credits by the purchaser, regarding the amount of ICMS waived by the state of origin.

In 2017, a Supplementary Law was enacted to address the harmful tax competition between the Brazilian States. Such law determined that the States should list all the normative acts granting tax benefits and register them in CONFAZ, and from then on, the term of each incentive may be extended by governors for up to 15 years. Furthermore, such law forbids the collection of past tax debts related to tax benefits registered by the states that granted the ICMS benefits in CONFAZ.

The States carried out the procedures for the regularization of their ICMS benefits. Such regularized ICMS benefits may be enjoyed up to December 31, 2032.

2.3. Tax on Services (ISS)

ISS is the municipal tax on services levied on the import and the domestic rendering of services listed in the Federal Supplementary Law 116/03.

Each municipality is competent to establish rules and charge the ISS in accordance with the rules set forth by the Federal Constitution and Supplementary Law 116/03. It is worth mentioning that Brazil has more than 5,500 municipalities.

The ISS minimum and maximum rates are, respectively, 2% and 5%. The ISS rates vary in accordance with the service provided and the municipality competent to charge the tax. The ISS taxable basis is the service price.

Supplementary Law 116/03 ruled the ISS exemption on exports, defining exports as the rendering of services to parties located abroad as long as the results of such services are not produced in Brazil.

Such definition has raised serious concerns, as there are no clear criteria to identify what should be understood by "results produced in Brazil".

Although the minimum rate is fixed at 2%, some municipalities adopt lower rates or benefits that result in an effective lower rate – against the law – to attract investments. As of January 1, 2018, any act or omission to grant, apply or maintain a financial or tax benefit that reduces the ISS burden to under 2% of the service price shall be considered as administrative improbity and the responsible agent shall be held personally liable for the municipal tax loss.

Taxpayers are the service providers. However, in the case of imports of services, the importer is responsible for the calculation and collection of the ISS due by the foreign party.

As a general rule, the tax must be paid to the municipality where the establishment performing the service is located. However, there are some exceptions to this rule depending on the type of service. For instance, in case of performance of civil construction, hydraulics or electrical engineering services, the ISS is due to the municipality where the service is provided.

Supplementary Law 116/03 allows the municipalities to determine that the engaging party is liable for the withholding and payment of the ISS in certain cases.

2.4. Contribution for the Social Integration Program (PIS) and Contribution for Social Security Funding (COFINS)

PIS and COFINS are federal social security contributions levied on revenues earned by legal entities. Exceptions apply (e.g. dividends and revenues derived from exports of goods or services, and in the last case, as long as the export revenues are cashed in Brazil or kept outside Brazil in compliance with local exchange control rules).

The taxes are mainly calculated according to the non-cumulative or cumulative systems, which may coexist for the same legal entity depending on the nature of its activities. Exemptions and specific rules apply to certain businesses and certain income on a case-by-case basis.

The non-cumulative system is generally mandatory for entities that calculate the IRPJ and CSLL based on the actual profit system, while the entities that calculate the IRPJ and CSLL based on the deemed profit system are subject to the cumulative system of these contributions.

PIS and COFINS are highly regulated taxes and represent a significant share of the overall Brazilian tax collection, which represents a very heavy tax burden. Disputes and controversies are frequent in this field, especially regarding the right to use tax credits, as the law and the interpretation of tax authorities restrict this right.

On March 15, 2017, the Supreme Federal Court ruled that, in the case of sales of goods, the inclusion of the ICMS on the PIS and COFINS taxable basis is unconstitutional, as it is not legally comprised in the selling entity's revenues, because such amount will be transferred to the States, not adding to the entity's assets. Furthermore, on March 12, 2021, it was decided that the amount of ICMS which does not comprise the PIS and COFINS taxable basis is the one levied on each transaction, regardless of the ICMS amount payable after netting the credits. As of May 1, 2023, PIS and COFINS laws have been amended to expressly determine the non-inclusion of the ICMS in such contribution's taxable basis.

2.4.1. Non-cumulative System

Generally, PIS and COFINS under the non-cumulative system are levied on gross and revenues of legal entities at rates of 1.65% and 7.6% respectively and exceptions apply (see section 2.4.3). Some other revenues are exempt, such as the ones arising from the sales of fixed assets.

Financial revenues are, generally, subject to the rates of 0.65% (PIS) and 4% (COFINS), except for the following revenues, which are subject to a 0% rate:

a. financial revenues arising from exchange variations deriving from exports of goods and services and liabilities of the legal entity, including loans and financing; and
b. hedge transactions exclusively intended for the protection of risks of price fluctuations or rates if, cumulatively, the purpose of the agreement negotiated is related to the entity's core business and is intended to protect its rights or obligations.

The taxpayer is entitled to tax credits provided by law to offset PIS and COFINS debts, generally corresponding to the rate of each contribution (1.65% and 7.6%), among which we highlight the following:

a. expenses incurred on (i) domestic purchases of goods for resale or manufacturing inputs and (ii) services hired by the taxpayer to provide services to its customers and/or for producing goods for sale or renting;
b. expenses with electric energy, rent of buildings, rent or lease of machines and equipment used for the activities of the taxpayer and transportation costs relating to sales; and
c. depreciation expenses relating to fixed assets imported or purchased in the domestic market and used in the manufacturing process, for renting or for the rendering of services. Some alternatives are available to use such credits.

If a company has activities/revenues subject to the cumulative and non-cumulative systems, PIS and COFINS tax credits must be proportional to the revenues subject to the non-cumulative system.

2.4.2. Cumulative System

In the cumulative system, gross revenues arising from the sales of goods and services and other activities comprised in the legal entity's main activity, earned by legal entities are taxed at the rates of 0.65% (PIS) and 3% (COFINS)[56]. The taxpayer has no right to tax credits for the contributions paid on imports or relating to domestic purchases and expenses incurred. Other revenues are not taxed in this system.

2.4.3. Specific PIS and COFINS Rules

Specific rules apply per type of revenue or activity, such as:

a. financial institutions;
b. pharmaceutical, automotive, beverage, and tobacco industries;
c. fuel industry; and
d. hygiene and cosmetics products.

Among such specific rules, we highlight:

a. tax centralization rules, by means of which PIS and COFINS are charged only once, from a chosen person of the relevant market chain; and
b. tax substitution rules, by means of which a person appointed by the law must be liable to calculate and collect PIS and COFINS due by other persons on future transactions (usually based on estimated prices).

Such tax centralization[57] and tax substitution rules are frequent in sectors with high informality levels. A tax substitution system applies, for instance, to tobacco industries, in which case importers and manufacturers will be liable for the taxes due at the retail level.

56 4% COFINS rate applicable for commercial banks; investment banks; development banks; savings banks; credit, financing and investment institutions; real estate credit companies; brokers; bonds and securities brokers; leasing companies; credit cooperatives; private insurance and capitalization companies; autonomous private insurance and credit agents; open and closed private pension entities, and legal entities whose purpose is the securitization of credits.

57 Examples of tax centralization system are represented by the hygiene and pharmaceutical sectors, where the importer or the manufacturer shall calculate PIS and COFINS at a higher rate (total of 12.5% and 12%, respectively), while the zero rate applies to the revenue derived from the resale of the products carried out by the wholesaler or retailer.

2.4.4. PIS-Import and COFINS-Import

Such contributions are due by the Brazilian party on:

a. imports of goods: at rates of 2.1% (PIS-Import) and 9.65% (COFINS-Import) on the customs value (CIF). During 2025, some products are subject to COFINS-Import surcharge of 0.8%[58]%, resulting in an effective rate of 10.45%. Different tax rates (including 0% rate) apply to imports of pharmaceutical products, perfumery, toiletries and personal hygiene products, vehicles, tires and inner tubes, auto parts, and paper for printing books, newspapers and periodicals, among others; and
b. imports of services: at the rates of 1.65% (PIS-Import) and 7.6% (COFINS-Import) on the amounts paid, credited, delivered, used or remitted abroad, before the WHT, plus the amount of the contributions themselves.

The taxpayer subject to the non-cumulative system can be in certain cases entitled to PIS-Import and COFINS-Import credits, calculated at the rates applicable on the import transaction upon the amount used as the contributions' taxable basis. Importers are not entitled to credits related to the 1% COFINS-Import surcharge.

2.5. VAT Reform

In December 2023, Constitutional Amendment 132 was enacted to implement the consumption tax reform aiming to simplify the indirect taxes in Brazil. The main changes provided for this amendment are the replacement of the ISS and the ICMS for the Tax on Goods and Services (IBS) and PIS/COFINS for the Contributions on Goods and Services (CBS). The intention is that the CBS and IBS will work as a dual VAT, subjected to a common set of laws, simplifying the tax system in Brazil and aligning it to the international practice.

Further, new Selective Tax (Sin Tax) has been created to apply to transactions (domestic and imports) with goods and services harmful to the environment or health. The current goods and services subject to the Selective Tax are: (a) some auto vehicles; (b) some vessels and aircraft; (c) smoking products; (d) alcoholic beverages; (e) sugar beverages; (f) some mineral goods; and (g) prediction contests and fantasy sports.

The amendment also establishes a transition period in which the ISS and ICMS will coexist with the IBS and CBS until they are extinguished in 2033. PIS and COFINS will be extinct as of 2027, being substituted by CBS, and ICMS and ISS rates will be gradually reduced while IBS and CBS rates gradually increase. The Selective Tax will be charged as of 2027.

IPI will continue to exist, being applied on transactions with products equal to those manufactured at the Manaus Free Trade Zone, provided that the current tax rate is equal to or above 6.5%. Thus, IPI will be a competitive advantage of the Manaus Free Trade Zone, as products manufactured in such location are IPI exempt, while products manufactured outside or imported will be regularly taxed.

During 2026, CBS and IBS will be charged at a 1% combined test rate, but their collection will not be demanded if the taxpayer complies with the relevant ancillary tax obligations.

Although the first regulation has been enacted as Supplementary Law 214/2025, the Federal Congress is currently discussing several bills of law for the creation and regulation of the new taxes, as well the Federal Revenue Service has been working on further regulation and tax systems.

58 Surcharge rate will be of 0.6% during 2026.

2.6. Economic Intervention Contribution (CIDE) on Payments of Royalties, Technical and Administrative Services and Assistance

CIDE is a Federal contribution levied at a 10% rate on the amounts paid, credited, transferred, delivered or otherwise made available to non-residents for technology transfer or technology license agreements, patents and trademarks licenses, technical assistance, technical and administrative services[59] and any agreement involving royalty payments.

Payments for software licenses and for the right of commercialization and distribution of software that are not connected with transfer of technology to the Brazilian party are not subject to CIDE. CIDE's taxpayer is the Brazilian party.

2.7. Tax on Financial Transactions (IOF)

IOF is levied on credit, exchange and insurance transactions, as well as on securities at variable rates.

As for the publication of Decree 12.466 on May 2025[60], credit granted to legal entities is subject to the IOF at a 0.0082% daily rate plus a 0.95% surcharge. Also, foreign currency exchange transactions are generally subject to a 3,5% rate, with a few exceptions. Insurance transactions are generally subject to the IOF at rates varying from 0% to 7.38%. Securities transactions are subject to the IOF at rates that vary according to the type of investment and investment period. Generally, floating and fixed income investments for 30 days or more are subject to a zero percent rate.

Due to IOF's regulatory purpose on instituting and controlling exchange, credit, insurance and securities policies, its rates can be modified producing immediate legal effects.

2.8. Property Taxes

2.8.1. Urban Property Tax (IPTU)

IPTU is a municipal tax levied annually on the ownership or possession of any real estate located in urban areas. The taxable basis corresponds to the fair market value of the property at a rate that may vary according to the Municipality and the use and price of the real estate.

In the city of São Paulo, IPTU rates range from 1% to 1.5% with discounts or additions granted based on the market value and use of the relevant property (calculated as provided by the Municipal law).

2.8.2. Tax on Vehicles' Ownership (IPVA)

IPVA is a state tax levied annually on the ownership of vehicles[61]. The taxable basis corresponds to the fair market value, determined every year by the State Treasury Secretariat, that takes into consideration the brand, model and age of the vehicle. The applicable rate may vary according to each State. In São Paulo, for instance, the tax rate varies from 1.5% to 4%.

59 Even if they do not involve technology transfer.

60 Currently, there are a number of bills aiming to revoke this decree.

61 Cars, trucks, buses, tractors, boats, yachts and aircrafts.

2.8.3. Tax on Rural Properties (ITR)

ITR is a federal tax levied annually on the ownership or possession of rural property (real estate located outside the urban zones of the cities). The Federal Union may enter into conventions with Municipalities to delegate to such Municipalities the duty to inspect and collect the ITR.

The taxable basis is the value of the taxable area, which shall be calculated in accordance with specific rules. Tax rates vary depending on the total area of the property and level of use of the areas that can be exploited for agricultural purposes.

Small sized rural properties exploited by the owner, who does not have any other real estate, are exempt. ITR has been an important tool to discourage unproductive rural properties.

2.9. Tax on Real Estate and Related Rights Transfer (ITBI)

ITBI is a municipal tax levied on inter vivos and remunerated transfers of ownership or in rem rights over real estate. The taxable basis corresponds to the fair market value of the property at a rate that may vary according to the Municipality. In the city of São Paulo, the general rate is 3%.

This tax is not levied on the contribution of a real estate and/or in rem rights in exchange for capital of a legal entity or on ownership transfers resulting from corporate reorganizations, such as mergers, spin-off or liquidation, except if, in any of such cases, the acquirer's core activity is trading or leasing real estate as provided by the law.

2.10. Donation and Inheritance Tax (ITCMD)

ITCMD is a state tax levied on donations or inheritances. The taxable basis corresponds to the fair market value or value of the relevant donation or inheritance. Applicable rates vary from State to State, subject, as of the approval of Constitutional Amendment 132 in December 2023, to progressive tax rates up to a maximum rate of 8%. In São Paulo, ITCMD is currently charged at 4% rate as the State have not yet approved a new legislation establishing progressive rates for the ITCMD.

3. Customs Duties and Export Taxes

3.1. Customs Duty (II)

II is a federal tax due by the Brazilian importer levied on imports of goods and charged for the clearance of such goods from customs.

Generally, II taxable basis is the CIF value, with due regard to the 1994 General Agreement on Trade and Tariffs (GATT) customs valuation rules. The Agreement describes six methods, which may be successively applied in order to ensure that II is paid on market prices.

Applicable rates vary per imported item - according to the relevant tax classification under the Mercosur Common External Tariffs Table ("TEC-SH"), organized based on the Mercosur Nomenclature (which is based, in turn, on the Brussels Nomenclature) - and may range from 0% to 35%. II is not a VAT.

Please note that IPI, PIS-Import, COFINS-Import and ICMS are also levied on imports of goods, as described above. See Section 5 below for tax and customs incentives.

3.2. Export Tax (IE)

Export tax is a federal tax levied on exports of national or nationalized products, imposed when the products leave the Brazilian territory. Generally speaking, the taxable basis is the export price of the product. The rate may vary according to the tax classification number of the product, but, currently, the rate is zero for virtually all products, except for cigarettes, subject to tax rate of 150%.

4. Payroll Taxes / Welfare Contributions

4.1. Social Security Contributions

The Brazilian Social Security System is generally financed by taxes (social contributions) paid by companies and professionals (employees and self-employed professionals) over the total compensation for services. Companies also support some welfare services for employees (such as SESI, SENAI, SESC and SENAC), the so-called "S System".

The social security contributions due by companies are composed of a fixed rate of 20% supplemented by rates generally varying from 0.5% to 6%, in case of compensation paid to employees. The criteria to establish such variable rate depend on the company's core business, on the occupational hazards related to the working environment, and on the annual company's Accident Prevention Factor ("FAP" in the Brazilian acronym), which is calculated according to the number, cost and seriousness of work accidents, among other factors.

The contributions to support welfare services (additional to social security contributions) comprise rates of up to 5.8% over the compensation paid to employees.

Depending on the company's business, an alternative social security regime may apply, which dues are contingent to the company's gross revenues (1% to 4.5%) rather than the entity's payroll amounts. Such special social security regime is valid up to the end of 2027. 17 industries are eligible to this scheme: (i) manufacturing and clothing; (ii) footwear; (iii) civil construction; (iv) call center; (v) communication; (vi) construction and infrastructure; (vii) leather; (viii) vehicle and body manufacturing; (ix) machinery and equipment; (x) animal protein; (xi) textiles; (xii) information technology ("IT"); (xiii) communication technology ("ICT"); (xiv) integrated circuit design; (xv) metro-rail transportation; (xvi) public road transportation and (xvii) road freight transportation. In addition, companies manufacturing certain products may also take advantage of this social security alternative.

Agricultural and agro-industrial sectors are entitled to replace their ordinary payroll contributions for a rate of 2.85% levied on the company's revenues.

The professional's contributions (employees and self-employed professionals) are withheld by the companies at current progressive rates varying from 7,5% to 14%, limited to a maximum monthly contribution of BRL 951.64(USD 173.02).

4.2. Unemployment Severance Fund ("FGTS")

The FGTS is a monthly social contribution equivalent to 8% of the employees' monthly compensation. The employer deposits this contribution into accounts opened on behalf of each employee at a governmental bank. Employees can withdraw such funds under certain circumstances, such as retirement termination without a cause, housing purchase, among others.

In the event of dismissal without cause the employer still pays a fine equal to 40% of all the amount deposited in that fund during the time of service provided by the employee. In case of termination by agreement between employer and employee, as of November 2017, the relevant fine is of 20%. In the event of termination upon employee's request (resignation), no FGTS fine is owed by employer.

5. Tax And Customs Incentives

5.1. Free Trade Zones

5.1.1. Manaus Free Trade Zone ("ZFM")

ZFM incentives are granted by the Federal Constitution until 2073 and comprise federal, state and municipal tax benefits, such as:

Federal taxes incentives:

- II: up to 88% reduction on several inputs used in the manufacturing process at ZFM according to a Basic Production Process defined by law;
- IPI: exemption on imports of certain inputs to be manufactured or consumed at the ZFM, on shipment of products made in Brazil to ZFM for consumption or to be used as inputs in the region and on shipment of products manufactured in ZFM to other regions within the national territory;
- IRPJ: 75% reduction of income tax calculated on profits directly related to the encouraged activities for applications filed and approved with the ZFM until December 31, 2023;
- PIS-Import and COFINS-Import: suspension on imports of raw material, intermediate products and packaging materials, for use in manufacture processes by industrial plants located within the ZFM as well as on the import of certain new fixed assets;
- PIS and COFINS: 0% on revenues from sales carried out by legal entities based outside ZFM of goods to be consumed or manufactured inside the ZFM and on revenues from sales of certain production inputs by legal entities based inside ZFM to ZFM companies; and reduced rates on sales of products manufactured by ZFM companies depending on certain characteristics of the purchaser (e.g. based inside or outside the region; taxed based on the cumulative or non- cumulative system).

State taxes incentives:

- ICMS: exemption on shipment of national products from other Brazilian States to ZFM companies; deemed credit for the tax that would be paid if the tax exemption were not applicable; and refunds varying from 55% to 100% of the tax due.

5.1.2. Other Free Trade Zones

There are other free trade zones in Brazil in some Municipalities in the Northern States, to which similar benefits apply.

5.2. Regional Development Incentives

Companies in the North, Northeast and in certain States in the Middle West (Mato Grosso) and Southeast (certain areas of Espírito Santo and Minas Gerais) can benefit from federal, state and municipal incentives.

The most important one relates to a 75% IRPJ reduction for companies domiciled in the Amazon and in the Northeast regions that execute activities considered as a priority (as defined by Presidential Decrees) for the development of those regions (in certain cases an exemption can be granted).

In general terms, taxpayers may benefit from such reduction for a 10-year period provided they apply and have their projects approved until December 31, 2023[62]. The benefit shall be approved by the RFB based on a prior technical analysis of the Amazon and Northeast Development Superintendencies (SUDAM/SUDENE).

The IRPJ reduction only applies to profits directly related to the encouraged activities ("lucro da exploração"). The tax waiver must be registered as a fiscal incentive reserve and can only be used to offset losses or increase the company's capital (cannot be distributed to its partners). Law 12973/14 establishes that, in case the reserve is used to offset losses, future profits must be used to recover such reserve.

5.3. Technological Innovation Incentives

Applicable to legal entities that carry out research of new products, new manufacturing processes and improvements in quality, productivity and competitiveness of existing products and manufacturing processes.

IRPJ and CSLL benefits:

- Deduction of expenses with technological innovation R&D;
- Additional exclusion from the IRPJ and CSLL taxable basis of percentages varying from 60% to 100% of the expenses with technological innovation R&D (conditions must be met);
- Full depreciation in the year of acquisition of new assets used in the technological innovation R&D;
- Accelerated amortization of costs with the acquisition of intangibles linked to the technology innovation R&D.

Other benefits:

- 0% WHT on payments or credits to non-residents for the registration and maintenance of trademarks, patents, and cultivars abroad;
- 50% reduction of the IPI levied on the purchase of assets destined for technological R&D; and
- Government subvention of up to 60% of the value of the remuneration of researchers holding masters or PHD degrees.

5.4. Main Special Customs Regimes Available

Brazilian law allows the admission of foreign goods into the Brazilian territory without the immediate payment of taxes, under special import regimes, as long as certain requirements are met. The most common regimes are as follows.

5.4.1. Temporary Admittance of Foreign Goods

Under this regime, certain goods are admitted temporarily into Brazil, for specific purposes, with a total or partial suspension of Customs Duties, IPI, PIS and COFINS levied on imports. Generally, guarantees for the suspended taxes are required from the beneficiary of the regime.

The total suspension is usually applicable to imports for sport competitions, artistic and cultural exhibitions, scientific and trade fairs, among others.

62 Extension of benefits until 2028 is currently under discussion at the National Congress.

The partial suspension applies to imports for so-called "economic purposes", such as imports of equipment and machinery under an operational lease, rental or free lease, when the imported products will be used in Brazil to (a) provide services to third parties, or (b) manufacture goods for sale.

In the last case, the importer shall pay an amount equivalent to 1% of the total taxes levied on a regular import of the same good multiplied for the number of months of its permanence in Brazil. The difference between the total taxes levied on a regular import and the taxes calculated as described above will be suspended.

If the goods brought to Brazil under temporary admittance return to their country of origin the total or partial suspension granted is converted into a tax exemption. If they are nationalized, tax differences shall be paid.

Brazil is part of the Istanbul Convention on Temporary Admission, having partially accepted its applicability, limited to the temporary imports of: (a) goods for display or use at exhibitions, fairs, meetings or similar events; (b) professional equipment; (c) goods for educational, scientific or cultural purposes; and (d) traveler's personal effects and goods imported for sports purposes.

As for ICMS, the Federal Supreme Court has ruled that imports without the transfer of ownership of the goods – which is usually the case with temporary imports – should not be subject to this tax. In any case, the approach of each State towards this matter must be evaluated, as well as tax benefits which may apply (such as exemption).

5.4.2. Drawback

There are two modalities of drawback:

a. suspension of Customs Duties, IPI, PIS, COFINS and ICMS levied on imports (or acquisitions in the domestic market for IPI, PIS and COFINS) of goods that shall be used to manufacture products for exportation within a specified term (generally one year, which can be extended for an equal term); or
b. exemption of Customs Duties, IPI, PIS and COFINS levied on imports (or acquisitions in the domestic market) of goods that shall replace inventory items imported with the payment of taxes (or acquired in the domestic market) and used in the production of exported products.

In the case of item (a), the suspension of taxes is converted into a tax exemption upon the exportation of the products manufactured with the imported items. Otherwise, payment of the suspended taxes is required.

5.4.3. Bonded Warehouse

This regime suspends the payment of II, IPI, PIS-Import, COFINS-Import and ICMS for goods admitted into Brazil in consignment.

The suspension is granted for one year as of customs clearance, which may be extended for two more years, as long as the goods are stored at certain bonded warehouses.

If the goods are exported or industrialized in the bonded warehouse and exported, the suspension is converted into tax exemption. If the goods are nationalized, the suspended taxes shall be paid.

5.4.4. Industrial Warehouse (RECOF)

This regime provides for the suspension of Customs Duties, IPI, PIS and COFINS levied on imports and acquisitions in the domestic market of inputs used for manufacturing goods to be sold in the domestic

market or exported, as well as for the maintenance or repair of domestic or foreign goods. The maintenance and repair may be done in domestic and foreign goods, new or used, of any type.

The suspension of taxes is granted for a period of one year, which can be extended on a case-by-case basis, as long as the regime is not granted for more than 5 years. The 5-year term applies to goods with a long production cycle. The beneficiaries of the regime are the manufacturers of the goods, who shall have to meet certain requirements.

The taxes suspended shall be paid if the beneficiary (i) does not export the goods in the legal period; or (ii) sells the goods in the domestic market.

5.5. Other Incentives

Brazilian legislation provides other tax incentives for several economic sectors, among others:

- Programs to Support Culture and Sports;
- Informatics and Automated Products;
- Program to Support Educational Activities (PROUNI);
- Special Regime for the Purchase of Capital Goods by Exporters (RECAP);
- Regime applicable to infrastructure projects in the areas of transportation, ports, energy, sanitation and irrigation (REIDI);
- Special Regime for the modernization and expansion of the port structure (REPORTO);
- Special Regime for the oil and gas sector (REPETRO): import and export of equipment, machinery and parts;
- Incentives to the recycling industry (Favorecicle) and (ProRecicle): investment funds for recycling projects;
- Special Tax Regime for Small Businesses (SIMPLES): applicable to small companies with annual gross revenues lower than BRL 360,000 (USD 72,000) and medium sized companies with annual gross revenues greater than BRL 360,000 (USD 72,000) and not exceeding BRL 4,800,000 (USD 960,000). Not applicable to certain companies or activities (e.g. corporations, companies with foreign shareholders and companies engaged in consulting services);
- Emergency Program for the Resumption of the Events Sector (PERSE): concession of tax benefits for companies in the events sector due to the losses suffered as a result of COVID-19; and
- Oil and gas sector. Expenses and depreciation/exhaustion charges related to the exploration and production of oil and natural gas may be fully deducted from the IRPJ and CSLL taxable basis and an exemption of WHT on remittances abroad may apply, among others benefits.

Brazilian legislation also provides tax incentives for several other sectors, such as digital TVs, information technological services focused on exports, real state defense industry sectors, among others.

6. Ancillary Obligations

Brazilian taxpayers are required to inform their tax obligations in several electronic reports through which tax authorities are able to track inconsistencies and acknowledge companies' tax positions.

Those reports include the Federal Tax Debts and Credits Return (DCTF, where federal taxes due shall be monthly informed), the Withholding Income Tax Return (DIRF, where income taxes withheld shall be annually informed), the Digital Bookkeeping of Withholdings and Other Tax Information (EFD-Reinf that shall be submitted monthly), and others such as:

6.1. Digital Bookkeeping System

All legal entities that pay corporate taxes based on the actual profit system and on the deemed profit system must keep their accounting records in digital format and submit such files to the RFB. All operations that impact the calculation of IRPJ and CSLL basis must be annually informed (up to the last business day of July following the end of the fiscal year) through the Tax Bookkeeping (ECF).

6.2. Electronic Report of Foreign Trade (SISCOMEX)

This electronic system records, monitors and controls foreign trade transactions.

6.3. Electronic Invoices

Commercial invoices are issued electronically. In several municipalities the service invoices are also issued electronically.

6.4. Electronic Report of Labor and Social Security Contributions (eSocial)

By means of a digital bookkeeping system of tax, social security and labor obligations ("eSocial") introduced by the federal government, the employers must provide information regarding employees´ personal data as well as employment relationship relevant information, such as: admissions, absence periods, dismissals, detailed payroll information, FGTS, social security contributions, union relationship and occupational safety and health data under the penalty of being compelled to pay administrative fines set out by the Federal Revenue Service, the Social Security Institute and the Labor authorities.

CHILE
EGM ABOGADOS & AUDITORES

IN-COUNTRY MEMBER FIRM:

www.egmtax.com

+56 9 49958201

Génova 2016 of.11, Providencia - Santiago, Chile

CONTACT PARTNER(S):

Francisco Sepúlveda

fsepulveda@egmtax.com

HIGHLIGHTS[1]

National Level Tax Rates:	
Corporate Income Tax (First Category Tax):[2]	27% (art. 14 A) of ITL[3] Tax year 2025 (commercial year 2024)
25% SMEs Regime to other cases (i.e. art. 14 D)	25%. (Tax bill under discussion to reduce rate to 12,5% until 2027; 15% in 2028)
Branch Profit Tax:	35%[4]
Dividend tax:	35%
Interest:	35% or 4%[5]
Royalties:	2%[6] to 30%
Technical Assistance:	15% (20% if paid to preferential tax regimes), 35%
Other services:	35%
Standard Software:	0%
Tax loss carry-forward term:	No time limited[7]
Transfer Pricing Rules:	Yes
Tax-free Reorganizations:	Mergers, spin-offs, asset-deals, transformations
Changes of the legal characteristics:	Mergers, spin-offs and transformations
VAT on Sales and Services:	19%
VAT on Imports:	19%
Customs Duties:	6% flat rate[8]
Stamp Tax:	0.066 per month, capped at 0.8%
Local Level Tax Rates:	
Municipal Tax:	0.0025 a – 0.005 x mil[9]

1 Indicators (all calculated on May 22st, 2025:
USD$ 1 (U.S. currency) = CL$ 942,21 (Chilean currency).
UF 1 (development unit) = CL$ 39.166,72 (Chilean daily index used to adjust per inflation). UTM 1 (monthly tax unit) = CL$ 68.648 (Chilean monthly readjusted value).
UTA 1 (annual tax unit) = CL$ 823.776 (Chilean annual readjusted value).

2 Tax reform was published in the Official Gazette on March 24, 2020. According to the tax reform, from commercial year 2020, tax rates will be 27% for the General Regime; and 25% for micro, small and medium enterprises (SMEs).

3 Law No. 20780 (2014 tax reform) gradually increased the corporate income tax rate. The Corporate Income tax rate for 2020 was set at 27% (General semi-integrated income system); and 25% for SMEs. Further tax reforms reduced the Corporate Income Tax rate for SMEs to 12,5%.

4 Withholding Tax on dividend distribution is taxed with a 35% withholding tax. However, a full integration between CIT is available against WHT liability for entities located in DTC jurisdictions, and a 65% credit for other countries.

5 4% on interests paid to banks or other financial institutions, and 35% the general rule.

6 In cases in which Chile has a double treaty convention. It derives from the application of the MFN clause in the Chile-Japan DTC.

7 Loss carryback is not available.

8 Since January 1, 2023, all services are generally subject to VAT except for specific exceptions (certain cases of professional services, certain educational activities, certain medical activities).

9 Chile has entered into several Free Trade Agreements, and thus reduced or zero-rate customs duties may be available.

Treaty Taxation:

Items of Income				
Countries	Dividends*	Interests	Royalties	Tech. Services and Assistance Local Rules are applicable
Argentina	10/15%	4-12%	3-10-15%	10***/15/35%
Australia	5/15%	5/10%	5/10%	0**/15/35%
Austria	15%	4/5/15%	2/10%	0**/15/35%
Belgium	15%	5/15%	5/10%	0**/15/35%
Brazil	10/15%	15%	15%	10***/15/35%
Canada	15%	10/15%	10%	0**/15/35%
Croatia	5/15%	5/15%	5 /10%	0**/15/35%
Colombia	0/7%	5/15%	10%	10***/15/35%
China	10%	4/5/10%	2/10%	0**/15/35%
Czech Republic	15%	4/15%	5-10%	0**/15/35%
Denmark	5/15%	5/15%	5/10%	0**/15/35%
Ecuador	5/15%	4/5/15%	10%	0**/15/35%
France	15%	4/5/15%	2/10%	0**/15/35%
Italy	5-10%	4-10%	2-10%	0**/15/35%
India	10%	10%	10%	10***/15/35%
Ireland	5/15%	4/5/15%	2/10%	0**/15/35%
Japan	5-15%	4-10%	2-10%	0**/15/35%
Korea	5 /10%	5/15%	5 /10%	0**/15/35%
Malaysia	5/15%	15%	10%	5***/15/35%
México	5/10%	5/10/15%	10%	0**/15/35%
Norway	5/15%	5/15%	5/10%	0**/15/35%
New Zealand	15%	10/15/%	10%	0**/15/35%
Paraguay	10	10/15%	15%	0**/15/35%
Peru	10/15%	15%	15%	0**/15/35%
Poland	5/15%	5/15%	5/10%	0**/15/35%
Portugal	10/15%	5/10/15%	5/10%	0**/15/35%
Russia	5/10%	15%	5/10%	0**/15/35%
Spain	5/10%	4/5/15%	2/10%	0**/15/35%
South Africa	5/15%	5/15%	5/10%	0**/15/35%
Sweden	5/10%	4/5/15%	2/10%	0**/15/35%
Switzerland	15%	5/15%	5/10%	0**/15/35%
The Netherlands	5/15%	4/10%	2/10%	0**/15/35%
Thailand	10%	10/15%	10/15%	0**/15/35%

United Arab Emirates (UAE)	5/10%	4/10%	2/10%	0**/15/35%
United Kingdom	5/15%	4/5/15%	2/10%	0**/15/35%
United States of America	5/15%	4/10%	2/10%	0**/15/35%
Uruguay	5/15%	4/15%	10%	10**/15/35%

* Chile does not apply article 10 of tax treaties insofar as the CIT paid in Chile is fully creditable against WHT liability derived from dividend distributions.

** Treaty considers technical assistance as business profits.

***In conventions signed with countries where technical services and assistance are not branded as "business profits" according to what is stated in article 7 of such conventions, and are therefore treated as royalties (*v.gr.*, Colombia, Brazil, Uruguay).

Application of the most favoured nation (MFN) clause

Many conventions include the "most favoured nation"clause. According to this clause, if Chile agrees to an exemption or a more reduced rate with regard to certain specific incomes in a different convention that is subsequently executed with another State, such exemption or reduced rate will also apply to the convention including the clause.

For example, if Chile signs a convention with country A, including the "most favoured nation" clause concerning interest, where the maximum applicable rate on interest paid from Chile is 15%, and then, Chile and country B agree to apply a reduced 10% rate, such reduced rate shall also apply to the interest paid from Chile to country A.

In connection with some conventions that include this clause, the entry into force of other conventions with reduced rates applicable to interest, royalties and services provided by individuals have already triggered consequences (v.gr. the entry into force of the Chile-Japan DTC in 2019 produced significant effects in this regard).

Therefore, to identify the applicable rate if a convention has been signed, reading the article will not be enough, but confirming the existence of the clause under analysis is of the essence. If that is the case, all those conventions executed afterwards should be analyzed to verify whether the analyzed condition for that clause to apply is met. Moreover, under the Chilean tax authority's position, it is not enough if the clause is contained in the treaty for its application, but it is also necessary that the domestic implementation of it, through mutual agreement expressed in the form of a Circular letter, has been verified (v.gr., the DTC with Colombia contains a non-avaliable MNF clause, based on this administrative requirement).

The Conventions signed by Chile and Argentina, Australia, Austria, Canada, Czech Republic, China, Korea, Denmark, Ecuador, France, Ireland, Italy, Japan, Mexico, Norway, Poland, Spain, Sweden, Switzerland, United Kingdom include an available MNF Clause.

Changes introduced by the OECD Multilateral Instrument (MLI)

In force as from 1st March 2021, its effects depend upon ratification by different jurisdictions. At the date of this update, the MLI has modified the drafting of the DTC in force with Australia, Austria, Belgium, Canada, Croatia, Czech Republic, Denmark, France, Ireland, Korea, Malaysia, Mexico, Norway, New Zealand, Poland, Portugal, Russia, South Africa, Spain, Thailand, United Kingdom and Uruguay.

OVERVIEW

1. Income Tax

1.1. General Aspects

General residents or domiciled persons are liable to income tax on their worldwide income.[10]

Non-residents or non-domiciled individuals are liable to income tax only on their Chilean-source Income.

Foreigners that establish domicile or residence in Chile are liable to income tax only on their Chilean-source income during the first 3 years in the country (the tax administration may provide an extension of this period for up to another 3 years in exceptional cases).

a. In general, Chilean-source income arises from assets located in Chile or activities carried out therein. Income tax is assessed according to a scheduler system based on the nature of its source;
b. Corporate income tax ('First Category Tax') is levied on business income under the rules described in Corporate Taxation;
c. Employment income tax ('Second Category Tax') is levied on employment income;
d. Individual Income Tax ('Global Complementary Tax') is levied on the total taxable income derived by individuals, including income liable to business income tax or employment income tax, at progressive marginal rates of up to 40%; and
e. Non-resident income tax ('Additional Tax' –Withholding Tax–) is levied on Chilean-source Income derived by persons who are non-residents or not domiciled in Chile, generally when the Income is remitted or made available;

Corporate income tax applied at the level of an entity distributing profits may be fully or partially credited against individual income tax in the case of Chilean residents, and against withholding tax in the case of non-residents.

1.2. Income Tax Rate

From 2020 onwards, there is a general Semi Integrated Regime (semi integration refers to the level of integration between CIT and IIT or WHT upon profit distributions) for corporate taxation in addition to the Regime for micro, small and medium enterprises (SMEs), and other substantial modifications.

1.2.1. Tax Regimes for Income Taxes

Taxes established in the Income Tax Law –ITL– are the following:

Corporate Income Tax ,called "First Category Tax"

The corporate income tax rate under the general regime (article 14 of the ITL, semi-integrated system) is 27%. For years 2020 to 2022, Law 21,256 implemented a pro-PYME reduced rate of 10% instead

10 The resident rule was modified by Law 21,420 of February 2021, in which as of 2020, a person is considered a resident when he remains in Chile, whether or not uninterruptedly, for a period that in total exceeds 183 days, within any twelve months.

of the general 25% rate. Through later modifications, the reduced rate was made available also for year 2023. For year 2024, the pro-PYME rate was reduced to 12,5%. Although changes have not been introduced for 2025, a draft bill is under discussion in Congress to apply the 12,5% reduced rates for years 2025, 2026 and 2027, with an increase to 15% in 2028.

Corporate income tax paid by entities can be partially or fully credited against the partner's or shareholder's tax liability. According to the imputation regime in force, Law 21,210 introduced a distinction between distributions by small and medium-sized enterprises (SMEs) (*regimen pro-PYME* in article 14D(3) of the Income Tax Law), which are subject to a 25% business income tax rate and to a full imputation system (full credit) and large companies (general regime, article 14A of the LIR) taxable at a 27% corporate income tax rate with a partial imputation (credit limited to 65%).

A participation exemption regime is available for dividend distributions to legal entities that are resident in Chile. Therefore, dividends are not subject to corporate income tax in the hands of the shareholder. Dividends are only taxable when distributed to individuals subject to taxes in Chile (individual income tax) or to non-resident partners or stockholders (withholding taxes). Credits are made available upon distributions to individuals or non-residents, depending on which system is applicable to the last company distributing the dividend. In general, a full credit against withholding tax liability is available for residents of DTC jurisdictions.

Employment Income Tax (Second Category Tax)

This Tax must be distinguished, depending on if the taxpayer is a dependent or independent employee.

In the first case, the Tax is progressive and applies to the aggregate amount received by an employee on account of wages, salaries, profit-sharing or others. The taxation rates range from 0% to 40%, being a legal duty of the employer to withhold that tax on a monthly basis.

In the second case, the taxpayer must pay monthly advances of 14.50% (withholding for year 2025, to be raised to a maximum of 17% in 2028) over their fees for each service invoiced. This Tax is determined the following year, between rates ranging from 0% to 40%, using the 14.50% paid as a credit against the final Tax. However, in some instances, it is retained and paid by the beneficiary of the services.

Second Category taxpayers are not subject to any other income tax unless they have incomes from sources other than wages or salaries, in which case the Second Category Tax must be recalculated if the worker receives other wages or salaries or another kind of Income, in which case the Global Complementary Tax must be paid.

Individual Income Tax (Global Complementary Tax)

This tax applies to taxpayers domiciled or residing in Chile on Income of any source, including Income originating from outside of Chile, utilities from companies, salaries, etc., and must be declared on a yearly basis by the taxpayer.

The taxpayer can use the amount paid in corporate income tax as a credit against the final tax, which progressive rates range from 0% to 40%.

Taxes on enterprises and their owners or shareholders

Business enterprises of any kind, as already mentioned, are subject to Corporate Income Tax (the First Category Tax) on accrued Income. Income from foreign sources is generally taxable on cash basis in Chile.

The First Category Tax may be credited against the IIT or the WHT, as the case may be, and so it represents only a projection of the final tax burden.

In the case of a foreign-owned company, the distributed Income of its owners or shareholders is subject to a 35% Additional Tax.

Accordingly, the overall income tax burden affecting the Income of a company owned by a foreign non-resident company, in the case of the SMEs company, will be 25% (12,5%) payable by the SME company, or 27% if the general Regime is applied (general semi-integrated), plus 35% payable by the foreign owner. The corporate income tax is accepted as a credit against the 35%. However, in the general Regime, 100% of the credit may be only used if there is an international double taxation agreement; otherwise, only 65% of the First Category Tax (resulting in an effective tax rate of 44,45%, that is, 35% with a 65% credit for the 27% of corporate income tax applied).

Due to Covid, Chile cut the corporate tax rate for SME taxpayers, Law no. 21,256 included a corporate tax rate reduction for SME businesses covered by the Pro-Pyme regime. The Law, effective as of September 2, 2020, reduced the First Category Tax (corporate tax) rate from 25% to 10 per cent for the years 2020, 2021, and 2022. The rate for 2024 was 12,5%, and it is expected that this rate will be applied for years 2025, 2026 and 2027, with an increase to 15% in 2028.

Transfer of Shares and Securities

In Chile, there are no special taxes on transfers of shares and securities. Any capital gains derived from such transfers will be considered income and, as such, will be subject to CIT or IIT.

This capital gain is treated differently, depending on the concurrence of a few requirements:

- General taxation regime; and
- Special taxation regime: Article 107 of the Income Tax Law (stock market transfers).

For the alienation of corporate rights or shares of stock, there is a single rule to determine the tax cost thereof, e.g., the acquisition value adjusted according to the consumer price index fluctuations (CPI) between the last day of the month before acquisition and the last day of the month before the alienation.

In case of non-habitual operations performed by persons that are not taxpayers that determine the corporate income tax on effective income, the gain obtained from the sale of shares and social rights when at least one year has passed between the acquisition and the sale will only be subject to the CIT, IIT or WHT, as the case may be.

The Tax treatment for the gain obtained from the selling of shares and rights on companies, as well as the tax treatment for the sale of mining property and water rights, bonuses, and other debt securities, the intellectual or industrial property rights and vehicles for the transportation of passengers or third parties' cargo, are regulated in the N° 8 of article 17 of the ITL.

As per the special regime contained in article 107 of the ITL, this only applies in the case of shares traded on stock exchanges, other exchanges authorized by the Central Bank or in a public offer. They must have been acquired through a stock exchange, in a public offering, or the placement of shares of first issuance, whether for the formation of the company, a later capital increase, or the exchange of convertible bonds.

As from September 2022, the full exemption for stock market transfers contained in article 107 of the ITL was replaced by a 10% flat rate applicable upon gains. These changes were introduced through Law 21,420 published in February 2022.

Before that reform, article 107 of the ITL established an exclusion from taxable income under certain requirements. A restricted version of the exemption is still in force in the case of institutional investors (i.e. banks, pension funds and insurance companies)

Taxes on Equity

Although there is no specific tax on equity, there is a municipal commercial license to be paid each year to the municipality (town hall) in which the taxpayer is domiciled to establish the professional office or the development of a commercial or industrial activity.

The Tax aforementioned is a fixed amount in the case of professionals. In all other cases, a rate is applied to the own capital of the company to develop the activity, i.e., its equity. Each municipality establishes said rate, and it ranges from 0,25% to 0,5% of said capital, with a cap of 8,000 UTM (approximately USD583,000).

Real Estate Taxation

Regarding Real Estate, a special tax, the real estate tax is applied on the official cadastral value of the property determined by the Chilean tax authorities. This tax is payable in four instalments during the year: in April, June, September, and November.

If any variations on the regular instalments are to be considered, the tax authorities will affect supplemental or replacing (reduction) charges in June and December each year. The fiscal valuation to be considered is that subject to the tax, for a part of it is tax exempt.

As of 2020, an annual tax benefit surcharge is established and calculated on the sum of the tax valuation of all properties belonging to a taxpayer in the part that exceeds 670 UTA.

- Over 670 UTA and up to 1,175 UTA, the rate will be 0.075%
- Over 1,175 UTA and up to 1,510 UTA, the rate will be 0.15%
- Over 1,150 UTA, the rate will be 0.275% until 2022
- Concerning the last rate, it was increased by Law 21,420 of February 2021 to 0.425%, and it is in force as of January 1, 2023.

Non-agricultural real estate

For urban property used as dwelling the rate is progressive and is divided into brackets, the limits of which are adjusted on inflation each semester: the first bracket is exempt from taxes; the second is taxed at 1%; and the third is taxed at 1.2%. Other urban property is taxed at a flat 1.2% rate. Rural land is taxed at a 1% rate. Under the provisions of Law 17,235, these rates are adjusted every time the national cadastral is reassessed (every 4 years).

1.2.2. General Income Regime And Small And Medium Enterprises Regime (SME)

As it was already explained above, depending on the size of the companies, the corporate Tax for Chilean companies would be 25% or 27%. For this purpose, there is a general regime for large companies, and a different regime for SMEs.

General Regime (Partially Integrated)

Aimed at taxpayers whose annual average is more than UF 75,000[11], or do not meet any of the requirements to qualify for the SME (Small and Medium Enterprises) Regime.

Taxpayers who are subject to this regime, which use the corporate income tax as a credit against final tax liability must repay an amount equal to 35% of the credit used. In concrete terms, this translates into a credit against final tax liability of up to 65% of the CIT paid by the company paying a dividend or profit distribution (v.gr., Income of CL $100 is taxed at 27% of First Category Tax. To the credit of CL$27 is applied the 35%, and restored in CL $9.45, so the final credit available is CL $17.55). In this case, the company's owners will be taxed on effective withdrawals or profit distributions.

The obligation to return the 35% does not apply to remittances subject of WHT where the recipient of the income is a resident of a country with which Chile maintains a DTC in force. These taxpayers can use a 100% of the credit granted for payment of the CIT; their effective tax rate will remain at 35% and the full 27% CIT will be deductible.

Pro-SME Regime

This Regime is aimed at taxpayers who meet the following requirements:

a. An average annual gross income that does not exceed UF 75,000 (approximately USD3 million), regardless of the type of company.
b. When setting up a company and starting activities, its effective capital must not exceed UF 85,000 (approximately USD3,5 million).
c. That the following items of income do not exceed 35% of the total income of the entity:
    - Income from sections 1 and 2 of article 20 of the ITL, that is, income from the exploitation of real estate, except for agricultural real estate, and income from movable capital.
    - Contracts on joint accounts.
    - Social rights, shares or quotas of investment funds.

This regime will have complete accounting, but taxpayers can choose to declare according to simplified accounting, and the owners are taxed based on effective withdrawals.

The corporate tax rate is 25% (it has been reduced to 12,5% in 2024 and it is expected to continue at that rate at least for 2025, 2026 and 2027), which may be fully credited against final taxes, that is, IIT and WHT.

Special Income Tax Regime: Transparent Pro-SME Regime

In this Regime, the owners are taxed directly with the IGC (personal income tax) rate that affects them. This means that they will be affected based on the result obtained by the company directly with the final taxes in the same year, in the proportion that corresponds to each partner. So, they are not affected by the first category tax.

This Regime is aimed at SMEs with owners who pay final taxes: individuals with or without domicile or residence in Chile or legal persons without domicile or residence in Chile.

11 Approximately USD3 million.

Regarding accounting, it is a simplified one based on Income received and expenses paid, but taxpayers can choose to declare according to complete accounting.

1.2.3. First Category Tax Rate

Since January 1st, 2020, the First category Tax rate is 27% (single semi-integrated system for big companies) or 25% for Small and Mediums Enterprises (Regimen Pro-Pyme).

Due to Covid, Chile reduced the corporate income tax rate for SME taxpayers; through Law no. 21,256, a corporate tax rate reduction was included for SME businesses covered by the 'Regimen Pro Pyme'. The Law, effective as of September 2nd, 2020, reduced the rate of CIT rate from 25% to 10% for the years 2020, 2021, and 2022. A reduced 12,5% rate was available for 2024, and its extension is being discussed by Congress for years 2025, 2026 and 2027.

1.2.4. Taxable Basis

The taxable basis is determined according to the generally accepted accounting principles, including all profits. Dividends received by resident companies from other resident companies are exempt from corporate Tax.

1.2.5. Deductions

As a rule, all costs and expenses are deductible provided that the requirements of article 31 of the ITL are met. Any costs or expenses related to excluded or exempt items of income are not deductible. For example, automobile expenses are generally not deductible.

Also, additional requirements are set forth for the deduction of expenses when the underlying operation is entered into with non-resident related parties. In such cases, any expense will only be deductible provided that the amount has been effectively paid, and any WHT obligation has been fulfilled.

1.2.6. Depreciation

The ITL also deals with the depreciation of assets as an expense. It has been established that a an annual quota of depreciation may be deducted for the use of fixed asset by the company.

The general rule is that the goods are depreciated in annual quotas. The elements to consider are the value of acquisition (total net value) and the useful life of the good (determined by the IRS) by dividing the cost per the number of years applicable.

However, in certain cases taxpayers may apply an accelerated depreciation, that results from determining for the depreciated goods a useful life equivalent to the third part of that established by the IRS.

This accelerated depreciation cannot be applied to goods with a useful life of less than three years. taxpayers may, at any time, waive the accelerated depreciation regime, thus returning to the regular regime.

Furthermore, a super-accelerated depreciation applies to companies that, in the previous three years, obtained sales on average below UF100,000 (approximately USD4.2 millions).

In this case, businesses may depreciate investments in fixed assets considering the effectiveness of one-tenth of their useful everyday life if they are new or used.

1.2.7. Inflation Adjustments

Chile has an inflation adjustment or monetary correction system applicable to certain assets and liabilities annually, based on changes in the consumer price index (CPI) and foreign exchange rates.

The difference between the taxable income and the expenses originated in the yearly inflation adjustments should result either in a net item of taxable income or a net loss for inflation (this loss is deductible).

1.2.8. Tax Loss Carry forward / Carryback

As of 2019, only loss carryforward is available, and loss carryback no longer exists. However, the right to offset losses at the level of a holding company to dividends distributed by profitable subsidiaries (with the corresponding right to obtain a refund for taxes paid by the subsidiary) is no longer allowed.

1.2.9. Tax-Free Reorganizations

Tax-free reorganizations include transformations, mergers, spin-offs and asset-deals.

1.2.10. Capital Gains Tax

The alienation of shares generating a capital gain are subject to the general regime of CIT, IIT or WHT, except where the alienation occurs in the stock exchange, where a reduced 10% flat rate applies.

Institutional investors are exempt from capital gain tax when the gain is obtained in the stock market and certain conditions are met.

Gains are made from the redemption of units in mutual funds. The fund may not have participated in the control of the companies that issued the securities, must hold less than 10% of their capital and be entitled to less than 10% of the profits of those companies.

The transactions must be made on a Chilean stock exchange or through another mechanism authorized by the supervisor of securities and insurance.

Capital gains derived from the alienation of Chilean entities are subject to the general tax regime.

1.3. Payment and Filing

For any given taxable year, the corresponding income tax return and tax liability must be filed and paid every April of the following year.

All entities including corporations must file their income tax return and pay the corresponding tax liability.

1.4. Withholding Tax

Withholding Taxes (called Additional Tax in the ITL), are generally applied on income from Chilean sources being earned by individuals or entities neither domiciled nor residents in Chile.

The general WHT rate is 35%, although in some cases, it might go down to 2%, as explained below.

As mentioned before, the CIT paid may be credited against the WHT applicable upon profit distributions, and so it must also be considered when determining the WHT obligations in Chile. As metioned above, integration between CIT and WHT may be full (100% credit) or partial (65% credit). Generally speaking,

profit distribution to residents of a jurisdiction with which Chile maintains a DTC in force will always have a 100% credit.

In some cases, WHTs must be declared annually by the taxpayer, whereas in other cases it must be withheld and paid by the person or entity making the payment, on a monthly basis.

The withholding tax rate depends on the nature of the remittance: profit remittances and dividends are subject to a 35% WHT; capital gains by non-residents are subject to a 35% tax, reduced by some DTC to 16%. The indirect sale of underlying assets located in Chile is subject under certain conditions to a 35% WHT obligation. This obligation is reduced by some DTCs to 16% or 17%. Royalty payments are generally subject to a 30% rate, including patents. Certain specific payments may benefit from a 15% reduced WHT rate, as in the case of software and computer programs (which may also be exempt). Interests paid to foreign entities may be subject to a 35% or to a reduced 4% rate in the case of loans granted by foreign banks or financial institutions. The remuneration for services rendered abroad is generally subject to a 35% WHT, except in the case of technical assistance, which is subject to a 15% rate (or 20% in the case of payments made to entities located in a tax haven); premiums for foreign insurance policies are subject to a 22% WHT, and reinsurance policies at 2%; payments for the leasing of movable assets are subject to a 1.75% WHT, and compensation to foreign individuals which are neither residents nor domiciled in Chile on sport, scientific or cultural services in Chile (20%). A general 35% rate applies to any payment made to a non-resident which implies a gain for such resident, provided that no special rate applies.

The 35% WHT rate does not apply to imports, provided the import prices are reasonable in terms of market values.

Tax Treaties

Chile has Tax Treaties with Argentina, Australia, Austria, Belgium, Brazil, Canada, Colombia, Czech Republic, China, Japan, Korea, Croatia, Denmark, Ecuador, India, Italy, Ireland, Japan, Spain, France, Malaysia, Mexico, Norway, New Zealand, Paraguay, Peru, Poland, Portugal, Russia, United Kingdom, Switzerland, Sweden, South Africa, Uruguay, The Netherlands, Thailand, the United States of America and the United Arab Emirates.

Most double taxation treaties concluded by Chile and currently in force are governed by the OECD system, the most common in the world these days. It must be borne in mind that OECD treaties contain the "most favoured nation clause", according to which each contracting party guarantees the other a treatment as favourable as that granted to any third nation.

The Conventions signed by Chile and Argentina, Australia, Austria, Canada, Czech Republic, China, Korea, Denmark, Ecuador, France, Ireland, Italy, Japan, Mexico, Norway, Poland, Spain, Sweden, Switzerland, United Kingdom include an available MNF Clause.

Changes introduced by the OECD Multilateral Instrument (MLI)

In force as from 1st March 2021, its effects depend upon ratification by different jurisdictions. At the date of this update, the MLI has modified the drafting of the DTC in force with Australia, Austria, Belgium, Canada, Croatia, Czech Republic, Denmark, France, Ireland, Korea, Malaysia, Mexico, Norway, New Zealand, Poland, Portugal, Russia, South Africa, Spain, Thailand, United Kingdom and Uruguay.

2. Value Added Tax (VAT)

2.1. General Aspects

Subject to several exceptions, such as if the goods to be imported are included in the list contained in a Supreme Decree of Capital assets, a value-added tax of 19% also applies to imports. It is levied on customs value plus import duties.

2.1.1. Tax Rates VAT general rate is 19%

A Value Added Tax at a 19% rate is charged on all habitual sales of physical movable goods and services. Sales are deemed customary when they correspond to the company line of business. VAT is charged on services, whether habitual or not, that trigger interest, premiums, commissions, or any other similar compensation deriving from activities that may be commercial, industrial, financial, mining activities, construction, publicity, among others.

Imports are subject to VAT, regardless of whether they are habitual or not. Services were in general not subject to VAT until 2022. As from 2023, services are generally subject to VAT, with very limited exceptions[12].

2.1.2. Taxable Transactions

VAT taxes sales as well as services. A "sale" is any contract whereby the title to movable goods is transferred, or the title to real estate property of a construction company built by it or in part by a third party, with a quota of ownership over said goods or of any natural rights over them, as well as any deed or contract to the same end or that the Law regards as a sale. A "service" is an action or performance of a person for the benefit of another, for which the former receives an interest, premium, commission, or any other form of remuneration, to the extent it comes from any activities except those expressly exempted.

The VAT law has established several operations that are made equivalent to the sale of "goods" or "services", such as imports, whether habitual or not; contributions to companies and other assignments of ownership over corporal movable goods done by sellers; sales of commercial establishments that comprise movable material goods; leasing, subleasing, usufruct or any other form of temporary assignment of use of trademarks, patents, procedures, industrial formulas, and similar items (under IRS rulings software licences are included in this rule); parking of automobiles and other vehicles in parking lots or other places destined for that purpose; premiums on the insurance of insurance cooperatives; digital services provided by non domiciled or resident entities; and sales of fixed assets.

As per digital services, since June 1st, 2020, the following services also are subject to VAT:

a. The intermediation of services provided in Chile, whatever their nature, or of sales made in Chile or abroad, provided that the latter give rise to an import;
b. The supply or delivery of digital entertainment content, such as videos, music, games or other analogues, through download, streaming or other technology, including for these purposes, texts, magazines, newspapers and books;
c. The provision of software, storage, platforms or IT infrastructure (SaaS, PaaS and IaaS); and
d. Advertising, regardless of the medium or means through which it is delivered, materialized or executed.

12 This article was modified by Law 21,420 on February of 2021; and as of January 1st of 2023 all the services are included, except when provided by certain taxpayers as dependent, independent or companies of professionals.

2.1.3. Taxable Basis

As a general rule, the taxable basis is the price or value of the consideration paid for the goods or services, which should correspond to their Fair Market Value (FMV).

2.1.4. Creditable VAT

VAT paid on imports, purchases and services received (tax credit) is deducted from the VAT payable on sales and services provided (tax debit). Any net tax credit may be deducted over the following months (duly readjusted to reflect the inflation).

2.1.5. Exemptions

There are few exemptions in the Chilean VAT law. The main ones are the following:

a. Exports;
b. Medical and educational services under certain conditions;
c. Profesional services rendered by certain kinds of taxpayers; and
d. Services subject to WHT are generally exempt from VAT. However, if those services are provided or used in Chile, and they are exempt from WHT by the ITL or a CDT, they will be subject to VAT in Chile; and

2.2. Payment and Filing

VAT has a monthly taxable period. Therefore, the tax must be assessed, and a VAT return must be filed monthly. The VAT return must be filed and paid in full on the filing dates scheduled by the tax authorities for these purposes, usually within the first 20 days following the corresponding month's end. The payment of VAT may be delayed in exceptional and very limited circumstances.

2.3. Other Duties

Taxpayers affected by Taxes of this Law are required to issue the following documents:

a. Invoices (facturas), including sales or services exempted: Generally used in sales or services delivered to other VAT taxpayers; and
b. Bills (boletas): Generally used in sales or services delivered to final customers.

As of January 1st, 2021, it became mandatory to issue sales or service bills in electronic format for taxpayers who issue electronic invoices. As of March 1st, 2021, the same obligation applies to taxpayers who do not issue electronic invoices.

Another obligation that has arisen is to specify in the bill the amount corresponding to the 19% VAT paid.

3. Other Taxes

3.1. Real Property

The sale of real property is subject to VAT only when the sale occurs within 12 months of the acquisition, initiation of activities, or construction, as the case may be.

As for income tax, the capital gain for the sale of immovable property may be subject to two different tax regimes, depending on certain requirements: it may be a non-taxable income or be ir may be subject to the general tax regime, thus, subject to 27% corporate income tax (which may be credited against individual income tax or withholding tax liability).

There is an exemption for individuals for gains obtained up to 8,000 UF (approximately USD335.000), irrespective of the number of sales that the taxpayer performs or the number of real estates owned by the same. The exemption applies to the gains obtained for each sale, even in different tax periods, until the cap is reached. After that, individuals are granted the right to pay a 10% tax rate on further capital gains.

Concerning real estate acquired before September 29th, 2014, if they comply with the other legal requirements, the taxpayer will be able to consider as acquisition value adjusted by inflation, the respective good's apprasied value on January 1st, 2017 or the market value on September 29, 2014.

3.2. Municipal Tax

A municipal tax applies to all industrial, commercial, and service activities in the territory of the municipality in which the company has been registered for tax purposes. The taxable basis is the net equity of the taxpayer. The tax rates vary from county to county and range from 0,0025 up to 0,005 with a minimum of 1 UTM (about USD73) and a maximum of 8,000 UTM (about USD585.000). This tax is paid in two installments every year.

3.3. Stamp Tax

Stam tax applies on the issuance of documents containing a credit operation (e.g., loans, bills of exchange or promissory notes). The taxable base is the amount of the capital specified in the document. The tax rate varies depending on the period of the loan: The rate is 0.066% of the value of the document for each month of the loan's term, up to a maximum of 0.8%. In respect of documents representing debt-claim transactions without maturity, i.e. payable on sight (e.g. bank credit lines), the tax rate is 0.332% of their value.

3.4. Royalty Tax on Mining activities

New rules on taxation of mining activities have been introduced in 2023 (Law 21,591, published in the Official Gazette of 10 August 2023), in force as from 1 January 2024. These rules introduced an ad valorem tax and surplus tax (known as royalty minero) for all taxpayers in the mining industry. The mining royalty is levied on operational income from mining activities in addition to the corporate income tax payable by such companies.

At the level of the taxable person, this tax applies on mining companies which annual income derives in more than 50% from sales of copper (as long as they produce more than 50,000 metric tons of fine copper). In these cases, a tax bracket structure applies, depending on the mining operating margins (*margen operacional minero*, MOM), and an ad valorem tax component.

While the ad valorem tax applies on the annual sale of copper, the mining margin component, also called "taxable adjusted mining operational income" is determined as an adjustment to the net taxable income defined by the mining entity for CIT purposes. In these cases, mining companies will be able to deduct an annual quota on capitalized assets (under the straight-line depreciation method) and one-sixth of annual amortization regarding start-up expenses. In cases where the adjusted tax base for mining operations (RIOMA) in a given year is negative, then the mining margin component is not applicable.

The ad valorem rate is 1% on annual sales of copper, and it applies only to mining operators with sales exceeding 50,000 metric tons of fine copper. The mining margin component is based on a bracket structure depending on the mining operating margins (*margen operacional minero*, MOM). At the same time, the MOM is a coefficient that results from the following calculation:

$$MOM = (RIOMA \div Operational\ mining\ income) \times 100$$

The brakets depend on the taxpayer's MOM, as it follows:

Tax rate limit (%)	MOM
8	Below 20
12	20-25
26	45-60
26	Over 60

3.5. Imports and Exports

Imports

Any individual or entity may import all types of goods and services except a limited number of expressly prohibited items (for example, used cars).

Imports must be registered with the Customs Service before shipment and comply with all applicable laws and regulations. Import licenses are generally provided if import prices are consistent with market levels (to combat transfer pricing, the Customs Service may not approve imports at undervalued prices).

Customs Duty

Customs duty is ordinarily payable on imports at a rate of 6% of the CIF value of the imported goods. Several treaties and trade associations have had the effect of reducing (or eliminating) the regular customs duty rate for certain products traded with most Latin American countries, the United States, the European Union, Canada, Japan, China, etc.

Free Trade Zones

Custom duties and VAT may not apply in free trade zones in the extreme north and south of Chile.

Exports

Any individual or entity may export all types of goods and services (provided the exports comply with applicable laws and regulations) except a limited number of expressly prohibited items. For example, some agricultural products may be subject to seasonal restrictions.

There are no export duties. Exports are exempt from VAT. However, exporters may recover the VAT charged on the acquisition of goods or services required for their exporting activities.

Excise duty

In addition to VAT, excise or sales taxes apply on the sale or importation of specific goods. The taxable base is the same as for VAT purposes.

The following examples of taxable goods and the related tax rates can be given

- alcoholic and non- alcoholic beverages and similar goods, whether sold or imported habitually or otherwise, are subject to tax at various rates (from 10% to 31,5%), depending on the alcohol content;
- luxury goods (e.g. gold, platinum, ivory, jewels, etc.) are subject to tax at a rate of 15% (depending on the product, the tax may apply only to the first sale or import, or also to subsequent transactions);
- tobacco is subject to Tax at different rates depending on the product (i.e. cigars 52.6%; cigarettes 0.0001288030 monthly tax units per cigarette plus 60.5% on the sale price to customer inclusive of taxes; processed tobacco 59.7%); and
- a fuel tax is levied on the first sale or import of automobile gasoline and diesel. Biodiesel and bioethanol are not subject to this specific tax.

3.6. Taxable Basis

Customs duties are computed on the CIF value of the goods, while import VAT is calculated on the CIF value plus the appropriate customs duties.

3.7. Filling and Payment

An import return must be filed upon nationalization of the goods. As a rule, under the ordinary import regime, customs duties must be paid upon importing the goods. Import VAT must be paid within the month following the arrival of the goods to Chilean customs jurisdiction.

3.8. Other Taxes

3.8.1. Alcoholic, Soft Beverages and Tobacco taxation

Taxes on alcoholic beverages are increased by their volume of alcohol, just like sugar-sweetened beverages and flavoured mineral water, among others. In addition, the tobacco tax is increased.

3.8.2. Environmental Taxes

a. Green tax on the acquisition of new vehicles: A one-time special tax applies on the acquisition of new vehicles, based on their urban performance and the vehicle's emissions. Certain exemptions have been established in the case of work vehicles acquired by VAT taxpayers; and

b. Pollution sources: A tax is set forth for natural and legal persons that make use of specific fixed sources of air pollution, such as particulate matter, nitrogen oxides, sulfur dioxide and carbon dioxide, produced by premises which fixed sources, individually or have a thermal capacity over or equal to 50 MWt 2. The first payment was in 2018, and the tax rate is USD 5 per ton issued.

3.8.3. Taxes on luxury goods

As from 2023, luxury tax applies to certain goods such as helicopters, planes, yachts and vehicles above certain values. The rate is 2% and the taxable base is the normal market value of the goods according to a register published annually in the Official Gazette. Resolution 127-2024, issued by the tax authorities on 21st December 2024 establishes a list with the value of helicopters, airplanes and yachts applicable as from 1 January 2025.

3.9. Transfer Pricing

Transfer pricing rules are contained in article 41E of the ITL, and they apply to transactions between related parties; deals of any nature between PEs and head offices or other PEs of the same enterprise located abroad; and corporate reorganizations that imply the transfer abroad of any title of assets and activities that could generate taxable income in Chile.

Chilean transfer pricing rules are based on the Arm's Length Principle (*principio de plena competencia*) and they include a very broad definition of related parties. They also include specific rules on transfer pricing methods, transfer pricing adjustments by the tax administration, reporting obligations, advance pricing agreements (APAs) and corresponding adjustments. The latest tax reform has included the possibility of taxpayers to determine a voluntary adjustment.

If the taxpayer does not demonstrate that its operations are carried on at arm's length, the tax administration is able to make transfer pricing adjustments. These adjustments are subject to a final tax at a 40% rate. In addition, fines may also be imposed.

Examples of relation include direct or indirect participation in the management, control or capital of the other person; direct or indirect participation in the management, control, capital, profits or receipts of two parties; a PE, with respect to its head office and other PEs of the same enterprise; transactions entered into with a party that is a resident of a tax haven (the preferential tax regime term is used), even if they do not form part of the same business group; amongst others.

As per the transfer pricing methods, the ITL includes CUP, resale price, cost plus, profit split, TNNM, and residual methods. The taxpayer must choose the most appropriate one considering its particular case, and the method can be challenged by the tax authorities.

Exit charge/Tax

There are no exit taxes in force in Chile. Certain tax reorganization processes which entail the transfer of Chilean underlying assets to a foreign entity may be tax neutral, provided that certain requirements are met. Where those requirements are not followed, rules applicable to the termination of a business will be applicable, and therefore taxes upon liquidation of a business must be paid.

4. Payroll Taxes/ Welfare Contributions

4.1. Retirement Contributions

Employees contribute to individual private-managed pension funds. The contribution is determined as a percentage of the employee's total monthly remuneration (including salary, fringe benefits, bonuses, amongst others). The maximum salary that is used as based for the contribution is 87.8 UF (approximately USD3,600). At the level of pension funds, the contributions are capped at 10% of the salaries received (additional voluntary contributions are possible), with an additional percentage corresponding to the commission fee charged by the pension fund administrator, ranging approximately from 0.49% to 1.45%. While the employee must cover the contribution, the employer is responsible for withholding and paying such contribution monthly to the pension fund administrator.

4.2. Health Care Contributions

The employees must be affiliated with a general Health Care Plan –HCP–. Contributions to the HCP administering entity must equal at least 7% of the employee's monthly gross Income, considering a

remuneration that does not exceed 87.8 UF (approximately USD3,600).

There are two systems, the public system called 'Fondo Nacional de Salud', or 'FONASA' and the private system where different Health Care Institutions or 'ISAPREs' operate. The health contribution is equivalent to an insurance prime, and FONASA and Isapre operate as insurers.

4.3. Labor Risk Insurance System

The labour accident and occupational disease insurance is financed with a 0.90% contribution by the employee which, depending on the degree of risk implied in the activity carried out by the employee, may be increased upt to a 3.4%. An additional 2% contribution for "heavy" work may be financed by the employer and the employee (the percentage may be reduced to 1% in certain circumstances);

4.4. Unemployment Fund Contribution

Unemployment insurance provides shared funding: provided by the employee, the employer and the Government. The employer contributes with 2.4% of the part of the salary not exceeding 131.8 UF (approximately USD5,500). The employee contributes with 0.6% of that part of salary with the same cap or 3% in cases of work contract for a fixed period. The Government contributes with 18,816 UTMs per month (approximately USD1,4 million), equivalent to an annual contribution of 225,792 UTMs for all workers in the system.

5. Foreign Investment Statute

In general terms, Chile maintains a legal framework which is favourable for foreign investment. Entry to the country is not subject to authorizations by the Central Bank (only reporting obligations from a certain amount). Capital in Chilean entities may be held completely by foreign investors. There are very limited restrictions to the kinds of assets that may not be held by foreign investors.

Foreign direct investment is currently subject to the provisions of Law 20,848, published in the Official Gazette on 25th June 2015. This law contains specific regulations as to the strategy that needs to be followed for the promotion and attraction of foreign investment, which is a responsibility of the President of the Republic. The law creates a Committee of Ministers with participation of the Ministers of Economy and Finance, and where other Ministries may be invited to participate. Moreover, Law 20,848 created the Investment Promotion Agency, a public institution in charge of providing advice on foreign direct investment matters and which will be responsible for implementing the foreign investment strategy. Furthermore, a public-private council was also created to provide its advice on mid and long-term investment strategies.

As per the foreign investment framework currently in force, foreign investors may apply for a foreign investor certificate to be issued by the Investment Promotion Agency if certain requirements are met (for instance, a minimum investment of USD 5 million). This certificate generates certain rights for the investor, namely: access to the formal exchange market and the right to repatriate investment capital and profits once their tax obligations are met; protection against discrimination; VAT exemptions on certain cases of imported capital assets; rules of "tax invariability" (total effective income tax capped at 44.45% for a period of 10 years; or invariability in the case of mining income for a period of 15 years, provided that there is an investment project of at least USD 50 million).

6. International Tax Rules

6.1. Thin capitalization rules

Article 41F of the Chilean ITL contains thin capitalization rules which cover interest payments to non-resident related parties.

Under domestic general withholding tax rules, interest payments are subject to a withholding tax at a 35% rate, with a reduced 4% rate in the case of payments to foreign banks or financial institutions.

However, when a total annual debt/equity ratio exceeding the 3:1 proportion, the interest paid in excess of indebtedness may be subject to final tax at the rate of 35%. This tax is levied on the resident taxpayer that pays the interest.

The difference that arises between the 4% withholding tax rate and the 35% tax rate applied on the excess of indebtedness is deductible from taxable income for the payor.

Thin capitalization rules are generally not applicable in situations where banks, insurance companies, credit card companies and other financial entities authorized to operate by law are involved. Further, there is an exception for project-finance activities, covering non-related party debt in excess of thin-cap rules, even if such debt is guaranteed by related parties, insofar as the interest is at market-value.

For the calculation of the 3:1 debt/equity ratio, which is made annually, the total debt excludes debt with non-related parties for a maturity period of 90 days or less.

6.2. CFC Rules

Companies or individuals residents in Chile may be deemed to have received or accrued passive income derived by a foreign controlled entity. A general exception applies if the total foreign income received or accrued by the CFC in a given period does not exceed 2,400 UF (approximately USD100,00), case in which the income does not neet to be considered (this exception does not apply if the entity is located in a jurisdiction maintaining a preferential tax regime). For the determination of the 2,400 UF, income from related parties needs to be considered. If the threshold is exceeded, all income must be considered as passive income.

The net passive income (that is, excluding losses) may be considered at the end of the taxable period in proportion to the participation's rights the Chilean resident may hold in the CFC, and then such proportion is subject to corporate income tax. Moreover, if passive income represents more than 80% of the CFC's income abroad, the total amount of its income will be deemed to be passive income. Foreign tax credits are available every time a Chilean resident is forced to consider income from a CFC, and even DTC protection may be applicable.

Passive income includes profit distributions in general (dividends of any kind); interests; royalties and income of similar nature; rental income from immovable property; and capital gains from immovable property and from rights that generate passive income (with certain exceptions).

The characterization as a controlled foreign entity requires the verification of several conditions, such as a) The entity needs to be resident, domiciled, or established abroad; and b) is directly or indirectly controlled by entities, individuals or trusts resident, domiciled or incorporated in Chile. Control is defined in relation to the ownership of the foreign entity's capital, profits or voting rights (more than 50%); the possibility to elect the majority of the directors or administrators of the foreign entity; or the unilateral power to modify the foreign entity's by-laws, directors or administrators. An entity may

be deemed to constitute a CFC under certain circumstances (v.gr if it is incorporated in a jurisdiction maintaining a preferential tax regime, amongst other cases).

6.3. Preferential Tax Regimes

Under current legislation, article 41H of the ITL defines a preferential tax regime as a jurisdiction (excluding OECD member countries) that meets the following conditions: a) the jurisdiction does not maintain an agreement for the exchange of information in force with Chile; or even if having done so, the agreement does not remain in force; or the agreement is not capable of securing an effective exchange of information; and b) the jurisdiction does not meet the minimum criteria to be considered compliant or substantially compliant in the field of tax transparency and exchange of information. For the purposes of this definition, the instructions of the Global Forum on Transparency and Exchange of Information are to be considered, or the instructions issued by any other international organization of which Chile may be a permanent member.

In March 2025 the Chilean tax authorities issued an updated list of preferential tax regimes, based on the changes introduced to the legislation in 2024. The list, which is in force for tax purposes as from 1st January 2025, excluded several jurisditions traditionally considered as tax havens, such as Cayman Islands, BVI, Bahamas, Aruba, Curazao, Hong Kong, amongst others.

7. Tax Crimes

In addition to determining taxes, the Income Tax Law, especially the Tax Code, extensively regulates a series of tax infractions and crimes, ranging from fines and administrative sanctions to imprisonment. Penalties are applicable in cases such as delay in filing tax returns, as well as malicious omission of information; falsifications of documents that alter the the amount of taxes to be paid; the illegal transport of goods (merchandise transport) or the fraudulent obtaining of tax refunds.

Tax crimes that are primarily regulated include:

- Filing malicious, incomplete or false tax returns that may result in a lower tax being paid;
- The malicious omission in the accounting books of records regarding merchandise purchased, sold, assigned or exchanged or other taxed operations;
- The adulteration of balance sheets or inventories or the submission of maliciously erroneous records;
- The use of invoices, debit notes, credit notes or bills already used in prior operations; or
- Using other malicious procedures tends to hide or disguise the actual amount of the operations or evade a tax;
- Misleading or manipulative conduct that distorts information or the transparent functioning of the financial market. The improper use or disclosure of inside information for the purpose of influencing or recommending transactions in stocks. Acts of fraud, misuse of securities in custody, dealing in the stocks of insolvent or suspended issuers, and unauthorized disclosure of confidencial information. (Law N° 18,045 article 59, 60, 61 and 62);
- Malicious misrepresentation of documents submitted to the Central Bank or of international exchange transactions. (Law N° 18,040 article 59);
- Economic crimes include incompatible negotiations, illegal extortion, transnational bribery, fraudulent price alterations (including those relating to essential goods), corruption between private individuals, and various fraudulent conducts related to accounting and prejudice to creditors in bankruptcy proceedings. (Chilean criminal code articles 240 N° 2,3,4 and 7; 252, 285, 286, 287 bis, 287 tre, 463 and 464);

- Appllication of fines and the sanctioning of breaches of duty of confidentiality in CMF sanctioning procedure, as well as the Commission's powers of investigation and sanction in the event of breaches of the regulations under its supervision (Law N° 3.538 article 35, 43 and 58).

Chilean law, specifically the Tax Code and the recent Law N° 21.595 on Economic Crimes, sets out a range of penalties for tax offenses. These penalties can include substantial fines and prision.

The penalty for the above crimes is a fine ranging from 50% to 300% of the value of the Tax evaded and prison. In addition to the fine, individuals may face prison sentences ranging from 541 days to 5 years.

Regarding taxpayers subject to VAT or other withholding or surcharge taxes that maliciously conduct any maneuver tending to increase the actual amount of their credits or other benefits, regarding the amounts they have to pay, they will be fined from 100% to 300% of the amount evaded and sentenced to 3 years and 1 day to 10 years in prison.

Similarly, individuals who fraudulently obtain tax refunds to which they are not entitled by simulating a tax operation or any other malicious manoeuvre will be subject to imprisonment and fines raging from 100% to 400%.

If false, forged or adulterated invoices or other documents were maliciously used to commission the aforementioned crimes, the highest penalty would be applied. A person who maliciously makes, sells, or gives, under any title, dispatch guides, invoices, debit or credit notes that are false, whether they are stamped or not by the IRS, with the aim of committing or potentially committing any of the aforementioned crimes, he will be fined with up to 40 UTA (yearly tax units) and a prison of 541 days to 3 years.

The IRS has a three-year term to audit the applicant's statement (or up to six years if the declaration was maliciously false or not filed at all). It may challenge the taxes determined by the taxpayer and deny the benefit if it concludes the applicable requirements are not fulfilled. In this case, the taxpayer will not benefit from the exemption of responsibility referred to above. The IRS' decision can be claimed by the applicant before the tax court, according to the general rules of the Chilean Tax Code. If the relevant tax court affirms the non-compliance with the requirements, the taxpayer will not be refunded the 8% tax it paid.

This program does not extinguish the liabilities arising from breaches of provisions related to the prevention of money laundering and terrorist financing.

The primary purpose of these incorporations is to grant powers to the tax authority to contest acts or businesses or any other activity performed by taxpayers taking advantage or abuse of the legal forms or through simulation, which exclusive or primary purpose is eluding the payment of taxes, which will be subject to the respective control of the Courts of Law. For that purpose, articles 4 bis, 4 ter, 4 quarter and 4 quinquies are added to the Chilean Tax Code.

In addition, a new article 26 bis Tax Code was added in 2016, which sets forth that taxpayers or those liable to the payment of taxes that have a personal and direct interest will be able to ask questions to the IRS previously, on the application of articles 4 bis, 4 ter and 4 quater of the Tax Code, on the acts, business or economic activities they project to perform. Likewise, a new article 100 bis is added to the Tax Code, which sanctions a person when it can be proved that he has designed or planned acts, contracts or business that constitute abuse or simulation, following articles 4 ter, 4 quater, 4 quinquies and 160 bis of the Tax Code.

In October 2024 important updates have been introduced to the provisions concerning tax offences. This reform introduces key mechanisms to strengthen tax auditing. Article 100 ter encourages

taxpayers to cooperate effectively with the Chilean IRS, enabling pecuniary sanctions or the penalty of imprisonment to be reduced, provided the information is substantial and helps clarify crimes and identify those responsible. However, this benefit does not apply if the collabotarion relates solely to crimes committed by the taxpayer themselves.

In addition to the above, Article 100 quarter establishes the concept of an anonymous informant, ensuring the confidentiality of individuals who provide significant information on tax offences, subject to strict eligibility criteria. Anonymous informants may not have engaged in the conduct being reported, nor may they hold a managerial role within the entity being reported. Those who provide false or fraudulent information may face imprisonment and a fine of 15 UTM (1.100,22 USD). To incentivize reporting, the article 100 quinquies establishes a right to retribution for anonymous informants, who may receive 10% of the imposed fine, provided the amount of tax defrauded exceeds 100 UTM (7,349.98 USD). This remuneration shall not be considered the informant income and shall be subject to bank secrecy, un less the informant waives their anonymity or makes the report public.

Finally, Article 100 sexies introduces the concept of "self-report" whereby taxpayers can voluntarily regularise tax difference that could constitue offences without fear of complaint or legal action. In orden to do so, taxpayers must meet strict requirements, such as submitting a rectification proposal for the last three tax years, not being under audit for the same taxes at the time of the request and not having previously been convicted of tax offences. If self report is approved, interest and fines on the determined tax differences wil not be waived, but payment agreements will be available. These provisions aim to modernize the fight against tax evasion by offering incentives for collaboration and providing incentives for voluntary regulation.

8. Additional Considerations

8.1. Disallowed Expenses

The rate of the sole tax set for in Article 21 of the ITL is 40%.

8.2. Deduction of intra-group remittances abroad

Additional requirements for the deductibility of expenses exist when the payment refers to any remittance to a related party abroad, which may be subject to withholding taxes for being generally characterized as services, royalties, interest, freight, insurance, leases, and other types of income included in Article 59 of the ITL. In such cases, if paid to related parties abroad, such payments would only be tax deductible if the applicable withholding tax should have been declared and paid (even the reduced rate under a DTC); and the remittance hace been effectively paid.

8.3. Goodwill

Goodwill arising out of a merger is deemed a non-amortizable intangible.

8.4. General Anti-avoidance Rules

General anti-avoidance rules (GAARs) were introduced by Law 20,780 of 2014, based on the abuse of rights and the contract simulation principles. The GAARs are generally applicable in the case of facts, agreements or transactions. The tax administration must demonstrate the avoidance or simulation in the relevant procedures.

In principle, where a special anti-avoidance provision may be applied, that provision will prevail. However, as from the modifications introduced to the Tax Code in October 2024, if a strategy is carried out to avoid the application of a special GAAR, the tax authority will nonetheless still be able to apply such special anti-avoidance rule.

The GAAR presumes that tax obligations arise and are due according to the real and underlying facts, acts or legal agreements, irrespective of the contractual form the parties may decide to implement. The tax consequences of an act or transaction may not be avoided through abuse of legal forms. Abuse will be deemed to occur where any taxable event is fully or partially avoided, or if the taxable amount or the tax obligations is reduced or postponed, through acts or transactions that, individually or in the aggregate, produce no real legal or economic consequences, other than those of a tax nature (tax savings).

Other hypothesis or abuse are contained in the rule regarding simulated acts or transactions. In such cases, the tax authorities are allowed to determine the tax consequences of such acts completely disregarding any simulated acts or transactions.

The existence of abuse or simulation must be declared by the Tax Court upon request of the tax authorities. Special statute of limitations rules apply in cases where the tax authorities require the court to rule on the application of the GAAR. In general, these rules imply that a 6-year statute of limitations provision will apply to actions or legal transactions under the GAAR.

COLOMBIA
LEWIN & WILLS

IN-COUNTRY MEMBER FIRM:

www.lewinywills.com

+57 (601) 312 5577

Address: Calle 72A 4-03, Bogotá Colombia

CONTACT PARTNER(S):

Juan Andrés Palacios

jpalacios@lewinywills.com

Alfredo Lewin

alewin@lewinywills.com

Federico Lewin

flewin@lewinywills.com

ACRONYMS

AMTI	Alternate Minimum Taxable Income
CFE	Controlled Foreign Entities
CHC	Colombian Holding Companies
CIT	Corporate Income Tax
COBE	Continuity of Business Enterprise
COI	Continuity of Interest
CTC	Colombian Tax Code
DTT	Double Tax Treaty
ESC	Environmental Control System
FTC	Foreign Tax Credit
FTZ	Free Trade Zone
FY	Fiscal Year
GAAR	General Anti-Avoidance Rule
HCP	Health Care Plan
IFRS	International Financial Reporting Standards
LNTJ	Low or No-Tax Jurisdictions
M&E	Machinery & Equipment
NET	Net-Equity Tax
NTI	Net Taxable Income
OECD-MC	OECD Model Tax Convention
PE	Permanent Establishment
PoEM	Place of Effective Management
RENARE	National Registry for the Reduction of Greenhouse Gas Emissions
RUB	Unique Register of Ultimate Beneficial Owners
RUT	National Tax Registry
SEP	Significant Economic Presence
SIESPJ	Identification System for Non-Incorporated Entity Structures
VAT	Value-added Tax

HIGHLIGHTS

NATIONAL LEVEL	
INCOME TAX	
General CIT rate	35%
Foreign Entities CIT rate	35%
Foreign Entities with PE or Branch CIT rate	35%
CIT surcharge on coal entities	Up to 10%
CIT surcharge on oil entities	Up to 15%
Temporary CIT surcharge on hydroelectric entities (until 2026)	3%
Temporary CIT surcharge on financial entities (until 2027)	5%
Capital gains tax	15%
Tax loss carry-forward term	12 FY
Transfer pricing rules	Yes, OECD-like
Tax-free reorganizations if specific requirements are met	Statutory Mergers Statutory Divisions Transformations Capital Contributions
REGULAR WITHHOLDING TAXES ON CROSS-BORDER PAYMENTS	
After-tax dividends, if taxed at the corporate level	20%
After-tax dividends, if untaxed at the corporate level	48%
Branch profits, if taxed at the corporate level	20%
Branch profits, if untaxed at the corporate level	48%
Interest	0%, 1%, 15%, or 20%
Financial returns of public-private partnerships funding	5%
Royalties	20%
Technical assistance, technical services, and consultancies	20%
Imports	No withholding
Tax havens	35%
OTHER TAXES	
Net-equity tax rate	Up to 1.5%
General VAT rate	19%
Consumption tax rate (specific businesses)	4%, 8% and 16%
Regular customs duties[1]	0% - 20%
Bank debits tax	0.4%
National stamp tax rate	Up to 3%

1 Exceptionally, certain products may be subject to higher customs duties.

LOCAL LEVEL	
Tax on industrial, commercial, and service activities rate	Starts at 0.2%
Property tax rate (including real estate)	0.5% - 3.5%
Registration tax rate	0.1% - 1%
Local stamp taxes rate	Up to 2%

DOUBLE TAX TREATIES

Country	Dividends	Interest	Royalties	In force
Bolivia	Source	Source	Source	Yes
Brazil	Up to 15%	Up to 15%	Up to 15%	No
Canada	Up to 15%	10%	10%	Yes
Chile	Up to 7%	Up to 15%	10%	Yes
Czech Republic	Up to 15%*	10%**	10%	Yes
Ecuador	Source	Source	Source	Yes
France	Up to 15%*	10%**	10%	Yes
India	5%*	10%**	10%	Yes
Italy	Up to 15%	Up to 10%**	10%	Yes
Japan	Up to 10%*	10%**	Up to 10%	Yes
Luxembourg	Up to 15%	Up to 10%**	10%	No
Mexico	0%*	Up to 10%**	10%	Yes
Netherlands	Up to 15%*	Up to 10%**	Up to 10%	No
Peru	Source	Source	Source	Yes
Portugal	10%*	10%	10%	Yes
South Korea	Up to 10%*	10%**	10%	Yes
Spain	Up to 5%	10%**	10%	Yes
Switzerland	Up to 15%	10%**	10%	Yes
United Arab Emirates	Up to 15%*	10%**	10%	No
United Kingdom	Up to 15%*	10%**	10%	Yes
Uruguay	Up to 15%	15%	10%	No

* These DTTs provide a higher withholding rate when the company distributing the dividends is a Colombian company and the profits out of which the dividend is distributed were not taxed at the corporate level, as follows (i) 25% for the Czech Republic; (ii) 15% for India; (iii) 33% for Mexico, (iv) 33% for Portugal; (v) 15% for South Korea; (vi) 15% for France; (vii) 15% for the United Kingdom; (viii) 15% for Japan; and (ix) without limitation for United Arab Emirates, Uruguay, and the Netherlands.

** These DTTs provide non-taxation at the source of the interest paid to the other State or certain public entities of the other State. The following treaties also provide non-taxation of certain other activities such as: (i) Spain: a sale on credit of merchandise and loans granted by banks; (ii) Switzerland: a sale on credit of merchandise and loans granted by banks; (iii) Czech Republic: a sale on credit of merchandise and loans granted by banks for a period not exceeding three years; (iv) France: a sale on credit of merchandise or industrial, commercial or scientific equipment, loans granted by banks for a period not exceeding three years, or loans granted by a financial institution to another financial institution; (v) Netherlands: loans granted by a financial institution to another financial institution, loans to finance exports, sale on credit of merchandise that does not exceed 183 days, interests paid to a pension fund; (vi) Italy: a sale on credit of merchandise or industrial, commercial or scientific equipment, loans granted by banks for a period not exceeding three years; (vii) Japan: loans granted by banks for a period not exceeding three years, or loans granted by a financial institution to another financial institution, interests paid to a pension fund, sale on credit of merchandise; (viii) United Kingdom: interests paid to a pension fund, sale on credit of merchandise or industrial, commercial or scientific equipment, loans granted by banks for a period not exceeding three years, or loans granted by a financial institution to another financial institution; and (ix) Uruguay: interests paid to a pension fund, or loans granted by a financial institution to another financial institution.

OVERVIEW

1. Corporate Income Tax

1.1. Corporate Residence

In Colombia, resident entities are taxed on their worldwide income and foreign entities' Permanent Establishments on their attributable worldwide income, while foreign entities with no PE in the Country are taxed only on their Colombian-sourced income.

If an entity (i) is incorporated in Colombia; (ii) has its corporate domicile in Colombia; or (iii) is "effectively managed" in Colombia; such entity is deemed Colombian for tax purposes.

An entity is "effectively managed" where the entity's daily activities are carried out. Foreign companies that (i) are listed in the Colombian Stock Exchange (or in another recognized Stock Exchange), have issued bonds that are negotiated through such a Stock Exchange; or (ii) receive at least 80% of their total income in the country in which they are incorporated, will not be considered Colombian entities for tax purposes even if their place of effective management is located in Colombia.

1.2. Permanent Establishment

Colombian regulations provide a domestic definition of PE, partially tracing the PE definition of the OECD-MC. The Colombian PE definition does not include the project PE nor the services PE[2]. Colombian domestic regulation also provides a list of activities considered auxiliary or preparatory, which do, therefore, not give rise to a PE[3].

PEs are taxed on the worldwide profits attributable to them, considering their assets, activities, functions, and risks[4]. Therefore, transfer pricing considerations and the elements related to the "*OECD report on the attribution of profits to permanent establishments*" are to be considered.

Any foreign person or entity having a PE in Colombia is required to file a CIT return and to keep accounting records for each PE they have in Colombia[5].

Although Colombia has a domestic definition of PE, the rules governing PEs under international treaties executed by Colombia should prevail in some cases.

1.3. CIT Rate

The general statutory CIT rate applicable to Colombian companies and foreign corporate entities receiving Colombian-sourced income is 35%, regardless of whether it is attributable to a Permanent Establishment in Colombia or not[6].

2 Colombian Tax Code §20-1.
3 Decree 3026/2013 §3.
4 Law 2010/2019 §66.
5 Colombian Tax Code §20-2.
6 Colombian Tax Code §240.

1.3.1. Reduced CIT Rates

Certain companies in free trade zones are eligible for a reduced 20% CIT rate[7].

Additionally, certain items of income that were formerly exempt are subject to a reduced 15% CIT rate. Some examples are (i) hotel services rendered in newly built or refurbished facilities; and (ii) ecotourism activities[8]. However, to benefit from this reduced rate, specific requirements must be met.

The income tax rate applicable to publishing companies incorporated in Colombia as legal entities, whose economic activity is exclusively focused on book publishing, shall be 15%[9].

To determine whether an entity can benefit from the progressivity of the CIT rate, the individual facts and circumstances of each case should be considered.

1.3.2. CIT Surcharges

Some entities are required to pay, in addition to the general CIT rate, a surcharge, as follows:

1.3.2.1. CIT Surcharge on Coal and Oil Entities

As of 2023, companies involved in coal and crude oil extraction are subject to an additional surcharge in the corresponding taxable year, which will be determined according to the level of the international price of crude oil and coal. This surcharge is levied for taxpayers that have a taxable income equal to or greater than 50,000 UVT (approx. COP 2,489 million or USD 579,000[10]), as follows[11]:

Coal extraction

SURCHARGE	TOTAL CIT RATE	AVERAGE PRICE
0%	35%	Below the 65' percentile
5%	40%	Between the 65' and 75' percentiles
10%	45%	Above the 75' percentile

Crude oil extraction

SURCHARGE	TOTAL CIT RATE	AVERAGE PRICE
0%	35%	Below the 30' percentile
5%	40%	Between the 30' and 45' percentiles
10%	45%	Between the 45' and 60' percentiles
15%	50%	Above the 60' percentile

7 Colombian Tax Code §240-1.
8 Colombian Tax Code §240, paragraph 5.
9 Colombian Tax Code §240, paragraph 7.
10 Using a COP 4,300 Market Representative Rate.
11 Colombian Tax Code §240, paragraph 3.

1.3.2.2. Temporary CIT Surcharge on Hydroelectric Entities

From 2023 to 2026, a surcharge is levied for taxpayers whose main economic activity is the generation of electrical energy through water resources, who in the corresponding taxable year have a taxable income equal to or greater than 30,000 UVT (approx. COP 1,493 million or USD 347,500)[12], as follows[13]:

SURCHARGE	TOTAL CIT RATE
3%	38%

1.3.2.3. Temporary CIT Surcharge on Financial Entities

From 2023 to 2027, a surcharge is levied exclusively for financial entities that, in the corresponding taxable year, have a taxable income equal to or greater than 120,000 UVT (approx. COP 5,975 million or USD 1,38 million), as follows[14]:

SURCHARGE	TOTAL CIT RATE
5%	40%

1.4. Taxable Base and Income Tax Assessment Process

The taxable base should be multiplied by the applicable statutory CIT rate. The result is the CIT liability, from which applicable tax credits are subtracted to find the CIT charge.

The taxable base of the Colombian CIT is the result of subtracting the taxpayer's specifically exempt items of income from the greater of (i) the Net Taxable Income ("NTI") and (ii) the Alternate Minimum Taxable Income ("AMTI"). The NTI results from the sum of all revenues realized by the taxpayer, minus the sum of all expressly excluded items of income, minus the sum of all costs and expenses allowed as deductions. The AMTI computation is explained in §1.5 below.

The general CIT assessment process can be illustrated as follows:

(+) Gross Income (Sum of all items of income, including short-term capital gains)

[-] Excluded items[15]

[=] Gross taxable income[16]

[-] Allowed deductions

[=] Taxable income

[-] Tax loss carry-forward

12 The Constitutional Court has clarified that the surcharge is applicable only if the entity's income derived from hydroelectric power generation is equal to or exceeds 30,000 UVT. Consequently, this threshold does not encompass the entirety of the entity's income (Sentence C-389/2023).

13 Colombian Tax Code §240, paragraph 4.

14 Colombian Tax Code §240, paragraph 2.

15 In Spanish, this refers to "Ingresos no constitutivos de renta ni ganancia ocasional" such as compensations from damages insurance or certain capital reimbursements from a company, among other specific types of income expressly designated by the tax law.

16 Exempt items of income refer to specific incomes that are not subject to Income Tax, such as activities related to social housing.

[=] NTI

[-] Exempt items of income

[=] Taxable base

[*] CIT rate

[=] CIT liability

[-] Tax credits (such as withholding and foreign tax credits)

Advance Payment of Income Tax

[-] Advance Payment of Income Tax paid the previous year

[=] CIT charge or credit balance

Since 2017, the taxable base of the CIT has been calculated using the financial information derived from the accounting records kept under IFRS. Nonetheless, various adjustments should be made to avoid the taxpayer being obliged to pay tax on theoretical income or allowed to deduct theoretical expenses.

Hence, although the tax assessment process continues unchanged, various changes are aligning, for accounting and tax purposes, among others, (i) the moment of accrual of income and costs, (ii) the deductible expenses, (iii) the calculation of the useful life of the assets, and (iv) the applicable methods of depreciation.

Notwithstanding IFRS will be the basis both for accounting and tax purposes, (i) the taxpayers will still need to keep, besides the regular accounting records, special accounting records for tax purposes, and (ii) important differences may arise between accounting and tax records, which will most likely generate untaxed profits at the level of the company, taxable therefore at a higher rate at the level of the shareholder.

Since 2022, a minimum effective tax rate of 15% has been introduced for legal entities, excluding foreign entities without residence in Colombia. With some variations, the minimum effective tax rate is the result of dividing the Total Net Tax by the Total Net Profit. If a taxpayer has an effective rate of less than 15%, the CIT rate will be increased until the minimum tax rate is reached.

1.5. Alternate Minimum Taxable Income

The taxpayer's AMTI is equal to the taxpayer's net worth (i.e., all assets net of all liabilities and other allowable exclusions, e.g. shares in Colombian corporations) as of December 31st of the year immediately preceding the taxable year, multiplied by the AMTI fixed rate.

Although the AMTI rate for FY 2025 is 0%, it is important to bear in mind that this regime has not yet been removed from Colombian legislation.

If the AMTI is greater than the NTI, the difference between these two items generates a carry-forward against the taxpayer's NTI, which can be used within the following five FY. Paired with the repeal of the CREE[17] and its surcharge, the 2016 lawmaker introduced a transition regime, which specifies how the

17 CREE was a type of income tax on the income of legal entities. The CREE tax was intended to contribute to Child and Family Protection Services, Public Training System, and Health Care System. It was repealed as of 2017.

taxpayers will be able to carry forward the excess AMTI (determined by the net worth) over the CREE general tax liability[18].

1.6. CIT Deductions

Unless otherwise provided by the Tax Code, all costs and expenses incurred by the taxpayer are deductible, provided that they are related, proportional, and necessary to the taxpayer's income-producing activity[19]. Costs or expenses associated with specifically excluded and/or exempted items of income are not deductible[20]. Certain costs and expenses may be subject to limitations, depending on the facts and circumstances of each case (e.g., related party charges and commissions, among others). Special limitations apply to the deduction of expenses incurred outside Colombia (see §1.8. below)[21].

Neither royalties paid to foreign related parties, related parties operating in a FTZ regarding intangible goods formed in Colombia, nor royalties paid in consideration for the acquisition of finished products are deductible.

Currently, royalties paid by these entities to the State are tax-deductible[22].

As a general rule, all taxes and levies paid by Colombian taxpayers are fully deductible, provided that there is a nexus between the payment and the income-producing activity carried out by the taxpayer. Exceptionally, CIT, net-worth tax, and normalization taxes are not deductible. Only 50% of the tax on financial transactions paid is deductible, regardless of whether there is a nexus with the taxpayer's economic activity.

1.7. Thin Capitalization Rules

In cases of indebtedness between related parties, only interest derived from indebtedness with an average value not exceeding two times the entity's net equity (on December 31 of the preceding year) is deductible[23]. The proportion of interest that exceeds this limit is not deductible.

The aforementioned interest deductibility limitation applies to both cross-border inbound indebtedness and local indebtedness and does not apply only in certain narrowly defined cases (e.g. when the debtor is a financial entity, and the loan is obtained to finance infrastructure projects related to activities considered of public interest)[24].

On May 29, 2020, the Colombian Government issued Decree 761/2020, through which the thin capitalization rule is regulated. Under the Decree, the criteria for determining the economic relationship referred to in article 118-1 of the CTC will be those applicable to the transfer-pricing regime. The Decree also indicates that the net equity will be determined by the provisions of article 282 of the CTC, that is, subtracting the corresponding debts from the gross equity owned by the taxpayer on the last day of the year or taxable period.

18 Law 1607/2012 §22-1.
19 Colombian Tax Code §107.
20 Colombian Tax Code §177-1.
21 Colombian Tax Code §121 and 122.
22 Constitutional Court. Sentence C-489/2023.
23 Colombian Tax Code §118-1.
24 Colombian Tax Code §118-1, paragraph 5.

1.8. Additional Limitations on Expenses Incurred Abroad by Colombian Taxpayers

In addition to the regular deductibility requirements, costs and expenses incurred abroad are subject to additional limitations.

Costs and expenses incurred abroad are deductible only to the extent that such deductions do not exceed 15% of the taxpayer's net taxable income assessed without considering these deductible items. Exceptionally, this 15% limitation does not apply (i) whenever the payment abroad has been subject to withholding tax in Colombia; (ii) on certain interest payments that are deemed not from a Colombian source; and (iii) on payments on imported movable tangible property[25].

Payments to a home office or parent company abroad are only deductible if they were subject to withholding tax in Colombia and meet the transfer pricing arm's-length criteria. Additionally, the parties should be able to prove that the service was rendered[26]. Cross-border payments to the home office of Colombian branches and subsidiaries for management services are subject to withholding tax, regardless of whether they are deemed to generate Colombian source income or not.

There are other limitations to the deductibility of payments to foreign related parties, which need to be analyzed on a case-by-case basis.

1.9. Depreciation and Amortization

Tangible fixed assets' depreciation is deductible. The applicable depreciation term varies depending on the nature of the asset. Further to the 2016 Tax Reform, the depreciation term is no longer set by regulations and should instead be set by the taxpayer, considering the lifespan of the asset. IFRS regulations should be regarded; however, the lifespan of an asset determined for tax purposes may differ from the lifespan determined for accounting purposes.

The maximum depreciation rate varies between 2,22% and 33%, depending on the type of asset to be depreciated. Depreciation rates for specific assets (within the previously mentioned range) are set in the corresponding regulation[27].

For tax purposes, regular methods commonly used worldwide (e.g. straight-line method, declining balance method, etc.) are accepted in Colombia. When using the declining balance depreciation method, the following limits should be observed: (i) the salvage value should be under IFRS, depending on the type of asset; and (ii) the depreciation rate cannot be accelerated by the application of additional shifts[28].

When an asset that has been in use is acquired, the acquirer can reasonably calculate the remaining probable lifespan to depreciate its acquisition cost. The lifespan thus calculated, added to that elapsed during the previous owners' use, cannot be less than that contemplated for new goods in the applicable regulations[29].

If the machinery and equipment are daily used at least for 16-hour shifts, and this usage can be demonstrated, depreciation can be accelerated, increasing the depreciation rate by 25%[30]. Unless

25 Colombian Tax Code §122.
26 Colombian Tax Code §124 and 260-3.
27 Colombian Tax Code §137.
28 Colombian Tax Code §134 and 140.
29 Colombian Tax Code §139.
30 Colombian Tax Code §140.

specifically restricted, double and triple shift accelerated depreciation is also available and might be implemented when the asset needs to be depreciated in full in the first years of its useful lifespan. As mentioned before, as of 2013, the 2012 Tax Reform prohibited the combination of accelerated depreciation with the declining balance method.

Certain assets, including acquired intangibles, and certain costs and expenses deemed as necessary investments for the taxpayer's income-producing activity that must be capitalized, can be amortized throughout a minimum 5-year period using any generally accepted amortization method[31]. It is worth highlighting that, although under IFRS preoperative expenses are deductible when completed, for tax purposes, the taxpayer should register and deduct its value via amortization.

1.10. Transfer Pricing

Colombia has OECD-like transfer pricing rules that apply to all transactions between a Colombian party and (i) a foreign-related party; or (ii) a related party located in a FTZ (a different set of rules applies to transactions between two Colombian-related parties)[32].

Under these rules, the Colombian party exceeding certain statutory net assets or revenue thresholds must keep and file with the tax authorities supporting documentation and a transfer pricing study showing whether the corresponding prices or profit margins are at arm's length[33]. The supporting documentation shall include a master file containing all relevant global information in connection to the multinational group and a local report with all information about the operations carried out by the taxpayer.

The Colombian transfer-pricing regime has a catalog of situations where two parties are deemed related. This catalog is complex, and its application requires a detailed case-by-case analysis. Parties domiciled in LNTJ are deemed as related parties for transfer pricing purposes[34].

The sale or exchange of stock or quotas in Colombian companies by foreign holders to a related party located abroad is subject to transfer pricing rules.

Lastly, whenever a Colombian taxpayer transfers functions, assets, or risks to a related party abroad, it is expected to obtain an arm's length remuneration. This provision is based on the OECD report on business restructuring.

As of FY2016, a country-by-country report shall be filed in Colombia by:

a. Colombian taxpayers that are controlling entities of multinational groups of companies; or
b. Entities (resident or non-resident) that have been designated by the controlling entity as responsible for the filing of the country-by-country report; or
c. One or more entities and/or PEs of the same multinational group and having a foreign home office provided that (i) the income generated by these entities and/or PEs corresponds to at least 20% of the total income of the multinational group; (ii) the home office did not file a country-by-country report in its country of residence; and (iii) the total income of the multinational group in the previous year was equal or higher than approx. COP 4,033,719 million (USD 938 million).

31 Colombian Tax Code §142 and 143.
32 Colombian Tax Code §260-2.
33 Colombian Tax Code §260-5 and Decree 3030/2013 §2.
34 Colombian Tax Code §260-1.

The country-by-country report should contain all information relating to the allocation of income and the taxes paid by the multinational group globally. Certain indexes in connection to the economic activity carried out by the multinational group should also be included.

1.11. Certain Exempt Items of Income

Subject to eligibility and compliance by the taxpayer with specific requirements, the following CIT exemptions are available (among others)[35]:

a. A fifteen (15) year exemption on income from power generation activities based on wind, biomass, and agricultural waste technologies[36];
b. Some income derived from the sale of social housing or land for its construction; and
c. Income received by authors and translators, both Colombian and foreign residents in Colombia, for copyright related to scientific or cultural books edited and printed in Colombia.

1.12. Certain Special Tax Frameworks

1.12.1. Performing Arts and Cinema

Performing arts enjoy a series of tax benefits, including the possibility of deducting 100% of the investment made in the necessary infrastructure for the performance[37]. In addition, a special withholding rate and a differential VAT treatment may also apply. An individual basis analysis would be needed to determine the applicability to a specific case.

Regarding the cinema industry, taxpayers who make investments or donations to cinematographic projects approved by the Ministry of Culture can deduct 165% of the amount of the investment or donation[38].

1.12.2. Leasing Tax Treatment

As a general rule, leased assets must be initially accounted for their value, both as an asset and a liability. The lease payments portion allocated to the principal decreases the liability while the portion allocated to interest is a deductible expense. Depreciation and amortization deductions are available, as applicable[39].

The 2016 Tax Reform introduced (i) a definition of financial leasing agreements, including the features of this type of agreement and its tax treatment, and (ii) a definition of operative leasing agreements, with its own tax rules. However, the features listed by the provision as requirements for leasing to be classified as financial leasing for tax purposes do not necessarily match the definition of leasing agreements provided by the Colombian financial rules and commercial regulation.

The 2016 Tax Reform also introduced special accounting recognition rules based on the new accounting frameworks and other particular considerations.

35 Colombian Tax Code §235-2.

36 Taxpayers investing in research and development related to renewable energy projects are eligible for a higher depreciation or amortization deduction.

37 Law 1493/2011 §4.

38 Law 814/2003 §16.

39 Colombian Tax Code §127-1.

1.12.3. Public-Private Partnerships and Concession Agreements

The 2016 Tax Reform introduced a new special tax framework for Public-Private Partnerships and Concession Agreements. This framework aims to arrange a previously existing mismatch between the moment of accrual of the income with the moment in which the taxpayer could deduct the amortization and depreciation expenses. It applies whenever the concession agreement comprises the construction and operation and administration stages.

Whenever a concession agreement is granted only for one of the stages, the new rules are not applicable, and the general rules for the accrual of income, depreciation, and amortization deductions should be applied.

It is important to bear in mind that according to article 408 of the CTC, payments regarding financial returns or interest, made to non-residents, originating in credits or credit securities, for a term equal to or greater than 8 years, destined to the financing of infrastructure projects as Public-Private Partnerships introduced by Law 1508/2012, will be subject to a 5% withholding tax on the value of the payment or credit account.

1.12.4. Regulated Fiduciary Arrangements

Fiduciary Arrangements are subject to a transparent tax regime that states that the beneficiary should report in its CIT return the income, costs, and expenses accrued at the level of the fiduciary arrangement[40]. Formerly, a partial transparency regime was applied, indicating that the beneficiary only had to report in its CIT return the profit or loss accrued at the level of the fiduciary arrangement.

1.12.5. Joint Ventures

The 2016 Tax Reform[41] established a common fiscal treatment for joint venture agreements, applicable to consortium agreements, associations (temporary company unions), other joint ventures, and joint accounts agreements, among others. Under the 2016 Tax Reform, joint venture agreements continue to be regarded as non-taxpayers for CIT purposes and, therefore, as fully transparent from the tax perspective. However, additional formal obligations are established. It is important to highlight that under the 2016 Tax Reform, the parties of the joint venture agreements maintain the obligation to report the joint venture's assets, liabilities, income, costs, and deductions in their CIT returns, according to their participation in the agreement. The parties to the joint venture can decide whether the agreement should keep accounting records.

Commercial relationships between the joint venture and its parties that imply a fixed remuneration for one of the parties should not be considered contributions to the joint venture. The implications of this provision should be carefully reviewed on a case-by-case basis.

1.12.6. Stock Options

The CTC contains special rules on the tax treatment of stock options. This regime applies to (i) stock options, i.e. when shares of a company are offered to employees, and the employee has the right to decide whether to accept the offer or not; and (ii) shares transferred to an employee as part of his labor remuneration.

The applicable provision establishes rules for the accrual of taxable income and the method to calculate the taxable base both for the company offering the stock option or transferring the shares and for the employee receiving either the stock option or the shares.

40 Colombian Tax Code §102 and §271-1.

41 Law 1819/2016 §20.

1.12.7. Adjustments Regarding the Exchange Rate of Foreign Currencies[42]

The fluctuation of the exchange rate of foreign currencies is treated as follows:

a. Income, expenses, costs, assets, and liabilities in foreign currency should be accounted for at the exchange rate on the day of its initial recognition.
b. For tax purposes, exchange differences shall be recognized as income or expense for the fiscal year in which (i) the asset is sold or exchanged, or (ii) the liabilities are liquidated or paid.
c. The taxable income or the deductible costs or expenses correspond to the difference between the exchange rate at the initial recognition and the exchange rate on the day of the payment or accrual.

1.12.8. Colombian Holding Company Regime[43]

The 2019 Tax Reform introduced the Colombian Holding Companies Regime applicable to companies dedicated to (i) investing in securities, (ii) investing in shares of foreign and/or Colombian companies, and/or (iii) the management of such investments. Colombian companies carrying out these activities may opt-in for the CHC Regime, provided that they meet the following requirements:

a. **Minimum Holding Requirement:** The CHC shall have held, directly or indirectly[44], at least a 10% stake in the capital of a minimum 2 foreign or Colombian companies for no less than 12 months.
b. **Minimum Economic Substance Requirement:** The CHC shall have at least 3 employees, an address in Colombia (belonging to the CHC, not to a third party), and shall be able to prove that the strategic decisions in connection with the investments and assets of the CHC are taken in Colombia. Only carrying out the Shareholders' meetings in Colombia is not enough to meet this last requirement.

In the following tables, we summarize the main tax benefits (i) for the shareholders of a CHC, and (ii) for a Colombian company subject to the CHC Regime:

TAX BENEFITS FOR THE SHAREHOLDERS OF THE CHC		
	Colombian Tax Resident	Foreign Tax Resident
CHC distributes dividends to	Taxed in Colombia, with the right to a Foreign Tax Credit on any tax paid abroad by the company that distributed dividends to the CHC.	Exempt from Dividends Tax in Colombia, provided that the income out of which the dividends were distributed (i) is attributable to activities carried out by foreign entities; (ii) is not covered by the Colombian Controlled Foreign Entities Regime; and (iii) the shareholder is neither resident in a non-cooperative jurisdiction nor subject to a preferential tax regime.

42 Colombian Tax Code §288, added by 2016 Tax Reform §123.

43 Colombian Tax Code §894-898; Decree 598/2020.

44 Decree 598/2020 establishes that to determine the percentage of indirect participation of the CHC, it will be necessary to multiply the percentage of direct participation of the CHC in the first level entity in which it has a direct participation, by the percentage of participation in the second level entity in which it has an indirect participation.

Sale of shares of the CHC by	Exempt from Capital Gains Tax and CIT in Colombia, provided that (i) the price received in consideration for the shares is attributable to value created by foreign entities[45]; and (ii) the company from which the CHC is selling the shares does not qualify as a Colombian Controlled Foreign Entity.	Exempt from Capital Gains Tax and CIT in Colombia, provided that (i) the price received in consideration for the shares is attributable to value created by foreign entities; (ii) the company from which the CHC is selling the shares does not qualify as a Colombian Controlled Foreign Entity; and (iii) the shareholder is neither resident in a non-cooperative jurisdiction nor subject to a preferential tax regime.

TAX BENEFITS FOR THE SHAREHOLDERS OF THE CHC		
	Colombian Tax Resident	Foreign Tax Resident
Dividends received by the CHC from	Taxable in Colombia with CIT but not subject to Dividends Tax.	Exempt from CIT in Colombia, provided that the income out of which the dividends were distributed (i) is attributable to activities carried out by foreign entities; and (ii) is not covered by the Colombian Controlled Foreign Entities Regime.
CHC sells its shares in a	Taxable in Colombia, under the Capital Gains Tax or CIT, as applicable, depending on the circumstances.	Exempt from Capital Gains Tax and CIT in Colombia, provided that the income out of which the dividends were distributed (i) is attributable to activities carried out by foreign entities; and (ii) is not covered by the Colombian Controlled Foreign Entities Regime.

1.12.9. Mega Investments

This special regime applied for a term of 20 years to investments made before the entry into force of the 2022 Tax Reform.

The application of the Mega-Investment special tax regime required generating at least 400 direct workplaces and making new investments of at least 30,000,000 UVT (approx. COP 1,493,970 million or USD 350 million).

This regime implied: (i) a reduced CIT rate of 27% (9% for any income derived from hotel services); (ii) a reduced 2-year depreciation term; (iii) exclusion of the obligation to assess the CIT liability using the AMTI method; (iv) that dividend distributions will not levy Dividends Tax if originated in income taxed at the corporate level, and will be taxed at a reduced 27% Dividend Tax rate if the dividends are originated in income that was untaxed at the corporate level; and (v) projects qualified as Mega-Investments were disregarded when assessing the Net-Equity Tax.

Investments related to the evaluation and exploration of non-renewable natural resources were not eligible for this regime.

45 The profits generated as a consequence of activities carried out in Colombia by the CHC are considered as value not created by the foreign entity and is therefore not covered by the Capital Gains Tax/CIT exemption.

1.12.10. Simple Tax Regime

The SIMPLE tax introduced in 2019 seeks to promote the formalization of small and medium taxpayers (individuals or companies)[46]. Taxpayers who opt for this regime would replace the CIT or personal income tax, the local Turnover Tax, and the Consumption Tax with a SIMPLE tax calculated on their gross income. To be eligible for this regime, the taxpayer's gross annual income shall be lower than approx. COP 4,979 million (USD 1,158 million). The SIMPLE Tax establishes fixed rates applicable to the gross income. Such rates vary depending on the economic sector in which the taxpayer operates, which may range between 1.2% and 14.5%.

In addition, taxpayers who opt for the SIMPLE tax must adopt the electronic invoicing system within 2 months following their registration in the RUT.

Any taxpayer in the SIMPLE Regime must engage in a business. According to Decree 1091/2020, which governs the SIMPLE Tax Regime, an individual is deemed to conduct a business when they (i) undertake an economic activity under business freedom and private initiative; and (ii) conduct their economic activity with business criteria, ensuring that the activity does not exhibit elements characteristic of an employment or subordinate relationship.

1.12.11. Special Tax Regime

The STR applies to a group of non-profit entities that execute meritorious activities, such as education, health, culture, science, technology, and innovation, environmental protection, among others. These entities can access income tax benefits and are allowed to receive donations with a direct tax benefit for the donor.

Entities that belong to STR are subject to an income tax rate of 20% on the net profit or surplus determined in a taxable period. Additionally, this profit can be exempt when directly or indirectly allocated to programs that pursue a social purpose in the following years. To qualify for the STR, the entity must ensure that (i) there are no reimbursements and/or distributions under any title, and (ii) no reimbursement and/or distribution of surpluses occurs, either during the existence of the entity or at the time of its dissolution.

1.12.12. Crypto Assets

Colombian tax regulation currently does not provide for a specific regulation applicable to crypto assets. However, the Colombian Tax Authority has referred to the tax treatment appropriate to these types of assets[47], defining them as intangible goods owned by the taxpayer that are susceptible to being valued and generating income. The increase in the price of these assets in the market shall not be considered taxable income until the moment of their transfer[48].

The Tax Authority has also indicated that when virtual wallets are managed by intermediaries, the principals and owners of the crypto assets are obliged to report and declare the income obtained in proportion to their participation in the respective shared wallets. In contrast, the agents will only be taxed on their income for the intermediation activity performed[49].

46 Colombian Tax Code §903-§916, added by Law 2010/2019 §74.

47 Through Opinion 915014 of 14/10/2022, the Colombian Tax Authority compiled the current doctrine on this subject.

48 DIAN, Opinion 1621 of 17/10/2023.

49 DIAN, Opinion 014244 of 05/06/2019.

1.13. Tax Loss Carry-Forward

The tax loss carry-forward against the taxpayer's NTI introduced in Colombia in 2007[50] for CIT purposes was limited by the 2016 Tax Reform to the 12 fiscal years following the year in which the tax loss is accrued. A transitory regime was introduced in 2016, according to which tax losses generated before January 1, 2017, continue to be subject to the previous regime.

The tax loss must arise from a commonly taxable income-producing activity under the regular income taxation rules. Should the tax loss lack such nexus, i.e. be related to a non-taxable or exempt income-producing activity, the tax loss carry-forward would not be available. The credited amount cannot be greater than the taxpayer's NTI on the year the carry-forward is credited, i.e., a tax loss carry-forward cannot generate a further tax loss. Carry-back is not available.

Except for reorganizations, tax losses are neither transferrable to share or quota holders nor other taxpayers.

In the case of tax-free mergers and spin-offs, the abovementioned general limitations continue to apply. Nonetheless, in these cases, only a part (not all) of the tax losses is transferable to the beneficiary entity (i.e. only the part proportionally corresponding to the participation of the beneficiary entities in the net worth of the new, surviving, or resulting entities should be deductible). To qualify for the tax loss transfer under reorganization tax rules, the corporate purpose of the merging/dividing entity should be the same as that of the beneficiary entity.[51] The tax loss expiration term (when applicable) is not renewed by a reorganization event.

Colombian tax law limits (or, in some cases, sets special conditions) the assessment and deduction of tax losses other than net operating losses. We list some of these cases:

1. Loss generated by acts of good damaging taxpayer's assets;
2. Loss generated in the sale of fixed assets;
3. Loss generated in the sale of assets (fixed or current) between related parties or a corporation and its shareholders – not deductible; and
4. Losses in the sale of shares- not deductible.

Public utility companies that are subject to intervention processes by the Superintendence of Public Services and, as part of this process, create new companies whose purpose is the preservation and continuity of the public service provision may grant these new companies the right to compensate the balance of tax losses that the intervened company would not have compensated in previous fiscal periods. Consequently, the new companies may compensate, against their NTI obtained in the fiscal period of the contribution or the following fiscal periods, the tax losses that would have been transferred to them by the intervened company without considering the general 12-year carry-forward time limitation.

1.14. Statutory Foreign Tax Credit

Individuals and legal entities that are Colombian tax residents and are obliged to pay income tax abroad regarding their foreign source income have the right to an FTC. Under the FTC, the tax paid abroad can be credited against the CIT, provided that the amount to be credited does not exceed the CIT liability in Colombia.

50 Colombian Tax Code §147.

51 Colombian Tax Code §147.

If specific requirements are met, the income tax paid abroad may be credited in the taxable year in which the payment was made or carried forward in any of the following taxable periods[52].

Certain conditions need to be met for a taxpayer to benefit from the foreign indirect tax credit (i.e. shares that do not grant voting rights cannot benefit from the credit, and a minimum 2-year holding period is required).

1.15. Income Tax Treaties

Colombia's belated development of a network of OECD-like treaties has led to the execution of income tax treaties with the United Kingdom, Spain, Chile, Switzerland, Canada, Mexico, India, Italy, Czech Republic, South Korea, Portugal, France, the United Arab Emirates, Luxembourg, Japan, Uruguay, the Netherlands, and Brazil. However, the treaties with Luxembourg, Uruguay, the Netherlands, the United Arab Emirates, and Brazil are not enforceable yet. In addition, Colombia is a signatory of the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting ("BEPS") since June 7th, 2017. Nevertheless, the legal procedures required in Colombia for the Multilateral Convention to come into force have not yet been completed.

Colombia is also a member of the Andean Pact. Therefore, it benefits from the Andean Pact Tax Directive 578 to avoid double income taxation, enacted in 2004. This Tax Directive provides exclusive source taxation among member countries (Colombia, Peru, Ecuador, and Bolivia) with isolated exceptions. Unlike OECD-like treaties (which benefit residence taxation), Directive 578/2014 privileges taxation in favor of the country where the income is sourced.

Additionally, Colombia currently has limited scope income tax treaties to avoid double taxation on sea and air transportation activities with Argentina, Brazil, France (air), Germany, Italy, Panama (air), Chile, the United States of America, and Venezuela.

Lastly, it is worth noting that besides the treaties to avoid double taxation on income and capital, Colombia has also signed information exchange tax treaties with the United Arab Emirates, Barbados, and the United States of America. Furthermore, Colombia is an early adopter of the OECD Multilateral Convention on Mutual Administrative Assistance in Tax Matters. Therefore, Colombia will be exchanging tax information under the Common Reporting Standard ("CRS") with over 90 jurisdictions.

1.16. Consolidated Group Taxation

Colombian Tax Law does not provide for a consolidated group taxation mechanism.

1.17. Tax-Free Reorganizations

The Colombian Tax Code delineates precise anti-avoidance regulations designed to counteract M&A transfer strategies leading to the acquisition of corporate assets and businesses in Colombia. These strategies, capitalizing on erstwhile statutory loopholes, allowed entities to evade local taxation.

1.17.1. Tax-Free Capital Contributions of Property

Unless otherwise provided by the Tax Code, property transfers to Colombian companies as capital contributions are deemed tax-free, as long as the transferor and transferee corporation comply with the applicable (mostly formal) requirements. Therefore, the stock received by the transferor will inherit

52 Colombian Tax Code §254, modified by Law 2010/2019 §93.

the tax cost of the transferred property, while the transferee corporation retains the same tax cost in the property that the transferor had[53].

All capital contributions of property, including stock, where the transferor is a Colombian national individual or entity and the transferee corporation is an offshore entity (a) will be deemed as taxable without exception, and (b) must observe transfer pricing rules, regardless of (i) the existence of a related-party relationship between transferor and transferee and (ii) the value attributed to the contributed property[54].

1.17.2. Tax-Free Statutory Mergers and Spin-Offs Restricted

To prevent the use of statutory mergers and spin-offs as a means of achieving tax-free status for certain acquisitions of corporate assets and businesses in Colombia, there are certain statutory requirements for these types of reorganizations to qualify for tax-free treatment. To achieve the tax-free treatment, the applicable rules provide for a tax cost rollover concerning both the transferred assets and the new shares issued to the shareholders.

These requirements are based on a continuity of interest ("COI") and continuity of business enterprise ("COBE"), in the absence of which the reorganization will not qualify for tax-free treatment.

In addition to adopting COI and COBE requirements, the Tax Code differentiates acquisitional mergers and spin-offs[55] from organizational mergers and spin-offs[56]. For acquisitional mergers and spin-offs, the participating entities are not considered related parties under Colombian regulations, while in the latter, the participating entities are deemed related parties. Stricter COI and COBE requirements are adopted for organizational mergers and divisions.

In a reorganization between foreign entities, the transfer of assets located in Colombia is taxable in this jurisdiction, unless the abovementioned assets transferred as a result of the reorganization represent 20% or less of the worldwide combined assets of the participating entities. In the latter case, the resulting transfer of the Colombian assets could be eligible for tax-free treatment observing the COI and COBE requirements and related rules, as discussed above[57].

Lastly, it is important to highlight that, for tax purposes, Colombian rules provide for joint and several liability of the entities participating in reorganizations[58].

1.18. Indirect Sales

The 2019 Tax Reform introduced a special anti-abuse provision aimed at taxing in Colombia indirect sales of shares and assets located in Colombia.

Under the previous regime, indirect sales of shares of Colombian companies and assets located in Colombia via the sale of shares in a foreign holding company were not taxable events in Colombia. This was because, under the previous regulation, the sale of shares of foreign companies generated foreign source income, even if all the assets owned by the foreign company whose shares were sold were located in Colombia.

53 Colo mbian Tax Code §319.
54 Colombian Tax Code §319-2.
55 Colombian Tax Code §319-3 and 319-4.
56 Colombian Tax Code §319-5 and 319-6.
57 Colombian Tax Code §319-8.
58 Colombian Tax Code §319-9.

Under the 2019 Tax Reform, the indirect sale of shares in companies, rights, or assets located in Colombia, through the disposal, at any title, of shares, participations, or rights in foreign entities, is taxed in Colombia as if the sale of the underlying asset had been made directly. Accordingly, the tax cost applicable to the underlying asset and the tax treatment and conditions will follow the status held by the underlying asset holder, as if it had been disposed of directly in the country. The sale price or disposal value must correspond to its market value. When a subsequent indirect transfer is made, the tax cost will be the value proportionally paid for the shares, participations, or rights in the foreign entity that owns the underlying assets located in Colombia.[59]

Exceptions to this anti-abuse provision comprise (i) the sale of shares in foreign companies listed in a recognized stock exchange (provided that no more than 20% of such shares are owned by the same real beneficiary) and (ii) cases in which the underlying assets located in Colombia represent 20% or less of the book and market value of the total assets owned by the alienated entity.

Decree 1103/2020, which regulates the Indirect Sales Regime, determines that the tax cost for indirect sales will be that of the owner of the underlying asset. To determine the tax cost when the entire entity that owns the underlying asset is not sold and/or the entire underlying asset is not sold, the following rule applies: (i) the percentage of the entity subject to sale will be multiplied by the percentage of the underlying Colombian assets the abovementioned entity owns; (ii) the result obtained will be multiplied by the tax cost of the underlying asset that will be indirectly disposed of or sold.

Additionally, when the indirect transferor of the underlying asset is a resident of a country with which Colombia has signed a DTT that is in force, the provisions of the DTT will prevail in determining the tax obligations arising from the indirect transfer.

1.19. Controlled Foreign Entities Regime

The Controlled Foreign Entities rules ("CFE rules") introduced in 2016[60] apply to Colombian tax resident individuals and companies subject to income tax in Colombia that directly or indirectly control a foreign entity and hold participation equal to or higher than 10%.

CFEs are defined as investment vehicles (such as corporations, regulated fiduciary arrangements, trusts, mutual funds, and other types of trusts) and business and private interest foundations that are incorporated or domiciled abroad, regardless of whether they have legal personality and/or whether they are transparent for tax purposes.

A CFE is deemed controlled by one or more Colombian residents when any of the following criteria are met:

a. The CFE is subordinated to a Colombian resident according to §260-1 of the CTC;
b. The CFE is a related party of one or various Colombian residents according to §260-1 of the CTC; and
c. The CFE is domiciled in a non-cooperative jurisdiction (tax haven).

The CFE cannot be a tax resident in Colombia. Income, costs, and deductions relating to passive income obtained by the CFE are deemed accrued at the level of the Colombian residents that directly or indirectly control the CFE, in the same taxable year in which such income, costs, and deductions are accrued in the CFE. Therefore, the tax recognition of income, costs, and deductions should be made in

59 Colombian Tax Code §90-3.
60 Colombian Tax Code §882-893.

proportion to the participation held by each Colombian resident in the CFE. However, it is important to highlight that the applicable provisions explicitly forbid the use by the controlling Colombian tax resident of any tax losses accrued at the level of the CFE.

Passive income comprises:

a. Dividends or any other form of distribution, except for profits that have their origin in real economic activities carried out by the CFE or its subsidiaries. This rule shall be carefully considered on a case-by-case basis;
b. Proceeds, except those obtained by either a CFE controlled by a company that is subject to "surveillance" from the Colombian Superintendence of Finance, or a foreign financial institution, not domiciled in a non-cooperative jurisdiction;
c. Royaltie;
d. Income from the alienation of the CFE's participation in a passive-income-producing entity;
e. Income derived from alienation or rental of immovable property;
f. Income from the trade of goods that are (i) acquired from, on behalf or for a related party; (ii) produced, manufactured, built, farmed, or extracted in a jurisdiction different from that of residence of the CFE; and (iii) consumed, used, or disposed of in a jurisdiction different from that where the CFE is located; and
g. Income from intercompany services (technical assistance and technical, management, engineering, architectonic, scientific, qualified, industrial, or commercial services) rendered for or on behalf of a related company in a jurisdiction different from that of the CFE.

This regime does not apply to profits from active income. However, all revenues, costs, and deductions of the CFE are presumed to give rise to passive income when passive income represents 80% or more of the total revenues of the CFE. Likewise, since FY2019, all revenues, costs, and deductions of the CFE are presumed to give rise to active income when active income represents 80% or more of the total revenues of the CFE.

The fact that (i) income from trading and the provision of services is deemed passive income, and (ii) entities controlled by Colombian tax residents are deemed CFEs, regardless of whether they are subject to a low or high level of taxation in their tax residence, is rare and implies the need to review the impact of this regime on a case-by-case basis for taxpayers with operations abroad.

1.20. Significant Economic Presence

The 2022 Tax Reform introduced the concept of SEP to tax the profits of foreign companies that do not have a physical presence in Colombia but own some business connection with the country due to their digital existence or interaction with the Colombian market[61].

As of January 1, 2024, foreign companies have a SEP when they meet the following requirements:

a. Maintain a deliberate and systematic interaction with users or clients located in Colombia. This requirement is presumed if the foreign company displays prices in COP or allows payments in COP and interacts with more than 300,000 Colombian users during the fiscal year; and
b. Obtain gross income equal to or greater than approx. COP 1,550 million (USD 368,000).

61 Colombian Tax Code §882-893.

Providers of mobile applications, electronic books, online services on intermediation platforms, and digital subscriptions to audiovisual media, among other services, are also subject to the tax if they meet these requirements.

Foreign companies with a SEP in Colombia may opt-in for filing and paying income tax at a 3% rate of the gross income derived from the sale of goods and/or provision of digital services from abroad, sold or rendered to users in Colombia, or a 10% withholding tax on the total payment amount[62].

1.21. Disclosure of the Ultimate Beneficial Ownership

The 2021 Tax Reform unified the definition of ultimate beneficial owners based on international exchange of information standards and created a Unique Register of Ultimate Beneficial Owners ("RUB") and the Identification System for Non-Incorporated Entity Structures ("SIESPJ").

An ultimate beneficial owner is an individual who owns or controls, directly or indirectly, a legal entity or other non-legal entity structure. It also includes the individual(s) who exercise effective and/or ultimate control, directly or indirectly, over a legal entity or other non-legal entity structure[63].

To implement and keep the RUB and the SIESPJ updated, the following individuals and entities are obliged to provide information related to the beneficial owners:

a. For-profit or non-profit national companies and entities, including those registered or listed on one or more stock exchanges;
b. Permanent establishments;
c. Non-legal entity structures that (i) are incorporated or managed in Colombia, (ii) are governed by Colombian law, and (iii) their trustee or equivalent is a Colombian tax resident; and
d. Foreign legal entities that own investments in Colombia, when such investments were not made through legal entities, permanent establishments, and/or non-legal entity structures or similar obliged to provide information in the RUB[64].

The following criteria must be considered to determine the ultimate beneficial owners of a legal entity:

a. An individual who, acting individually or jointly, holds, directly or indirectly, five percent (5%) or more of the capital or voting rights of the legal entity and/or benefits from five percent (5%) or more of the assets, yields or profits of the legal entity; and,
b. An individual who, acting individually or jointly, controls the legal entity, by any means other than those outlined in section (a); or,
c. When no individual is identified in the terms of sections (a) or (b), the legal representative will be considered the ultimate beneficial owner unless there is another individual who holds greater authority concerning the management or direction functions of the legal entity.

According to the relevant provisions, the ultimate beneficial owner of a non-legal entity structure or a similar structure are the individuals who hold the status of:

a. Trustor(s), settlor(s), constituent(s), or similar or equivalent position;
b. Trustee(s) or similar or equivalent position;

62 Colombian Tax Code §408.
63 DIAN, Resolution 164 of 27/12/2021 regulates §631-5 - §631-6 of the CTC.
64 DIAN, Resolution 37 of 17/03/22.

c. Fiduciary committee, finance committee, or similar position or equivalent;
d. Trustee(s), beneficiary(ies), or conditional beneficiary(ies); and
e. Any other individual exercising effective and/or ultimate control over the non-incorporated entity structure or having the right to enjoy and/or dispose of the assets, benefits, results, or profits.

When individuals, legal entities, non-legal entity structures, or similar entities fail to provide information and/or provide false information to the obligated party responsible for supplying information to the RUB, they may be subject to fines and civil and/or criminal sanctions under Colombian law.

1.22. General Anti-Avoidance Rule[65]

Colombia adopted a GAAR in 2012. In the past, the Colombian Tax Authority attempted to challenge tax-abusive transactions based on the constitutional principle of substance over form and based on general law abuse considerations.

The above-mentioned initial GAAR was modified by the 2016 Tax Reform and currently states that tax abuse comprises the use or implementation of one or more contrived acts or legal transactions, without an apparent economic or commercial purpose, to obtain a tax benefit, which is defined as the alteration, disfigurement or modification of the tax effects, for instance, the elimination, reduction, or deferral of a tax due, or increasing the balances or tax losses, or the extension of tax benefits and/or exemptions.

This GAAR introduces the following non-exhaustive list of cases in which a business is deemed to lack commercial or economic purpose:

a. The legal act or transaction is executed in a manner that, in economic and/or commercial terms, is unreasonable;
b. The legal act or transaction results in a higher tax benefit that is disproportionate to the economic or business risks assumed by the taxpayer; or
c. An apparently correct act or business hides the true and real intention of the parties.

The Tax Authority always bears the burden of proof. Additionally, the 2016 Tax Reform established a new administrative procedure for these cases and an increased inaccuracy penalty of 160%[66].

The Tax Authority could (i) re-characterize or reconfigure every transaction or series of transactions that are deemed abusive for tax purposes, as well as disregard their effects to prove the reality of the transaction; and (ii) pierce the corporate veil from the companies or entities that were part of the transaction(s) considered abusive.

The 2019 Tax Reform established that those involved in transactions with evasion or tax abuse purposes are jointly and severally liable for any tax, interest, or penalties that the Tax Administration had not collected. Likewise, those who custody, administrate, or manage assets in funds or vehicles used by their owners for purposes of tax evasion or abuse are jointly and severally liable for the sums that the Tax Authority had not collected.

65 Colombian Tax Code §869.

66 The general inaccuracy penalty is 100% of the officially added tax liability in accordance with Colombian Tax Code §648.

1.23. Filing and Payment

The taxpayer must file the income tax return and pay the corresponding tax liability on the year immediately succeeding the fiscal year for which the return was prepared. The filing and payment schedule contains specific deadlines that vary depending on the last number of the taxpayer's Tax Identification Number.

For FY2024[67], all entities including corporations must file their income tax return by May 2025. The taxpayer can pay the Income Tax Charge in two (2) 50% installments: the first installment on the filing date, and the second installment in July 2025, observing the yearly payment schedule issued by the tax authority[68].

The tax authorities issue special filing and payment schedules for certain companies on the list of "grand income taxpayers". For FY2024, all "grand income taxpayers" must file their returns in April 2025. "Grand income taxpayers" benefit from a three (3) installment payment facility. For FY2024, these installments are due in February, April, and June 2025[69].

1.23.1. Foreign Held Assets Return

Taxpayers who are subject to income tax in Colombia on their worldwide income and hold assets abroad should yearly file a special return disclosing such assets.[70]

1.23.2. Statute Of Limitations

The general statute of limitations is a 3-year term. A special 5-year term applies for income tax returns of taxpayers obliged to comply with the transfer-pricing regime[71]. Before the 2016 Tax Reform, with only a few exceptions, the Colombian Tax Authority had a 2-year term to audit tax returns.

The statute of limitations for tax returns that report tax losses or carry them forward is 5 years. However, this term will be extended for 3 additional years if the taxpayer offsets the tax losses during the last two years of the initial 5-year term. It is important to highlight that under an alternative interpretation, which might be defended by the Tax Authority, the statute of limitations for returns in which tax losses are reported could be 12 years. This new rule lacks clarity and is extremely complex, and could, therefore, be construed in different ways.

1.23.3. Non-Payment And Lateness Penalties

Unpaid taxes are subject to daily interest at the highest legally accepted rate certified by the Financial Regulatory Agency. The 2012 Tax Reform changed the interest calculation from a composed interest to a simplified one[72].

Depending on the facts and circumstances of each case, other penalties apply, e.g., for non-filing, late filing, or inaccurate filing, which may range from 5% up to 100%[73] of the corresponding tax liability[74]. However, the general inaccuracy penalty is 100% of the officially added tax liability[75].

67 Decree 2229/2023.
68 Decree 1625/2016 §1.6.1.13.2.12.
69 Decree 1625/2016 §1.6.1.13.2.11.
70 Colombian Tax Code §607.
71 Colombian Tax Code §714.
72 Colombian Tax Code §634 and 635.
73 The highest 200% rate is applicable for unreported foreign held assets, as of January 1st, 2018.
74 Colombian Tax Code §641 to §650.
75 Colombian Tax Code §648.

1.24. Tax Evasion as a Criminal Offence

1.24.1. Criminal Offence for Omitting Assets or Reporting Non-Existent Liabilities[76]

The regulation establishes a criminal penalty for taxpayers that affect their income tax due or their reported income tax balance by (i) omitting assets or filing inaccurate information regarding their assets; or (ii) reporting non-existent liabilities or filing inaccurate information regarding their liabilities. The omitted assets or non-existent liabilities should be equal to or higher than 1,000 minimum wages (approx. COP1,420 million or USD 335,000). The penalty comprises imprisonment from 48 to 108 months.

If the tax value of the omitted assets, or the lower value of the declared assets or the non-existent liabilities is greater than 2,500 minimum wages (approx. COP 3,550 million or USD 840,500) but less than 5,000 minimum wages (approx. COP 7,117 million or USD 1.6 million), the penalty will be increased by 1/3. In events that exceed 5,000 minimum wages, the penalty will be increased by 1/2.

The criminal liability may be extinguished when the taxpayer pays the taxes due plus applicable penalties and the corresponding interest if it is the first or second transgression of the individual. The commission of the criminal offence on a third occasion will only entitle the reduction of the penalty up to half, in which case, the criminal offence would not be extinguished, and the principle of opportunity would not be applicable[77].

The criminal prosecution may be initiated by special request of the Director General of the National Tax Authority or its delegate as long as the administrative process is concluded, or when there is no reasonable interpretation of applicable law, provided that the facts and figures filed by the taxpayer are complete and true.

1.24.2. Criminal Offense for Not Paying Withholdings, VAT, or Consumption Tax[78]

Formerly there was a criminal offense referring only to taxpayers who, having collected taxes through withholdings, did not pay them to the Tax Authority. This provision continues to apply but was broadened to comprise taxpayers who must collect and pay the Tax Service VAT or Consumption Tax and fail to do so.

The penalty comprises (i) imprisonment from 48 to 108 months and (ii) double the amount of the unpaid tax. The criminal liability would be extinguished when the taxpayer files or corrects the tax return and pays the tax due plus applicable penalties and interests.

It is important to highlight that the regulation states that if an entity commits that criminal offence, the individuals in charge of fulfilling the tax obligations of the entity would be held liable.

1.24.3. Tax Fraud[79]

The 2019 Reform established a new criminal offence applicable to (i) the non-filing of any tax return, (ii) the lack of report of income or the report of inexistent costs or expenses in any tax return, and/or (iii) the claim of non-applicable tax credits, withholding taxes or pre-paid taxes.

This criminal offence is applicable if the tax authorities determine a higher tax due in an amount equal to or exceeding 100 minimum wages (approx. COP 140 million or USD 33,500).

76 Colombian Criminal Code §434A.

77 Principle of opportunity is regulated through Law 1316/2009. It is a Colombian constitutional principle that allows for the public prosecution to suspend, interrupt, or stop prosecuting offences due to criminal policy considerations and according to the specific grounds set forth by applicable law.

78 Colombian Criminal Code §402.

79 Colombian Criminal Code §434B.

The penalty comprises imprisonment from 36 to 60 months. This penalty can increase by 1/3 or 1/2 depending on the amount of the offence.

The criminal liability may be extinguished when the taxpayer pays the taxes due plus applicable penalties and interest if it is the first or second transgression of the individual. The commission of the criminal offence on a third occasion will only entitle the reduction of the penalty up to half, in which case, the criminal offence would not be extinguished, and the principle of opportunity would not be applicable.

The criminal prosecution may be initiated by special request of the Director of Tax Authority or its delegate, as long as the administrative process is concluded, or when there is no reasonable interpretation of the applicable law, provided that the facts and figures declared by the taxpayer are complete and true.

2. Dividends Tax / Branch Profits Tax

For three decades, Colombia did not tax dividend distributions, provided that the distributed profits had previously been taxed at the level of the distributing entity. However, the 2016 Tax Reform modified this system by taxing both the distributing company and the shareholder receiving the distributed dividends, as explained below.

2.1. Definition of Dividend

Dividends comprise any distribution of profits, in cash or in kind, made by a company to its shareholders. The transfer of profits from permanent establishments in favor of their home office is considered dividend distribution[80].

Distributions corresponding to paid-in capital or share premiums paid in by the distribution beneficiary are not deemed dividends and are, therefore, not taxable.

2.2. Rates[81]

BENEFICIARY	PROFITS TAXED AT THE CORPORATE LEVEL	PROFITS UNTAXED AT THE CORPORATE LEVEL
Colombian companies	10%	41,5%
Resident individuals[82]	0% to 20% (depending on income)	35% to 48% (depending on income)
Foreign companies	20%	48%
Non-resident individuals	20%	48%
Permanent Establishments (including branches)	20%	48%

80 Colombian Tax Code §30.

81 Colombian Tax Code §242-245.

82 Dividends distributed to resident individuals shall be subject to taxation at a rate between 0% to 39% with a 19% tax credit, according to §241 and §254-1 of Colombian Tax Code.

It is worth highlighting that:

a. Dividends paid out of profits that were not taxed at the corporate level are subject to additional withholding after the general CIT withholding is applied. This provision should be carefully reviewed under the DTTs that have been executed by Colombia, particularly considering that many of these provide for a 0% withholding on dividends;
b. Dividends received by a Colombian Company would be taxed only on the first distribution and the tax credit can be carried forward up to the last beneficiary of the dividends (individual or foreign investor). Dividend distributions to CHCs or within groups of companies duly registered with the Chamber of Commerce are not subject to this dividend tax withholding; and
c. Distributions of profits generated before December 31, 2016, will be subject to the previous regime, even if distributed in 2017 or thereafter.

3. Capital Gains

The general statutory long-term (2-year holding period required) capital gains tax rate for the sale or exchange of property, including stock in Colombian corporations, is 15%[83]. Short-term capital gains are treated as regular income and are subject to the standard income tax rates.

The taxable base for the capital gains tax is the result of the amount realized, minus the taxpayer's adjusted tax basis on the asset, and increased by any recaptured depreciation, amortization, or deductions, as applicable. Capital gains can only be offset with capital gains losses.

Except in specific cases, the taxpayer's capital gains tax must be assessed, reported, and paid along with the taxpayer's regular yearly income tax return.

The Tax Authority can challenge, through an audit, the amount that the taxpayer reported as realized in the sale or exchange of assets. Such an audit is authorized by law only when there is evidence that the taxpayer breached certain statutory pricing thresholds that use criteria such as (i) the asset's fair market value; (ii) the greater of its cadastral appraisal or the owner's self-appraisal in the case of real estate; and (iii) 130% of the "intrinsic" value in the case of stock or quotas[84].

For intangibles, the 2016 Tax Reform introduced new rules to assess capital gains in their sale or exchange, depending on whether the intangible is formed or acquired, among others[85].

Special thresholds and valuation methods apply if the operation takes place between a Colombian taxpayer and a foreign-related party (see §1.10).

4. Withholding Tax on Cross-Border Payments

When Colombian source income is remitted abroad to a non-resident individual or entity beneficiary, the payment should be subject to a withholding tax.

83 Colombian Tax Code §300 and §313.
84 Colombian Tax Code §90.
85 Colombian Tax Code §74 and §75.

4.1. Dividends

As explained in §2 above, a withholding tax on cross-border payments of dividends/branch profits applies at the following rates for FY2025: 20% or 48%.

If the corresponding profits were already taxed at the corporate level, a 20% withholding tax applies; otherwise, a 48% withholding tax would apply to all non-resident entities/individuals. In the case of PEs of foreign companies, the same withholding rates would be applicable on distributions of profits to the home office[86].

4.2. Royalties

Outbound royalty payments are subject to a 20% withholding tax[87].

As a consequence of the 2016 Tax Reform, royalties are not deductible when paid (i) to foreign related parties or related parties operating in a Free Trade Zone, with regards to intangible goods formed in Colombia; and (ii) for the acquisition of finished products.

4.3. Technical Services, Technical Assistance, Consulting, and Management Services

Outbound payments for technical services, technical assistance, and consultancy services provided by non-residents, either in Colombia or abroad, are subject to a 20% withholding tax[88].

Cross-border payments to the home office of management fees are subject to a 33% withholding tax, regardless of whether they are deemed to generate Colombian income or not.

4.4. Other Services

Other services, different from technical services, technical assistance, and consultancy services, if rendered abroad, are not subject to withholding tax[89]. Consequently, if provided in Colombia, a 20% withholding tax applies unless otherwise provided by special rules.

4.5. Interest and Leasing Payments

According to the 2019 Tax Reform, except otherwise provided by applicable regulations, cross-border interest payments on credit facilities will be subject to a 15% withholding tax if the term of the agreement is longer than a year, and to a 20% withholding tax otherwise. Only a few exceptions are applicable, as (i) payments made in consideration for leased equipment (i.e. provided that the equipment is a vessel, helicopter, or an airplane), cases in which the reduced applicable withholding tax rate is 1%, and (ii) financial returns from the funding of Public-Private Partnerships, which are subject to a 5% withholding, as further explained in §4.6. below.

86 Colombian Tax Code §407.
87 Colombian Tax Code §408.
88 Colombian Tax Code §408.
89 Colombian Tax Code §418.

4.6. Financial Returns of Public-Private Partnerships Funding

A special 5% withholding tax rate applies on cross-border payments of interest and other financial returns in connection to loans granted to fund infrastructure projects under a Public-Private Partnership structure, which are granted for an 8-yr. term or longer. It is worth highlighting that the general withholding tax rate on cross-border payments of financial returns is 15% or 20%, depending on the case (see §4.5. above)[90].

4.7. Capital Contributions Repatriation

For the foreign share or quota holders, reimbursements of capital contributions not corresponding to dividend or profit distributions are non-taxable items of income. Therefore, no withholding tax should apply.

4.8. Tax Havens (Non-Cooperative Jurisdictions)

Payments made to a tax haven beneficiary corresponding to items of income deemed from a Colombian source are subject to withholding tax at a 35% rate for FY2025[91]. Otherwise, the corresponding deduction will not be allowed. This higher withholding tax rate should not apply to certain payments related to financial operations duly registered before the Central Bank, provided that they meet the criteria set forth by applicable law to be deemed as income from a foreign source[92].

Colombian transfer pricing regulations apply to all the transactions involving a person or entity located, resident, or domiciled in a tax haven, regardless of whether between related or unrelated parties. Whenever a Colombian taxpayer has operations of that kind exceeding certain thresholds, it must keep and file with the Tax Authority supporting documentation and a transfer pricing study[93].

In October 2013, the Government established a list (updated in October 2014) indicating what countries are considered tax havens for Colombian tax purposes[94]. The 2016 Tax Reform replaced the concept of tax havens with the concept of "non-cooperative jurisdictions, with no or low imposition and preferential tax regimes".

In 2024, several countries were excluded from the list of non-cooperative jurisdictions[95], including Antigua and Barbuda, Brunei Darussalam, Grenada, Hong Kong, Cook Islands, Dominica, Mauritius, Seychelles, Lebanon, St. Kitts & Nevis, St. Vincent and the Grenadines, and Saint Lucia. These exclusions were based on the new criteria set forth by Colombian tax law and aligned with international standards of transparency and information exchange.

90 Colombian Tax Code §408.

91 Colombian Tax Code §408.

92 Colombian Tax Code §124-2.

93 Colombian Tax Code §260-7.

94 Antigua and Barbuda, Svalbard Archipelago, Collectivity of Saint Pierre and Miquelon, State of Brunei Darussalam, State of Kuwait, State of Qatar, State of Western Samoa, Grenada, Hong Kong, Qeshm Island, Cook Islands, Henderson, Ducie, and Oeno Islands, Solomon Islands, Labuan, Macao, Commonwealth of Dominica, Commonwealth of The Bahamas, Kingdom of Bahrain, Hashemite Kingdom of Jordan, Cooperative Republic of Guyana, Republic of Angola, Republic of Cape Verde, Republic of the Marshall Islands, Republic of Liberia, Republic of Maldives, Republic of Mauritius, Republic of Nauru, Republic of Seychelles, Republic of Trinidad and Tobago, Republic of Vanuatu, Republic of Yemen, Lebanese Republic, Saint Kitts and Nevis, Saint Vincent and the Grenadines, Saint Helena, Ascension, and Tristan da Cunha, Saint Lucia and Sultanate of Oman. Decree 2095/2014.

95 Decree 1496/2024.

The Government may continue to define which jurisdictions are non-cooperative (previously "tax havens") according to the following criteria: (i) absence of imposition or low imposition in contrast to that applicable in Colombia for similar operations; (ii) lack of effective information exchange; (iii) absence of transparency at a legal or regulatory level; (iv) absence of a requirement of either a substantive presence, or the exercise of a real activity which has economic substance; and, (v) other criteria internationally accepted for the identification of non-cooperative jurisdictions. Not all of the criteria need to be met; meeting only one criterion could be enough for a jurisdiction to be classified as non-cooperative[96].

On the other hand, the taxpayer will have to identify the preferential regimes. For that purpose, the relevant provision of the 2016 Tax Reform states that preferential regimes are those that meet at least 2 out of the following 5 criteria: (i) absence of imposition or low imposition in contrast to that applicable in Colombia for similar operations; (ii) lack of effective information exchange; (iii) absence of transparency at a legal or regulatory level; (iv) the absence of a requirement of either a substantial presence or the exercise of a real activity which has economic substance; and (v) the fact that the regime is available only for non-residents (ring-fencing). Notwithstanding the above, the Government could issue a list of preferential regimes based on the aforementioned criteria and any other internationally accepted criteria.

To determine whether tax havens' regulation is applicable in a certain case, the individual facts and circumstances should be carefully considered.

4.9. Capital Gains

Long-term capital gains are subject to a 10% withholding tax. Considering that the withholding is performed on the gross payment, while the tax is assessed on a net basis, the taxpayer could have a balance, which can only be recovered by claiming it back from the Tax Authority[97].

5. Value-Added Tax

5.1. Tax Rates

VAT's general rate is 19%[98]. A reduced 5% rate applies for certain goods and services[99].

5.2. Taxable Transactions

The sale and importation of movable tangible property, the sale and licensing of intangible assets associated with the industrial property (such as trademarks, industrial designs, and patents for inventions, among others), as well as the provision of services in Colombia or from abroad, are subject to VAT. As a general rule, the sale of fixed assets is not subject to VAT[100]. Certain public entities at the national and local territorial levels are not subject to VAT[101].

96 Colombian Tax Code §260-7.
97 Colombian Tax Code §415.
98 Colombian Tax Code §468.
99 Colombian Tax Code §468-1 and §468-3.
100 Colombian Tax Code §420.
101 Law 21/1992 §100 and Law 30/1992 §92.

In most cases of services provided to a Colombian party from abroad, a reverse charge applies. Thus, the Colombian party is obliged to perform VAT backup withholdings and directly pay 100% of the accrued VAT to the tax authorities[102]. Nonetheless, the foreign service provider may be subject to VAT registration and filing obligations whenever the Colombian beneficiary of the services is not obliged to perform the reverse charge[103].

Certain goods and services are exempted ("zero-rated")[104] or not taxable with VAT ("excluded")[105]. In the case of excluded goods and services, any input VAT paid by the taxpayer to its goods and services suppliers has to be capitalized as part of the cost of the excluded goods sold. In the case of zero-rated goods and services, any input VAT paid by the taxpayer to its goods and services suppliers generates a VAT credit[106] (see §5.4. below). In certain cases, VAT credits from zero-rated transactions may result in a refundable VAT balance. Exports are VAT exempt (exempt with credit).

The lists of zero-rated and excluded goods are extensive and should be reviewed in detail on a case-by-case basis.

5.2.1. Digital Services

The 2016 Tax Reform established a presumption under which any service rendered abroad but with a beneficiary located and resident in Colombia is deemed as a service rendered inbound and, therefore, is subject to VAT unless otherwise provided[107]. This presumption impacts especially electronic services rendered to Colombian beneficiaries through software, mobile applications, and satellite broadcasting, among others.

Foreign service providers may voluntarily elect to be subject to VAT withholdings on all payments received through Colombian credit cards or debit cards issuers, and/or Colombian sellers of gift cards or prepaid cards for such services, and/or any other Colombian entity or person designated by the Tax Authority that receives payments on behalf of such foreign service renderers.

Foreign service providers who elect the abovementioned withholding system must file the corresponding returns and pay the VAT due until the withholding agents begin to practice the VAT withholdings.

Under applicable regulations, the following digital services are subject to VAT[108]:

a. Streaming services (including movies, TV shows, music, sports, and any other kind of streaming);
b. Digital platform for the digital distribution of mobile applications;
c. Supply of online marketing/advertisement services; and
d. Educational or instructional electronic supply.

Although under the 2019 Tax Reform, cloud computing and hosting shall remain untaxed, further digital services were added to the list of taxable services, including (i) services rendered through digital platforms, (ii) the assignment of the rights of use or the right to exploit intangibles, and (iii) a catch-all provision referring to "other digital services destined to users located in Colombia".

102 Colombian Tax Code §437-2.
103 Colombian Tax Code §437-2, paragraph 2.
104 Colombian Tax Code §477 to §481.
105 Colombian Tax Code §423 to §428.
106 Colombian Tax Code §489.
107 Colombian Tax Code §420, paragraph 3.
108 Colombian Tax Code §437-2 section 8.

5.2.2. Franchises

As of the entry into force of the 2019 Tax Reform, all franchised restaurant sales will levy VAT instead of consumption tax.

5.3. Taxable Base

As a general rule, the taxable base is the price or value of the price paid for the goods or services. The price should correspond to the fair market value of such goods or services.[109]

There are instances in which certain items must be either included or excluded from the taxable base and/or events with either mandatory or optional taxable bases, which should be analyzed on a case-by-case basis.

5.4. Creditable VAT

Unless otherwise provided, all VAT paid to suppliers of goods and services that constitute a cost or expense of the taxpayer's income-producing activity is creditable towards the VAT collected by the taxpayer from its clients[110].

VAT paid by the buyer on the acquisition, construction, and importation of tangible fixed assets used in the taxpayer's income-producing activity is creditable against income tax[111].

There are certain limitations on the VAT credits available for zero-rated transactions.

5.5. Selected VAT Incentives

The following are some of the available statutory VAT incentives:

5.5.1. Temporary Importation of Heavy M&E

Temporary importation of "heavy" M&E not produced in Colombia and effectively used in a "basic industry" in Colombia should not be subject to import VAT[112].

5.5.2. Environmental Monitoring and Control Systems

Any domestic or imported equipment or devices to be used in the construction of control and monitoring systems required by environmental law and standards in any activity are not subject to VAT. Access to this exemption requires certification of the environmental authority qualifying the specific equipment or devices acquired[113].

5.5.3. Tax Credit for VAT Paid in the Acquisition, Construction, or Import of Tangible, Fixed Assets

Taxpayers have the right to a full tax credit against income tax of the VAT paid in the acquisition, import, or construction of tangible fixed assets used in the taxpayer's income-producing activity[114].

109 Colombian Tax Code §447.
110 Colombian Tax Code §484-1 and §485.
111 Colombian Tax Code §258-1.
112 Colombian Tax Code §428.
113 Colombian Tax Code §424.
114 Law 2010/2019 §95.

This is an important benefit for businesses because the previous regulation only granted a deduction of the VAT paid in the acquisition or import of capital assets. Hence, instead of recovering up to 35% of the VAT paid, under the current rule, businesses will recover 100% of the VAT paid in the acquisition, import, or construction of a fixed asset. Consequently, the VAT paid will not be considered part of the asset's cost for depreciation purposes.

5.5.4. Renewable Energy

Certain services rendered in Colombia or abroad and the purchase of certain goods, equipment, and merchandise related to the investment and pre-investment in projects aiming at the generation or utilization of renewable energy, including green and blue hydrogen projects[115], may be eligible for a VAT exclusion.

For purposes of benefitting from this VAT exclusion, the applicable regulations provide for several requirements that include, among others, that the specific service is included in a list issued by the competent Authorities, a certificate issued by the Environmental Authority, and filing an application that meets the requirements included in the regulations issued by the Ministry of Mines and Energy. Therefore, the evaluation of the eligibility of the VAT exclusion should be reviewed on a case-by-case basis[116].

5.5.5. VAT Exclusion for Eligible M&E Used in the Treatment of Atmospheric Emissions

The VAT exclusion referred to in this section is restricted to imported M&E as long as: (i) there is no national production of the said M&E, (ii) it is used for recycling and processing garbage or waste, and the depuration or treatment of atmospheric emissions, and (iii) are part of an Environmental Program approved by the Ministry of Environment aimed at improving the environment. This VAT exclusion also applies to equipment used within an Environmental Control System ("ESC") or Environmental Monitoring System ("EMS"), including those necessary to comply with the Montreal Protocol. Thus, the Project needs to qualify as an ECS[117].

Applicable regulations define ECS as the organized set of national or imported equipment, elements, and machinery used for carrying out actions aimed at achieving measurable and verifiable results in (i) reducing the demand for renewable natural resources; or (ii) the prevention or reduction of the volume of atmospheric emissions, or the improvement of their quality, among others. ECS can occur within a production process or activity ("environmental control at source").

The EMS is also defined as the systematic set of national or imported elements, equipment, or machinery, intended for obtaining, verifying, or processing information on the state, quality, or behavior of renewable natural resources, and emissions, among others[118].

The applicable regulation defines an Environmental Program as a set of actions aimed at developing the national environmental plans and policies set forth within the National Development Plan and/or formulated by the Ministry of Environment or directed at the implementation of regional environmental plans prescribed by the Environmental Authorities[119].

115 Law 2099/2021 §21, paragraph 2.
116 Law 1715/2014 §12.
117 Colombian Tax Code §428, section f.
118 Decree 1625/2016 §1.3.1.14.4.
119 Decree 1625/2016 §1.3.1.14.4.

For purposes of this VAT exclusion and under the applicable regulations, there is an exhaustive list of M&E and elements that are not eligible for environmental certification from the competent Environmental Authority.

5.5.6. VAT Exclusion For M&E Used in Projects and Activities Previously Registered in the RENARE

As part of the National Information System on Climate Change, the National Registry for the Reduction of Greenhouse Gas Emissions ("RENARE") is established as one of the necessary instruments for managing the information regarding Greenhouse Gas Emissions mitigation initiatives[120].

The sale of M&E for the development of projects or activities that are registered in the RENARE will be excluded from VAT, according to regulations issued by the Ministry of Environment and Sustainable Development[121]. This incentive is also applicable to investments, goods, and M&E intended to capture, use, and store carbon[122].

5.5.7. VAT Exclusion for M&E Used in Projects and Activities Previously Registered in the RENARE

Public performances of the performing arts, as well as artistic services provided for the execution of these public performances, are excluded from VAT[123]. To qualify for this exemption, certification or documentation may be required to demonstrate the nature of the performance or service provided, in accordance with applicable regulations.

5.6. Payment and Filing

VAT is paid bimonthly or every four months, depending on the taxpayer's gross income from the previous year[124]. The VAT return must be filed and paid in full on the filing dates scheduled by the government for these purposes[125].

5.7. Andean Pact VAT Harmonization

Andean Pact Directive 599 establishes the framework for the harmonization of the VAT regimes in member countries (Colombia, Ecuador, Peru, and Bolivia), which is expected to take place in the future.

6. Consumption Tax

Certain economic activities are subject to a non-creditable consumption tax at a general statutory 8% rate and not to VAT[126].

Services taxed at the general 8% consumption tax rate include restaurant services, bars, grills, and pubs. The sale of beverages and food under the franchise model is subject to VAT.

120 Law 1931/2018 §26.
121 Colombian Tax Code §424, section 16.
122 Law 2099/2021 §22, paragraph 2.
123 Law 1493/ 2011 §6
124 Colombian Tax Code §600.
125 Decree 1680/2020.
126 Colombian Tax Code §512-3.

The carriers' mobile internet services are subject to consumption tax at a reduced 4% rate. This is on top of the already existing 4% for the telephone service component of the mobile plans.

7. Bank Debits Tax

This is a national-level tax. Colombian banks (and other savings institutions) must withhold the tax. It applies to any funds deposited that are either withdrawn or transferred from checking or savings accounts[127].

The taxable base is the amount withdrawn or transferred, and the rate applicable is 0.4%. There are very limited exemptions to this tax.

8. Net-Equity Tax

The 2022 Tax Reform introduced a permanent Net-Equity Tax ("NET")[128]. Resident and non-resident individuals, as well as foreign entities that have a net equity equal to or higher than approx. COP 3,585 million (approx. USD 853,000) on January 1st of each tax year will be subject to the NET at a marginal rate that ranges from 0.5% to 1.5%.

A 1.5% NET tax rate will be in force until 2026. As of 2027, the maximum NET tax rate is set to decrease to 1.0%[129].

The NET base for individuals and decedent estates deemed as Colombian residents for tax purposes will be calculated considering their worldwide-owned assets. Meanwhile, individuals who are non-Colombian tax residents will be taxed upon their net worth located or possessed in Colombia, directly or through a permanent establishment. Foreign entities' NET base will be calculated considering the assets that such entity owns which are located or possessed in Colombia, other than shares, accounts receivable and/or qualified portfolio investments.

The tax base for the NET may vary from the net worth value that a taxpayer reports in its income tax return since special rules are applicable due to the type of assets owned. Thus, its determination should be analyzed on a case-by-case basis.

Under certain DTTs signed by Colombia, assets held by tax residents in certain jurisdictions will have limitations on being levied with the NET. This should be reviewed for each specific case.

9. Local Tax on Industrial, Commercial, and Service Activities

This is a municipal (local) level tax applicable to income deriving from all industrial, commercial, and service activities performed in the territory of a district or municipality[130]. The taxable base is the sum of the taxpayer's gross revenue from the activity carried out in the relevant municipality. Tax rates vary from 0.2% to 1.38%.

127 Colombian Tax Code §871
128 Colombian Tax Code §292-3.
129 Colombian Tax Code §296-3.
130 Law 14/1983 §32.

This tax is usually paid yearly, except for some municipalities that have adopted a 2 month taxable period (e.g., Bogota). Incentives for this tax are created and regulated by each district or municipality. Therefore, the availability of incentives must be confirmed on a case-by-case basis.

As of 2023, this tax is 100% deductible for income tax purposes.

10. Property Taxes

There are municipal (local) level taxes levied on the ownership of real estate and vehicles. Each district or municipality adopts the applicable tax rates. Therefore, they vary from one municipality to the next.

Real estate tax rates usually range between 0.5% and 1.6%, however, certain exceptions may apply[131]. Motor vehicle tax rates range between 1.5% and 3.5%[132].

Unless otherwise specified, the taxable base in the case of real estate is the cadastral value of the property. Meanwhile, the taxable base for vehicles is their fair market value, appraised by the Ministry of Transportation. Unless otherwise specified in the corresponding municipal ordinances, property taxes filing, and payment are carried out annually.

If any, available tax incentives are regulated by each local authority. Therefore, the availability of incentives must be confirmed on a case-by-case basis.

11. Registration Tax

A taxpayer registering acts and documents with the cadastral registry or merchants' registry offices is subject to this tax.

Depending on the type of act or document, the tax rate ranges from 0.5% to 1% when the registration is done before the cadastral registry office, and from 0.1% to 0.7% when the registration is carried out before the Chamber of Commerce[133].

Unless otherwise provided, the taxable base is the amount of the price or consideration established in the document. Very few documents subject to registration are exempt from this tax. If one of the parties to the document is a public entity, the taxable base is reduced to 50% of the regular taxable base.

12. National Stamp Tax

This tax is levied on public deeds through which real estate or vessels whose value is equal to or greater than approx. COP 996 million (USD 237,000[134]) are transferred. The tax will also be applied to the constitution and cancellation of mortgages over these types of assets. The rate for the National Stamp Tax ranges from 1.5% to 3%, depending on the value of the transaction.

131 Law 1450/2011 §23.
132 Law 488/1998 §145.
133 Law 223/1995 §230.
134 This amount was calculated using an approximate exchange rate (TRM) of COP 4.200.

13. Carbon Dioxide Tax

The 2016 Tax Reform[135] established a Carbon Dioxide Tax ("CDT"), which was later modified in 2022[136]. It is currently triggered by the sale, withdrawal for self-consumption or import - whichever happens first - of fossil fuels, including oil-derived products, all types of fossil gas and any solid material that may be used as an energy source. This tax is levied only once, either on the import, on the withdrawal for self-consumption or on the first sale made by the local producer. Neither exports nor subsequent sales or operations are taxed[137]. The CDT must be filed and paid on a bimonthly basis.

Following the 2022 Tax Reform, coal became subject to the CDT. Therefore, a period of transition (applicable only to coal) was established, with discounted rates until 2028. For FY25, the rate for coal-generated CDT is applied at 25%[138].

The current rate is COP 25,799.56 (Approx. USD 6) per ton of CO2 that the determined fossil fuel is estimated to generate. This rate is annually readjusted. To ease the determination of the taxable base of the CDT, the government included the following table, which contains an already calculated estimate of the tons of CO2 produced by each of these common fuels, and, therefore, already has a fixed rate per unit.

FOSSIL FUEL	UNIT OF MEASURE	RATE/UNIT (COP)
Coal	Ton	$65,713.38
Fuel oil	Gallon	$299,53
Petroleum-derived diesel (ACPM)	Gallon	$210,63
Jet fuel	Gallon	$254,22
Kerosene	Gallon	$247,93
Gasoline	Gallon	$186,37
Liquified petroleum gas	Gallon	$168,64
Natural gas	Cubic meter	$39,70

Following the regulations issued by the Ministry of the Environment and Sustainable Development, carbon-neutral-certified taxpayers are not subject to 50% of this tax[139]. Additionally, fuel exports are not subject to this tax[140]. Lastly, the amount paid for the CDT can be deducted from the annual CIT[141].

14. Local Stamp Taxes

Certain laws authorize departments and municipalities to enact local stamp taxes to support investments in hospitals, universities, and other public entities and activities. Such local stamp taxes

135 Law 1819/2016 §221.
136 Law 2277/2022 §47-49.
137 Law 1819/2016 §221 and §222.
138 Law 1819/2016 §222(6).
139 Law 1819/2016 §221(1).
140 Law 1819/2016 §222.
141 Law 1819/2016 §222(2).

are usually levied at a 1% rate on the gross income attached to a taxable event. In some cases, the amounts paid by the taxpayer that correspond to stamp taxes can be deducted from CIT.

Before engaging in activities, agreements, or transactions with effects within the jurisdiction of any department in Colombia, the taxpayer should confirm whether a local stamp tax that could be triggered by such activity, agreement, or transaction is in place, as well as the applicable rate.

15. Royalties on Natural Resources Exploration Activities

Unless otherwise provided, all natural resource exploration activities are subject to the payment of royalties. This summary does not cover the royalty regime. Therefore, before engaging in any natural resource exploration activity in Colombia, it is advisable to seek qualified legal advice on the royalty regime applicable to the specific activity and jurisdiction.

16. Welfare Contributions

16.1. Retirement Contributions

From 1 July 2025, the employee must contribute to both private and public pension funds[142]. The contribution must be equal to at least 16% of the employee's wage; both employer and employees can make additional voluntary contributions. Contributions must be computed and paid to the pension funds monthly.

The employer must cover 12%, and the employee the remaining 4%. The employer must withhold the employee's part of the contribution and deposit 100% of the monthly contribution in the pension fund[143].

From 1 July 2025, employees earning 4 minimum monthly salaries or more will be subject to an additional contribution (Pension Solidarity Fund) of up to 3%, capped at 25 minimum monthly salaries.

16.2. Health Contributions

The employee must be affiliated with a general Health Care Plan ("HCP"). In general, contributions to the HCP must be equal to 12.5% of the employee's wage. Contributions must be computed and paid monthly.

Usually, the employer must cover 8.5% for employees with salaries that exceed 10 minimum wages, and the employee the remaining 4%. The employer must withhold the employee's part of the contribution and pay 100% of the monthly health contribution[144].

16.3. Employment Risks Insurance System

The employee must be affiliated with its chosen employment risk insurance system. The contribution varies between 0.348% and 8.7% of the employee's wage (depending on the activity) and is computed and paid monthly. The employer must cover and pay the insurer 100% of the contribution[145].

142 Law 2381/2024.
143 Law 797/2003 §7 and Decree 4982/2007 §1.
144 Law 100/1993 §204.
145 Decree 1772/1994 §13.

16.4. Contributions to Child and Family Protection Services (ICBF), National Learning Service (SENA), and Compensation Funds

The employer must cover and contribute to Compensation Funds for all of its employees.

Additionally, the employer has to pay contributions to Child and Family Protection Services (ICBF) and National Learning Service (SENA) for employees with salaries that exceed 10 minimum wages. Those contributions must be paid monthly and are equivalent to 9% of the employee's wage[146].

16.5. Unemployment Fund Contribution

The employer must contribute an amount equal to one monthly wage per year to the employee's unemployment fund of choice[147]. In addition, the employer must pay the employee a 12% yearly interest on the amount of that yearly contribution[148]. Both the contribution and the interest must be paid every year.

16.6. Incidence on Wages Deductibility

Payment of the abovementioned welfare contributions is a requirement for the corresponding wages paid by the employer to be deductible for income tax purposes[149].

17. Customs Imports Regime

The following sections summarize some general aspects of the Colombian customs import regime:

17.1. Import Customs Duties

Unless exempted, zero-rated, or exceptionally subject to a different rate, importation of goods is subject to a 19% import VAT[150]. In addition to import VAT, imports are also subject to customs duties generally ranging between 5% and 20%[151]. However, it must be noted that exceptions to this range exist within the Colombian customs regime. Colombia has entered into Preferred Customs Duties Agreements with many countries, reducing the applicable customs duties for certain goods.

17.2. Taxable Base

Unless otherwise provided, customs duties are computed on the CIF value of the goods. Import VAT is computed on the CIF value plus the corresponding VAT rate[152].

146 Law 21/1982 §12 and Law 89/1988 §1.
147 Colombian Labor Code §249.
148 Law 52/1975 §1.
149 Colombian Tax Code §108.
150 Colombian Tax Code §468.
151 Decree 1881/2021.
152 Colombian Tax Code §459 and Decree 1165/2019 §16.

17.3. Customs Valuation

Per the Colombian customs regime[153], custom valuation rules are those set forth by the WTO General Agreement on Tariffs and Trade of 1994. For valuation purposes, the Andean Pact valuation rules in Directive 571 and 894 also apply.

17.4. Filing and Payment

An import return must be filed upon nationalization of the goods[154]. As a general rule, in the ordinary import regime, customs duties and import VAT must be paid and an import return filed within the first month following the arrival of the goods to Colombia. In certain cases, the importer can request to the Customs Authority a 1 month filing extension[155].

17.5. Used M&E

Importing used M&E (and spare parts) requires a previous import license that is granted by the foreign trade authorities if the M&E is not produced locally or in an Andean country[156]. In practice, the importation of used spare parts is hardly authorized.

17.6. Free Trade Agreements

Colombia currently has 18 Free Trade Agreements in force, including, among others, FTAs with various Latin-American countries, the United States of America, Canada, and the European Union. Although these FTAs differ in the details of the specific regulation therein, the structure of most of them is quite similar.

The FTAs are divided into chapters, each regulating a particular area that affects trade. Some of the main chapters regulate: (i) National Treatment and Market Access – establishing main rules for market access of goods and tariff elimination schedules; (ii) Rules of Origin – establishing rules to consider a product's origin; (iii) Traditional Trade issues – comprising rules on technical barriers to trade, and sanitary and phytosanitary measures; (iv) Trade Remedies – regulating subsidies, safeguards, and antidumping and countervailing measures; (v) Investment – establishing investment protection and international arbitration for solving investment disputes under the FTA; (vi) Trade in Services – liberalizing market access in services; and (vii) Intellectual Property – providing for further protection and regulation on intellectual property. Other issues such as government procurement, labor, and environmental matters, are also dealt with in some of these FTAs.

It is important to consider that each FTA differs in the specific regulation of the aforementioned topics. For instance, tariff elimination schedules vary for each FTA, as well as the rules of origin, services liberalization schedules, and most of the rules and procedures established in each agreement.

17.7. Selected Customs Duties Import Regimes Available

In addition to the ordinary importation regime, a variety of special customs regimes are available for M&E imports. The applicable duties and VAT vary depending on the applicable regime.

153 Decree 1165/2019 §320.

154 Decree 1165/2019 §175.

155 Decree 1165/2019 §171.

156 Decree 925/2013 §14.

Both the ordinary and the temporal import regimes are available for M&E importations, whether leased, on free bailment, or contributed in kind to a Colombian company or branch. Purchased M&E can only be imported through the regular importation regime. Below, some of the features of the different importation regimes are described.

Please bear in mind that since August 2019 a new Customs Code is in force, which introduced some changes regarding the import regimes described below.

17.7.1. Ordinary Imports Regime

It applies to all goods that will remain permanently in Colombian territory without restrictions[157]. Upon nationalization, full payment of customs duties and import VAT is required. For foreign exchange purposes, these imports may be reimbursable or non-reimbursable. Non-reimbursable imports require an importation license.

17.7.2. Long-Term Temporary Imports Regime

It applies to M&E and spare parts listed as "Capital Goods" in the applicable regulation. This regime is used whenever the temporally imported goods are expected to remain in Colombia for a period between 10 months and 5 years. Under special circumstances, the Customs Authority has the power to approve a longer importation period. During the importation period, the payment of customs duties and import VAT will be deferred, being payable in equal installments every six months.

It is important to keep in mind that the value of the customs duties and the import VAT must be computed upon the temporary nationalization and that the customs return must be filed within the above-stated 1 month period. Regardless of whether the Customs Authority approves an extension of the importation, the duties and VAT must be paid within the initial 5-year period.

The importer must extend a compliance bond, guaranteeing payment default or delays[158]. For foreign exchange purposes, the temporary importation may be reimbursable or non-reimbursable. Non-reimbursable imports require an importation license. Upon expiry of the term, the importer can either re-export or nationalize the goods without paying any additional amounts for customs duties or import VAT[159].

17.7.3. Long-Term Temporary Imports Regime for Leased Equipment

The rules of this regime are similar to those above explained. Nevertheless, given that lease payments are treated as foreign debt payments for foreign exchange purposes, the imports should be treated as non-reimbursable. In addition, this regime allows the substitution of the goods initially imported and the importation of the corresponding spare parts (if any)[160].

17.7.4. Short-Term Temporary Imports

This regime applies to specific goods that will be used for certain activities taking no longer than 6 months[161]. The customs service can authorize a 3 month extension. At the expiration of the authorized importation period, the goods must be re-exported, or the importer must apply for a long-term importation regime; otherwise, the goods are forfeited, and/or a fine will be imposed.

157 Decree 1165/2019 §173-192.
158 Decree 1165/2019 §205.
159 Decree 1165/2019 §214.
160 Decree 1165/2019 §211.
161 Decree 1165/2019 §201-202.

17.7.5. Free Trade Zones

Colombia has an attractive FTZ regime that should be carefully explored by importers and investors interested in operating in Colombia. Besides the logistic advantages of operating in a FTZ, the Colombian FTZ regime implies, among others, the following benefits: (i) there are neither customs duties nor import VAT upon the "introduction" of foreign goods to the FTZ; (ii) qualified FTZ users are subject to a special 20% income tax rate (instead of 35%)[162]; and (iii) if the legal requirements are met, the sale of goods from the rest of the territory to FTZ users, which were acquired to develop their corporate purpose, are VAT exempt[163].

The transfer-pricing regime is applicable between FTZ users and related taxpayers located in Colombia (outside the FTZ).

To access the preferential tax rate of 20%, the 2022 Tax Reform established that entities located in a FTZ must formulate an internationalization plan[164]. This plan should outline maximum objectives for net income from operations of any nature within the national customs territory, as well as other income obtained by the industrial user unrelated to the development of its main activity. The Constitutional Court clarified that this provision only applies to taxpayers who had not met the requirements to access the 20% rate before December 13, 2022[165].

17.7.6. "Plan Vallejo" Special Imports Regime

After meeting certain requirements, under the "Plan Vallejo"[166], raw materials and other goods can be temporarily imported without triggering customs duties and enjoying preferential VAT treatment. Both agricultural and services activities could be covered with the "Plan Vallejo"[167].

17.7.7. International Trading Companies

The qualification as an International Trading Company is available for those companies whose main purpose is the commercialization and sale of Colombian products abroad[168]. In this regard, an International Trading Company can buy or acquire goods in the national market by issuing a certificate to the seller, without paying the corresponding VAT, as long as these products are exported within 6 months as of the date of issue of the corresponding certificate[169].

To obtain this qualification, the company must accredit minimum net assets, provide a guarantee, and must not have been subject to tax or customs penalties during the 5 years before the filing of the application, among others.

162 Colombian Tax Code §240-1.
163 Colombian Tax Code §481(e).
164 Colombian Tax Code §240-1(6).
165 Constitutional Court. Sentence C-384/2023.
166 Decree-Law 444/1967 §172-174.
167 Resolution 1860/1999.
168 Decree 1165/2019 §65-74.
169 Colombian Tax Code §481(b) and Decree 1165/2019 §68(2).

COSTA RICA
FACIO & CAÑAS
FAYCATAX

Facio&Cañas

IN-COUNTRY MEMBER FIRM:

www.fayca.com
+506 2105-3609 | + 506 2221-2333
Sabana Business Center, 11th floor.
City, Country: San Jose, Costa Rica

CONTACT PARTNER(S):

Adrián Torrealba
atorrealba@fayca.com

José María Oreamuno Linares
joreamuno@fayca.com

Erik Ramírez
eramirez@fayca.com

HIGHLIGHTS

National Level Tax Rates:	
Corporate	30%
Passive income Tax: (interests, rents, royalties,)	15%
Capital Gains Tax:	15%
Branch Profits Tax:	30%
Dividends Tax:	15%
Withholding Taxes on:	
Interest:	15%
Royalties:	25%
Technical or Administrative Advice	25%
Any other remittances abroad do not regulated in articles 49, 50 and 59 of the Income Tax Law, triggered from the Costa Rican source income	30%
Imports:	Customs tax rates may apply
Labor services (employees' obligation):	10.67%
Tax losses carry- forward term for Corporate Income Tax:	Restricted to 3 years (any economic activity) or 5 years (agriculture)
Tax losses carry-back term for capital losses according to the Chapter XI ITL:	12 months
Transfer Pricing Rules:	Applicable
Tax-free (Corporate Income Tax and VAT) Reorganizations:	Mergers, spin-off. The Valid Business Purpose must be met.
VAT on sales of goods:	13%
VAT on services:	13%
VAT on imports:	13%
Agriculture, exports, free trade zone (VAT exempt)	
Net- worth (Assets) Tax:	Not applicable
Stamp (Documentary) Tax:	Scheduler rates
Bank Debits (Transfers) Tax Rate	Not applicable
Local Governments Level Tax Rates:	Varies in each municipality
Tax on Industrial Activities:	Varies in each municipality
Tax on Commercial Activities:	Varies in each municipality
Tax on Service tax:	Not applicable
Real Estate Transfer Tax:	0.25%
Taxes on Other Property:	Scheduler rates applicable at National Registry, for registration purposes.
Excise Taxes:	3-5%
Statute of limitations	4 years, and 10 years depending on some circunstances
Time to keep accounting and tax information	5 years

OVERVIEW

1. Income Tax

1.1. General Aspects

1.1.1. Corporate Income Tax Rate (CIT)

The general statutory CIT tax rate for Costa Rican entities including Costa Rican branches of foreign companies is 30%. For purposes of corporate Income Tax only, there are four preferential rates of 20%, 15% 10%, and 5% based on Gross Income amounts.

1.1.2. Taxable Base CIT

For CIT purposes, all revenues derived from the lucrative economic activity (business activity) and triggered from the CR source income are subject to income tax unless otherwise excluded by law from the taxable base. The result is the Gross Taxable Income from which Costs and Expenses are deducted. The after-deduction result is the Net Taxable Income. The result of applying the 30% tax rate is the Income Tax Liability; during the year the taxpayer had to pay CIT advances, then these can be deducted from the CIT expense.

1.1.3. Deductions

As a general rule, all costs, and expenses are deductible provided that they are related, proportional, and necessary to the income-producing activity. Any costs or expenses related to Excluded and /or Exempted Items of Income are not deductible, and the lack of appropriate apportionment could lead to a proportional rejection on overall deductible costs and expenses. Some costs and expenses are limited to quantitative ceilings, e.g., royalties and technical fees between a branch and foreign headquarters.

Transfer Pricing rules must apply.

1.1.4. Depreciation

Tangible fixed assets depreciation is deductible. The depreciation term varies depending on the asset. straight-line method and the sum of year's digits method are the allowed methodologies.

1.1.5. Passive Income and Capital

Passive income

Suppose the taxpayer does not perform a lucrative activity. In that case, there are no employees, open offices, and at the end does not have business activity. If it obtains income from rents of property or vehicles, royalties from the intangible assets, and interest, they are subject to the capital rent tax.

For the rent of the property, the taxpayer may deduct 15% of the gross income, and pay taxes 85 over 85% of such base, the tax rate is 15%.

In the case of interest income, rents of vehicles, and rights of use of the intangible assets the tax rate of 15% will be applied over the total income.

Capital Gains

In the same context of the non-lucrative activity, if the taxpayer obtains income from the sale of the assets and there is a change in its equity, the gain triggered will be taxable and the loss deductible against other gains assessed. The tax rate will be 15% over the difference between the sale price and acquisition cost.

1.1.6. Transfer Pricing

Costa Rican legislation approved:

- Rules for identifying related parties.
- Introduction OECD methods and sixth method (international traded goods).
- Functional analysis and comparability.
- Documentation (transfer pricing studies)
- Previous Agreements (APAS)
- Country by Country

1.1.7. Inflation Adjustments

Costa Rica does not have inflation adjustment mechanisms. The revaluation of tangible is likely for the assets under the capital gains regime and it will be used as deductible cost.

1.1.8. Tax Losses Carry- forward / Carry-back

A Costa Rican economic activity or the agricultural taxpayer can carry-forward its losses for a maximum term of 3 or 5 taxable years, respectively. There is no carry-back possibility.

Tax losses can be credited towards (and are capped by) the taxpayer´s net income for the deduction´s taxable year. Therefore, a tax loss deduction cannot generate further tax losses.

Tax losses cannot be transferred to other taxpayers (not even to the shareholders), except as provided in the cases of reorganizations such as a merger. Costa Rica does not specifically regulate spin-offs.

This deduction is allowed only when the tax loss arises from an income generating activity ordinarily taxable under the general income taxation rules. Should the tax loss lack such nexus, i.e., be related to a non – taxable or exempt income generating activity, then the taxpayer is not allowed to take the loss deduction.

For capital gains regime, capital losses apply with a carry -back mechanism.

1.1.9. Financial Leasing Tax Treatment

As a general rule, the assets leased must be entered on the lessee´s books as an asset and in addition, its value must also be entered as a liability. The part of the lease payments corresponding to principal decreases the registered liability, while the interest portion is a deductible expense. The lessee will have the right to take depreciation or amortization deductions on the asset, provided the asset is either depreciable or amortizable. In contrast, Operative leasing is considered as a normal rental contract and the lessee would total amount of the recurring payments.

Under IFRS leasing contracts (with optional purchase) are recorded as Asset Accounting (IFRS 16). Effects of this operation correspond to the tax register as an expense to the extent of the payment or indebtedness of the lease.

1.2. Payment and Filing

Ordinary Tax Year covers the period between January 1st and December 31st. All taxpayers must observe a filing deadline of two months and fifteen days after the closing of the corresponding tax year.

There are installments or partial payments calculated on the average on Income Tax of the last three years, and any excess of such installments over the income Tax Liability constitutes an account collectible by the Taxpayer.

1.3. Interest and Penalties on Unpaid Tax or Late Payment

Unpaid taxes are subject to lateness interest that should be assessed at the official rate fixed every year by the Tax Administrations, according to banking interest rates, and a penalty of 1% monthly that could range up to 20% of the corresponding tax liability.

Errors without malice will be subject to a penalty of 50% of the unpaid amount, while omissions or mistakes with bad intentions will incur fines of 100% for so-called "serious behavior", and 150% on those denominated "very serious behavior."

1.4. Dividends Tax/ Branch Profits Tax

There is a 15% withholding tax on dividends and branch profits remitted abroad to non-domiciled foreign entities or individuals.

1.5. Cross-border Payments

1.5.1. Withholding Taxes

When Costa Rican sourced income is remitted abroad to a beneficiary that is a non-domiciled foreign individual or entity, the payment should be subject to a withholding tax.

1.5.1.1. Dividends

See 1.4.

1.5.1.2. Royalties

Royalty payments are subject to 25% withholding tax on remittances abroad.

1.5.1.3. Technical Administrative or Other Advisory Services

Whether rendered in Costa Rica or abroad by a non-domiciled party, advisory services are subject to 25% withholding tax on remittances abroad, some of these professional services would not be taxable if they are not technical advice and they are rendered from abroad.

1.5.1.4. Other Services

If rendered from abroad and could not be considered as advisory services, then no withholding tax applies. If the services were rendered in Costa Rica, then 10% (labor) 25% (professional), or 30% (generic) withholdings should apply. (There are other specific rates for certain services, such as transportation or communications, or insurance premiums).

1.5.1.5. Interest Leasing Payments

Interest Payments are subject to a 15% withholding tax rate, unless some exemptions apply, such as loans with a non-domiciled first order Bank, or interest paid in connection to imports. The financial Leasing Payment, typically linked to the importation of goods or assets, is exempted and ordinary leasing is subject to a 15% tax rate.

1.5.1.6. Equity Reimbursements

Equity reimbursements not corresponding to dividend or profit distributions are not taxable items of income for the foreign shareholder. Therefore, no withholding taxes should apply.

1.5.1.7. Tax Havens

Costa Rica has a special treatment with not cooperant tax countries, for example, expenses paid in those countries are not deductible in the income tax, but there is a possibility to prove the reality of the expense.

1.5.1.8. Tax Treaties

In terms of international taxation, Costa Rica has in effect only an agreement to eliminate double taxation, namely, the one with the Kingdom of Spain, ratified by Law 8888 of 2010, which came into effect on January 1, 2011, although it had been signed in March 2004.

On February 13, 2014, a treaty with Germany was signed, and the ratification happened by Law 9345 of February 2nd, 2016. The effects of DTA begin on January 1st, 2017.

A treaty with Mexico was signed, and ratified by Law 9644, which came into effect on the 21st of April 2019, and a treaty with the United Arab Emirates was ratified by Law 9963, which came into effect on June 9th, 2021.

The Furthermore a Multilateral Convention to Implement Tax Treaty-Related Measures to Prevent Base Erosion and Profit Shifting was signed and later ratified by Law 9751 the first of January 2021.

1.5.2. Tax Information Exchange Agreements

Costa Rica has an exchange of information valid with the following countries: Argentina, Australia, Canada, South Corea, USA, Guernsey, Italy, France, Holland, Mexico, and Central American.

Also, has signed treaties with Denmark, Ecuador, Iceland, Faroe Islands, Finland, Greenland, Norway, Sweden, South Africa.

Includes the Convention on Mutual Assistance and Technical Cooperation between Tax and Customs Administrations.

2. Value Added Tax (VAT)

2.1. General Aspects

2.1.1. Tax Rates

VAT´S general rate is 13%. There is a reduced rate of 4% for private healthcare services and the purchase of airline tickets2% for medicines, private education, and personal insurance, also a 1% rate for goods covered in the Basic Necessities list.

There are also some VAT exemptions for specific public entities of the national or local territorial level.

2.1.2. Taxable Transactions

Sale of goods and rendering services.

2.1.3. Taxable Base

As a rule, the taxable base is the price or value of the goods or services.

There are cases where a certain item must be either or excluded from the taxable base and/or cases, which should be analyzed on a case-by-case basis.

2.1.4. Creditable VAT

As a rule, the VAT taxpayer has a right to credit against payable VAT all VAT paid to its providers for tangible movable property bought or imported and for services hired, if they constitute a cost or expense of the taxpayer´s income producing activity.

The VAT paid in the acquisition of goods that will become fixed assets for the buyer is creditable in the VAT account.

2.2. Selected VAT Incentives

The VAT law does not include selective incentives.

2.3. Payment and Filing

VAT has a one-month taxable period. Therefore, the tax must be assessed, and a VAT return filed monthly. The VAT return must be filed and in full on the filing date, 15 natural days after the closing of the monthly period.

3. Other Taxes

3.1. Property Taxes

There are national taxes on real estate and vehicles according to the corresponding laws. Real estate tax has a 0.25% tax rate. Motor vehicle tax ranges from approximately US $ 25 up to 3.5% on the fair market value of the motor vehicle. The taxable base in the case of real estate is the registered value of the property in the Municipality. These taxes are paid yearly.

3.2. Industry, Commerce and Service Tax

This is also a municipal tax applicable to all industrial commercial and service activities performed in the territory of said municipality. The taxable base is typically the gross revenue received by the taxpayer and arising from the activity performed in a said locality, even though some municipalities use a mix of gross and net income. The tax rate varies according to each one of the 81 municipalities. The tax is usually paid filed yearly.

3.3. Stamp Tax

This is a documentary tax applicable to a list of effects in Costa Rica or for Costa Rica party, with scheduler rates. The taxable base is the full amount of considerations agreed in the document unless otherwise indicated by law. There are several exemptions to this tax, which must be checked depending on the different types of documents.

3.4. Registration Tax

The registration of acts and documents with the National Registrar Office is subject to registration taxes that vary according to a scheduler classification. The taxable base is the amount of the price or consideration shown in the document.

3.5. Annually Corporate tax

Costa Rica has approved an annual tax on all corporate entities registered in Costa Rica.

3.6. Solidarity Tax for the Strengthening of Housing Programs

The Costa Rica Government introduced Luxury Tax on Houses valued at more than 121 million colones (local currency) in 2014. The tax is also known as 'Ley Impuesto Solidario Para el Fortalecimiento de Programas de Vivienda'. The Luxury Tax is paid in addition to the other existing property taxes.

The Luxury Tax on Houses tax return should be filed every 3 years but paid each year in January.

4. Customs Regime General Aspects

4.1. Custom Duties

In addition to import VAT, imports are also subject to customs duties that range between 5% for most goods, and the application zero rating to certain goods in the context of Free Treaties of Costa Rica.

4.2. Taxable Base

Customs duties are calculated on the CIF value goods, while import VAT is computed on the CIF value corresponding custom duties.

4.3. Transfer Pricing

Custom valuation rules follow the GATT valuation code (1994). The department of the Customs Administration has the authority to manage a valuation database. The transfer pricing rules or assessments do not apply for customs duties valuations.

4.4. Filing and Payment

An important tax return must be filed upon nationalization of the good, and all import procedures must be performed through an authorized customs agent.

4.5. Selected Custom Duties Regimes Available

4.5.1. Ordinary Importation Regime

It applies to all goods that will remain permanently in Costa Rican territory. Full payment of customs duties and import VAT is required upon nationalization.

4.5.2. Temporary Importation Regime

This regime allows the suspension of import taxes payment for an ordinary term of one year and applies to goods not subject to physical transformation. This regime does not require a subscription of guarantee. his regime allows the suspension of import taxes payment for an ordinary term of one year and applies to goods not subject to physical transformation. This regime does not require a subscription of guarantee.

4.5.3. Active Improvement Regime

This regime allows the suspension of import taxes and applies to goods subject to physical transformation within Costa Rican Territory and does require the subscription of a guarantee.

4.5.4. Passive Improvement Regime

This regime allows the temporary export of goods to physical transformation outside Costa Rican Territory.

4.5.5. Duty Drawback Regime

This regime allows for the reimbursement of tax payments on raw materials imports that were used in the manufacturing process of exporting goods, if the export is executed within a year from the importation of the raw materials.

4.5.6. Free Trade Zone Regime

This regime facilitates the operation of exporting-oriented companies financed through direct foreign. It has exemptions and tax benefits for VAT and Income taxes, subject to compliance with a Contract signed with the Ministry of Foreign Trade competent authorities.

5. Payroll Taxes/ Welfare Contributions

5.1. Social Security Systems

The Costa Rican Social Security Institute (Caja Costarricense del Seguro Social) manages and operates the Social Security System and National Health System. These systems provide services and benefits related to illness treatment (Health Care), disability and pension systems, old age, maternity, and death insurance. Social Security taxes apply to employers and employees. The taxes are based on the monthly salaries with a 26.50% rate for the employer and 10.50% for the employee, with no brackets or ceilings on the taxed amounts.

5.2. Retirement Contributions

Employee Protection Act No 7938 (February 16, 2000) created an additional employer contribution (3% of employee´s monthly salary) that applies for the whole employment term and does not have a ceiling or a temporal limit. Such employer contributions are deposited in Labor Capitalization Fund under the specific employee´s name, funding in halves a Mandatory Complementary Pension and

savings fund. The Costa Rican Social Security Administration collects these contributions through a Centralized Collection System.

5.3. Labor Risk Insurance

This mandatory insurance is covered under the state-owned of the Insurance National Institute covers all the labor force. The employer has to pay insurance according to the schedule of primes updated by the Insurance National Institute

5.4. Incidence On Wages Deductibility

For purposes of the Corporate Income Tax deductible expenses, the deduction of wages is conditioned to the accurate applications of Income Tax on Salaries and Social Security contributions.

6. Changes in the Law Applying Since 2014

6.1. Comprehensive Amend to the Law No 8634 of the Banking System Development

This reform covers topics of interest, commissions, and other financial expenses paid to Banks by companies domiciled abroad and those went from not being taxed, to be taxed at a rate of 15% of the amount paid.

Eliminates the exemption established at the current section 59 of the Income Tax Law, related to payments of interests, commissions, and financial expenses paid to financial entities recognized by the Central Bank of Costa Rica, as institutions that are usually engaged to make international operations. This reform includes a change in the withholding on remittances abroad.

6.2. Section 27 of the Regulation of the Law Sales Tax has been updated with the modification that ruled the Ordinance No. 38579-H to the subsection f) of that section

The Tax Administration is authorized to grant special purchase orders, to file or the taxpayers make acquisitions of goods without previous tax payment.

6.3. AMPO (Informative Return- Formal compliance)

Multifunctional Tool Analysis Preprogrammed. This resolution is mandatory for the major taxpayers which must be done electronically through the "AMPO" tool. The information that must be reported is General Data Company Name, ID Tax Number, Address Fiscal Domicile, number employees, tax period, date of registration as a taxpayer, information of the Legal Representative, Shareholders, tax obligations, agencies, branches, and other info.

7. New Laws Applying Since January 2021

7.1. Law to Attract Workers and Remote Service Providers of an International Nature

(Digital Nomads) Law 10.008

On September 1st, 2021, Law 10.008 came into force. This Law allows foreigners who provide remunerated services remotely for a legal entity abroad to remain in Costa Rica for one year, by

creating a new immigration category known as Remote Employee or Provider of Remote Services. The beneficiaries will have total exemption from the income tax, defined in Title I of Law 7092, Income Tax Law, of April 21, 1988. In no case will the beneficiaries be considered as habitual residents of the country for purposes, nor will the income received from abroad be considered from a Costa Rican source.

In July 2022 the Executive Power published its Ruling on DNL, in its Chapter III specifies the scope of the enjoyment of tax incentives for the visa holders.

8. New Laws Applying Since October 2023

Law 10. 381

On October 2, 2023, Law 10.381 was published in the La Gaceta, which reforms the Income Tax Law. This seeks to meet the requirements of the European Union Code of Conduct Group for Costa Rica to be removed from the "grey list" of non-cooperative jurisdictions, an inclusion based on the fact that the territoriality regime previously in force in the law had been classified as "harmful" or "detrimental" to the taxation of other countries, particularly those of the EU.

The law amends its article 1, stipulating that, exceptionally, passive income, specifically dividends, interest, royalties, capital gains, income from real estate capital and other income from movable capital from foreign sources derived from assets located or rights economically utilized outside the national territory will be considered taxable, provided and only if they are obtained by an entity that is part of a multinational group and it is also deemed a non-qualified entity.

Furthermore, the Tax Administration issued the resolution No. MH-DGT-RES-0030-2023, which establishes the objective parameters for defining the adequate economic substance of a qualified entity, the guidelines for considering an entity as part of a multinational group, and the means by which taxpayers must inform the tax authorities about these conditions.

DOMINICAN REPUBLIC PELLERANO & HERRERA

P&H PELLERANO & HERRERA

IN-COUNTRY MEMBER FIRM:

www.phlaw.com
(809) 541-5200
Address: 1019 Abraham Lincoln Avenue, Federico Pages More Building, 5th Floor, National District
Santo Domingo of Guzman, Dominican Republic

CONTACT PARTNER(S):

Ricardo Pellerano
r.pellerano@phlaw.com

Carolina Leon
c.leon@phlaw.com

HIGHLIGHTS

National Level Tax Rates:	
Corporate Income Tax:	27%
Capital Gains Tax:	27%
Branch Profits Tax:	27%
Dividends Tax:	10%[1]
Tax on local sales by Free Zone Companies:	3.5%[2]
Personal Property and Assets Tax:	1%[3]
Withholding Taxes on:	
Interest:	10%
Royalties:	27%
Other Services:	27%
Imports:	0%
Tax losses carry-forward term:	5 years
Transfer Pricing Rules:	Economic group transfer pricing rules[4]

1 Branches or other forms of permanent establishments of foreign companies shall withhold and pay the same tax rate when remitting profits to their parent company abroad.

2 When Free Zone Enterprises transfer goods or services to a Dominican Republic resident individual or entity, not classified under Law 8-90 about Free Trade Zones, these are subject to three-point five percent (3.5%) income tax rate on the value of gross sales made in the local market. Commercial Free Zones are subject to a 5% rate on gross sales.

3 For DR resident entities, this rate applies on the total value of the assets, including real estate properties as reflected in the taxpayers' balance sheet, not adjusted by inflation and after applying the deduction for depreciation, amortization and reserves for non-collectable accounts. For DR resident individuals and trusts, this rate applies to the total sum of their real estate provided it exceeds the established threshold of DOP$10.19M (approximately US$ 166,000). This tax does not apply to the following: stock investments made in other companies, land located in rural areas, fixtures on agricultural exploitation and advance taxes, housing and its lot provided it is owned by senior individuals (65+ years) and it is its sole property; pensioners.

4 In order to establish transfer pricing between related entities, the Dominican source income of branches or other forms of permanent establishments of foreign companies operating in the country will be determined based on actual results obtained from their operations in the Dominican Republic. Decree No. 78-14, about Transfer Pricing (TP), regulates the order of priorities of the different valuation methods ruling transfer pricing, as well as the informal TP return ("DIOR" for its acronym in Spanish) obligation of transactions with related parties or affiliates. Also, the assumptions established in Decree No. 256-21 shall be considered. In that sense, the local entities with intercompany operations that do not exceed the established threshold of DOP$12,193,981.70 (approximately US$199,902.00) for 2024, are exempt from the preparation of a Master Report or TP report but will still need to comply with the filing obligation of the DIOR within 180 days of year-end. Country by Country Reports is now being required by the Dominican Tax Authority as of January 2025, whereby a multinational group reports with regards to their worldwide distribution of profits and profits taxes paid, indicators of the location of economic activities in the jurisdictions where the Multinational Group operates. This will apply to groups with consolidated income equal to or higher than DOP$38,800,000,000.00 (Approx.USD$622,950.00) in accordance with General Norm No. 08-21.

Value Added Tax (VAT or ITBIS)[5]	
Local sales of goods:	18%[6]
Services:	18%[7]
Imports:	18%
Excise Tax	
Fuel	Specific amounts per gallon
Financial operations	0.0015%[8]
Alcohol products	0.5%-75.5%[9]
Tobacco products (cigarettes)	Specific amounts per cigarette pack[10]
Telecom services	10%
Insurance in general	16%
Other goods established in Law 11-92[11]	
Ad-valorem	
Mortgages/transfer of motor vehicles	2%
Fossil fuels	16%
Tobacco Products (cigarettes)	20%[12]
Transfer of Real Estate:	3%
Custom Duties:	from 0% to 40%[13]

Treaty Taxation:

Countries	Interest	Dividends	Royalties
Canada[14]	Up to 18%[15]	Up to 18%[16]	18%
Spain	10%	10%	10%

5 ITBIS stands for the Spanish acronym: "Impuesto a la Transferencia de Bienes Industrializados y Servicios".

6 Some goods are VAT exempt, such as live animals, raw meat, dairy (except yogurt and butter), milk, honey, other animal-based products, seeds for planting, unprocessed fruit, coffee, cereal, grains, flour, sausages, cocoa.

7 The following services VAT exempt: financial, insurance, ground transportation (people and cargo), power/water/garbage collection, housing rental, health, gym, education/cultural, mortuary, beauty/barber shop.

8 A tax of DOP$1.50 per every DOP$1,000.00 is levied on the values of checks or wire transfers, unless the check is self-issued or wire transfer is made between banks accounts of the same titleholder.

9 Percentage will apply depending on the minimum alcohol percentage per volume (% ALC./VOL.).

10 DOP$60.13 for 20-pack, DOP$30.07 for 10-pack.

11 Goods subject to excise taxes are: electronic items (10-20%); among others.

12 Percentage applicable on retail price.

13 Free trade agreements such as DR CAFTA, CARICOM, among others, establish reduced or zero Custom Duties.

14 As the treaties follow OECD guidelines, there is a Non Discrimination clause in the treaty.

15 It is currently 10%, in order to avoid discrimination with the national law.

16 It is currently 10% per both our applicable national law and said Non-Discrimination clause.

OVERVIEW

1. Income Tax

1.1. General Aspects

1.1.1. Income Tax Rate

The general statutory annual corporate income tax rate for entities incorporated and/or registered in the Dominican Republic, including branches and permanent establishments of foreign companies, is 27%.

1.1.2. Taxable Base

All revenue from domestic source is subject to income tax unless otherwise excluded by law from the taxable base. Excluded Items of Income are subtracted from Gross Income. The result is the Gross Taxable Income from which all expenses incurred in obtaining taxable income are deducted. The after- deductions result is the Net Taxable Income. The Exempted Items of Income are subtracted, resulting in the Taxable Base to which the 27% statutory corporate tax rate is applied. The result of applying the 27% tax rate is the Resulting Income Tax from which applicable Tax Credits are subtracted to find the Income Tax Liability.

[+] Sum of All Revenues [=] Gross Income

[–] Deductible Expenses

[–] Exempted Items of Income

[=] Net Taxable Income (Minimum Presumptive Income Tax) [=] Taxable Base

[*] 27% Corporate Tax Rate [=] Resulting Income Tax

[–] Tax Credits

[=] Income Tax Liability

[=] Income Tax Charge Payable

1.1.3. Deductions

Non-resident individuals or legal entities earning Dominican-source income through a permanent establishment are subject to tax on the total income attributable to that establishment, in accordance with the Dominican Tax Code — regardless of any specific regulations that may apply. However, having a permanent establishment does not automatically confer tax residency status in the country.

Non-resident taxpayers without a permanent establishment are taxed individually for each income-generating transaction that is subject to Dominican taxation.

According to Article 287 of the Dominican Tax Code, the following rules apply:

Valid Payment Methods for Deductibility:

Taxpayers making payments exceeding DOP$50,000 (approximately USD 909) — backed by invoices with fiscal credit — must use traceable payment methods established by the banking and financial system. Payments in cash are not allowed for supporting deductible expenses or those that qualify for fiscal credit. This threshold may be adjusted based on inflation rates published by the Central Bank.

Deductibility of Financial Expenses – Thin Capitalization Rules:

When debt-related expenses (e.g., constitution, renewal, or cancellation) generate taxable income for the lender under Articles 306 and 306 bis of the Tax Code, the deductibility of such expenses is limited. The deductible amount is determined based on the applicable limits set forth in these articles, and must also comply with the interest rate cap defined in Article 297 of the same Code — whether the lender is a resident or non-resident.

Example:

Credit Entity	Interests	Withholding (10%)	Withholding Paid	TET
ABC Bank of USA	225,000.00	10%	22,500.00	10%
ABC Bank of Panama	350,000.00	10%	35,000.00	25%

Part of the deductible expense	Deductible	Non-deductible	Percentage Loss
10/27*225,000 =	83,333.00	141,667.00	63%
25/27*350,000 =	324,074.00	25,926.00	7%

Notwithstanding other norms relating to deduction of interests, the amount to be deduced for said concept shall not exceed the value resulting from multiplying the total amount of interests accrued in the fiscal period (I) multiplied by 3 times the existing relationship between the average annual amount of the accounting capital (C) and the average annual amount of all the debts (D) of the contributor that accrues interests (I*3(C/D)).

The maximum debt-to-equity ratio allowed to taxpayers is 3:1 pursuant to thin-capitalization rules.

Example:

Expenses for Financial Interests	200,000.00
Corporate Capital at Beginning	300,000.00
Corporate Capital at End	500,000.00
Average Corporate Capital	400,000.00
Debts that generate interests	
Pending at the Beginning	2,000,000.00
Pending at the End	1,800,000.00
Debt Average	1,900,000.00
Limit on the deductions	
Corporate Capital / Debts	21%
Final Result = (I*3(C/D)	126,315.79
Deductible Proportion	63%
Non-deductible Portion	37%

The limitation established in the Article of reference shall not apply neither to entities of the financial system regulated by the Dominican financial and monetary authority (nor to foreign financial entities controlled by over 90% by said local entities) nor to debtors of loans granted by said entities.

Non-deducted interests in a fiscal period may be carried forward up to 3 years from the date they were accrued.

Deduction of education expenses shall apply as long as the service has been effectively invoiced by the education entity with a valid fiscal invoice with fiscal credit up to a maximum of 10% of the taxed income. Nevertheless, said deduction shall not exceed 25% of the minimum exemption established in article 296 of the Tax Code of the Dominican Republic.

Also deductible:

- Insurance premiums that cover risks on profitable goods;
- Depletion. In the case of the exploitation of a mineral deposit, including any gas or petroleum well, all the costs concerning exploration and development, as well as the interest attributable to it, must be added to the capital account. The amount deductible as depreciation for the fiscal year shall be determined through the application of the Unit of Production method to the capital account for the deposit;
- Amortization of Intangible Assets. The depletion of the monetary cost of each intangible asset, including patents, copyrights, drawings, models, contracts and franchises with a definite lifetime, must reflect the life of said asset and the method of recovery in a straight line;
- Uncollectible Accounts. Losses arising from bad credit, in justifiable amounts, or in amounts separated to create a reserve fund for bad accounts;
- Donations to Institutions dedicated to public good (charity). The donation is deductible up to 5% of the net taxable income;
- Investigation and Experimental Expenses;
- Losses;
- Contributions to Pension and Retirement Plans. Contributions to pension and retirement plans approved in accordance of the Law issued for its regulation, and the Rules of Application of this tax, as long as these plans are established for the benefit of the employees, up to 5% of the applicable tax for a fiscal exercise. However, as per Law 87-01 all contributions to pensions and retirement plans will be deductible regardless of such 5% limit; and
- Treatment of natural persons.

Individual taxpayers, except employees, that carry out other activities, aside from those of its business, have the right to deduct from the gross income of such activities, provided the expenses have been verified as necessary to obtain, maintain and conserve taxable income.

Natural persons shall be subject to a 25% tax rate when their income exceeds DOP$867,123.01; 20% when their income falls between the range of DOP$624,329.01 and RD$867,123.00; 15% when it is between DOP$416,220.01 and DOP$624,329.00. The threshold for income tax exemption is up to DOP$416,220.00 on a yearly basis[17]. This scale, usually adjusted by inflation each year, was not adjusted by inflation for year 2024.

17 Which equals to a monthly income of up to DOP$34,685.00.

Period	Contribution Exemption	
	Annually	Monthly
1998	90,720.00	7,560.00
1999	97,800.00	8,150.00
2000	102,792.00	8,566.00
2001	120,256.00	10,000.00
2002	125,256.00	10,438.00
2003	138,420.00	11,535.00
2004	197,470.00	16,455.83
2005	240,000.00	20,000.00
2006	257,280.00	21,440.00
2007	290,243.00	24,186.92
2008	316,017.00	26,334.75
2009	330,301.00	27,525.08
2010	349,326.00	29,110.50
2011	371,124.00	30,927.00
2012	399,923.00	33,326.92
2013	399,923.00	33,326.92
2014	399,923.00	33,326.92
2015	399,923.00	33,326.92
2016	409,281.00	34,106.75
2017	416,220.00	34,685.00
2018	416,220.00	34,685.00
2019	416,220.00	34,685.00
2020	416,220.00	34,685.00
2021	416,220.00	34,685.00
2022	416,220.00	34,685.00
2023	416,220.00	34,685.00
2024	416,220.00	34,685.00

1.1.4. Depreciation

For the purposes of the DR Tax Code, the concept of depreciable assets means the assets used in a business that loses value due to wear and tear, deterioration or disuse.

The amount allowed in a fiscal year for depreciation deduction of any category of assets shall be determined by applying to an asset account, at year-end, the percentage applicable to such category of assets.

Depreciable assets must fall in one of the following categories:

Category 1: Buildings and other structural components used to generate taxable income, may be deducted at a 5% annual rate and is calculated by applying the depreciation coefficient to the depreciable base of each asset individually.

Category 2: Automobiles and light trucks for common usage, office equipment and furniture, computers, information systems and data processing equipment; may be deducted at a 25% annual rate over the acquisition or construction cost of such assets, minus the VAT or ITBIS that has been paid in the acquisition of a business.

Category 3: Any other depreciable asset may be deducted at a 15% annual rate over the acquisition or construction cost of such asset, minus the VAT or ITBIS that has been paid in the acquisition of a business.

Category 2 and Category 3: assets will be registered in a joint account and the depreciation will be calculated by multiplying the depreciation coefficient times the depreciable base of its joint account.

The initial addition to an asset account for the acquisition of any asset shall be its cost plus insurance, freight and installation expenses. The initial addition to an asset account for an asset of one's own construction shall include all taxes, charges, including customs duties and interest attributable to such asset for periods prior to its placement into service.

All depreciable assets given in lease will be depreciated based on their category: 50% for category 2 and 30 % for category 3.

As indicated in the previous section, the depletion of the monetary cost of each intangible asset must reflect a definite lifetime of said asset and the method of recovery in a straight line.

At the taxpayer's option, entity incorporation or registration costs may be deducted either in the year in which they are incurred or capitalized, or amortized over a period not exceeding five years.

1.1.5. Transfer Pricing

The Dominican Republic has transfer pricing rules applicable to transactions with related companies. The general principle is that when legal acts between a local enterprise of foreign capital and a natural person or legal entity domiciled abroad that directly or indirectly controls it shall be considered to be, in principle, made between independent parties when their provisions adhere to normal market practices between independent entities.

The transfer pricing rules shall also apply when a resident performs commercial or financial transactions with either a (i) related resident, or (ii) natural person or legal entity domiciled, organized or located in states or territories with fiscal paradise or with low taxes, be them related or not.

In order to determine the price or amount of the operations between related parties, the conditions of the transactions between them must be compared with other transactions of similar nature executed between independent parties.

1.1.5.1. Valuation Methods

For the purposes of determining the price of the operations executed between related enterprises, one of the following methods must be chosen:

a. Non controlled comparable price method (MPC);
b. Resale price method (MPR);
c. Additional cost method (MCA);
d. Comparable profits method (CPM); and
e. Transactional net margin method (TNMM).

1.1.5.2. Advanced Pricing Agreements (APA) and Cost Sharing Agreements

Taxpayers may submit an Advanced Pricing Agreement request to the tax authorities on transfer prices that set the values of the operations, or financial or commercial transactions carried out with other related parties, prior to their execution and for a limited time.

Likewise, Cost Sharing Agreements are permitted, as long as they comply with Article 3 of Ruling No. 78- 14[18].

1.1.6. Inflationary Adjustments

The Executive Branch shall order an adjustment for inflation for each calendar year on the basis of the regulated Consumer Price Index, which is calculated and published by the Central Bank of the Dominican Republic.

The adjustment ordered for any fiscal year shall be applied to the following concepts determined as of the closure of the preceding fiscal year:

i. The progressive tax rates applicable to personal income tax[19];
ii. Any other amount expressed in Dominican currency ("RD$");
iii. Up to the limit set forth in the Regulations, any net participation in the capital of a business or in any capital asset not related to business;
iv. The transfer to future periods of the net losses for operations and of dividend accounts;
v. The credit for taxes paid abroad; and,
vi. The threshold for personal income tax exemptions[20].

The Regulations shall include:

I. Regulations that describe how, in the case of businesses, the amount of the adjustment set forth in clause (a) shall be distributed among all the assets in the balance sheet of business, with the exclusion of cash, accounts receivable and stocks and bonds;
II. Provisions for rounding-off the adjusted amounts up to the appropriate limit in order to efficiently administer the taxes; and
III. Provisions that contemplate interim annual adjustments for tax reserves calculation, insufficient payments and payments in excess, undue payments, amounts paid through retention of an estimated tax and similar matters in which it is necessary to make said adjustments in order to carry out the goals of this Article.

The Executive Branch, if necessary, may establish adjustments with respect to inflation in other matters that affect the assessment of taxable income or the payment of taxes.

18 Pursuant to Article 3 of Ruling No. 78-14, related parties that comply with the requisites to be considered as such as established in Article 281 of the Dominican Tax Code, that intend to make corporate expense distribution among them for deductible purposes, shall; subscribe an agreement that includes: a list of participants, specific expenses to be covered in the agreement, contractual period, the criterion used to quantify the expense quote allocated to each party, and the value of the contribution of each participant. If a participant resides in a low or null tax jurisdiction, the DR Tax Authorities shall authorize the expense distribution before it is made.

19 Up to September 6, 2024 this scale was not adjusted for inflation.

20 Idem.

1.1.7. Tax Loss Carry-forward

The Dominican Republic taxpayers may carry-forward tax losses for a maximum term of 5 fiscal years in accordance with the following rules:

a. In no case, in the current or future tax period, losses from other entities in which the taxpayer has made a reorganization process will be deductible nor losses generated from non-deductible expenses.
b. The enterprises may only deduct their losses of 20% of the total amount of such losses per year. In the 4th year, this 20% will be deductible only to a maximum of 80% of the net taxable income related to such fiscal period. In the 5th year, the maximum amount is of 70% of the net taxable income. The 20% portion of losses not deducted in a year cannot be deducted in further years nor will it trigger any reimbursement by the Dominican State. The deductions can only be made when filing the income tax returns.

The enterprises that in their first fiscal year present losses in their first income tax return will be exempted from this rule. The losses generated in their first fiscal year may be offset against 100% of their income in the second fiscal year. In the event that such losses could not be fully offset, the remaining credit will be offset following the deduction procedure explained herein.

There is no carry-back possibility.

Losses arising from the sale or disposal of stock or shares may only be computed against capital gains of the same nature.

Tax losses cannot be transferred to other taxpayers.

The Dominican Republic Tax Code allows for 3 types of tax-free reorganizations:

i. Tax-free mergers, preexisting through a third one that forms, or by the absorption of one of them;
ii. Tax-free split-off or division of an enterprise into another or others that jointly continue with the operations of the first, and,
iii. Sales or transfers within an economic group.

1.1.8. Tax-Free Reorganizations

In order to qualify for a tax-free reorganization (mergers, spin-offs or corporate reorganizations), requirements are as follows:

i. **Approval by the Dominican Tax Authorities of the reorganization:** all transfers of rights and obligations are subject to the prior approval of the local IRS office. The non-compliances of the formal duties of the entities whose reorganization results in their dissolution, whether by merger, splits, take over, sales or equity transfers, will be assumed by the surviving entity for the period the statute of limitations that have not yet elapsed and will be liable of any sanctions for the infractions made by the predecessor company;
ii. **Dissolution of the absorbed entity:** the mergers, acquisitions, sale or transfer of equity from one enterprise to another, leads to the closing of activities of the absorbed entity and such company is obliged to make a final income tax return within sixty (60) days after the closing of its activities; and
iii. **Compliance with the Commerce Code requirements:** the publication and registration requirements set forth in the Commerce Code, Law 3-02 of the Mercantile Registry, and Law 479-08 regarding Commercial Companies and Individual Limited Liability Companies must be observed.

Please be aware that as of the issuance of General Norm 01-2022, any direct changes in the corporate composition or indirect changes in the chain of ownership, both of Dominican companies and foreign companies operating through a permanent establishment in the country, resulting from the transfer of shares or equity interests due to a restructuring process abroad, will be subject to Capital Gains Tax.

1.1.9. Leasing Tax Treatment

The leasing of moveable or immovable assets directly affects the corporate income tax and the Tax on the Transfer of Industrialized Goods and Services (ITBIS) of individuals and corporations.

For the leasing of assets, the rent payments will be treated as deductible expenses to the lessee's income tax, but for financial leasing such payments will be deducted provided that they are not considered to be capital amortization to the assets granted in lease.

If the payment of the lease is made to an individual (the landlord), the rent payment will be subject to a 10% withholding over the amount paid as rent and it will be considered to be a payment on account. Enterprises or corporations are not subject to any withholding when receiving rent payments.

If the landlord is a corporation, the leased asset will be considered to be part of the corporation's tax equity at the end of the operational period subject to inflation adjustments and depreciations, and consequently, affect the income tax to be paid.

To determine tax equity and further apply the inflation adjustments, the following steps must be followed:

a. The financial leasing company must omit from its assets, the accounts receivables for capital settlements insofar as the company is allowed to deduct expenses for depreciation of assets granted in lease; and
b. The company that receives the assets in lease must omit from its liabilities (i) the accounts payable for capital settlements, and (ii) the fixed assets received in lease.

The payments made for the lease of moveable and immovable property are levied with an 18% tax rate for ITBIS applied over the lease price. If the landlord is a natural person or individual and the lessee is a corporation, the latter must withhold the 100% ITBIS amount to be paid and file the same before the local IRS. Rent of housing for personal use is exempted from ITBIS.

In the case of leasing of moveable assets between entities, the paying entity is required to withhold 30% of the ITBIS.

1.1.10. Foreign Exchange Gains and Losses

With respect to the application of income tax, our tax regime considers that foreign exchange gains or losses not made at the end of the fiscal year, derived from adjustments to the exchange rates over the currencies of the corporation or obligations in foreign currency, will be considered as taxable income for tax purposes or as deductible expenses depending on each particular case. To that effect, the referred exchange rate adjustments will be made in accordance with the exchange rate index published by the tax administration, which follows the one published by the Central Bank of the Dominican Republic.

The entries subject to these readjustments are a) all asset entries in foreign currency which are permanent in the country or abroad. In this case, entries such as cash in foreign currency, account receivable entries, titles, rights, certificates, deposits and investments made in foreign currency must be adjusted; and b) all liabilities in foreign currency. The exchange adjustments to the assets in foreign currency must be made against an income-statement account "Exchange Rate Results", while the exchange rate adjustments to the liabilities in foreign currency must be made against each corresponding

asset, if applicable, or against the income-statement account "Exchange Rate Result". The income-statement account will be considered for the Profit & Loss Statement and also for tax purposes.

1.2. Payment and Filing

All enterprises or corporations incorporated in the country or abroad domiciled in the country that obtain Dominican source income and/or foreign source income from investments and financial earnings, will be obligated to file an income tax return within 120 days after the closing of the fiscal year.

The individuals or persons, including those that operate business with or without organized accounting and the other physical persons, domiciled or not in the country, taxpayers of Dominican Source income and for foreign income of investments and foreign earnings, must file annually before the tax administration an income tax return of the previous fiscal year (calendar year), and pay the tax no later than March 31st of each year.

No later than March 15th of each year, the corporations or entities that act as employers shall file separately their income tax declaration on the taxes withheld and paid on the previous calendar year for the wages paid to its employees as well as the independent staff that rendered work or services.

1.3. Penalties for Unpaid Taxes or Tax Paid Belatedly

The Dominican Tax Code sets forth certain penalties for incompliance with formal requirements and for incompliance with material obligations.

Penalties for non-compliance of formal requirements are imposed on the following infractions:

a. Omitting presentation of tax declarations within the set period is penalized with a surcharge of 10% of the first month and an additional 4% of each month or fraction thereof plus interests of 1.10% per each subsequent month or fraction of a month, and a fine of 5 to 30 minimum salaries (a minimum salary is equal to approximately US$167.00). In addition to this fine, a sanction of 0.25% of the income declared in the previous fiscal year may be imposed on the taxpayer. However, the surcharges, interests and fines may be reduced up to 40% or 30% if the taxpayer voluntarily pays the due tax by rectifying its tax returns prior to any requirement made by the tax administration and if no tax audit has been initiated or notified for the corresponding fiscal period; and
b. Close businesses, which may be applied to establishments for lacking registry books, unregistering determined goods or equipment, the delay in making the accounting registration after it has been required to do so, the destruction, without following the due process, or hiding of goods, documents, books and accounting records, among others.

Amongst penalties for incompliance with substantial obligations:

i. **Tax Evasion:** this is fined with a penalty of 2 times the tax that has been omitted, notwithstanding the closure of the establishment. In the event that the amount of the tax evasion could not be determined, a fine will be set between ten to fifty minimum salaries; and
ii. **Tax Fraud:** this is fined with a penalty from 2 to 10 times the tax being evaded; the confiscation of the merchandise or products and the vehicles or other elements utilized for committing the fraud; closure of the establishment for a maximum period of 2 months; cancelation of the license, permits related to the activities performed by the taxpayer for a maximum period of 2 months. In the event of withholding or perception agents, this will be sanctioned with a penalty equal to the payment of 2 to 10 times of the tax withheld or perceived after the expiration of the time limits in which they must remit them to the tax administration. When the amount of the tax fraud cannot be determined, the

sanction will be from 5 to 30 minimum salaries. Imprisonment of 6 days to 2 years may apply in some circumstances.

The amounts of the fine may be reduced whenever the incompliance is not repeated and upon rectification or voluntary filing of the tax.

1.4. Dividends Tax / Branch Profits Tax

The distribution of dividends by local entities or corporations, as well as the repatriation by DR registered branches to natural persons or legal entities residing or domiciled in the country or abroad, are subject to a 10% withholding to be made and paid by the local entity or corporation making the distribution or the branch remitting the profits abroad.

1.5. Cross-border Payments

1.5.1. Withholding Taxes

Those who pay or credit on account taxable income from Dominican sources to physical or legal persons or entities neither residing nor domiciled in the country, must withhold and pay to the Administration, as sole and definitive payment of the tax, 27% of such income.

The gross income paid or credited on account is understood to be, without admitting evidence to the contrary, net income subject to withholding, except when the DR Tax Code establishes the presumptions referring to obtained net income, in which case the tax base for the calculation of the withholding shall be this latter one.

1.5.1.1. Interest on Loans Obtained Abroad

Whoever pays or credits to the account interests of a Dominican source to non-resident physical or legal persons or entities shall withhold and present before the Administration, as a onetime and definitive payment, the 10% of said interests.

1.5.1.2. Interest Paid or Credited to Resident Physical Persons

Those who pay or credit interests to physical persons residing or domiciled in the country must withhold and remit before the Tax Administration, as a onetime and definitive payment, 10% of said amount.

Physical persons may decide to make their Income Tax statements so as to request the return of the amount withheld from interests, in which case it shall be considered as a payment to the account of Income Tax, when one of the following conditions is met:

a. When the net taxable income, including interests, is lower than two hundred forty thousand pesos (RD$342,371.00);
b. When the net taxable income is under four hundred thousand pesos (RD$570,618.00), as long as the income for interests does not exceed 25% of the net taxable income.

Since 2015, the above established scale shall be adjusted annually as per the accumulated inflation corresponding to the previous year, in accordance to the figures published by the Central Bank of the Dominican Republic.

1.5.1.3. Dividends

Please refer to section 1.5.

1.5.1.4. Royalties

Royalty payments made to non-domiciled companies or natural persons are subject to a 27% withholding tax. If the double taxation treaty with Canada or Spain applies, an 18% or 10% withholding will apply, respectively.

1.5.1.5. Technical Assistance, Engineering and Consulting Services

Technical assistance, engineering and consulting services rendered by non-domiciled corporations or natural persons are subject to a 27% withholding tax. The DR Tax Code does not define technical assistance.

1.5.1.6. Payments to Non-Residents

Payments to non-residents working on a temporary basis in Dominican Republic will be subject to a 27% withholding tax on their gross income.

1.5.1.7. Rental Payments on moveable property

These are subject to a withholding rate of 10% when the beneficiary of the payment is a natural person. When the beneficiary is an entity or corporation, no tax withholding will apply.

1.5.1.8. Rental Payments on real estate property

When the beneficiary of the payment is a natural person, these are subject to a 10% withholding income tax and 100% withholding of the ITBIS. Rent of housing for personal use is exempted from ITBIS.

1.5.1.9. Proceeds from the sale of any type of real estate

These are subject to a 3% transfer tax and, if applicable, a capital gains tax of 27%. To determine the capital gain subject to tax, the acquisition or production cost adjusted by inflation shall be deducted from the price or value of the transfer of the asset. When dealing with depreciable assets, the acquisition or production cost to be considered shall be their residual value, and based on this the referred adjustment shall be made.

1.5.1.10. Others

The general withholding rate applicable to other cross-border payments not included within those mentioned above are subject to a general withholding rate of 27%, provide it does not relate to imported goods through Customs.

1.6. Money Laundering Legislation

1.6.1. Law No. 155-17

Law No. 155-17 on Money Laundering and Financing of Terrorism published on June 1, 2017, on the Official Gazette, presents some important novelties from a tax point of view, as follows:

- Effective on June 1, 2017, tax offenses such as tax fraud are hereinafter also considered violations to our new money laundering rules under Law No. 155-17;
- Identification of the final beneficiary of corporate stock. According to said Law 155-17, the taxpayers have the obligation to identify the ultimate beneficial owner (UBO) of any corporate stock and disclose to the DR Tax Authorities their contact information and participation interests. UBO's are the natural person(s) that have at least 20% participation interests, whether directly or indirectly, of taxpayer (juridical person). If this cannot be determined, the UBO is

the natural person that has the effective control of the taxpayer, whether directly or indirectly. In order to comply with the provisions of said Law, the Tax Administration (DGII) proceeded to modify some of its filing forms by adding to the same several annexes regarding the identification of the UBO of any corporate stock. Such is the case of Form IR-2 (Annual Corporate Income Tax Return) with new annexes H-1 and H-2. Likewise, in Form RC-02 (Affidavit for the Registration and Updating of Legal Corporate Data) Annex D has been added. Listed entities before the Dominican Stock Exchange are exempt from disclosing a UBO, as well as entities that have a low or null risk of tax evasion as determined by the DR Tax Authorities;

- Pursuant to this law, tax violations will only be considered as precedent violations or constituting money laundering as per section 11 from article 2 of said law, whenever the amount involved exceed from the equivalent to 700 average minimum salaries of the Dominican Republic (about US$117,000.00);
- The following persons, with or without juridical personality, whether resident or non-resident, shall obtain a tax ID and comply with corresponding obligations:
    - Those that carry out activities in the DR through a permanent establishment as defined in the Dominican Tax Code,
    - Those that have the management and control of their economic, commercial, financial activities, or any other nature within the DR, disregarding where these activities are being carried out or the place of the assets;
    - Upon the consideration of the DR Tax Authorities, those that due to the quantity and characteristics of the income obtained in the DR territory.
    - Documentation related to the Tax ID request shall be kept in an orderly manner for at least 10 years. Additional documentation that shall be maintained for this period are: accounting books, special registries, background, payment receipts, any document- whether physical or electronic, related to the taxpayer's operations and activities.

1.6.1.1. General Rules

As a result of Law No. 155-17 on Money Laundering and Financing of Terrorism published on June 1, 2017 on the Official Gazette, the Tax Administration (DGII) has issued the following General Rules on Sectorial Money Laundering (hereinafter "GRSML");

i. GRSML No. 01-18 dated January 18th, 2018, regarding the prevention of money laundering, financing of terrorism and the proliferation of weapons of mass destruction that must be observed as "Obligated Subjects" by lawyers, notaries, accountants and factoring companies;

ii. GRSML No. 02-18 dated January 18th, 2018, about the prevention of money laundering, financing of terrorism and the proliferation of weapons of mass destruction that must be observed as "Obligated Subjects" by natural or legal persons who regularly engage in the purchase and sale of motor vehicles, ships and aircraft;

iii. GRSML No. 03-18 dated January 18th, 2018, regarding the prevention of money laundering, financing of terrorism and the proliferation of weapons of mass destruction that must be observed as "Obligated Subjects" by real estate agents, construction companies and fiduciary non-financial or public offerings;

iv. GRSML No. 04-18 dated January 18th, 2018, regarding the prevention of money laundering, financing of terrorism and the proliferation of weapons of mass destruction that must be observed as "Obligated Subjects" by the traders of precious metals, precious stones and jewelry, natural or legal persons who are dedicated to the purchase and sale of firearms and pawnshops; and

v. GRSML No. 05-18 dated January 18th, 2018, which establishes the administrative sanctioning regime of non-financial subject to the regulation and supervision of the DGII for the prevention of money laundering, financing of terrorism and the proliferation of weapons of mass destruction.

In addition, the Tax Administration (DGII) proceeded to modify some of its forms such as the IR-17 (Tax Return for the Payment of other Withholdings and Complementary Remuneration); and IT-1 (Tax Return on Transfers of Industrialized Products and Services (ITBIS).

Regarding the IR-17 form, the following variations were made:

- The following boxes were added: i) Internet games (Law 139-11, Article 7) and; ii) Other Income (Decree 139-98, Article 70, sections a) and b)).
- The name of the box "Other Income" was changed to "Other Income (Law 11-92, Art. 309, section b))".

Regarding the form of IT-1,"Annex A" was added.

2. Value Added Tax (VAT), A.K.A. ITBIS

2.1. General Aspects

2.1.1. Tax Rates

The general VAT rate is 18%. A reduced VAT rate is established for the goods listed below:

Description	Examples	2017	From 2028	2029/2022
Dairy products	Only applicable to Yogurts, butter	16%	16%	16%
Coffee	Coffee, even toasted and decaffeinated	16%	16%	16%
Animal Oils or Edible Vegetables	Soy oil, peanuts, palm, sunflower, coconut	16%	16%	16%
Sugars	Sugar from canes and other sugars	16%	16%	16%
Cocoa and Chocolate	Powdered, block and tablet cocoa	16%	16%	16%

There are also some VAT exemptions for specific public entities of the national or local territorial level, religious institutions, free zones, health services (except gymnasiums), financial services – including insurance - pension and retirement plans, ground transportation for persons or freight, electricity, water and garbage disposal services, rent of housing for personal use and personal care services, amongst others.

2.1.2. Taxable Transactions

Transactions subject to VAT are the sale of goods, the provision of services in the Dominican Republic and the importation of goods.

In some cases, services rendered outside the Dominican Republic are exempted from the payment of VAT. However, the tax authorities do not always accept this exemption.

2.1.3. Taxable Base

The taxable base is the price or value of the consideration paid for the goods or services.

2.1.4. Creditable VAT

As a general rule the VAT taxpayer shall have the right to deduct from the gross tax the amounts that, by reason of this tax, have been advanced within the same tax period:

a. To local suppliers for the acquisition of goods levied by this tax; and
b. In customs, for the introduction to the country of goods levied by this tax.

2.2. Selected VAT Incentives

Some entities or corporations under a special tax regime law are exempted from VAT:

2.2.1. Free Zones Entities under Law 8-90

Free Zone entities are exempted from all taxes, including the payment of VAT for the importation of goods and services, and from the acquisition of goods or services[21].

2.2.2. Tourism Development Law 158-01

Investments made on some tourism projects, duly classified under Law 158-01, are exempted from VAT but limited to the machinery, equipment, materials and movable assets that are necessary for the construction and for the initiation of operations of the tourism facilities.

2.2.3. Law 28-01 for Border Development

Corporations and entities that install their operations in the border provinces with Haiti are exempted from VAT.

2.2.4. Law 56-07 that Declares as a National Priority the Sectors Belonging to the Textile Chain, Apparel and Accessories; Fur, Manufacture of Footwear and leather Goods

Corporations and entities under this law are exempted from VAT.

2.2.5. Law 122-05 Regarding Nonprofit Organizations

Nonprofit organizations are exempted from VAT.

2.2.6. Law 502-08 on Books and Libraries

This law establishes a VAT exemption on the importation, as well as on their sale on the local market, of books and other editorial products for cultural, educational and scientific purposes.

2.2.7. Law 57-07 on Incentives to Renewable Energy

This law establishes exemptions for investments and development of any renewable energy resources, such as custom duties and taxes on equipment and accessories related to the construction of renewable energy projects. Foreign financing has a reduced income tax rate of 5%.

21 Starting on late 2016, shareholders of free zone corporations, are now subject to the 10% withholding described on point/section 1.5.

2.2.8. Other

Other incentive laws grant selective tax incentives. Before the entry into force of Law 253-12, on Tax Reform, an exemption applied to all exporters and producers of exempted goods. Currently, the exemption previously granted has been limited to some sectors, exporters of goods and producers of exempted goods, namely, milk, cereals and milling products, beans, chicken and sausage, educational materials, medicines for human and animal use, fertilizers and chemicals products.

2.3. Payment and Filing

VAT returns must be filed within the first twenty (20) days of each month via form IT-1. In the case of definitive imports, the tax is determined and paid along with custom duties.

3. Other Taxes

3.1. Personal Property and Assets Tax

A 1% tax is applied to company assets which are included in the taxpayers' general ledger, not adjusted by inflation, after applying all deductions by depreciation, amortization, provisions for bad debts, investment in shares in other companies, land located in rural areas, properties affixed to rural production plants and advance taxes.

The National Bank for Housing Development as defined by Law 6-04, The Pension Fund Administrators as defined by Law 87-01, which creates the Dominican Social Security System and the Pension Funds, the stock market trading corporations, the investment funds managers and those equity issuing companies as defined in Law 249-17, as well as the electrical companies dedicated to the generation, transmission and distribution, as defined by the General Electricity Law No. 125-01 and the financial intermediation entities or corporations, as defined by the Monetary and Financial Law 183-02, shall pay this tax on the basis of their total fixed assets, net of depreciation as it appears in their balance sheet.

The liquidated amount in respect of this tax, when applicable, shall be considered to be a tax credit against the corporate income tax corresponding to the same fiscal year. In the event that this liquidated amount equals or exceeds the assets tax to be paid, the payment obligation shall be considered extinguished. If after the payment is made, there is a difference to be paid, in the event that the assets tax exceeds the income tax, the taxpayer shall pay the difference in two equal installments, the first due within 120 days from the end of the fiscal year and the remaining balance within a term of 6 months from the due date established for the first payment.

The following taxpayers shall be exempted from this tax:

a. The corporations that are exempted from Income Tax (IT);
b. Those investments as defined by the local IRS as Intensive Capital Investment, meaning;
c. Those investments that by the nature of its activities have an installation, production and operation cycle of more than 1 year;
d. Taxpayers who are operating under the umbrella of a law that includes tax exemptions in connection to corporate income tax;
e. The investments defined regularly by the Tax Administration as intensive capital or the investments that by their nature have an installation, production and commencement of operations cycle exceeding one (1) year, performed by new or pre-incorporated companies, may benefit from a temporary exemption of this tax, after providing proof that their assets qualify as new or derive from an investment capital; and,

f. Those taxpayers that declare losses in their income tax returns may request a temporary exemption for the payment of Assets Tax.

The Assets Tax declaration must be filed along with the income tax return of the company (a.k.a. IR-2) and shall be paid in two equal installments: 50% at the date of filing of the declaration and the 50% remaining balance shall be paid six (6) months later. If an extension is granted by the local IRS in filing the income tax return, it will also extend the term to file the assets tax declaration.

For physical persons (resident or non-resident) a personal property tax is levied of 1% on the real estate properties that are destined for housing, commercial or industrial activities owned by individuals whose approximate value –accounting for all properties, and including the land– currently exceed USD$167,062.00 approximately. This value is annually adjusted pursuant to local official inflation rates.

The personal property tax (a.k.a. I.P.I.) must be filed by the physical person during the first 60 days of each year and liquidated in two installments: (i) 50% of such tax on March 11 of each year; and (ii) the remaining balance of 50% on September 11 of each year.

In 2016, the assets tax was eliminated and substituted by the personal property tax rate of 1% established by Law 18-88 on Luxury Homes, therefore applying to real estate property of both physical and legal persons.

3.2. Municipal Tax

Entities or corporations who privately use or utilize the soil, subsoil or public roads to exploit and supply services which affect all or some part of the municipality will be subject to a 3% municipal tax levied on their gross income generated from their annual invoices for each municipal term. The latter may vary depending on the Province and the City Hall.

3.3. Transfer Taxes

A transfer tax levies the transfer of real estate property in the Dominican Republic. The tax rate is of 3% over the purchase price of the real estate property as set forth in the purchase and sale agreement or the value of the property assigned by the tax authorities, whichever is higher.

All other real estate operations (registration of mortgages, liens or encumbrances, among others) are subject to a 2% ad-valorem tax.

The transfer of motor vehicles is subject to a unified 2% ad-valorem tax rate applied over the value of the motor vehicle.

3.3.1. Bank Checks and Transfers Tax Rate

This tax is of RD$1.50 per thousand pesos on the values paid by checks or wire transfers. Payments made to public entities such as the Social Security Treasury Department, the Tax Administration and the General Customs Department are exempted from the payment of such tax.

3.4. Excise Tax

The excise tax levies all transfers of goods produced locally at the manufacturing level, as well as its importation or the rendering of local services. The applicable tax to these services is as follows:

a. 10% on telecommunications;
b. Specific amounts per liter of pure alcohol;
c. Specific amount per cigarettes packages; and
d. Specific amount per gallons or tons of fossil fuels and oil derivatives.[22]

The individuals, corporations, national or foreign companies that produce and manufacture these goods are obligated to pay these taxes at the last phase of the process, regardless of the fact that their intervention occurs through services rendered by third parties, importers of goods levied by this tax by their own account or by third parties, and the service providers levied by this tax.

The payment of this tax shall be made within the first 20 working days of the month following the declared fiscal period. Importers shall pay this tax along with any custom taxes.

Insurances are levied by this tax at a rate of 16%. Insurances set forth by Law 187-01 are exempted. Electrical appliances are levied with an excise tax between 10% and 20%.

The products derived from tobacco and alcohols are levied with excise tax, which shall apply on the retail prices of such products. The rates are of 10% for the products derived from alcohol and 20% for products derived from tobacco. The table of specific amounts to collect the excise tax to the products deriving from alcohol and tobacco are modified on an annual basis.

3.5. Excise Tax

The excise tax levies all transfers of goods produced locally at the manufacturing level, as well as its importation or the rendering of local services. The applicable tax to these services is as follows:

a. 10% on telecommunications;
b. Specific amounts per liter of pure alcohol;
c. Specific amount per cigarettes packages; and
d. Specific amount per gallons or tons of fossil fuels and oil derivatives.[23]

The individuals, corporations, national or foreign companies that produce and manufacture these goods are obligated to pay these taxes at the last phase of the process, regardless of the fact that their intervention occurs through services rendered by third parties, importers of goods levied by this tax by their own account or by third parties, and the service providers levied by this tax.

The payment of this tax shall be made within the first 20 working days of the month following the declared fiscal period. Importers shall pay this tax along with any custom taxes.

Insurances are levied by this tax at a rate of 16%. Insurances set forth by Law 187-01 are exempted. Electrical appliances are levied with an excise tax between 10% and 20%.

The products derived from tobacco and alcohols are levied with excise tax, which shall apply on the retail prices of such products. The rates are of 10% for the products derived from alcohol and 20% for

22 In addition to this levy an excise ad-valorem tax of 16% shall apply on domestic consumption of these fossil fuels and oil derivatives. Furthermore, an additional tax of two Dominican pesos (RD$2.00) is established per each gallon of gasoline and diesel, regular and premium, as provided in Law No. 112-00 on Hydrocarbons.

23 In addition to this levy an excise ad-valorem tax of 16% shall apply on domestic consumption of these fossil fuels and oil derivatives. Furthermore, an additional tax of two Dominican pesos (RD$2.00) is established per each gallon of gasoline and diesel, regular and premium, as provided in Law No. 112-00 on Hydrocarbons.

products derived from tobacco. The table of specific amounts to collect the excise tax to the products deriving from alcohol and tobacco are modified on an annual basis.

3.5.1. Regulation No. 1-18 for the Application of Title IV of the Excise Tax (ISC) of the Tax Code of the Dominican Republic

This Regulation just enacted on January 10, 2018, repeals and replaces the provisions regarding the manufacture of alcohol and tobacco products contained in Regulation No. 79-03 dated February 4, 2003, the scope of which, according to the Article 1 covers "transfers of goods of national production and their importation, described in article 375 of the Tax Code, at the level of manufacturing or production and import thereof; and the services encumbered with this tax according to the Tax Code and special laws".

Among the novelties of this Regulation, there are the following:

1. **Determination of the retail price (Article 8).** The retail price, which is the tax base of the ad-valorem ISC tax, dramatically changes its concept and instead of being determined from the list price, it will now be from the Suggested Retail Price (PVP) (sale price to which the producer suggests his client to sell to the final consumer), not including the ISC and ITBIS taxes;
2. **Renewal of licenses (Articles 16 and 27).** The renewal of producer and importer licenses will be issued only if the taxpayer is up to date in its taxes with the Tax Administration (DGII), which leaves the DGII with the power to determine whether a person (physical or legal) is up to date from standpoint;
3. **Fees (Articles 36 and 50).** The request for the acquisition of the control mechanisms must be made prior to the payment of the "corresponding fees", but the Regulation does not establish, as legally required, the law under which such rates would be established, these being a type of tax;
4. **Information on new products (Article 21).** From the entry into force of the Regulation the companies that decide to produce or market a new product must inform so to DGII 20 working days in advance. This could imply leaking information to the competition;
5. **Import of caps (Article 52).** Imported caps or any tax control mechanism must be consigned to the DGII.

3.6. Tax on Motor Vehicles

In 2012, the annual circulation tax on motor private vehicles was established at a rate of 1% on the vehicle's value, to be applied according to a reference table, arranged by type and year of vehicle, provided by the Dominican Tax Authorities. This tax shall only apply to imported vehicles entering the DR after the date of entry of Law 253-12 on Tax Reform. However, this tax rate has yet to be implemented, with the old regime being maintained, which amounts to what follows:

a. DOP$1,500.00 (approximately US$28) for vehicles with over 5 years or until 2013 of manufacture; and
b. DOP$3,000.00 (approximately US$57.00) for vehicles of 5 years or under 5 years of manufacture.

All private vehicles, at the time of registration will be taxed according to their CO2 emissions per kilometer, according to the following rates applied over the CIF value (cost, insurance and fleet) of the vehicle:

g CO2 / Km	Rate
Over 380 g CO2/km	3%
220-380 g CO2/km	2%
120-220 g CO2/km	1%
120g CO2/km	0%

4. Customs Regime – General Aspects

4.1. Custom Duties

Importation of goods and are subject to import VAT at a rate of 18% plus custom duties that range between 0% to 40%, depending on the type of asset imported, and with the exception for assets with special treatment.

4.2. Taxable Base

As a member of the WTO and having subscribed the Agreement for the Application of Section VII of the GATT, the value of the goods is established on account of the price paid. If this is not possible, other methods of valuation and the corresponding adjustments are applied. Duties are computed on the CIF value of the goods.

4.3. Transfer Pricing

Please see Section 1.1.5.

4.4. Filing and Payment

An import return must be filed, and the pertinent tax must be paid before the good is nationalized and cleared from customs.

4.5. Selected Custom Duties Regimes Available

There are several importation regimes applicable in the Dominican Republic, as noted below.

4.5.1. Ordinary Importation Regime

It applies to all goods that will remain permanently in the Dominican Republic territory without any use or jurisdictional restrictions. Full payment of custom duties and import VAT is required upon nationalization.

4.5.2. Temporary Importation Regime

It applies to merchandise that is to remain in the country for a specific purpose to be re-exported within a period of 90 days from the date of entry of such good in the Dominican Republic. This time period may be renewed for 3 additional periods of 90 days at the request of the party, which shall be renewed if the basis of this request is considered to be valid by the Customs Department.

The temporary importation regime benefits the following products:

a. professional equipment, including press and television, computer programs and cinematography and radio equipment necessary for the business activities, or profession of the businessperson that qualifies for the temporary entry of products in accordance with Foreign Investment Law 16-95;
b. merchandises used for exhibition or display;
c. commercial, movies and advertising samples; and
d. merchandises admitted for sporting events.

Several conditions must be met to import these merchandises to Dominican territory.

5. Payroll Taxes/Welfare Contributions

Employees are subject to both income tax and social security contributions to be withheld to their salaries by the employer as required by applicable law. Employers are designated as withholding agents for income tax, social security and governmental training agency contribution purposes, thus subject to withhold income tax and said contributions from the wages of its employees and pay such taxes and contributions directly to the competent authorities. Both withholdings and contributions are collected and paid monthly on the basis of the gross remuneration, except for the governmental training agency which is only charged to employees on the payment of the yearly profit sharing while monthly contributions (1%) must be done by the employer.

Law 13-20 also grants juridical personality to the Social Security Treasury ("TSS" by its acronym in Spanish) and the faculty for said institution to:

a. initiate criminal and civil proceedings against the employers with overdue debts; and
b. order the Dominican Tax Authorities to block the fiscal supporting documents numbers ("número de comprobantes fiscales- NCF"), which are required to issue invoices, credit/debit notes.

The overdue debt before the SDSS shall exceed 60 days.

5.1. Pension Fund Contributions

The employee's withholding for pensions funds equals to 2.87%, calculated on the employee's salary. Employers must also contribute to the social security system for pensions funds in an amount equivalent to 7.10% of the monthly salary of the employee.

The maximum salary applicable would be the equivalent of 20 minimum social security quotable salary.

5.2. Health Contributions

The employee must be affiliated to a Family Health Insurance ("FHI"). Contributions to the FHI must be equal to 10 minimum salaries. The financing of this insurance will consist of joint contributions from employees and employers: 7.09% of which is paid by the employer while the remaining 3.04% is contributed by the employee. The employer is responsible for withholding the employee's corresponding 3.04% and for remitting the FHI contribution to the TSS.

The maximum salary applicable shall be the equivalent of 10 minimum social security quotable salaries[24].

24 As of February 2026, the minimum salary for social security will be RD$23,223.00 (US$387.05) approximately.

5.3. Workers Compensation

This insurance is financed with an average contribution of 1.20% of the salaries, covered totally by the employer. The total contribution from the employer will have 2 components:

i. A fixed base rate to be applied evenly to all employers.
ii. A variable rate of up to 0.6% was established in agreement with the field of activity and risk factor of each enterprise.

In both cases, said percentages shall be applied on the basis of the applicable salary.

The maximum contribution in this insurance is of 6 minimum social security quotable salaries.

All applicable as per a monthly average social security quotable minimum salary of DOP$$21,674.80 (approximately USD$361.24) except for those sectors of the economy which are granted a lesser minimum salary and can request an exemption to the TSS by fulfilling the procedure and requirements established for said purposes.

5.4. Technical Professional Training Institute

For profit employers are subject to the payment of a monthly training contribution to INFOTEP (the governmental Institute of Technical Professional Training). This contribution is equivalent to 1% of the salaries and wages paid to the employees.

The employee must pay 0.50% of the annual profit sharing received from the employee, when applicable.

5.5. Annual income tax rates scale applicable to salaries

Annual income tax rates on salaries paid to employees will depend on the amounts, as follows:

Income tax rates on salaries	
Annual Salaries	**Rate**
Income until DOP$416,220.00	Exempt
Income from DOP$416,220.01 to DOP$ 624,329.00	15% of the surplus of DOP$416,220.01
Income from DOP$624,329.01 to DOP$867,123.00	DOP$31,216.00 plus 20% of the surplus of DOP$624,329.01
Income from DOP$867,123.01 and beyond	DOP$79,776.00 plus 25% of the surplus of DOP$867,123.01

Early each year, the established scale is adjusted for cumulative inflation for the previous year, according to the figures published by the Central Bank of the Dominican Republic. The scale was not adjusted up to March 2023.

Social Charges Contributions on Wages		
Social Charges	Employee	Employer
Social Security (Pensions)	2.87%	7.10%
Social Security (Health)	3.04%	7.09%
INFOTEP	0.50% (if yearly profit sharing applies)	1.00%
Social Security (Labor Risk)	-	Up to 1.10-1.60%
Subtotal nowadays	6.41%	Up to 16.79%
Christmas Salary	-	8.33%
Vacations	-	6 %
Profit Sharing Bonus (when applicable)	-	18 %
Sub-total:	6.41%	49.12%
Severance	-	8%
Prior notice	-	10%
TOTAL:	6.41%	67.12%

6. Miscellaneous

6.1. Simplified Tax Regime (RST)

The Simplified Tax Regime (a.k.a. RST) is a method that facilitates the tax compliance of eligible medium and small taxpayers, that usually do not have organized accounting, if their purchases do not surpass DOP$ 51,154,896.37 (approximately USD$898,039.10)– or individuals –eligible if their income does not surpass DOP$ 11,498,750.10 (approximately USD$188,504.11).

It allows for the liquidation of Income Tax (ISR) based on their purchases and / or income, as well as paying the VAT (ITBIS) based on the gross value added.

The main advantages of the RST are: organized accounting is not required; no tax advances paid on Income Tax (ISR); not subject to Assets Tax; automatically, a payment agreement is conceded for the ISR (3 installments for purchases and 2 assessments for income); for those on the purchase method, not having to make a payment for ISR for the first 6 months of the year; no need to send the information of tax identifiers on their purchases and sales monthly.

6.2. Special Formal Duties

6.2.1. Fiscal Supporting Document Number ("Números de Comprobantes Fiscales- NCF")

These are codified fiscal operations identifiers that give credit to the transfer and leasing of goods or the provision of services. Common identifiers apply to invoices that generate tax credit and/or support costs and expenses, bills to final consumers (with no tax credit value), debit notes and credit notes.

Special identifiers apply to informal providers, single records of revenue, petty cash, special tax regimes and transactions with the government.

6.2.2. Fiscal Solutions

Formerly known as fiscal printers, these apply to taxpayers who sell products or provide services to end users subject to VAT (ITBIS). Printers, or other alternative mediums, store the data of sales for the taxpayer which is to be sent monthly to the IRS in order to allow more fiscal control over said sales.

6.2.3. Electronic Invoices:

On May 25th, 2023, Law No, 32-23 was enacted which establishes that electronic invoicing for companies is mandatory. As of that date, the law became effective.

Some highlights of this law are:

- The establishment of entry deadlines and tax facilities for taxpayers who opt for it; and
- The establishment of the mandatory use of the electronic invoice from certain deadlines from the entry into force, according to the "size" of each company at a tax level. (i) Large taxpayers: within 12 months. (ii) Large Local and Medium Taxpayers: in 24 months, and (iii) Small, Micro and unclassified taxpayers: in 36 months.

However, in accordance with the provisions set forth in Notice 12-25, taxpayers classified as large local and medium-sized were granted a six (6) month extension from the original deadline of May 15, 2025. The new implementation date for this group is now November 2025.

6.3. Special Withholding Agents

In the taxation of VAT (ITBIS) and Excise Tax on the operations of entities under special customs fiscal regimens, the physical person or legal entity that purchases the good or service shall be considered as the contributor. Entities under the abovementioned regimes that transfer goods or services shall be constituted as withholding agents for the abovementioned taxes.

6.4. Appointment of a Tax Representative

In accordance with the provisions contained in letter "J" of Section 3 of Law No. 25-24, which modifies Section 11 of the Dominican Tax Code, all requests for registration and updates of companies in the National Taxpayer Registry (RNC) must declare the individual who will act before the Tax Administration as the person responsible for fulfilling the tax obligations of the company or entities. This must be accompanied by a copy of the meeting minutes or the applicable act designating such responsibility, expressly stating the acceptance of this responsibility. The executive responsible for fulfilling tax obligations must possess one or more of the qualities set forth in letter "J" of Section 3 of Law No. 25-24, and cannot be an outsider to the management, ownership, and transactions of the business. If the commercial companies are registered in the RNC, they will have until their next ordinary assembly to decide and notify the Tax Administration of the person who will assume this responsibility, through an update request to the RNC, including a copy of the meeting registered with the Mercantile Registry.

If this update is not carried out, this responsibility will be assigned by default to the individual designated as manager, administrator, or to the person with the largest shareholding within the company, according to the provisions contained in Sections 26, 28, 39, 40, 41, 43, 54, 67 of Law No. 479-08, General Law on Commercial Companies and Individual Limited Liability Enterprises, and Sections 5 and 330 of the Tax Code.

ECUADOR LEGAL ADVISOR SOLUTIONS S.C.

LEGAL ADVISORS

IN-COUNTRY MEMBER FIRM:

www.las.biz

(593) 2 2268 349 | (593) 2 2268 350 | (593) 2 2268 351

Rep. de El Salvador N35 40. ATHOS Bld. 6th Floor. Quito, Ecuador (Head office)

CONTACT PARTNER(S):

Walter A. Tumbaco

walter.tumbaco@laz.biz

HIGHLIGHTS

Corporate Income Tax:	
Corporate Income Tax:	25%
Tax on capital gains:	Added to taxpayer's taxable income and taxed at regular rates
Branch Profits Tax:	25%*
Dividends Tax: subject to a 10% withholding tax*	10% Distribution of dividends and profits to Tax Haven Jurisdictions are (*) Dividends Tax: subject to a 10% withholding tax, 0% - 25% (beneficial owner) individuals' resident in the Ecuador
Pymes Income Tax Rate:	22%
Withholding Taxes on:	
Interest*:	25%, 37% if remitted to Tax Haven Jurisdictions
Royalties*:	25%, 37% if remitted to Tax Haven Jurisdictions
Technical assistance*:	25%, 37% if remitted to Tax Haven Jurisdictions
Technical Services*:	25%, 37% if remitted to Tax Haven Jurisdictions
Other Services*:	25%, 37% if remitted to Tax Haven Jurisdictions
The tax reform enacted in December 2017 established that the tax rate will be 25% of local companies, branches and permanent establishments provided that the shareholders are fiscal residents in Ecuador*	However, the aforementioned Income rate would increase to 28% in the following cases: i) The proportion of the tax base corresponding to the direct or indirect participation of partners, shareholders, participants, beneficiaries, constituents or similar, who are residents or are established in tax havens or lower tax regimes ii) In the event that the participation exceeds individual or joint, equal or superior to 50%, the rate of 28% will be applicable to the entire tax base. When companies fail to comply with the duty to report on the participation of their shareholders, partners, participants, constituents, beneficiaries or similar.
Financial operations	0.15%
Alcohol products	0.5%-75.5%

* The distribution of dividends to shareholders is no longer exempt and will now add to its overall tax base, thus in accordance with the general tax rates. Dividends distributed to local companies will be exempt.

Local Level Tax Rates:	
Stamp (Documentary) Tax:	See Municipal Taxes
Tax on Industrial Activities:	See municipal Taxes
Tax on Service Activities:	—
Real Estate Tax:	
Taxes on Other Property:	See Taxes on vehicles, Superintendence of companies Tax and University of Guayaquil Tax
Excise Taxes:	Tax on Special consumptions: From 5.15% to 300% depending on item

Fiscal Residence of Individuals

In the case of individuals, regardless of their nationality:

1. Remain in Ecuador for 183 calendar days or more, consecutive or not, in the same fiscal period;
2. Remain in Ecuador for 183 calendar days or more, consecutive or not, within 12 months within two fiscal periods, unless it proves fiscal residence in another country, for having remained in that jurisdiction for 183 days;
3. The core business of their activities or economic interests lies in Ecuador, the following should be considered:
    - Taxpayer of income tax in Ecuador with income from an Ecuadorian source, even when its fiscal residence is in another jurisdiction.
    - You can use the tax paid in another jurisdiction as a tax credit.
    - Be the owner, directly or indirectly, of assets located in Ecuador, including rights representing the capital of companies resident in the country for a value greater than one million dollars.

4. When at any time before or during the fiscal year, there is:
    - If a tax resident of Ecuador.
    - Having Ecuadorian nationality or permanent residence in Ecuador.
    - Exercised as legal representative or agent of a company resident in Ecuador.

Fiscal Residence of Companies

In the case of companies, the fiscal domicile will be the place of its constitution or creation:

1. Corporations (Legal Entity, De facto Companies, Commercial Trust, Autonomous Heritage, Consortiums, Holdings, Investment Funds); and
2. Branch or permanent establishment (Fixed place in which a company carries out all or parts of its activities, has a dependent agent to habitually carry out economic activity in the country and taxable income).

Treaty Taxation

Items of Income						
Countries	Interest	Dividends	Royalties	Tech. Services	Tech. Assit	Application Begins
Germany	10-15%	15%	15%			1978
Argentina*						1983
Belarus	10%	5% - 10%	10%			2018
Belgium	10%	0%	10%			2005
Brazil	15%	0%	15%			1989
Canada	15%	0%	15%			2002
Chile	15%	0%	10-15%			2005
China	10%	0%	10%			2015
South Korea	12%	0%	5-12%			2014
Spain	10%	0%	10%			1994

France	10-15%	0%	15%			1993
Italy	10%	0%	5%			1991
Japan	10%	5% - 10%	10%			2020
Mexico	10-15%	0%	10%			2002
Qatar	10%	5 - 10%	10%			2019
Romania	10%	0%	10%			1997
Russia	10%	5 - 10%	10 - 15%			2019
Singapore	10%	5%	10%			2016
Switzerland	10%	0%	0%			1996 (Original Text) 2001 (Protocol)
Uruguay	10%	0%	5-10%			2013
Andean Pact Countries (Bolivia, Colombia, Peru)	0%	0%				2015
Non-Treaty Countries	25%	10%	25%	25%	25%	

* Only applicable to air transport rentals.

OVERVIEW

1. Income Tax

In order to provide taxpayers with more facilities to comply with the declaration and payment of income tax of natural persons, the Internal Revenue Service is updating the form applicable to the fiscal period 2024.

The new version of the personal income tax form incorporates several improvements, including:

- Simplified declaration for RIMPE taxpayers' popular businesses.
- Benefit of reduction of personal expenses for the income tax declaration.
- New income tax table for taxpayers of the general regime and RIMPE.

Tax Brackets for Individuals for 2024

Taxable income exceeding	Taxable income not exceeding	Tax on lower amount	% Rate on excess
0	11.902	0	0%
11.902	15.159	0	5%
15.159	19.682	163	10%
19.682	26.031	615	12%
26.031	34.255	1.377	15%

34.255	45. 407	2.611	20%
45. 407	60.450	4.841	25%
60.450	80.605	8.602	30%
80.605	107.199	14.648	35%
107.199	in onwards	23.956	37%

Popular Business Rate - RIMPE

Category	Lower limit	Upper Limit	Withholding on basic fraction	Marginal Rate
Popular Businesses	0	20.000	60	0.00%

Tax Brackets for Inheritances, Legacies and Donations for 2024

Taxable income exceeding	Taxable income not exceeding	Tax on lower amount	% Rate on excess
0	76.558	0	0%
76.558	153.115	0	5%
153.115	306.231	3.828	10%
306.231	459.379	19.139	15%
459.379	612.515	42. 112	20%
612.515	765.630	72.739	25%
765.630	918.725	111.018	30%
918.725	in onwards	156.946	35%

Beneficiaries within the first degree of consanguinity with the deceased are exempt from paying the Inheritance Tax. The tax will not be caused either in the event that the beneficiary is one of the surviving spouses, provided that there are no children who can access the estate.

Dividend Payment Table for resident final beneficiaries of Ecuador

Income taxed from (basic fraction)	Income taxed until (excess fraction)	Withholding on basic fraction	Percentage withholding on excess fraction
-	20.000,00	0	0%
20.000,01	40.000,00	0	5%
40.000,01	60.000,00	1.000,00	10%
60.000,01	80.000,00	3.000,00	15%
80.000,01	100.000,00	6.000,00	20%
100.000,01	In onwards	10.000,00	25%

1.1. General Aspects

Corporate Income Tax. Corporate Income Tax (hereinafter referred to as CIT) is levied on companies domiciled in Ecuador. Companies domiciled in Ecuador include those incorporated in Ecuador

and companies incorporated in foreign countries that have been approved as branches by the Superintendence of companies after a legal proceeding. Companies incorporated in Ecuador are subject to tax on their worldwide income. Foreign companies are subject to tax on income derived from activities within Ecuador and from goods and assets located within Ecuador.

1.2. Taxable Base

The base for calculation of Income Tax is composed by the totality of ordinary and extraordinary taxable income, minus devolutions, discounts, costs, expenses and deductions attributable to such income. Additionally to this taxable base, taxpayers must add non-deductible costs and expenses and subtract the exempt income, in accordance with the Tax Law.

1.3. Rate of Corporate Tax

The standard rate of CIT for **2024** is 25%. However, a 28% CIT will apply for those companies that have a 50%, or more, shareholders participation located in Tax Haven Jurisdictions.

1.4. Tax Base of Income from Work in a Relationship of Dependency

It is constituted by the taxed income less the value of the personal contributions to the Ecuadorian Social Security Institute (IESS), except when these are paid by the employe.

1.5. Tax Base for Seniors

Older adults will be deducted a basic fraction taxed with zero rate of Income Tax.

1.6. Tax Base for People with Disabilities or Substitutes

People with disabilities or substitutes will be deducted two basic fractions taxed with zero rate of Income Tax, according to the following table:

Degree of disability	Percentage for application of the benefit
from 30% to 49%	60
from 50% to 74%	70
from 75% to 84%	80
from 85% to 100%	100

1.7. Capital Gains

The Tax reform approved in December 2014; it decreed that the capital earnings derived from the sale of shares already are not exempt.

The profits received by companies domiciled or not in Ecuador and individuals, Ecuadorian or foreign, resident or not in the country, from the direct or indirect transfer of shares, participations, other rights

representing capital or other rights that allow exploration, exploitation, concession or the like; of companies domiciled or permanent establishments in Ecuador, will be subject, at the time of disposal, to a single income tax at a rate of 10%.

No direct or indirect disposal shall be understood to have occurred and, therefore, the event generating the single income tax is not configured when the transfer of shares, participations or other rights representing capital occurs due to the effects of corporate restructuring processes, merger or division, provided that the effective beneficiaries of the shares, participations or rights representing capital, are the same in the same proportion before and after these processes.

1.8. General exemptions and deductions

Taxable income is based on accounting profits with appropriate tax adjustments. In computing taxable income, a company can deduct all costs and expenses deemed necessary and related to the activity, aimed at attaining, maintaining and improving the taxable and not exempt income.

Exemptions

For purposes of determination and calculation of income tax, the following income, among others, will be exempt:

- 60% of Dividends and Profits distributed;
- Exempt income enshrined in international treaties;
- Interest received by individuals for their savings and deposit accounts, paid by financial institutions in Ecuador;
- Income received by the government and universities;
- Income derived from non-monetary investments made by entities that maintain oil and gas contracts with the government;
- Income earned from the occasional sale of real estate;
- Income derived from capital gains, profits, profits or financial returns distributed by welfare funds, pension funds, investment funds and commercial trusts to their beneficiaries, provided that the funds have complied with their obligations as taxpayers;
- Compensation from insurance policies;
- Thirteen and fourteen salaries;
- Severance payments received by workers and employees etc.;
- Economic compensation for Living Salary;
- Occasional sale of real estate.

Exempt if the alienation is carried out by a individual, a maximum of two transfers in the year, provided that it is real estate destined for housing (including its accessories, such as parking lots, warehouses or the like) and that it is not related to the line of business.

- The occasional sale of real estate in the first transfer of ownership that takes place from the effective date of the law up to 5 years (2022-2026) will not cause Income Tax.
- Yields and profits from time deposits and investments in fixed income by individuals, companies, residents or not in the country.
- Exempt if they are issued for a term of 180 calendar days or more and remain in the holder's possession for at least 180 days continuously.

Local Deductions

a. For expenses over USD 500 to be deductible and entitled to a tax credit, you must use any institution in the financial system to make the payment, through: money orders, fund transfers, credit or debit cards, checks, Any other means of electronic payment.
b. Travel expenses duly supported and valid receipts and do not exceed 3% of taxable income for the year. For new companies, 100% travel expenses are accepted for the first 2 years.
c. Allocations from Abroad: to companies domiciled in Ecuador by related parties up to 5% of the income tax base plus said expenses.
d. Insurance Premiums: An additional 50% will be deducted from credit insurance contracted for export.
e. For the deduction of the impairment of accounts receivable, it should not exceed 1% of expenses on the annual portfolio, without the accumulated provision exceeding 10% of the total portfolio.
f. Wages and salaries, social benefits, compensation according to the labor code.
g. Losses that ordinarily arise in the processes of production, storage or transportation of products likely to reduce their quantity or volume, in the percentages indicated by the Internal Revenue Service.
h. Additional deduction of 150% on advertising, promotion and sponsorship expenses made in favor of athletes qualified by the Ministry of Sports.
i. Additional deduction of 150% on auspices and sponsorships made to educational entities of basic and high school level or non-profit entities whose activity is focused on the eradication of child malnutrition and care of pregnant mothers.
j. Additional deduction of 150% on expenses for organization and sponsorship of artistic, cultural events and production and sponsorship of cinematographic works.
k. Additional deduction of 150% on expenses for private contributions for the promotion of the arts, cinema and innovation in culture.

Additional deduction of 100% on donations, investments and/or sponsorships allocated in favor of programs, funds and projects for prevention, protection and conservation, bio enterprises, restoration and environmental repair duly qualified by the environmental authority, provided that the deduction does not exceed 10% of annual gross income.

1.9. Tax Depreciation and Amortization

Depreciation is generally computed using the straight-line method. The following are some of the straight-line depreciation rates provided in the tax law:

Asset Rate	%
Commercial and industrial buildings	5%
Office equipment	10%
Motor vehicles, trucks and computers	20%
Plant and machinery	10%
Computers and software equipment	33%

In general, if the percentages indicated are greater than those calculated according to the nature of the assets, the duration of their useful life or the accounting technique, the latter will apply.

In the case of asset revaluation, the depreciation expense of the revaluation assets will not be deductible.

Additional 100% deduction for depreciation and amortization of machinery, equipment and sustainable construction technologies.

For other assets that produce income must be amortized for 5 years, using a linear amortization rate of 20%.

Intangibles must be amortized over any term of the relevant contract or a period of 20 years, the impairment of intangible assets with indefinite useful life will not be deductible.

Assets used: The remaining probable useful life to depreciate the acquisition cost, which, added to that spent during the previous use, cannot be less than that of new goods, will be reasonably calculated.

1.10. Tax Losses Carry-forward/ Carry-back. Relief for Losses

Net operating losses may be carried forward and offset against profits in the following five years, provided that the amount offset does not exceed 25% of the year's profits. Loss carrybacks are not permitted.

1.11. Tax-Free Reorganizations

Reorganization of corporations, mergers and Spin-offs are not subject to any tax in Ecuador. Contributions in kind are also exempt from municipal Taxes in these kinds of transactions.

1.12. Expenses Incurred Abroad

Are generally deductible, provided appropriate taxes are withheld if the payment constitutes taxable income for the payee.

Amounts that taxpayer remits abroad as reimbursement of costs and expenses incurred abroad, directly related to the activity carried out in Ecuador by taxpayer, shall be deductible as expenses for local purposes are taxed at a rate of 25% and 37% if sent to Tax Haven Jurisdictions.

With respect to payments remitted abroad on account of interest on foreign loans contracted by the private sector, the withholding tax rate for 2021 is 25% (37% if payments are remitted to Tax Haven Jurisdictions) and 0% if the payments are remitted to International Financial Banks and Institutions.

The following payments abroad are deductible within specified limitations:

- Payments for imports, including interest and financing fees, as provided in import licenses;
- Export fees of up to 2% of the export value;
- Interest with respect to foreign loans registered with the Central Bank of Ecuador, provided the foreign loans are Government to Government loans, International Financial Banks and Institutions loans or loans granted by the World Bank, the CAF, the BID, and other multinational organisms. In addition, in order for interest of foreign loans to be deductible, the amount of the foreign loan shall not exceed 300% of the foreign debt-capital stock relation for foreign branches, banks, insurance companies, and entities in the financial sector of the Popular and Solidarity Economy. For other companies, interest cannot exceed 20% of EBITDA;
- Payments on account of international lease of capital goods;
- 50% - 75% of the insurance or reinsurance premiums paid to foreign companies that do not have a Permanent establishment or representation in Ecuador.

Nondeductible expenses include the following:

- Losses or discounts on the sale of financial assets of trade credits or portfolio that are negotiate outside the Stock Market or with related parties, for natural persons and / or non-financial entities.
- For non-financial institutions, impairment of financial assets of bad loans exceeding deduction limits, in the period recorded in the accounts (1% per annum on appropriations commercial of the year, without the accumulated provision exceeding 10% of the total portfolio). It will be recognized a deferred tax on the surplus when the deadlines and conditions for the elimination of uncollectible accounts or the financial asset is sold from the year 2023.
- The difference between financial depreciation and deductibility limits. A tax will be recognized deferred from the fiscal period following the end of the financial useful life, distributed in a manner uniform during the remaining years of useful life of the good, according to the Regulation from the year 2023.

Deduction of costs and expenses incurred abroad and elimination of the tax exemption for reimbursement of costs and expenses remitted abroad

Amounts that taxpayer remits abroad as reimbursement of costs and expenses incurred abroad, directly related to the activity carried out in Ecuador by taxpayer, shall be deductible as expenses for local purposes and subject to 25% WHT (for 2024) 37% if the beneficiary is domiciliated in TAX HAVEN Jurisdictions.

1.13. Accounting Records for Individuals

They are obliged to keep accounting records for individuals, whose gross income of the last fiscal year is greater than US$ 300,000.00 and whose costs and annual expenses related to the economic activity of the business of the last fiscal year at least of US$ 240,000.00.

Individuals who develop the following activities will be included in this amount:

- Agricultural;
- Livestock;
- Forestry or similar; and
- As well as professionals, commission agents, craftsmen, agents, representatives and other self-employed workers.

They must comply with this obligation at the beginning of their economic activities or on January 1 of each year without the need to be notified by the Tax Administration.

1.14. Loans to Shareholders

When a Corporation grants loans to its shareholders or partners, this transaction shall be considered as payment of anticipated dividends and therefore the Company must withhold the corresponding amount, at the rate applicable to corporations on the amount of the transaction. Such withholding shall be declared and paid within the next month and will constitute tax credit for the Company in its IT annual return.

1.15. Deferred Tax

For tax purposes and in strict application of the accounting technique, the recognition of deferred taxes is allowed, only in the following cases and conditions:

- Impairment losses resulting from the adjustment made to reach the net realizable value of the inventory;
- The expected losses in construction contracts generated by the probability that the total costs of the contract exceed the total revenues of the same;
- The depreciation corresponding to the capitalized value and financial updating of the provision for dismantling and other subsequent associated costs, in accordance with the relevant accounting regulations;
- The value of the impairment of property, plant and equipment and other non-current assets that are used by the taxpayer;
- Provisions other than uncollectible accounts and dismantling;
- Gains or losses arising from the measurement of non-current assets held for sale;
- The income and costs derived from the application of the accounting regulations corresponding to the recognition and measurement of biological assets, measured with changes in results, during their period of biological transformation, must be considered in tax reconciliation, as income not subject to tax. income and costs attributable to income not subject to income tax, including the payment corresponding to the workers' participation;
- The losses declared after the tax reconciliation, from previous years;
- Unused tax credits generated in previous periods;
- In integrated service contracts with financing from the contractor contemplated in the Hydrocarbons Law, as long as the amortization formulas provided for tax purposes are not compatible with the accounting technique, the value of the amortization of tangible or intangible investments registered under the accounting technique that exceeds the value of the tax amortization of those investments;
- The provisions made to cover payments for eviction and employer retirement pensions that are constituted as of the year 2019;
- For the recognition and measurement of income, costs and expenses from construction contracts, whose contractual conditions establish control processes on work progress forms;
- For the difference between the rental fees agreed in a contract and the charges in the income statement that in accordance with the accounting technique; and
- The difference between the financial depreciation of property, plant and equipment and the limits of deductibility of said depreciation.

1.16. Transfer Pricing Rules

On 31 December 2004, Ecuador incorporated to its legislation several rules regarding the taxability of transactions between related parties, tax havens and the methods to apply the Arm's Length Principle.

In the transactions celebrated between related parties, the price shall be adjusted through the individual or combined application of any of the below described methods, in such a form that the "arm´s Length Principle" is reflected in their result. The methods are:

- Comparable Uncontrolled Price method;
- Resale Price method (Resale minus);
- Cost Plus method;
- Profit Split method; and
- Transactional Profit method or Transactional net margin method.

The Transfer Pricing Annex and Integral Report. Taxpayers have the obligation to file with the Local Internal Income Service a Transfer Pricing Annex when their transactions with related parties above in a fiscal year exceed US$ 3,000,000.00 and a Transfer Pricing Integral Report detailing the transactions carried out with related parties in a fiscal year when their transactions with related parties abroad exceed US$ 10,000,000.00. The Local Internal Income Service can request information also with regard to transactions carried out with related parties within Ecuador.

According to the tax reform enacted 23 December 2009, taxpayers are exempt from the transfer-pricing regime, when:

- The income tax liability exceeds 3% of their taxable income;
- Do not carry out transactions with parties domiciled in Tax Haven Jurisdictions;
- Do not maintain contracts for the exploration or exploitation of non-renewable resources with the Government.

BEPS implementation in Ecuador

In 2015 the OECD published the BEPS Action Plan ("Base Erosion and Profit Shifting"), a document whose main objective is to address and combat the problems of erosion of the taxable base and the transfer of profits. Said plan contemplates a series of measures applicable to tax authorities globally.

Ecuador, despite being a country that does not adhere to the OECD, has shown interest in seeking the viability of such actions in its current tax legislation. However, there is still no formal and official approach to the implementation of these initiatives; the effects that a reform of this magnitude would cause are still being analyzed.

Currently, there are no specific measures that imply the inclusion of additional reports or documentation for compliance with transfer prices in line with the BEPS Action plan.

Technical and Methodological measures to avoid the abuse of transfer prices

The measures established shall be mandatory for taxpayers of income tax, tax residents or permanent establishments in Ecuador, in their operations with related parties, provided that:

1. In the case of operations that correspond to:
    - Exports or any other type of sale of crude oil, direct or indirect, under any modality;
    - Exports or any other type of alienation of gold, silver or copper or another metallic mineral in any state, direct or indirect, under any modality; and
    - Exports or any other type of sale of bananas, direct or indirect, under any modality.
2. Such transactions are carried out between the taxpayer of the income tax and one or more of its related parties that are framed in at least one of the following conditions:
    - Are residents or are established in countries, jurisdictions or regimes designated as tax havens or lower tax jurisdictions or are subject to preferential tax regimes, according to the resolution issued by the Internal Revenue Service; and/or
    - Are international intermediaries without fiscal residence in Ecuador who do not reside in the country or jurisdiction of final destination of the goods. For this purpose, goods to intermediate ports or other spaces that are used for logistical or other purposes will not be considered as the final destination of the goods when the merchandise does not enter the customs territory or is not nationalized.

1.17. Payment and Filing of Income Tax

Presentation of withholdings at the source

Withholding in monthly source of taxes will be made in the corresponding forms and other means, in the form and conditions established by the Internal Income Service (IIS). Even in the case when a withholding agent does not perform withholdings at source during one or more monthly periods, he shall be however obliged to file the tax returns corresponding to those months. This obligation shall not apply to those employers that only have workers who do not reach the minimum annual taxable income. Withholding agents shall provide to the Internal Income Service the complete information regarding withholdings at source effected by them, including the RUC number, sale voucher number, authorization number, amount of tax levied, name and identification of supplier and the date of transaction, in the means and in the manner instructed by the Internal Income Service.

Terms for filing and paying. Withholding agents will file the return with the declaration of the amounts withheld and these will be paid in the following month in the date corresponding to the ninth digit of the RUC number.

If the return contains mistakes or errors, it can be replaced by a new declaration containing all the pertinent information, but only provided the new declaration implies a bigger amount to be paid to the Internal Income Service.

Rules Regarding Filing and Payment of Income Tax

Terms for filing Income Tax Returns shall be filed annually in the places and dates determined in the General Regulation to the Tax Law Rules Regarding advanced Filing of Income Tax Return in cases of Termination of activities, mergers and Spin-offs of corporations.

In the case of termination of activities before the end of the fiscal year, taxpayer will file an anticipated income tax return. Only when this anticipated return has been filed, the proceedings for the cancellation of the RUC, or the authorization for cease of operations, will be allowed to start. This rule will also apply for individuals that must leave Ecuador for a period exceeding the end of the tax year.

Payment of the tax may anticipate voluntarily, and will be equivalent to fifty percent (50%) of the income tax caused from the previous fiscal year, less any withholding made in such fiscal year. The anticipated value will constitute a tax credit for the payment of income tax.

They may make the voluntary payment of the income tax advance, starting the month following the presentation of the income tax return for the current year and until December 31 of such fiscal year.

1.18. Obligation to Report and Declare the Sale of Shares, Quotas and Other Rights

Failure in filing this information shall be penalized with a fine of 5% of the market value of the transaction.

1.19. Penalties on Unpaid Taxes, Late Filing and Interest

Sanctions: Penalties and Interest

Penalties: The penalty for late filing shall be equal to 3% of the tax levied, for each month or fraction of a month, up to a maximum of 100% of the tax levied. In the case of late filings by withholding or perception agents, the penalty shall be imposed on the tax due, which is, after deducting the corresponding tax credit.

Interest: Tax obligation which is not declared and paid in the term set forth in the Tax Law will result in an annual interest equal to 1.5 times the referential active interest rate for ninety days established by the central Bank of Ecuador, to be calculated since the date the tax obligation became due until it is fulfilled. Fraction of a month will be considered a complete month.

1.20. Withholding Taxes

Withholdings at Source: All legal persons, public or private, corporations, enterprises, or individuals that be on record in the cadaster of withholding agents issued by the Internal Income Service that are obliged to keep accounting records, or that make payments or credit into account of any type of income, considered taxable income for the beneficiary, shall act as Income Tax withholding agents. The Internal Income Service will periodically release the withholding percentages that in no case will exceed 10% of the payment or credit into account.

Local Tax Credit: The amount withheld will constitute tax credit for taxpayer whose income was subject to withholding tax and he will be enabled to offset the amount withheld to the tax liability in his annual return.

In the case that the amounts withheld and/or the amount paid as anticipated income tax exceed the annual total tax liability, taxpayer will have the right to choose between filing a refund claim for the portion of taxes paid in excess or to offset it with future tax liabilities of next fiscal years.

Tax credit for taxes paid abroad: Regardless the provisions set forth in international treaties, Ecuadorian resident individuals and Ecuadorian corporations that receive income from abroad, subject to income tax in the country of origin, will be allowed to deduct from the Ecuadorian tax liability the Taxes paid abroad on account of the same income, provided the tax credit does not exceed the local tax liability attributable to the same amount of income in Ecuador.

Moment of withholding: Withholding shall become mandatory at the time of payment or credit into account, whichever occurs first.

Obligation to withhold: The obligation to withhold becomes mandatory in all payment or credit into account exceeding.

Ecuador taxes: 0% on the distribution of dividends between national companies, taxes 10% on dividends remitted abroad to foreign companies or to foreign shareholders not resident in Ecuador, as long as income tax has been paid by the company in the corporate level, benefits to tax havens are subject to a withholding tax of 14%, 0% - 25% (beneficiary) of a individuals resident in Ecuador.

Royalties: Royalties paid or remitted abroad to non-treaty countries are taxed at the flat final rate of 25% and 37% if sent to Tax Haven Jurisdictions.

Technical Services, Technical Assistance and Consulting Services: Technical Services, Technical Assistance and Consulting Services paid or remitted abroad to non-treaty countries are taxed at the flat final rate of 25% and 37% if sent to Tax Haven Jurisdictions.

Other Services: All other services paid or remitted abroad to non-treaty countries are also taxed at the flat final rate of 25% and 37% if sent to Tax Haven Jurisdictions.

Leasing Payments: Lease payments remitted abroad are taxed at the flat final rate of 25%. and 37% if sent to Tax Haven Jurisdictions.

Interest: Payment of interest on account of foreign loans, are subject to a 25% and 37% if sent to Tax Haven Jurisdictions and 0% if the payments are remitted to International Financial Banks and Institutions.

1.21. Withdrawals in the Source on Outside Payments

The duty to inform if a company reports as a last level of its chain of property or as an effective beneficiary, to a individuals who is not a fiscal resident of the equator, may be a nominal or formal holder that, consequently, is not the beneficial owner, or reveal the real ownership of the capital, will be deemed fulfilled if the reporting company demonstrates that said individual is not a nominal or formal holder under the aforementioned regime.

1.22. Rules for the Application of the Ordinary Imputation Method to Avoid Double Taxation

It constitutes tax credit of Ecuador IT, the tax paid abroad, having as a limit the amount that would have been taxed in Ecuador. If foreign income is not taxed in Ecuador or enjoys exemptions Tax paid abroad cannot be used as a foreign tax credit. The part of the tax paid abroad that exceeds the local tax, is not liable to return, compensation or any other form of recovery; nor can it constitute a tax credit for that or any other tax period.

Organic code of production commerce and investments. Enacted in December 2010

- 22% Income Tax for the Development of new Investments for a period of up to 15 years from when they generate income attributable to the new investment; and
- 20% Income Tax for signing Investment Contracts with the State, until the investment period.

Tax Benefit for Investment Contracts

Beneficiaries:

- New Companies (as of the effective date of the reform);
- New companies created by existing ones; and
- New investments by existing companies,

Existing companies must maintain a cost center to differentiate the income attributable solely to the new investment in the cases that apply to them. ISD and Tariff Exemption:

- Import of capital goods and raw materials (under the opinion of the Ministry of Economy and Finance “MEF” and approval of the Foreign Trade Committee “COMEX”).

Stability of tax incentives:

- Investments greater than USD 1 million at least USD 250,000 in its first year; and
- That generate employment.

The accumulated reduction during the investment period will not exceed the amount of the investment or its application term, whichever comes first.

Organic law to boost the Violet Economy (LOIEV)

1. Reform of the Internal Tax Regime Law

Up to an additional 140% of the income tax base will be deductible for expenses incurred for remuneration and social benefits that constitute taxable matter for the contribution to Social Security.

This deduction will not be cumulative with the additional deductions referred to in numeral 9 of art.10 of the Internal Tax Regime Law, for payments of:

- Salaries and remunerations in general, social benefits, participation of workers in profits, compensation, social bonuses, disbursements for transactional acts and sentences, contributions to the IESS, medical assistance, training etc.
- Additional deduction of 150% for remuneration and social benefits in favor of disabled people or workers with a disabled spouse or children.
- Economic compensation to achieve a living wage.

The incentive may continue to be applied by the employers concerned even in cases of termination of the employment relationship, provided that another worker is hired under the same wage and contractual conditions.

It will be applied according to the time of permanence of the worker in the workplace:

Dwell time	Additional Deduction
6 consecutive months during the respective financial year	100% additional
7 consecutive months during the respective financial year	Additional 120%
8 consecutive months during the respective fiscal year	Additional 130%
10 consecutive months during the respective financial year	Additional 140%

The time of permanence may be accumulated for up to three (3) fiscal years, according to the following detail:

New positions for hiring women	Time of application of the incentive
Between 10% and 25% of total payroll	12 months
Between 25.01% and 50% of total payroll	24 months
Exceed 50% of total payroll	36 months

2. Amendments to the Labor Code

- Employers are prohibited from demanding and/or requiring in the selection processes any differentiating element that does not correspond to the skills and abilities necessary for the job;
- Equal pay for work of equal value is implemented. Work of equal value is considered when the nature of the functions, professional and working conditions in which they are carried out are equivalent;
- The youth employment contract is an agreement that establishes an employment relationship with a young person between 18 and 29 years of age, with the goal of promoting dependent youth employment;
- Paid maternity leave consisting of the granting of 12 weeks for the care of the newborn child may

be shared up to a maximum of 75% with the father; and

- The nursing mother shall have paid leave for the breastfeeding period for 12 months from childbirth. The working day of the nursing mother will be 6 hours. The manner in which leave is taken may be determined in agreement with the father.

3. Amendments to the Companies Law

All types of companies that make up boards of directors with 3 or more members must include one person with female gender for each 3 members.

2. Value Added Tax (VAT)

2.1. Value-Added Tax (VAT)

VAT is levied on the transfer of goods, imports and services provided. The following transactions are exempt from VAT:

a. Contributions in kind to corporations;
b. Awards arising from inheritances and liquidation of companies;
c. Sale of businesses in which the assets and liabilities are transferred;
d. Merges, spin-offs and transformation of corporations;
e. Donations to public entities and charities;
f. Transfer of shares, participations and other securities; and
g. The fees or contributions made by unit owners for the maintenance of condominiums within the horizontal property regime, as well as the assessments for financing common expenses in urban developments.

2.2. Transfers Levied With "0" Rate

a. Food Products of agricultural, aviculture, cattle, apiculture, cuniculture, aquaculture and forest nature; meats and fish in natural estate;
b. Milks in natural estate, pasteurized, homogenized, powdered, maternity milks, child protein milks;
c. Bread, sugar, brown sugar, salt, grease, margarine, oats, cornstarch, noodles, flours for human consumption, canned tuna, mackerel, sardines, trout, and oils for human consumption, except olive oil;
d. Certified seeds, bulbs, plants, live roots. Fish flour, balanced foods, fertilizers, insecticides, pesticides, herbicides and veterinarian products;
e. Tractors with tires up to 200 HP, drill plows, harvest and crop machinery, bombs for irrigation.;
f. Medicines and drugs for human consumption, as well as raw material to produce them. Vases and labels for medicines;
g. Paper and books printed in paper;
h. Goods to be exported;
i. Goods imported to Ecuador by: Foreign Diplomats and officers of international organisms, provided they are exempt from custom duties, Passengers entering the country, Donations on behalf of Government entities, Goods imported under the Temporary Import Regime, while they are not nationalized, Imports of capital goods made by Government entities, Andean Development corporation, Interamerican Development Bank and World Bank.

2.3. Services Levied with "0" Rate

a. Fluvial, maritime and terrestrial passengers and cargo transportation as well as international aerial cargo transportation;
b. Health Services;
c. Lease and rent of real estate destined exclusively for housing;
d. Public services of electric energy, potable water, sewage, those of garbage collection; and, of irrigation and drainage;
e. Education Services, Kindergarten, childcare and elderly care homes services;
f. Religious services;
g. Book printing services;
h. Funeral services;
i. Some administrative services provided by the Government;
j. Public shows and spectacles;
k. Exchange, Stock market and Financial Services provided by the entities duly authorized by the law and the Government;
l. Transfer of securities;
m. Services for export, including inland tourism;
n. Services provided by Professionals up to an amount of US$ 800.00 for each case;
o. Toll for the use of roads and highways;
p. Lottery conducted by Beneficence and Faith and Smile (charity entities);
q. Aerial fumigation;
r. Services rendered by artisans;
s. Refrigeration and freezing services for maintenance of food;
t. Services provided to Government entities that receive tax exempt income; and
u. Life insurance and reinsurance, medical assistance and personal accidents Services.

According to the tax reform of 31 December 2019, importation of services is now levied with 15% VAT and it must be calculated and paid in the monthly VAT tax return made by taxpayer. The acquirer of the service provided from abroad must withhold and pay 100% of the VAT levied in the contracting of service. It shall be regarded as importation of services, those provided by a non-resident corporation or individual on behalf of an individual or corporation resident or domiciled in Ecuador, provided the utilization of the service is made completely in Ecuador, even if the service is rendered from abroad.

2.4. General Taxable Base

The taxable base for VAT is the total amount of the movable goods of corporal nature that are being transferred or of the services provided, calculated upon their sale prices or of the price of the providing services, which includes taxes, surcharges and other expenses legally attributable to the price.

2.5. Taxable Base on Imported Goods

VAT taxable base on imports is the result of adding to the CIF value the taxes, custom duties, surcharges, fees and other expenses as declared in the import permit and other relevant documents.

2.6. Rate

The general rate for VAT is 15% and for the construction sector it is 5%.

2.7. VAT Credit

As a mandatory general rule, VAT credit will be granted on VAT paid in the purchase and utilization of goods and services levied with this tax, provided such goods and services are destined to the production and merchandising of other goods and services levied with 15% rate. There will be no VAT credit in the local purchase and import of goods or in the utilization of services made by taxpayers to be used in the production or sale of goods, or in the providing of services, totally levied with "0" rate; and the purchase or import of fixed assets to be used in the production of goods and services totally levied with "0" rate.

2.8. VAT Refund on Export Activities

Individuals and corporations that have paid VAT in the local purchase or import of goods, used in the manufacturing of goods to be exported, will be granted a refund for the tax paid, without interest, in a period of time not exceeding ninety days. If the refund is made after this term, interest will apply.

Notwithstanding the above rule, this will not apply to oil & gas exports, due to the fact that oil & gas are not manufactured, but rater extracted from the soil.

2.9. Commissions for concept of Severe Securities Services with 0% Tax Value Added Value (VAT)

Commissions for securities services that pay a 0% rate of Value Added Tax.

a. For Stock Exchanges:

- Commission for the use of physical and technological infrastructure for transparent access to proposals for the purchase and sale of registered securities;
- Commission for the use of the SIUB Sole Market System, for the stock exchange negotiation of securities and financial instruments; and
- Registration and maintenance so that issuers can negotiate the securities.

b. For Stock Houses:

- Commission that the Stock Houses charge for carrying out the negotiations;
- Commission for the administration of securities portfolios or third-party funds to invest them in Securities Market instruments in accordance with the instructions of their principals;
- Commission in underwriting or subscription of an issue or part of it, for subsequent resale in the market, with legal entities of the public sector, the private sector and with collective funds;
- Commission for advice and information on matters of finance, securities, structuring of securities portfolios, mergers, spin-offs, acquisitions, trading of share packages, purchase and sale of companies, and other operations of the stock market;
- Commission for carrying out repurchase transactions;
- Commission for carrying out the operations of brokerage of equities or fixed income of the public and private sectors, inscribed in Stock Exchanges;

- Commission for entering into correspondent agreements with securities intermediaries in other countries;
- Commission for entering into referral agreements with securities intermediaries from other countries; and
- Commission for structuring processes of issuance of negotiable securities in the Stock Market.

c. For centralized clearing and settlement of securities deposits:

- Commission to receive deposits of securities registered in the Public Cadastre of the Securities Market and to take charge of its custody and conservation until its restitution to the corresponding one;
- Commission for registration of short and long-term issues;
- Commission in the settlement and compensation of the securities deposited that are traded on the Stock Exchange;
- Commission for carrying out the dematerialization of the securities registered in the Public Cadaster of the Securities Market through its book entry;
- Commission for acting as a paying agent of dematerialized issuances authorized by the Superintendency of Companies, Securities and Insurance;
- Commission for providing the numerating agency services; and
- Commission for fractionation and consolidation of securities.

d. For the Administrators of Funds and Trusts:

- Commission for the administration of investment funds and commercial securitization and investment trusts.

2.10. The Procedure and Conditions for the Verification of the Tax to the Added Value (VAT), Subject to the Budgetary Compensation Process, are established

The general rules that regulate electronic invoicing by taxpayers, companies or individuals that hire, promote or manage the provision of public shows in the country, who can issue invoices through data messages and signed electronically are established.

2.11. Rules for the VAT Refund, Paid by Seniors

It establishes the procedure for the refund of the Value Added Tax paid by the elderly in the local acquisition of goods and services that are of national origin or imported, of first necessity and for their use and personal consumption.

The proportion of VAT paid on purchases of goods or services eligible for monthly use as tax credit will be determined by relating sales taxed at the 15% rate, plus exports, plus sales of receptive tourism packages (invoiced inside or outside the country, provided to non-resident individuals in Ecuador), plus direct sales of goods and services taxed at a zero percent VAT rate to exporters, plus sales of goods indicated in literal b of numeral 2 (*) of Article 66 of the Internal Tax Regime Law.

2.12. Refund Mechanisms by Technical Coefficients

In the case of exporters, a VAT refund scheme may be established using coefficients that will be considered technical factors and may be issued sectorially, as provided in Article 172 of this Regulation.

Second unnumbered article after Article 172: The Internal Revenue Service, through a general resolution, may establish a procedure for the automatic reimbursement of VAT paid and withheld by exporters, or the offsetting of the tax credit they are entitled to for the VAT refund with the amounts paid or generated by the VAT resulting from their activity.

Refund of the Value Added Tax on the Acquisition of Fixed Assets

In this case the VAT to be refunded will be determined as follows:

1. In the case of exporters, the proportionality factor that represents the total of exports compared to the total declared sales will be applied.

They may request the VAT refund of fixed assets after 6 months have elapsed since their first export. In this case, the VAT refund proportionality factor of fixed assets, applicable to the requested period, will be calculated according to the total exports compared to the total sales filed for the 6 months after the requested period.

2. In the case of direct suppliers of exporters of goods, the proportionality factor that represents the total of direct sales to exporters will be applied to total sales.

Taxpayers who start their sales activities to exporters, may request the VAT refund of fixed assets after 6 months have elapsed since their first sale to exporters.

2.13. The Instructions for the Granting of the Certificates of Completion of Audiovisual and Cinematographic Productions for the Return of 50% of the Value Added Tax (VAT) are Issued

Companies that are dedicated exclusively to the production of audiovisuals, music videos, soap operas, series, miniseries, reality shows, television or Internet platforms, or film productions that carry out their filming in Ecuador and request the Internal Income Service the return of 50% of the Value Added Tax (VAT) paid during the production of their projects or works.

The provisions shall not apply to companies engaged in programming and transmission activities, even when they are responsible for production activities.

2.14. Value Added Tax Withholding Percentages are Established on Sales of Oil Derivatives to Distributors

Petrocomercial and the fuel marketers, in the sales of petroleum derivatives to the distributors, must make the withholdings on the Value Added Tax - VAT caused, according to the percentages detailed in the table below:

Petroleum derivatives for consumption in the automotive	VAT withholding percentage
Super gasoline	9.5%
Extra gasoline or Ecopais	2.0%
Diesel	2.0%

In the case of other petroleum derivatives, which are not referred to in the previous article, the withholding of 100% of the presumptive VAT calculated on the marketing margin that corresponds to the distributor will be applied; the retained values will be declared and paid without any deduction.

2.15. Value Added Tax and Withholdings at Source of Income Tax

They must file their semiannual VAT and income tax withholding declarations with the SRI for semesters in which no operations, movements, and/or economic transactions have occurred, provided the following conditions are met:

- Do not register in the semester operations, movements and / or any economic transaction;
- Not having a valid authorization for the printing or issuance of sales receipts, retention and complementary documents for the six-month period; and
- Do not register additional information that must be considered within the monthly declarations of VAT and withholdings at the source of income tax corresponding to the respective half-yearly period.

2.16. The Temporary Reduction of VAT From 15% to 8% has Been Provided for Holidays in 2025

Carnival and Easter

3. Tax on Special Consumptions

3.1. Object of Tax Special Consumptions

Tax Special Consumptions applies to the consumption of cigarettes, beers, soft drinks, and luxury or sumptuary articles, national or imported.

3.2. Taxable Base

Taxable base of products subject to Tax Special Consumptions locally manufactured, shall be determined adding the “exfactory” price, costs and commercialization margins, minus VAT and the own Tax Special Consumptions. The rates established in the law shall be applied to this taxable base.

For imports subject to Tax Special Consumptions, the taxable base will be established increasing to the “Ex-Custom Price” an additional 30% on account of costs and expected commercialization margins.

3.3. Transactions Taxed by ICE

Popular Business - as collection agents, they must issue invoices for the taxable operations they carry out, without breaking down the VAT, since for this segment of taxpayers a presumptive Value Added Tax regime applies.

3.4. Rates of Tax Special Consumptions

Tax Special Consumptions is levied on the following products.

GROUP I

Rate ad Valorem	
Description	**Rate**
Tobacco products, substitutes or substitutes for tobacco in any presentation, in accordance with the definitions that are in force by the competent authority.	150%
Tobacco from heated tobacco consumables and liquids containing nicotine to be administered through nicotine delivery systems.	50%
Fizzy drinks with sugar content less than or equal to 25 grams per liter of beverage; and energy drinks.	10%
Perfumes and toilet waters.	20%
Firearms, sports weapons and ammunition.	30%
Incandescent spotlights. Water heaters and water heating systems, for domestic use, that work totally or partially through the combustion of gas.	100%

GROUP II

Rate ad Valorem	
Description	**Rate**
1. Motorized vehicles of land transport of up to 3.5 tons of load, according to the following detail:	
Motorized vehicles whose retail price is up to USD 20,000	5%
Trucks, vans and rescue vehicles whose retail price is up to USD 30,000	5%
Motorized vehicles, except vans, vans, trucks and rescue vehicles, whose retail price is greater than USD 20,000 and up to USD 30,000	10%
Motorized vehicles whose retail price is greater than USD 30,000 and up to USD 40,000	15%
Motorized vehicles whose retail price exceeds USD 40,000 and up to USD 50,000	20%
Motorized vehicles with a retail price greater than USD 50,000 and up to USD 60,000	25%
Motorized vehicles whose retail price exceeds USD 60,000 and up to USD 70,000	30%
Motorized vehicles whose retail price exceeds USD 70,000	35%
Aircraft, light aircraft and helicopters except those intended for the commercial transport of passengers, cargo and services; jet skis, tricares, quadrones, yachts and pleasure boats.	10%

Regarding motorized land transport vehicles whose taxable base, as provided in article 76 of this Law, is up to forty thousand dollars of the United States of America (USD $ 40,000.00) subject to the payment of ICE that they have with at least three of the following safety elements and with emission standards higher than Euro 3 or its equivalent, the value resulting from applying the planned rates, 15% will be deducted:

- Four or more airbags;
- Pedestrian protection;
- Daytime running lights;
- Emergency assisted brake; and
- Post test.

3.5. Payment of Motor Vehicle Taxes (IVM)

Until January 31, owners of motor vehicles for private use must pay, before the financial institutions authorized by the SRI, the IVM corresponding to the year 2025, regardless of the last digit of the plate. Until February 28, owners of vehicles for private use, whose last digit of plate is 1, must make the payment of the IVM before the financial institutions authorized by the SRI. Until March 31, owners of vehicles for private use, whose last digit of plate is 2, must make the payment of the IVM before the financial institutions authorized by the SRI.

Until April 30, owners of vehicles for private use, whose last digit of plate is 3, must make the payment of the IVM before the financial institutions authorized by the SRI. Until May 31, owners of vehicles for private use, whose last digit of the plate is 4, must make the payment of the IVM before the financial institutions authorized by the SRI. Until June 30, owners of vehicles for private use, whose last digit of the plate is 5, must make the payment of the IVM before the financial institutions authorized by the SRI.

GROUP III

Rate ad Valorem	
Description	**Rate**
Paid television services, excluding streaming mode.	15%
The fees, memberships, affiliations, shares and similar charged to their members and users by social clubs, to provide their services, whose amount as a whole exceeds $1500 per year.	30%

GROUP IV

CATEGORY	PREVIOUS RATE	Rate
Plastic covers	0.08 per plastic sleeve	
Non-alcoholic beverages and soft drinks containing sugar greater than 25 grams per liter of drink	0.18 per 100 grams of added sugar	
Alcohol (use other than beverages alcoholic and pharmaceutical) and; Alcohol	10.15 per liter of pure alcohol	75%
Industrial beer	13.28 per liter of pure alcohol	75%
Craft beer	1.52 per liter of pure alcohol	75%
Cigarettes	0.16 ctvs	

3.6. Special Consumption Tax for Plans and Fixed Telephony Services That Market Only Voice, Data and SMS and Non-alcoholic Drinks

It is not taxed with Tax Special Consumptions, the sale of time air companies for marketing back to individuals through modalities such as: brokers, resale, distribution agreements and other similar ones.

In the case of non-alcoholic beverages having fifty percent (50%) or less than content natural, shall not be deemed for the purposes of the application of the Special Consumption Tax, the natural sugar of the fruit which is part of the drink, so that the corresponding fee shall apply only on the added sugar.

3.7. Reminder to the Passive Subjects of the Special Consumption Tax

For purposes of calculating the tax, all the items referred to in Article 76 of the Internal Tax Regime Law must be considered, including the assembly values of the asset, whether this process is carried

out abroad, in which case it must be included in the ex-customs price, or that it is done in the country, in which case it must be included in the ex-factory price.

3.8. To the National Producers of Assets Taxed with Special Consumption Tax

For the purposes of calculating the ex-factory price, in the Tax Special Consumptions regime, the following shall be taken into account:

a. For the calculation of the ex-factory price, the items provided for that purpose in the relevant standards must be included in the cost of the product, even when they are carried out through independent business units or third parties, whether these parties are related or not, in exchange. of a price or retribution and even free of charge, regardless of the way in which the manufacturer registers such items. The value obtained in this way must be added the marginal utility of the manufacturer, in the cases that apply depending on the structure of the business, as indicated in the current tax regulations.
b. In order to obtain the ex-factory price within the processes for determining the tax base of the Tax Special Consumptions, this Tax Administration considers the production process as a single economic process, which ends with the transfer of the manufacturer or producer to the next marketing stage -or final consumer, when appropriate-, of a good in its presentation to the final consumer, regardless of whether said productive process has been divided into different subprocesses by different subjects.

3.9. The Quota Exempt from the Special Consumption Tax is Established, Applicable for the Fiscal Period 2025, for Alcoholic Beverages, Including Beer

The annual quota for exemption from the Special Consumption Tax for alcoholic beverages, including beer, applicable from January 1 to December 31, 2025, subject to the relationship between the participation of purchases of national ingredients, with respect to the total of purchases (including imports), for the local production of alcoholic beverages, progressively up to a maximum of 5%, in accordance with the following table:

Ratio between the share of purchases of national ingredients, with respect to total purchases (including imports), for the local production of alcoholic beverages		Exemption from ICE calculated without any benefit
from	Until	%
0	69.99%	0%
70.00%	75%	0.05%
75.01%	80%	1.0%
80.01%	85%	1.5%
85.01%	90%	2.0%
90.01%	95%	3.0%
95.01%	99%	4.0%
99.01%	100%	5.0%

The annual quota will be applicable only for new brands of alcoholic beverages, including beer, that are established in the market.

3.10. Establish the Reference Prices for the Calculation of the Tax Base of the Tax on Special Consumption (ICE) of Perfumes and Toilet Waters, Marketed through Direct Sales, for the Fiscal Period 2025

The reference prices for the calculation of the tax base of the Special Consumption Tax (ICE) of perfumes and toilet waters, marketed through the direct sale modality, for the fiscal period 2024, which must be calculated for each product, increasing the ex-customs price (in the case of imported goods) and the total production costs (in the case of domestically manufactured goods), the percentages detailed in the following table:

Ex-customs price range or total cost of production per product in USD		% Increment
from	Until	%
0	1.50	150%
1.51	3.00	180%
3.01	6.00	240%
6.01	onwards	300%

4. Capital Flight Tax (ISD)

Tax Rate: 5% on all moneys, funds, currencies remitted abroad, with or without the intervention of Financial Institutions. It includes the transfer or conveyance of currency abroad, in cash, in checks, credit cards, through wire transfer, withdraws or payment of any nature remitted abroad, with or without the intervention of the institutions of the banking and financial system. It also includes the offsetting or compensation of accounts with entities abroad. All these transactions shall be subject to a 5% tax on the amount remitted, transferred or carried outside Ecuador.

Taxpayers subject to this tax:

- Ecuadorians and foreign individuals residents of Ecuador;
- Undivided inheritances;
- Private national corporations, Branches of foreign companies and permanent establishments domiciled in Ecuador, even in the cases when they offset or compensate accounts with entities, related or not, from abroad; and
- Importers of goods, either individual, national or foreign corporations or permanent establishments of foreign companies.

For the case of consumption or cash advances made with credit or debit cards, the issuer, administrator or financial institution, will withhold the tax on the total amount, in the date of the accounting registry of the transaction, chargeable to the account of the cardholder or client.

Moment of the payment in case of imports: In the case that the payment for imports is made through transfer or conveyance of currency, withholding agents will withhold the tax at the time of transfer or conveyance. If the payment of the import was made from abroad, in any manner, the Capital Flight Tax shall be declared and paid at the time of nationalization of the goods; to such purpose all importers must file with the customs authorities, the corresponding form to the extent that the custom authority can accurately identify the transaction and collect the tax whenever applicable.

In the case of adults traveling accompanied by minors, a unified basic salary of the worker in general will be added to the applicable exempt amount for each minor.

Transfers, shipments or transfers made abroad, except by credit or debit cards, are exempt up to an amount equivalent to three basic unified wages of the worker in general. In accordance with the periodicity determined in the specific regulations issued for this purpose; otherwise they will be taxed.

In the event that the generating event occurs with the use of credit or debit cards for consumption or withdrawals made from abroad, an annual exempt amount equivalent to USD 5,188.26, and it will remain in effect for the next three fiscal years (2025, 2026, and 2027).

Payments made abroad are also exempt, for the amortization of capital and interest generated on credits granted by international financial institutions, or specialized non-financial entities qualified by the corresponding control entities in Ecuador, that grant financing with a term of 180 calendar days or more, via credit, deposit, purchase-sale of portfolio, purchase-sale of securities in the stock market, which are intended for financing housing, microcredit or productive investments.

In these cases, the interest rate of such operations must be lower than the reference rate that is defined by Resolution by the Monetary and Financial Policy and Regulation Board.

In the event that the financing interest rate exceeds the reference rate established by the Monetary and Financial Policy and Regulation Board, this exemption does not apply to the payment of interest corresponding to the percentage that exceeds said reference rate.

Financing operations granted, directly or indirectly, by related parties by management, administration, control or capital and that in turn are residents or established in tax havens or lower tax jurisdictions, will not be able to access this benefit, except when the borrower is a financial institution.

Payment of ISD can be used as a tax credit to be applied to offset the income tax liability in the current fiscal year in the cases the payments on account of Special Consumption Tax have been done to import raw materials, capital goods and other goods to be used in the production, and provided that at the time of filing the custom declaration for nationalization, these goods are subject to AD VALOREM ZERO RATE CUSTOM DUTIES in the import legislation in force at such time.

4.1. Withholding of ISD Tax on Securities Credited Abroad by CBE

In the accreditation of securities in foreign accounts by the Central Bank of Ecuador (CBE), derived from administrative acts issued by the Internal Income Service , the CBE must act as a withholding agent of the Foreign Exchange Tax that is generated by such transfers, discounting the amount to be credited for the Currency Exit Tax generated, in accordance with the provisions of the Tax Reform Law for Ecuador, the Regulations for the Application of Excise Tax and other current tax regulations. The provisions set forth above shall also apply, in case the accreditation is derived from judicial decisions issued in relation to such administrative acts.

4.2. Exemption of ISD Tax for persons diagnosed with Catastrophic Diseases

They can carry or transfer, exempt from the currency exit tax, the total cost of medical care derived from the illness.

Payments made abroad via credit or debit card for healthcare services related to catastrophic, rare, or orphan diseases, which are exempt from the ISD tax, should not be counted within the exemption limit for this tax when using credit or debit cards. If a withholding has been made, the reversal procedure

outlined in the regulations for the application of the Currency Exit Tax and in the last paragraph of Article 23.2 of resolution NAC-DGERCGC16-00000191 must be applied.

4.3. Refund of ISD Tax on Imports for Exported Goods Production

This provision allows for the refund of the ISD Tax paid on imports of raw materials, supplies, and capital goods used in the production of exported goods. This refund is possible if the products are incorporated into the production process and exported within 90 days of their import. The tax is usually reimbursed based on the amount of the import value directly incorporated into the final exported product. The tax rate on imported raw materials and capital goods is reduced from 5% to 2.5%, but the right to claim a tax credit for such imports is eliminated.

4.4. New SRI Procedures for Declaring ISD-Exempt Transactions

The Internal Revenue Service (SRI) decided to modify the procedure for the Informative Declaration of Transactions Exempt / Not Subject to the Outflow Tax (ISD), in accordance with the following:

Exemption for foreign financing payments

In the case of the exoneration of the foreign currency outflow tax provided for in paragraph 3 of article 159 of the Reform Law for Tax Equity of Ecuador, in the event that The payment is made in favor of a third party that does not correspond to the financial institution that granted the credit, the documentation that accredits the agreement made with the financial institution must be presented, such as contracts or agreements, with the solemnities required by law in each case, by virtue of which it is justified that the conditions for granting the credit include the intervention of said third party, in accordance with the Law.

Additionally, it indicates that the financial institution must verify that the loan has been granted with a financing term of 180 days, in accordance with the recent modifications made to the Reform Law for Tax Equity of Ecuador.

Exemption for payments abroad of dividends

National or foreign resident companies, constituted or located in Ecuador that make transfers abroad for dividends, in favor of non- residents (companies or individuals), must present to the financial institution, only the form of "Informative Declaration of Transactions Exempt / Not Subject to Outflow Tax.

The taxpayer must keep the documentation in their custody for a minimum period of 7 years, in accordance with the provisions of numeral 1, letter c) of article 96 of the Tax Code, in accordance with its article 55, that allows identifying that, within the chain of ownership, there is no beneficial owner who is a tax resident in Ecuador, who directly or indirectly owns rights representing capital.

Exemption for foreign investments in the stock market in the country

In the case of the exoneration of the foreign currency outflow tax on payments made abroad from financial returns, capital gains and those foreign investments that meet the requirements set forth in the Reform Law for Tax Equity in Ecuador and in the Internal Tax Regime Law, the following documentation must be submitted to the financial institution or courier company:

- Form of "Informative Declaration of Transactions Exempt / Not Subject to the Tax on the Outflow of Foreign Currency".

- Proof of the transfer that certifies the entry into Ecuador of the financial resources placed in the stock market; and
- Copy of the stock exchange settlement corresponding to the acquisition of securities through the country's stock exchanges or the Special Stock Market Registry.

The entity that acts as withholding agent or tax collection agent must verify in the transfer receipt and in the stock exchange settlement that the financial resources have entered the Ecuadorian stock market in investments in variable income securities or in fixed income securities.

In the event that capital returns are generated as a result of the investment, the sending of these is totally exempt from the foreign currency outflow tax; However, in cases where losses occur, the exemption will apply only with respect to the balance of the invested capital (after the loss), without the corresponding value being able to be corrected in any way for the purposes of the capital flight tax.

Exceptions

In the event that the same taxpayer has made a transfer or shipments abroad for an amount greater than the limit indicated in the corresponding regulations, they must declare and pay the corresponding tax, through the Exit Tax form. Foreign currency, box "Transfers / shipments / transfers made without the intervention of withholding or collection agents through other types of payment or mechanisms for extinguishing obligations" on a monthly basis, for all those operations carried out during that monthly period, in the dates established in the tax calendar.

Exemption for the use of credit or debit cards for consumption or withdrawals from abroad

In the event that the individual or company exceeds the annual exempt amount established in the use of credit and / or debit cards and has not been subject to withholding or collection of tax, the main cardholder in his capacity as taxpayer must make the declaration and payment of the tax, through the form of the Tax on the Outflow of Foreign Currency, box "Transfer / shipments / transfers made without intervention of withholding or collection agents through other types of payment or mechanism of extinction of obligations ", on a monthly cumulative basis, for all those operations carried out during that monthly period, on the dates established in the tax calendar, without prejudice to the responsibilities and penalties that may arise, in accordance with the law.

Exoneration for payments for the cost of studying abroad and the cost of treating catastrophic, rare or orphan diseases

To access said exoneration, in addition to the requirements already provided, the document of acceptance of exoneration issued must be added by the SRI; which regardless of the form of issuance, can be used only for the amount endorsing the exoneration in the acceptance document.

Exemption for payments abroad in the execution of projects fully financed with credits or funds, both with a non-reimbursable nature from government to government

In the case of the exemption provided for in numeral 14 of article 159 of the LRETE. The transferor must present the following documentation to the financial institution or courier company:

- Form of "Informative Declaration of Transactions Exempt / Not Subject to the Tax on the Outflow of Foreign Currency".
- Copy of the international diplomatic instrument signed between governments, which contains

the purpose of the non-reimbursable resources, the amount of these resources, disbursement schedules and the designation of the company that will execute the project. This requirement is necessary only for the first transfer made within the framework of the international instrument in question, in said institution.

- Original of the "Certificate of Tax Residence" or legible printing, in the case of certificates issued electronically, which certifies that the tax residence of the recipient of the transfer or shipment is the same as the donor country, issued by the tax administration of the country of your tax residence, as appropriate. The date of issuance of this certificate must correspond to the year in which the transfer or shipment is made.
- Simple certification signed by the legal representative of the beneficiary of the exemption (executor of the project) of nationality of the donor country in which it indicates that the currency that will be remitted as exempt corresponds directly and exclusively to funds from donations and is contemplated in the project budget, to said certification you must attach the cash flow.

To access this exemption, the entity that acts as withholding agent or tax collection agent, must verify in the documentation presented that the tax residence of the beneficiary of the transfer or sending of foreign currency abroad is that of the donor country.

Whoever makes the payment abroad is the one designated in the international diplomatic instrument as the executor of the project.

Exemption for payments made abroad, for the amortization of capital and interest generated on credits granted by public or private financial intermediaries or other types of institutions that operate in international markets

In the case of the exemption of the ISD provided in numeral 12 of article 159 of the LRETE, by public or private financial intermediaries or other types of institutions that operate in international markets, the originator of the transfer or sending of foreign currency abroad must submit to the financial institution or company of courier, the following documentation:

- Form of "Informative Declaration of Transactions Exempt / Not Subject to the Tax on the Outflow of Foreign Currency";
- Simple copy of the credit registry in the Central Bank of Ecuador; and
- Simple copy of the qualification granted to it by the Superintendency of Banks of Ecuador or whoever takes its place when the payment is made to a specialized non-financial institution.

The reference rate that must be observed for these operations will be the same established through resolution by the Monetary and Financial Policy and Regulation Board for the purposes of deducting income tax for external financing, unless said Board determines a rate specific for this case.

5. Tax on Assets and Investments Maintained Abroad

5.1. Assets Levied with the Tax

Available funds and investments maintained outside Ecuador by private entities controlled by the Superintendence of Banks and Insurance and by entities controlled by Stock Intendancies of the Superintendence of Companies. This tax encompasses the ownership or possession of monetary assets maintained outside Ecuadorian territory, either in the form of accounts, checking accounts, time deposits, investment funds, portfolio investments, investment trusts or any other financial instrument.

5.2. Taxable Base

The taxable base will be the simply monthly average balance of the daily balance of the funds available in a foreign institution, domiciled or not in Ecuador and of investments issued by issuers domiciled outside Ecuador. In the case of ownership or possession of several investment documents abroad, the taxable base will be calculated by adding the monthly average balances obtained by each one.

5.3. Rate

The rate of the tax on assets maintained abroad is of 0.25% - 0.35% monthly, applied on the consolidated taxable base.

5.4. Monthly Tax on Funds Outside the Financial System

The Monthly Tax is established on the available funds and investments kept outside the banks, savings and credit cooperatives, and other private entities dedicated to carrying out financial activities; administrating societies of funds and trusts and other private entities of the securities market; insurance and reinsurance companies, as well as companies involved in the administration, intermediation, management and/or purchase of portfolios.

5.5. Entities Required to Pay the Tax on Assets Abroad

Banks, savings and credit cooperatives, funds administrating societies and trusts, insurance and reinsurance companies, as well as companies involved in the administration, intermediation, management and/or purchase of portfolios are obligated to pay the tax on assets abroad in their capacity as taxpayers.

6. Tax on Total Assets

6.1. Rate

The rate is 0.15% on the amount of total assets located in a specific municipality. The beneficiaries of this tax are the municipalities of Ecuador.

6.2. Taxpayers

Taxpayers of this tax are the individuals, juridical persons, companies, and businesses of all kinds, which maintain a domicile in the respective municipal jurisdiction, habitual y carrying out commercial, industrial, and other financial activities in said jurisdiction.

6.3. Deductions

For purposes of the calculation of this tax, obligations of up to one year owed by taxpayers and contingent liabilities will be allowed as deductions.

6.4. Annex Of Assets and Liabilities of Companies and Permanent Establishments

The Internal Revenue Service establishes the obligation to present the "Appendix of assets and liabilities of companies and permanent establishments", for the following subjects that have a total of assets or

liabilities abroad that exceeds the value of USD. 500,000.00:

- Companies legally incorporated in Ecuador, according to the definition of Article 98 of the Internal Tax Regime Law; and
- Permanent establishments domiciled in Ecuador of non-resident foreign companies.

They will not be obliged to present the "Annex of assets and liabilities of companies and permanent establishments", the following subjects:

- The institutions and entities that make up the public sector;
- Public companies;
- Legal entities with majority public capital, as well as independent or autonomous assets with or without legal status constituted by the State Institutions as long as the beneficiaries are said institutions;
- The international organizations recognized by the Ecuadorian State and its foreign officials duly accredited in the country; diplomatic missions, consular offices, or foreign officials of these entities, duly accredited in the country;
- The institutions that make up the national financial system; and
- Insurance and reinsurance companies.

The components that make up the "Annex of assets and liabilities of companies and establishments permanent" the following concepts are considered:

Assets

- Cash and investments in financial institutions and other depositories in Ecuador and abroad;
- Representative rights of capital in Ecuador and abroad;
- Accounts receivable in Ecuador and abroad;
- Movable property and construction in progress, in Ecuador and abroad;
- Motorized land vehicles, ships and aircraft, in Ecuador and abroad;
- Rights in Ecuador and abroad;
- Real estate in Ecuador and abroad; and
- Other assets in Ecuador and abroad.

Liabilities

- Debts incurred in Ecuador and abroad.

7. Municipal Taxes

7.1. Tax On Urban Real Estate

Real estate located within the limits of a particular municipality shall be subject to municipal Taxes, which are paid annually. The tax is levied depending on the amount of the appraisal of the property assessed by the respective municipality.

Each municipality will update the appraisals every 5 years, splitting separately the commercial value of the land and the constructions.

Taxable base for this tax is the commercial value of the real estate, as appraised by the municipality, minus 40% of said value, which is the general reduction authorized by the law. On the taxable base, a progressive scale of taxes will be imposed. A fixed amount of tax is applied to the basic portion and on the excess rates range from 0.3% to 0.16%.

7.2. Tax On Rural Real Estate

This applies to real estate situated out of the urban limits. As in the above case, this tax is collected depending upon the commercial value and the rates are slightly lower than those applied to the real estate located within urban limits.

7.3. Alcabala Tax

This tax is collected on transfer of real estate and ships. The taxable base for the calculation of this tax is the commercial value of the real estate and the vessel or the value declared in the sale/purchase deed, whichever bigger. Depending on the taxable amount, the rates of this tax range from 4% to 8%.

7.4. Capital Gains on Sale of Real estate (Plus value Tax)

It applies only to real estate located within the urban limits of a municipality. The taxable base is the difference between the price in which the real estate was acquired and the price in which it is sold. There is a fixed amount of tax imposed in the basic portion of the taxable base and a percentage rate on the excess, which ranges from 10% to 42%.

7.5. Tax Rules for Public Shows Involving Non-Resident Foreigners

The Ecuadorian tax authority issued general rules regulating formal tax obligations for occasional public events featuring non-resident foreign participants. Promoters, organizers or administrators of such events must present a guarantee equivalent to 10% of the total authorized ticket sales, as established by the competent authority.

Additionally, to obtain the certificate of compliance with tax obligations as a withholding agent for these events, the responsible parties must meet specific documentation and procedural requirements outlined in the new regulation. These measures aim to ensure proper tax withholding and reporting related to payments made to foreign individuals or entities involved in the events.

8. University of Guayaquil Tax

8.1. Beneficiary

This tax was created for the benefit of the Hospital of the University of Guayaquil and taxpayers of this levy are individuals and corporations engaged in commercial, industrial and financial activities within the city of Guayaquil.

8.2. Rate and Taxable Base

The annual rate is 0.20% calculated on the amount of own capital stock declared by taxpayers in their respective commercial and industrial registries. Payment must be made within the first quarter of each calendar year in the Treasury Department of the University of Guayaquil.

9. Superintendence of Company's Tax

9.1. Taxpayers

Domestic companies and branches of foreign companies that are under the surveillance and control of the Superintendence of companies will pay this annual tax to the Government entity. The amount of the tax shall be issued annually by the Superintendence of companies.

9.2. Taxable base

The annual amount of this tax shall be established and paid based upon the amount of real assets of each company, as shown in the general balance or financial statements of the preceding fiscal year.

9.3. Rate

The annual tax to the Superintendence of companies for years 2025:

Amount of real assets of the companies (in US Dollars)		Contribution per thousand over the real asset
Since	Until	
0.00	100,000.00	0,00
100,000.01	1,000,000.00	0,74
1,000,000.01	20,000,000.00	0,80
20,000,000.01	500,000,000.00	0,88
500,000,000.01	And on	0,94

9.4. Terms for Payment

Taxpayers will be allowed to pay this annual tax in two installments, provided at least 50% of the tax is paid until September 30 of each year and provided there are no amounts owed for past years. The remaining 50% can be paid until 31 December of same year.

9.5. Information That Must Be Sent to the Ecuadorian Companies That Have Foreign Companies as Partners or Shareholders

Is duty of the legal representative of the national company having as partners or shareholders foreign societies, present in digitized form, to the Superintendency of companies, securities and insurance in the month of January of each year, the following information:

a. General information:
- The name or business name of the national company and its file number; and
- Name and position of the legal representative of the national company.

b. Specific information:
- A certification extended by the authority competent of the country of origin that accredits the existence legal of the society foreign, partner or shareholder of the company Ecuadorian. Such certification shall be authenticated by or Ecuadorian consul; and
- A complete list of all partners, shareholders or members of the foreign company, signed

and certified before a notary public by the Secretary, administrator or official of the pre-designate foreign company, which is authorized in the connection, or by a legally constituted Attorney. If the list has been signed on the outside, it shall be authenticated by or Ecuadorian consul.

9.6. Report of Shareholders of Foreign Companies

Until January 31, the legal representative of national joint-stock companies, limited liability companies or simplified shares that have foreign companies as partners or shareholders must submit the following information to the SCVS:

- A certification, issued by the competent authority of the country of origin, that accredits the legal existence of the foreign company, partner or shareholder of the Ecuadorian company. This certification will be apostilled or authenticated by the Ecuadorian consul;
- A complete list of all the partners, shareholders or members, of the foreign company, subscribed and certified before a Notary Public by the secretary, administrator or official of the pre-named foreign company, who is authorized in this regard, or by a legally constituted proxy. If the list has been signed abroad, it will be apostilled or authenticated by the Ecuadorian consul;
- If the foreign company that is a shareholder of an Ecuadorian corporation is registered in one or more foreign stock exchanges, instead of the complete list of all its partners, shareholders or members mentioned in the previous paragraph, it must submit a sworn statement of such registration and of the fact that its entire capital is represented exclusively by shares, shares or nominative titles;
- The list of attorneys of foreign companies that have participations or shares in Ecuadorian companies, indicating the full names and surnames, nationality and domiciles of each attorney. The power of attorney must consist of a document granted in the country of origin, and apostilled or authenticated by the Ecuadorian consul; and
- The situation of remission or not of the foreign company, partner or shareholder of the national company, with respect to compliance with its obligation to submit the information described above annually.

External audit report

Companies under the control of the Superintendence of Securities and Insurance Companies (SCVS) that are obliged to report to the UAFE must submit the external audit report on compliance with policies, procedures and mechanisms implemented for the prevention of money laundering, the financing of terrorism and other crimes.

10. Taxes on Imports

10.1. Custom Duties

Custom Duties can be “ad-valórem” (according to the value), specific (on weight or measure units) or combined. In Ecuador, custom duties are generally “ad valórem” and are calculated on CIF value of the merchandises. Tariffs range from 5% (bottom) to 45% (ceiling).

10.2. Value Added Tax (VAT)

The rate is 15% and the taxable base is the result of adding to the CIF value all taxes, custom duties, surcharges, fees and other charges that appear in the UDI (Unique Document of Importation).

10.3. Tariff 0% For Imports of Vehicles to Be Assembled (CKD)

Imports taxed with tariff rate 0%, for those projects qualified as new by the governing body of the Industrial Policy.

A variable tariff rate is established for imports of vehicles to be assembled (CKD) in accordance with the following table:

Schedule for the application of the minimum tariff for imports of CKD subheadings.

Year	Custom Duty
2019	13%
2020	10%
2021	7%
2022	3%
2023 in onwards	0%

There isn't a specific minimum tariff rate for CKD (Completely Knocked Down) subheading imports. Instead, the general customs duty is applied based on the classification of the goods. The National Customs Service of Ecuador (SENAE) occasionally reduces the tariff rate temporarily for certain imports, but there isn't a specific application for CKD.

11. Redeemable Tax on Non -Returnable Plastic Bottles

Its purpose is to reduce the environmental pollution and to encourage the recycling process. The tax incidence is born when bottling liquids in non-returnable plastic bottles, utilized for containing alcoholic and non-alcoholic drinks, beverages, soft drinks and water. In the case of imported beverages, the tax incidence will occur upon their customs clearance for home use.

Tariff: For each plastic bottle levied with this tax, the rate will be of up to two cents of US dollar (USD 0.02) amount that will be fully reimbursed to whomever collects, delivers and returns the bottles. The Internal Income Service will determine the amount of the tariff for each specific case. Taxpayers of this tax will be the bottlers of drinks contained in plastic bottles and importers of drinks in plastic bottles.

Dairy products and medicines filled in plastic bottles are exempt from this tax. This tax will not be considered as a deductible expense for income tax purposes.

11.1. Form 114 for the Declaration of the Redeemable Tax to Non-Returnable Plastic Bottles

The Form 114 for the Declaration and Payment of the Plastic Products Redeemable Tax (IRBP) is approved and additionally establishes:

a. As of the declaration of May 2016, the bottlers will not be able to compensate the tax for the bottles recovered and subject to this tax;
b. The obligated companies must present the IBP Annex monthly, the following information:
   - Number of Beverages bottled in non-returnable plastic containers taxed;
   - Number of units and sold of finished product bottled in non-returnable plastic containers taxed; and

- Number of imported units of finished product bottled in non-returnable plastic containers taxed.

The Conversion Values of the Number of Non-Returnable, Recovered or Collected Plastic Bottles Are Established to Their Equivalent in Kilograms from January to June 2025:

PERIOD	RATE IN USD POR KG.	No. PET PLASTIC BOTTLES
January - June of 2025	US$ 0.46 per Kg. Of PET plastic bottles	23 PET plastic bottles per Kg.

12. Temporary Import Regime

12.1. Concept

Temporary Import Regime is a special custom regime whereby payment of import taxes and custom duties are suspended while merchandises are entered into Ecuador to be utilized in a determined purpose, during a certain period of time, and later re-exported without further modification.

12.2. Nationalization and Payment of Duties

If the merchandises that entered into Ecuador under the Temporary Import Regime are nationalized, the payment of import taxes and custom duties will be effected at the current rates and exchange rate in force at the time of filing the import to local consumption petition.

12.3. Re-exportation

At the time of re-exporting merchandises that were entered into Ecuador under the Temporary Import Regime for the construction of works or for the providing of services, the proportional part of the custom duties that were suspended will be levied.

13. Payroll Taxes and Profit-sharing

13.1. Social Security Contributions

Employer must pay a monthly contribution to the Social Security equal to 11.15% of the employee's monthly salary. Additionally, he must pay 0.5% for SECAP (Ecuadorian Services for Professional Training) and another 0.5% for IECE (Ecuadorian Institute for Educational Credit) The Reserve Fund is a fringe benefit that employer must pay to the Social Security on behalf of employees. It is an annual contribution and is equal to the employee's one month salary. According to a recent reform, the employee has the right to choose whether he/she wants it to be paid annually or monthly.

13.2. Profit-Sharing

Ecuador imposes a pre-tax 15% Profit-Sharing to employers. The beneficiaries of this tax are the employees.

13.3. Basic Salary Unified for the Worker in General from January 1, 2025

Is approves the agreement generated in the full of the Council national of work and wages and accordingly set starting from the 1 of January of 2025 the wage basic unified for the worker in general, microenterprise it keeps in US$ 470.00 dollars of the United States of America monthly.

13.4. The Profit-Sharing Payment

Employers who are individual or legal persons required to take accounting, including societies in fact, undivided and autonomous heritages, with staff under dependency relationship are required to pay to register and regulated in the present instruction manual.

15% of the profit-sharing, will be distributed as well: 10% will be divided among all workers and former workers; and the remaining 5% will be given to workers and former workers, in proportion to their dependants.

For the calculation of these percentages the employer shall take as a basis statements or determinations that are made for the payment of the tax income concerning profit-sharing for workers. In addition, the employer considered the length of service, without making any differentiation with the remuneration or the type of occupation or activity of the person worker or former worker who worked during the fiscal year in which generated earnings.

Calculation of 10% of the participation of utilities-the value that should perceive each individual worker or former worker for 10% of the profit-sharing concept, is obtained by multiplying the value of 10% of earnings for the time in days that the person has worked, divided for the total days worked by all workers and former workers.

The employer is offering 15% of profits until April 15 of each year.

13.5. Regulation on Labor Inclusion of People with Disabilities Through Substitute Workers

A new regulation has been issued to ensure labor inclusion of persons with disabilities by formalizing the registration and control of substitute workers, including those recognized as “substitutes for human solidarity” and individuals legally responsible for persons with disabilities.

Substitute workers are defined as individuals up to the fourth degree of consanguinity or second degree of affinity, spouses, legal partners, legal guardians, or those directly responsible for the care of persons with severe disabilities. Parents or legal representatives of children and adolescents with disabilities also qualify. Each person with a severe disability may only be linked to one substitute worker for the purpose of meeting labor inclusion quotas, as established in Article 48 of the Organic Law on Disabilities.

In cases where no eligible family member is available, a “substitute for human solidarity” may be designated. This role may be assumed by a person without kinship ties, who takes responsibility for the care and maintenance of a person with severe disability, including expenses and essential services, in accordance with Article 74 of the Organic Law on Disabilities.

The individual accredited as a substitute for human solidarity is responsible for the person’s well-being and may perform the care directly or through contracted services. As with family-based substitutes, this benefit is limited to one substitute per person with a severe disability.

13.6. Rules That Regulate the Special Contractual Modality for Productive Sectors

According to the following:

- This type of contract may be applied by those employers who carry out productive activities and the workers who work for them;
- It must be held in writing, complying with the requirements established in article 21 of the Labor Code and registered through the Unified Labor System (ULS) within a period of 15 days from its subscription;
- Its duration may not exceed 1 year, continuous or discontinuous, within which a trial period of up to 90 days may be agreed and may be renewed for a single occasion for the same period. Once the term of the contract or its renewal has concluded, the employment relationship will end. However, if it continues, it will be understood as an indefinite employment contract;
- According to the needs of the activity, the work may be carried out on a part-time or ordinary time with a maximum of 40 hours a week, distributed up to 6 days a week. The weekly rest will be at least 24 consecutive hours;
- When the provision of uninterrupted services is required, consecutive days may be agreed which may not exceed 20 days. The continuous days may be carried out 7 days a week, in days of up to 8 hours a day, distributed according to the needs of the activity. The days of accumulated forced rest will be calculated based on 48 hours of rest for every 5 days of work that are executed in 8-hour days, or its proportional part in the event that the workday is less. Said breaks will be granted to the worker in an accumulated manner;
- The remuneration received by the worker may not be less than the basic salary or the sectorial salaries determined for full-time or its proportional part for part-time. When the work is discontinuous, the payment of the remuneration may be made by hours or days. On the other hand, for the work carried out continuously, the payment of the remuneration may be made by weeks or monthly payments. Contributions to social security and legal benefits must be paid in accordance with the hours and remuneration agreed with the worker. Whereas the payment of the fourteenth remuneration and the profit sharing will be made in proportion to the time actually worked;
- The employment relationship will end once the term, work, service, or activity for which the worker was hired has concluded, without any other formality being necessary. For this type of contract, the grounds for approval established in articles 172 and 173 of the Labor Code will be applied, as well as the grounds for termination of the contract provided for in article 169 of the same normative body. The termination of the contract carried out unilaterally by the employer, before the agreed term, will entitle the worker to compensation in accordance with the provisions of article 188 of the Labor Code; and
- For reasons of job stability, the contracts will only apply to new hires.

13.7. Modification of employment requirements for tax incentive on new investments

A change has been authorized to the employment generation condition applicable to new and productive investments that seek to benefit from the income tax exemption established in Article 26 of the Organic Law for Productive Development.

The updated conditions are:

a. The investment must be linked to the economic activity of manufacturing metal containers for packaging or transporting goods (e.g., barrels, cans, drums, boxes, lids, food cans, tubes, and collapsible containers – C2599.11);

b. The company must qualify as a medium-sized enterprise under Article 106 of the Investment Regulation of the Organic Code of Production, Trade and Investment (COPCI);
c. It must be considered a new company under the Organic Law for Productive Promotion, Investment Attraction and Employment Generation;
d. The project must generate at least 27 net permanent jobs, as outlined in the investment plan;
e. The investment must involve medium or high technological intensity to optimize production processes. Certification of the technological level may be issued by the Central Bank of Ecuador or through internationally recognized standards; and
f. At least 60% of the company's purchases must be from local suppliers, considering both total and imported purchases.

This modification aims to align the tax incentive with strategic sectors, promote job creation, and encourage the use of local resources and advanced technologies.

14. Miscellaneous Matters

14.1. Foreign Exchange Controls

Ecuador does not have exchange controls. All transactions in Ecuador must be conducted in U.S. dollars, which replaced the "Sucre" and is the official currency of Ecuador since January 2002.

14.2. Foreign Investment

Ecuador does not impose any limitation or pre-requisites to foreign investors. A foreign individual or corporation can own 100% of a local corporation. Tax and Legal treatment, in general, is equal for Ecuadorians and foreigners. Repatriation of profits and capital invested has no limitation whatsoever.

14.3. Tax Stability

The Tax Stability consists in granting to foreign and local investors the maintenance, for a fixed period of time, of the applicable income tax rate in force at the time of making the investment.

14.4. Declaration of Personal Equity

According to Resolution issued by the Internal Revenue Service on June 6, 2017, it indicates that they are required to submit a financial declaration, with closing on January 1 of the current year, all individuals whose total assets exceed 20 fractions not taxed. Income tax US $ 241,620 for 2025 and if a conjugal partnership is maintained, the amount of US $ 483,240 (40 Basic Fractions not taxed).

The assets to be declared are: Real Estate: Land and buildings, movable goods: cash, cash in banking accounts and other deposits in financial institutions, other deposits, investments, stock, participations, commodities, portfolio, credits and receivables, motor vehicles, planes, boats, movable goods, and home furniture, machineries and equipments, merchandises and raw materials, animals.

The only exemptions are library collections and music collections owned by declarer, jewelry, paintings, precious metals, art works, etc., rights: usufruct, rights of use and housing, authorship rights, inheritance rights, etc. The Internal Income Service alleges that this Declaration of equity has the purpose to compare the increase in the equity of an individual versus the income declared in the Income Tax Return, and that there is no intention to create a tax on equity.

14.5. New Tax Havens

The Internal Income Service incorporated to its list of Tax Havens or Lesser Taxation Jurisdictions: BONARE, SABA Y SAN EUSTAQUIO, CURAZAO, MANCOMUNIDAD DOMINICA (associated state), SAN MARTIN.

Additionally, preferential tax regimes will be considered and will have tax haven treatment, the following:

1. Hong Kong is considered a Tax Haven;
2. Preferential tax regimes will be considered and will have tax haven treatment, the following:

a) Netherlands:

- The tax regime applicable to investment companies, exempt or qualified for a zero rate of income tax;
- Regimes subject to advance tax decisions or "tax rulings"; and
- Regimes of "innovation box" or "innovation box".

b) United Kingdom:

- Regimes that allow companies to maintain capital representative rights with nominal or formal holders that do not support the economic risk of the property and of which it is not known who their effective beneficiaries are; and
- Regimes of "innovation box" or "innovation box".

c) With respect to New Zealand, the tax regimes applicable to trusts or "Trusts".

d) With respect to Costa Rica, the regimes of private companies, created under their laws, but not registered with the Costarricense Tax Administration.

14.6. Rules Governing the Procedure of The Companies Considered for Tax as Nonexistent or Phantom Effects

For the identification of the companies considered to effect tax such as nonexistent or phantom, as well as individuals and companies with alleged activities and/or non-existent transactions, the Internal Income Service be carried out an analysis of actual execution of activities or economic transactions with own taxpayer or third-party information which consists of their databases.

The tax administration may consider the absence of the designated place as tax domicile, as well as the absence or insufficiency of assets, staff, infrastructure, which are necessary for the provision of services, production or marketing of goods that justify the execution of economic activities or the transactions, among other elements.

14.7. Payment of the Single Income Tax for The Activities of the Banana Sector

Procedure for the liquidation, declaration and payment of the single income tax for the activities of the banana sector.

Equivalence of boxes per week. In order to apply the rates corresponding to boxes of bananas per week, for box types and musaceae other than 22XU quality bananas in boxes of 41.5 - 43 pounds, a number of boxes will be used that is equivalent to 22XU bananas in 43-pound boxes, at the minimum support prices in force. The number of equivalent boxes per type of box or musaceau that must be used in order to calculate the tax will be as follows:

Type of box	Kind of fruit	Weight/Box pounds	Box	Equivalent Boxes (Conversion Factor)
22XU	Banano	41.5- 43	1	1
22XU	Banano	45	1	1.0465
208	Banano	31	1	0.7209
2527	Banano	28	1	0.6512
22XUCSS	Banano	46	1	0.5346
STARBUCK22	Banano	10	1	0.2326
BB	Orito	15	1	0.7014
BM	Morado	15	1	0.7014
115KDP	Platano (Barraganete)	50	1	1

For types of boxes authorized by the national agricultural authority that do not appear in the detail indicated above, the following procedure will be applied to calculate the equivalent boxes (conversion factor), when they are "WEIGHT / POUNDS BOX" other than 41.5-to-43-pound range:

Step 1: The pound value (by box type) will be divided by the 22XU pound value for the box in the 41.5-43-pound range.

Step 2: The result obtained will be multiplied by the weight in pounds of the box according to the type of box.

Step 3: The result from the previous step will be divided for 43 pounds (22XU).

For the calculation of the equivalent boxes (conversion factor) 4 decimal numbers will be used.

Order of application for sales at different prices: To calculate the applicable rate in the cases of invoices at different prices, the chronological order of the invoices and the order of the invoiced items should be used in the case of the same invoice.

Withholding of the single income tax on the purchase of bananas from local producers: Taxpayers who make purchases of bananas from local producers will apply a withholding percentage equivalent to progressive rates, based on purchases Weekly totals made to the same taxable person, both for bananas and other musaceae, in their different types of boxes, using the conversion factor necessary to determine the equivalent amount of boxes indicated in this Resolution. If the end of a calendar month occurs within a week, to define the rate and withholdings to be applied to them, the sales of the entire week will be used regardless of which month they correspond to.

Farmers or producers that have the current certificate of good agricultural practices must separately invoice this production and the production that does not have the certificate, in order for the retention percentage of the planned rate to be applied. In this case, the legend "PRODUCTION SUPPORTED BY THE CERTIFICATE OF GOOD AGRICULTURAL PRACTICES" must be included in the detail of the invoice; as well as the data of the certificate indicating the date of issue and validity. To the production that does not have this certificate or that does not have the aforementioned detail, the withholding indicated in the previous paragraph will be applied, without prejudice to the right that the producer may assist to request the return of the excess payment, if the case.

When the banana producer sells the product through the use of associative schemes, the withholding will be generated solely and exclusively by the latter to the producers, at the time the producer transfers the fruit, but not when these associative schemes the commercialize, without prejudice to the payment of income tax by said associations when appropriate, in accordance with tax regulations.

Settlement of the single income tax on the local production and sale of bananas: The withholdings made to local banana producers do not hinder the producer's duty to present his annual income tax return in which he will consolidate the total sales gross and may use as a tax credit, only for the payment of the single income tax for the activities of the banana sector, the withholdings at source that have been made during the fiscal year to be settled. If there is a remainder at the end of the year, the taxpayer may request the return of the excess payment, within the terms provided for this purpose in the tax regulations.

The producer who sells to more than one withholding agent in any week must consider that in his annual income tax settlement, in order to identify the rate to apply, using the total sales of boxes per week, made during said fiscal year fiscal.

Farmers or producers must differentiate between their production that has the certificate of good agricultural practices and that that does not, in order to apply the rate established for the calculation of the single income tax to be paid. The tax settlement will be carried out as follows:

- The total weekly boxes will be added, considering the conversion established in this Resolution;
- The number of boxes that have the current certificate of good agricultural practices will be subtracted from this value;
- The general rate for the calculation of the single income tax will be applied to this result;
- On the boxes that have the current certificate of good agricultural practices, the rate of 1% will be applied; and
- Finally, the income tax calculated will be the sum of the tax resulting from applying the rates contained in the table; and, of the tax resulting from applying the 1% rate to the production that has the current certificate of good agricultural practices.

In the event that the subject does not differentiate in its billing the production that has the current certificate of good agricultural practices, the rates provided for in the law will be applied, without prejudice to the right of the taxpayer to justify the application of a different rate.

Settlement of the single income tax on the export of bananas produced or not by the same taxpayer: Banana exporters must make a monthly settlement.

In the case of the export of bananas produced by the same taxpayer, the taxpayer must pay his tax in consideration of the following components:

- The single tax corresponding to the production phase, in accordance with the provisions of Article 5 of this Resolution, considering as the basis of calculation the minimum support price set by the national agricultural authority; and
- Regarding the income from exports, it will apply the deductions and rate provided by law.

The result of the settlements provided for in the previous paragraphs will be declared and paid monthly in the form provided by the Internal Revenue Service for the declaration of withholdings at source and will be used as a tax credit exclusively for the payment of the single income tax for the activities of the banana sector, during the fiscal year. If there is a remainder at the end of the year, the taxpayer may request the return of the excess payment, within the terms provided for this purpose in the tax regulations.

For self-produced and export components, a withholding receipt must be issued for each component, in the name of the exporter.

Declaration and payment of the single income tax: The single income tax for the activities of the banana sector must be declared and paid annually through the declaration of the annual Income Tax within the terms established in the Internal Tax Regime Law and its regulations, without prejudice to the monthly withholdings that must be made in the terms provided in the tax regulations.

14.8. Modification of employment requirements for tax incentive on new investments

A change has been authorized to the employment generation condition applicable to new and productive investments that seek to benefit from the income tax exemption established in Article 26 of the Organic Law for Productive Development. The updated conditions are:

a. The investment must be linked to the economic activity of manufacturing metal containers for packaging or transporting goods (e.g., barrels, cans, drums, boxes, lids, food cans, tubes, and collapsible containers – C2599.11);
b. The company must qualify as a medium-sized enterprise under Article 106 of the Investment Regulation of the Organic Code of Production, Trade and Investment (COPCI);
c. It must be considered a new company under the Organic Law for Productive Promotion, Investment Attraction and Employment Generation;
d. The project must generate at least 27 net permanent jobs, as outlined in the investment plan;
e. The investment must involve medium or high technological intensity to optimize production processes. Certification of the technological level may be issued by the Central Bank of Ecuador or through internationally recognized standards; and
f. At least 60% of the company's purchases must be from local suppliers, considering both total and imported purchases.

This modification aims to align the tax incentive with strategic sectors, promote job creation, and encourage the use of local resources and advanced technologies.

14.9. Investment Treaties for the Promotion and Reciprocal Protection of Investments, Subscribed Between the Republic of Ecuador and the Different Governments were Terminated

The following investment treaties were unilaterally terminated by Ecuador:

- Republic Venezuela
- Argentine Republic
- Canada
- United States of America
- Kingdom of Spain
- Republic of Peru
- Republic of Bolivia
- Italian Republic

14.10. Credit and E-Commerce Contributors Must Issue Documents Electronically

Passivary subjects — credit card companies and credit card administrators; financial institutions under the control of the Superintendency of Banks (except mutualists of savings and credit for housing); special contributors; exporters; taxpayers authorized to print sales proofs, retention and complementary documents through computer systems (autoprinters); and contributors who make sales through the internet — shall send credit notes, debit notes, referral guides and retention proofs only through data messages and signed electronically, according to the following calendar:

- As of October 1, 2017: credit notes and withholding vouchers; and
- As of January 1, 2018: debit notes and referral guidelines.

14.11. Financial System Must Report Transactions with Tax Havens and Treaty Countries

The obligation is established for entities that make up the national financial system to report information to the Internal Revenue Service on transactions carried out by these entities or their customers, to or from tax havens, which individually equal or exceed USD 5,000.00 or its equivalent in other currencies; and on transactions to or from countries with which Ecuador maintains a convention to avoid double taxation, which individually equal or exceed USD 50,000.00 or its equivalent in other currencies.

14.12. The Administrative Procedure is Established for Subjects Required to Report to the UAFE, for the Purposes of Registration in This Unit, Their Risk Prevention System and the Manual for the Prevention of Money Laundering and Financing of Crimes

The procedure for the registration of the Risk Prevention System or Manual for the Prevention of Money Laundering and the Financing of Crimes before the Financial and Economic Analysis Unit (UAFE) will be as follows:

The subjects obliged to report that they have and do not have their own control bodies, will register in the Financial and Economic Analysis Unit (UAFE) their Risk Prevention System or Manual for the Prevention of Money Laundering and the Financing of Crimes, the same that must observe the guidelines that for the effect establish the respective regulatory body to which they are subject.

According to the Local Law it indicates that the policy adopted by the controlled companies to prevent money laundering, the financing of terrorism and other crimes must consider the following parameters:

- Establish guidelines that allow them to analyze, evaluate, monitor and effectively treat the risks that have been identified;
- Ensure that the members of the company have knowledge of the legal and regulatory norms related to the prevention of money laundering and the financing of terrorism and other crimes and comply with it;
- Minimize the degree of exposure inherent to money laundering and the financing of terrorism and other crimes;
- Establish the policies to know the client, supplier, collaborator, market and correspondent, as the case may be; and define those responsible for its implementation;
- Guarantee the confidentiality and confidentiality of the information reported in accordance with the provisions of the Organic Law on the Prevention, Detection and Eradication of the Crime of Money Laundering and the Financing of Crimes, as well as that information generated in compliance with the policies and processes of prevention; and
- Establish sanctions for collaborators who do not comply with the policies and procedures approved by the company.

The same person may exercise the office of compliance officer of several companies, in the following cases:

- In a business group, when one or several partners or shareholders, directly or indirectly, own more than 40% of the shares or shares in other companies, whether they are national or foreign, or when such companies are linked by administration; The business group may not exceed 5 companies for the designation of the position; and
- In the case of parent and subsidiary companies. Should be considered as a subsidiary to one

or more companies controlled by the parent and the latter must have at least 50% stake in the financial and operating decisions of the subsidiary.

External audit

The obliged subjects that must present external audit reports of their financial statements, will have the additional obligation to contract another external audit that will verify compliance with the provisions of this regulation with respect to the policies, procedures and mechanisms implemented by the regulated entity for the prevention of money laundering, the financing of terrorism and other crimes, evaluating their operational efficiency and proposing, if necessary, any rectifications or improvements.

These external audits may be carried out by different external auditors.

The operations or transactions detected during the audits carried out by the external auditors, which in their opinion constitute unusual and unjustified activities, must be reported to the compliance officer of the obligated party.

The external audit reports for compliance with this Standard are not part of the financial statements and will be entered into the institutional system until May 30 of each year.

14.13. Procedure for Registering with the UAFE and Implementing a Risk Prevention System

For the presentation of the listing of the beneficiaries of profits, returns or benefits of the companies, funds or securitization trusts, in Ecuador or any other similar vehicle, whose economic activity is exclusively the investment and administration of real estate assets, for the purposes of applying the exemption from Income Tax.

1. They are obliged to comply with this resolution the companies, funds and securitization trusts established in Ecuador, including permanent establishments, whose economic activity is exclusively the investment and administration of real estate assets, that intend to apply the income tax exemption.
   It will also be obligated, any vehicle of a similar nature to those mentioned in the preceding paragraph, which has the exclusive economic activity investment and asset management real estate and intends to apply the exemption from income tax.
2. Information to be reported: Without prejudice to the norms for the presentation of the "Annex of Shareholders, Participants, Partners, Board Members and Administrators", the taxpayers who want to access the exoneration; They must present the following information, regarding their holders or beneficiaries of representative capital rights, members of the board of directors and administrators:
   - Denomination, company name or full names and surnames, as appropriate; granted in your country of residence. In the case of individuals, in the absence of the above, the identification number or citizenship card must be reported, issued by an organism of the State where they are resident;
   - Type of person (individuals or legal), and in the case of being a non-resident foreign legal person in Ecuador, specify the type of company in question and its legal status;
   - Country and jurisdiction of tax residence;
   - Tax Regime, identifying if it is in a general regime, tax haven, in a preferential tax regime or jurisdiction of lower taxation;
   - Percentage of participation of each one of the holders or beneficiaries of representative rights of capital in the corporate composition;

- Indication of whether its holders or beneficiaries of capital representative rights, board members or administrators, in accordance with current Ecuadorian tax regulations, are related parties of the obligated subject.

The information will be presented in order to prove compliance with the requirements, without prejudice to compliance with the regulations for the presentation of the "Annex of Shareholders, Participants, Partners, Board Members and Administrators", as appropriate.

3. Levels to be informed: For the purposes of applying the income tax exemption, the obliged subjects must report the information, for each level successively, that is necessary to prove compliance, regardless of whether the company, fund or trust of securitization, any similar vehicle, or its shareholders list their shares on the Ecuadorian or foreign stock exchange.
   The last level of corporate composition will be the one in which the following are identified:
   - Individual who are final beneficiaries;
   - State institutions, according to the definition indicated in the Constitution of the Republic of Ecuador;
   - Public companies regulated by the Organic Law of Public Companies;
   - Missions and international organizations recognized by the Ecuadorian State; or,
   - Dependencies and organizations of foreign States recognized by the Ecuadorian State.
4. Form of presentation: The information necessary to prove compliance with the requirements must be reported in the "Annex of Shareholders, Participants, Partners, Board Members and Administrators", which will be presented to the Internal Revenue Service, through of its website (www.sri.gob.ec), in accordance with the format and specifications contained in the respective technical sheet, available on the aforementioned web portal.
5. Breach of the obligation to inform: the profits, yields or benefits will not be exempt from Income Tax.

14.14. Simplified Regime for Entrepreneurs and Popular Businesses – RIMPE

The RIMPE regime is established, for the payment of income tax, to entrepreneurs and popular businesses regulated in accordance with the provisions contained in the law.

Taxable individuals and legal entities with annual gross income above zero and up to USD 300,000.00 as of December 31 of the previous year are subject to this regime.

Within this regime, popular businesses are those taxpayers, individuals, with existing gross income of up to US$ 20,000.00 in the fiscal year of the immediately preceding year.

Gross income shall mean the taxable income received by the taxpayer, less discounts and returns.

The taxpayers within the RIMPE regime will pay the Income Tax according to the corresponding progressive table, applicable on the gross income of the respective fiscal year, exclusively with respect to those income from activities not excluded from it.

Artisans and entrepreneurs are included in this regime according to the definition contained in the law on the matter, unless they are excluded from the regime as established in the following article.

Regime Exclusions

The following taxpayers may not benefit from the regime regulated in this chapter:

- Those who have received gross income of more than USD 300,000.00 in the immediately preceding fiscal year;

- Those whose economic activity is those provided for in articles 28 and 29 of the Internal Tax Regime Law;
- Those who are dedicated to the provision of professional services, mandates and representations, transportation, agricultural activities, fuel marketer, dependency relationship, as well as those who exclusively receive capital income and others who maintain special regimes of tax payment to income according to the Internal Tax Regime Law;
- The recipients of foreign direct investment, and those that develop activities in public- private partnership; and
- Those who develop their economic activity in the hydrocarbon, mining, petrochemical, medical and pharmaceutical laboratories, basic industries, finance, popular and solidarity economy and insurance sectors.

Validity

This regime will be mandatory for a peremptory period of 3 years counted from the first declaration of the tax, provided that the taxpayer does not receive gross income greater than USD 300,000.00. In the event that the taxpayer receives gross income greater than the amount established above, the taxpayers covered by the regime must pay the taxes within the general Income Tax regime.

Taxpayers who maintain their status as popular businesses will remain within the RIMPE regime as long as they maintain said status.

Once the taxpayer has been excluded from the RIMPE regime, he will not be able to enter the regime again.

All taxpayers who start activities and are not excluded from this regime, at the time of their registration in the RUC, must be included in the RIMPE regime from the first year of operation. In the event that the taxpayers included in the RIMPE regime exceed the amount of USD 300,000.00 of gross income in the first year of operation, they will be subject to the ordinary income tax regime. income from the following fiscal year.

The Internal Revenue Service will dictate the resolutions that establish the formalities and requirements for the registration of taxpayers in the RUC and their admission to the RIMPE regime.

Tax Rate: Taxpayers within the RIMPE regime will pay Income Tax according to the following progressive table:

Lower limit	Upper Limit	Tax on the Basic Fraction	Marginal rate
20,000.00	50,000.00	60.00	1.00%
50,000.01	75,000.00	360.00	1.25%
75,000.01	100,000.00	672.50	1.50%
100,000.01	200,000.00	1,047.50	1.75%
200,000.01	300,000.00	2,797.52	2.00%

In the event that a taxpayer who is within the RIMPE exceeds the upper limit of three hundred thousand dollars of the United States of America within the tax year, the excess will be paid according to the marginal rate provided for the last range. Said taxpayer will pass to the ordinary income tax regime in the following tax year.

Sales receipts: Taxpayers subject to the RIMPE must issue sales receipts, retention, complementary documents, including liquidations of purchase of goods and prov ision of services, in the cases that proceed, according to the Regulation of Sales Receipts, Withholding and Documents Complementary.

Only taxpayers considered as popular businesses within this regime will issue sales notes under current regulations. However, when they cease to have such consideration, they may not issue sales notes and must destroy those whose authorization is in force and must issue the corresponding receipts and documents. Taxpayers classified as "popular businesses" that carry out economic activities not subject to the RIMPE must issue invoices exclusively for these transactions.

Before joining the regime, taxpayers included in the RIMPE must register the withdrawal of those authorized sales receipts that have not been used. When the taxpayer is excluded from this regime, he will not be able to issue sales receipts that have not been used and must register their cancellation through the electronic channels provided for this purpose. Taxpayers registered in this regime will request invoices for their purchases of goods, transfer of rights and contracting of services. If the acquisitions, assignments or contracts were made to taxpayers subject to the RIMPE under the consideration of popular business, they will request that they be identified in the respective sales note stating their name and registration number.

Private non-profit institutions will be subject to the RIMPE to benefit from the presentation of semi-annual declarations and the other regulations related to the simplification of tax obligations, without their legal nature having changed, nor have they lost the tax exemptions provided for in current tax regulations.

Taxpayers subject to the microenterprise regime, who join the RIMPE; and, those subjects who are under the RISE, who meet the conditions to be part of the RIMPE regime, may continue to use their vouchers and authorized documents until their effective date, and the taxpayer must register in such documents, manually, by means of a stamp or any other form of printing, the legend "RIMPE Taxpayer Regime". Taxpayers who require tax credit support for the value added tax, for purchases made from RIMPE taxpayers who have been subject to RISE, and who, having to issue invoices, cannot do so until the technological implementation allows it, must issue settlements of purchase of goods and provision of services for said acquisitions. In the case of transactions with final consumers, taxpayers who join the RIMPE regime must issue sales notes itemizing VAT.

Taxpayers classified as popular businesses that keep current invoices until the technological implementation, must issue these receipts without itemizing VAT, in transactions with final consumers. When the purchasers of goods and services are entitled to a VAT tax credit, they must issue a liquidation of purchases of goods and provision of services, in which the tax is registered considering as the taxable base the value of the transferred good or service provided and carry out the withholding of 100% VAT generated.

14.15. Individual and Legal Persons Whose Activity or Corporate Purpose is the Negotiation and Commercialization of Jewelry, Metals and Precious Stones as Subjects Obliged to Report to the UAFE

Individuals and legal persons (anonymous and limited companies, consortiums, cooperatives, associations, civil societies and other legal forms) whose activity or corporate purpose is the negotiation and commercialization of jewelry, metals and precious stones are notified. as subjects obliged to report to the Financial and Economic Analysis Unit.

In the case of legal entities that carry out activities related to the negotiation and commercialization of jewelry, metals and precious stones, the following will be obligated subjects:

- Mining concessions;
- Extraction and commercialization of precious metals and/or precious stones;
- Processing of precious metals (benefit plants);
- Import and export precious metals; and
- Manufacture and Marketing of jewelry and/or precious stones.

In the case of individuals who carry out activities related to the negotiation and commercialization of jewelry, metals and precious stones, the following will be obligated:

- Import and export precious metals;
- They are engaged in the wholesale sale of precious stones;
- They produce carved pearls; and
- Manufacture and marketing of wholesale jewelry.

Information reports: The regulated entities will send the following reports to the Financial and Economic Analysis Unit (UAFE):

- Report of operations and individual transactions whose amount is equal to or greater than ten thousand dollars of the United States of America (10,000) or its equivalent in other currencies; as well as multiple operations and transactions that, together, are equal to or greater than said value, when carried out for the benefit of the same person and within a period of thirty (30) days, within fifteen days after the end of each month;
- Report of unusual and unjustified economic operations or transactions (RON), within a term of four (4) days counted from the date such operations or transactions become known. All the supports of the case must be attached; and
- Report of its own national and international operations whose amount is equal to or greater than ten thousand dollars of the United States of America or its equivalent in other currencies, within fifteen days after the end of each month.

To send the reports provided for in this article, the System for the Prevention of Money Laundering and Financing of Terrorism (SISLAFT) will be used. The reports provided for in this article will be submitted in the formats established in the Report Structure Manual, issued for this purpose by the Financial and Economic Analysis Unit.

In addition, they must register in the SISLAFT, within fifteen days after the end of each month, the non-existence of transactions and operations that equal or exceed the legal threshold.

14.16. Removed From Tax Havens Listings

Tax Havens list was eliminated on January 21, 2025, in Ecuador. The new rules establish that a jurisdiction will be considered a Tax Haven for Ecuador if the taxation is said jurisdiction is below 60% of the national income tax rate, if there is no real economic activity or if there is no cooperation in the exchange of fiscal information.

14.17. Rules for the Application of the Ordinary Imputation Method to Avoid Double Taxation

It constitutes tax credit of the IR in Ecuador, the tax paid abroad, having as a limit the amount that would have been taxed in Ecuador.

If foreign income is not taxed in Ecuador or enjoys exemptions Tax paid abroad cannot be used as a tax credit.

The part of the tax paid abroad that exceeds the local tax, is not liable to return, compensation or any other form of recovery; nor can it constitute a tax credit for that or any other tax period.

14.18. Organic Law to Address the Internal Armed Conflict, the Social and Economic Crisis

Temporary Security Contribution (CTS)

Taxpayers:

The following taxpayers are obligated to pay this contribution

- Resident companies in Ecuador (as defined in Article 98 of the LRTI), and
- Permanent establishments

Except for: Micro and small businesses, Banks, and Savings and Credit Cooperatives.

Rate and Taxable Base of the Contribution:

- Rate of 3.25%;
- The rate will be applied to the taxable profit of the 2022 fiscal year; and
- For this purpose, the amount of taxable profit declared in box 836 of the Form 101 of Corporate Income Tax will be considered.

Declaration and Payment:

- The declaration and payment of this contribution must be made using Form 124 according to the technical specifications issued by the SRI; and
- The deadline for declaration and payment is until March 31, 2025, and 2026.

Penalty:

- Non-compliance will result in a penalty of 3% of the obligation generated for each month or fraction of delay, in addition to surcharges and interest for the delay.

Non-Deductibility:

- This contribution cannot be considered as a deductible expense for income tax purposes.

No Payment Facilities:

- Regarding this contribution, the request for payment facilities is not applicable.

14.19. Organic Law of National Solidarity Enacted in Ecuador

The Organic Law of National Solidarity was approved by the National Assembly of Ecuador on June 7, 2025, and officially published in the Sixth Supplement of Official Register No. 56 on June 10, 2025. This

recent regulation establishes new legal and institutional frameworks aimed at strengthening social cohesion and addressing national emergencies.

Key points and reforms it introduces

Tax Credit for Donations:

- This law replaces the previous 150% additional deduction for donations to the National Police. Now, **taxpayers** (individuals or legal entities) who **donate new assets** (real estate, equipment, supplies) to the **National Police and/or Armed Forces** can receive a **reduction in their income tax liability** equivalent to the value of the donation. This reduction is capped at **30% of the tax owed** and is a **non-refundable tax credit**.

Restrictions for Simplified Stock Corporations (SAS):

- The law imposes **new limitations** on **Simplified Stock Corporations (SAS)**, **prohibiting them from operating in certain strategic sectors** like mining.

Creation of the Sports Public Limited Company (SAD):

- This provision aims to **foster transparency and the development of professional sports** through the creation of the Sports Public Limited Company (SAD).

Strengthening of the UAFE:

- The **Financial and Economic Analysis Unit (UAFE)** will have **expanded powers** during the internal armed conflict to **analyze suspicious operations** and **coordinate money laundering prevention and sanctioning with other institutions**.

EL SALVADOR
MAYORA & MAYORA, S.C.

MAYORA & MAYORA, S.C.
ABOGADOS
EST.1966

IN-COUNTRY MEMBER FIRM:

www.mayora-mayora.com
(503) 2212-0100 | Fax (503) 2212-0120
Address: Avenida los Espliegos casa número 30, Colonia San Francisco, San Salvador.

CONTACT PARTNER(S):

Manuel Telles
mtelles@mayora-mayora.com

HIGHLIGHTS

National Level Tax Rates: 2023	
Income Tax	
Legal Entities	30% for entities with an annual income over USD$150,000 and 25% for entities with an annual income under USD $150,000
Natural Person	According to retention tables
Income from Capital	
Gains	10% except special cases
Advance payment on Income Tax	75% on gross income
Income from dividends	5%
Withholding Taxes on:	
Interests	10 % for natural person
Prizes	15%
Income of Non-domiciled	20%
Income for domiciled:	
Tax heavens	25%
Software	5% for entities
Professional Services	10%
VAT on Sales	13%
VAT on Services	13%
VAT on Sales	13%
Leasing Services, Transportation and Arts/ profession Individual	10%
Local Level Tax Rates:	
Tax on Industrial Activities	Not applicable
Tax on Commercial Activities	Not applicable
Tax on Service Activities	Not applicable
Real Estate Tax	3% on the surplus of $28,571.43
Taxes on Other Property	Not applicable
Document Registration	Rates applicable at several Register Offices
Tourism Tax	5%

OVERVIEW

1. Income Tax

1.1. General Aspects

The criteria for income tax collection in El Salvador is the territoriality or the source.

Income withholdings in El Salvador constitute a mechanism used by the State by virtue of its power, to receive in advance resources that finance its operations.

These withholdings in effect constitute partial payments for the taxpayers who support it and represent a credit to be used at the end of the fiscal year and at the time of paying the Tax, except for special cases where the withholdings tax become definitive payment.

The Income Tax Act identifies as taxpayers those who carry out economic activities whether they are:

a) natural or legal persons, domiciled or not in El Salvador; b) successions or trusts, domiciled or not in the country; c) artists, athletes or similar persons, domiciled or not in the country, whether they are present as individuals or in a group; or d) irregular or de facto companies and other unions.

1.2. Payment and Filing

The Income Tax Act identifies the following taxable incomes regimes:

- Those obtained from labor, such as wages, salaries, fees, commissions and all kinds of compensation for personal services;
- Those obtained by business activity, whether it is commercial, agricultural, industrial, or services of any other nature;
- Those generated from capital such as rents, interest, dividends, or participations; and
- Those obtained from all kinds of products, profits, benefits or utilities, no matter the origin, debts condonations, undocumented liabilities or provisions of excess liabilities, as well as unjustified increase of assets and expenses.

In our country, only private subjects are considered as taxpayers of the State Income Tax. The State, municipalities, foundations of public law and corporations and foundations of public utility are exempt from income tax.

Employees are liable to pay income tax using their gross income as a taxable base, without counting exempt income, then applying the correspondent tax rate to obtain the payable tax. Employees can deduct limited expenses. This regime has an annual tax period, so the taxpayer must declare his taxes on an annual basis, no later than April 30th of the following fiscal year.

Legal entities are liable to pay income tax using gross income as a taxable base, without counting exempt income, deducting all costs and expenses that are related, useful, indispensable and necessary to generate income or conserve source of income, then applying the correspondent tax rate. The tax rate depends on the income, if it is less than US$150,000.00, the applicable tax rate is 25%, and if it is greater than US$150,000.00 the applicable tax rate is 30%. Although under this regime the tax period is annual, taxpayers still must make monthly advances, which are then credited in the annual income tax return, which has to be submitted to the tax agency no later than April 30th of the following year.

Capital gains are identified by the Income Tax Act, as those obtained by a natural or legal person from an unusual source of income, such as the sale, exchange or other forms of negotiations on movable property or real estate property, as long as such transaction are carried out after 12 months from the date of acquisition of the property. The applicable tax rate on capital gains is 10%.

1.3. Non-Domiciled Persons or Legal Entities

The Income Tax Act establishes that non-domiciled, whether natural persons or legal entities, must pay a tax rate of 20% on their Salvadorian income. However, according to the Tax Code, if the non- domiciled,

is domiciled in a territory with a preferential tax regime, low or no taxation or tax havens, then a withholding tax of 25% is applicable.

1.3.1. Transfer Pricing

Since 2009, the Tax Code of El Salvador has transfer pricing regulation, which follows the OECD rules on transfer pricing, including valuation methodology, reporting requirements and criteria on company groups. It establishes the possibility of entering into advance valuation agreements and mandates that the taxpayers must have at the moment of filing their declaration and annual liquidation of Income Tax, the transfer pricing study that supports the valuation applied to transactions carried out between related parties.

These provisions only apply to related parties and those domiciled in a State or territory with a preferential tax regime, low or no taxation, or tax havens.

Transfer prices in El Salvador arise from the exchange of goods and services between companies of the same multinational group, which has given rise to the problem of determining the optimal transfer price set between the same related parties.

In El Salvador, from the point of view of the tax administration, transfer prices and the rules that govern them are intended to avoid manipulation of the tax base of a tax jurisdiction, establishing rules on the management that must be given to it. at these transfer prices, thus avoiding being unequally deprived of the taxes that they consider to be entitled to give their fiscal sovereignty.

2. Value Added Tax (Vat)

2.1. General Aspects

The Value Added Tax, hereinafter VAT, is a general indirect tax on consumption, which is based on the transfer of tangible personal property or provision of services.

According to the Transfer of Personal Movable Property Law, that VAT Law, a transfer of ownership of tangible personal property is considered as not only those transfers resulting from a purchase agreement, but also those transfers resulting from any acts, conventions or contracts that have the purpose of transferring partial or totally the domain of the goods.

VAT´s tax base is the price of the taxed act and the applicable tax rate is 13%. According to the law, it is understood that any price on goods or services has the VAT tax included.

2.1.1. Taxable Transactions

For purposes of the VAT tax Law, taxable services are operations, such as:

- Regular, permanent, periodic or continuous rendering of services of any kind.
- Providing technical advice and the elaboration of projects and plans.
- Leasing of tangible personal property with or without promise of sale.
- Leasing or subleasing of real estate for commercial activities.
- Leasing services in general.
- Making or executing a movable material work.
- Executing engineering projects or others of similar nature.
- Repairing, transforming, extending or other improvements on properties that are less than the

construction of a new one.
- General construction or building contracts.
- Cargo or freight transport, by land, air or sea of passengers.
- Those provided in the liberal exercise of professions, non-subordinate independent services.
- Leasing, conceding or any other form of assigning the use or enjoyment of trademarks or patents.

According to the amendment of Article 119 of the Tax Code, the "Excluded Subject Invoice" it is added to document the operations carried out by taxpayers with subjects who are excluded from VAT (Natural Persons).

2.1.2. Taxable Base

With respect to sales and services, the taxable amount is the price, with respect to imports, the taxable amount is the customs value.

With respect to the leasing of movable property or real estate property, the taxable amount is equal to the rent. With respect to withdrawals of movable goods from a business, the taxable amount is the sale price registered on the accounting books or the market price.

The VAT tax liability is the difference between the total fiscal debits and the total fiscal credits generated.

2.1.3. Creditable VAT

As a general rule, the VAT taxpayer is entitled to a credit, on the VAT tax paid to its suppliers, for tangible movable assets bought or imported and for services hired, provided that they constitute a cost or expense of the taxpayer's income producing activity. The VAT paid in the acquisition of goods that will become fixed assets for the buyer is creditable to the VAT account.

VAT credit is the sum of the tax charged to the taxpayer on imports and/or purchases of local goods and services (which need to be directly related to his/her production, distribution and/or sale process). This is determined on a monthly basis.

VAT debit is the sum of the tax charged by the taxpayer in his/her transactions subject to VAT in the same period.

The difference between the total VAT credit and debit is the amount of tax to be paid for the corresponding month.

2.2. Payment and Filing

VAT has a monthly taxable period. Therefore, the tax must be assessed and a VAT return filed monthly. The VAT return must be filed and paid in full on the filing date, 10 days after the closing of the monthly period.

3. Other Taxes

3.1. Property Taxes

The Tax on the transfer of Real Estate, hereinafter TBR, is a direct and local tax levied on real estate transfer, particularly properties, being the only one in El Salvador that taxes this manifestation of taxable capacity.

The tax rate on the transfer of real estate is 3% on the surplus of US$28,571.43 of the property value.

The taxpayers must submit a written and signed tax return, using the form provided by the General Direction, within a period of 60 days from the transfer, attaching a copy of the public deed.

3.2. Excise Taxes

In El Salvador, the production, import, commercialization or execution of certain activities may be subject to Ad-Valorem taxes and/or special contributions, among them:

Production and marketing of alcohol and alcoholic beverages. The law establishes a tax rate of 8% on the final sale price to the public and on the price differential between the official suggested price and the final price to the public. It also establishes fixed rates that change depending on the type of alcoholic beverage and can be between US$0.0325 and US$0.16 per liter.

Soft drinks, isotonic and energizers, juices and concentrates or powders for beverages. This tax is levied with different rates and/or fixed rates according to the type of product; for example, energy drinks and/or stimulants are taxed with a specific tax for a value of US$0.20 per liter of product or its proportion for containers with less content than 1 liter.

In the same way, it levies Ad-Valorem taxes at a rate of 10% on the sale price to the consumer of carbonated drinks, simple and/or sweetened soft drinks and energy drinks and stimulants, as well as concentrated or powdered preparations. It also taxes the sale of isotonic beverages, sports or fortifying, juices, nectars, drinks with juice or soft drinks and concentrated and powdered preparations, with a 5% rate on the final sale price to the public.

Tax on tobacco products. The law establishes a specific tax of US$0.0225 per cigar, cigarette or cigarillo. In the same way, it establishes Ad-Valorem tax with a rate of 39% on the sale value to the consumer, excluding the VAT tax and for products such as cigars the value of the tax will be 100% on the final sale price to the public.

Tax and/or special contribution on fuel. The Road Maintenance Fund is a special contribution that establishes a fixed tax rate of US$0.20 for each gallon of fuel, which aims to raise money for a fund for the repair and maintenance of roads.

Contribution to transportation. This is a special contribution that is levied with a fixed rate of US$0.10 per gallon of fuel, aiming to help maintain the stability of the tariffs that users pay for the transport public service.

Stabilization and Economic Growth Fund. This is a special contribution that is levied with a fixed tax rate of US$0.16 per gallon of fuel.

Firearms and explosives. An Ad-Valorem tax of 30% is established on the transfer price of these goods, excluding VAT tax.

Tax on Tourism. This establishes two taxable events: hosting services at hotels and a special contribution to all persons leaving the country by air. The first one is taxed with a 5% tax rate on the service, on a daily basis. The exit tax is a fixed tax of US$7.00 per person leaving the national territory by air.

Manufacture of Innovation and Technology Incentives Law. It establishes the elimination of all taxes: on income, property, capital gains and import fees, on technological innovations, software and application programming, Artificial Intelligence, the manufacture of computer hardware and communications. Said benefits or incentives will have a duration of 15 years.

3.3. Custom Duties

El Salvador is part of the Central American Integration System, which is based on a series of treaties that regulate, among others, international trade among the member states and between the member states and non-member states. The full members of the system are Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, Panama, Belize, and the Dominican Republic.

There is a Central American Uniform Customs Code and a common customs product nomenclature across the region. Both have been developed to comply with basic World Trade Organization rules and policies. Trade among the member states is now basically free of any import duties, except for a few products that have a sensitive character for the economy of the member states.

In addition, there are several free trade agreements, in particular between:

a. The Central American states (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua), the Dominican Republic and the United States (CAFTA).
b. The Central American states and Mexico.
c. The Central American states and the EU.
d. The Central American states and Chile.
e. Guatemala, El Salvador, Honduras and Colombia.
f. El Salvador and China.

All of these agreements create a fairly open international trade environment with only a few products subject to import duties, which will be gradually reduced over time.

In addition to VAT, imports are also subject to custom duties that range between 0% and 40%; for most goods, the average rate is 20%. There is also the application of zero rating to certain goods in the context of Free Trade Treaties.

Custom duties are computed on the CIF value of the goods, while import VAT is computed on the CIF value plus the corresponding custom duties.

3.3.1. Filling and Payment

An import tax return must be filed upon nationalization of the goods, and all import procedures must be performed through an authorized customs agent.

4. Payroll Taxes/ Welfare Contributions

4.1. Social Security System

The Salvadoran Social Security Institute manages and operates the Social Security System and the National Health System. These systems provide services and benefits related to illness treatment, disability and pensions system, old age, maternity, and death insurance. Social Security contributions are applicable to employers and employees. The contributions are based on the monthly salaries with a salary cap of $1,000.00, with a 7.50% assigned to the employer and 3.00% to the employee.

If the company has more than 10 employees on its payroll, an additional 1% must be added as a contribution in favor of the employer.

4.2. Income Tax for Employees

The income on labor services is taxed in accordance with a Progressive Taxable Tariff.

The applicable tax rate is determined depending on the amount of salary, with a tax rate between 10% and 30%. In addition, the tax due is complemented with a fixed amount established accordingly with a Taxable Tariff, as shown below:

	Tax Base (monthly salary)		Tax Rate	Surplus	Plus Fixed Amount
	From	To			
I TRAMO	$0.01	$6,600.00	-	Exempt	-
II TRAMO	$6,600.01	$9,142.86	10%	$6,600.00	$212.12
III TRAMO	$9,142.87	$22,857.14	20%	$9,142.86	$720.00
IV TRAMO	$22,857.15	Herin after	30%	$22,857.14	$3,462.86

As mentioned above, the employer must calculate the monthly withholding that will be made throughout the year, but a final payment is made at the end of the fiscal year, if more or less of the required tax was withheld.

GUATEMALA MAYORA & MAYORA, S.C.

MAYORA & MAYORA, S.C.
ABOGADOS
EST.1966

IN-COUNTRY MEMBER FIRM:

www.mayora-mayora.com
(502) 2223-6868 | Fax (502) 2366-2540
Address: 15 Calle 1-04, Céntrica Plaza 3rd Floor, Office 301 of Zone 10, Guatemala City 01010

CONTACT PARTNER(S):

Eduardo Mayora Alvarado
emayora@mayora-mayora.com

HIGHLIGHTS

National Level Tax Rates: 2022	
Corporate Income Tax	25% (or 5% or 7% Flat Tax)
Capital Gains Tax	10%
Capital Income Tax	10%
Branch Profit Tax	25% (or 5% or 7% Flat Tax)
Dividends Tax	5% (income tax)
Withholding Taxes on:	
Interests	10%
Royalties	15%
Technical, scientific, administrative Services	
Imports	15%
Labor services	15%
Others	25%
Tax Loss carry-forward term	Not available
Tax Losses carry-back term	Not available
Tax-free Reorganizations	Not available
VAT on Sales	12%
VAT on Services	12%
VAT on imports	12%
Local Level Tax Rates:	
Tax on Industrial Activities:	Not applicable
Tax on Commercial Activities:	Not applicable
Taxes on Other Property:	GTQ.2 to GTQ.9 per GTQ.1,000
Document Registration:	Rates applicable at several

Treaty taxation

Guatemala has approved the Convention on Mutual Administrative Assistance in Tax Matters. The Convention was adopted by Guatemala on December 5, 2012 at the headquarters of the Organization for Economic Cooperation and Development (OECD) and ratified by Congress on June 5, 2017, when official Decree No. 9-2017 was published in the Official Gazette.

No double or multiple taxation treaties are in force yet. Nevertheless, according to tax authorities, several double taxation treaties are being negotiated. The first treaty was signed with México in 2015. However, it is not mandatory yet as it has not been ratified by Congress.

Recently the Guatemalan tax agency has implemented for the first time the OCDE Multilateral Convention on Mutual Administrative Assistance in Tax Matters, asking for information regarding the Guatemalan taxpayers who have received payments from a well-known international App for hosts who seeks to rent their properties.

OVERVIEW

1. Income Tax

1.1. General Aspects

In general, Guatemalan income tax is a territorial, objective and schedular tax. Therefore, all income generated in Guatemala is taxable according to its origin.

According to the Income Tax Act, the notion of taxpayer extends to all resident or non-resident individuals and corporations, partnerships, trusts, de facto corporations, joint ventures, permanent establishments, and any other business firm or establishment deriving Guatemalan-sourced income.

Guatemalan Law considers three main categories of income taxable: a) business income; b) payroll and other compensation; and c) income from capital gains.

a. Business Income from any for-profit Activity: This category would include professional services (such as financial, insurance, etc.), commercial and industrial businesses, agriculture and farming activities, mining, international trade, and transportation services.
b. Payroll and Other Compensation: such as ordinary salaries, bonuses, and commissions. Employees are taxed on Guatemalan-sourced income.
c. Passive Income from Capital Investments and the Sale and Disposition of Fixed Assets: This category would include income derived from the renting or leasing of property, interest, royalties, profit distributions, capital gains, and prizes.

1.1.1. Income Tax Rate

The Guatemalan income tax has an applicable rate for different kinds of income. For income from profitable activity, there are two types of tax regimes: a) the general statutory corporate income tax regimen with a tax rate of 25% on net income; and b) the flat rate regime with tax rates of 7% or 5% on gross income, minus exempt income. Under this regime, the applicable tax rate will depend on the amount of taxable income. When the taxable income is less than US$3,906.82, the applicable tax rate is 5%. When the taxable income is greater than the previous amount, the excess is calculated over 7% plus a fixed amount of US$195.34.

Tax-resident employees are liable to pay income taxes at 5% or 7%, depending on the amount of the taxable income. Employees with income below US$39,068.15 are taxed at a rate of 5%; Employees whose taxable income is equal to or above that amount, are taxed 7% on the surplus.

1.1.2. Deductions

For the 25% Regime, as a general rule, all costs and expenses related, useful, relevant, and necessary to the income producing activity, are considered deductible expenses. Every cost and expense must be proven by relevant legal documentation, i.e., authorized invoices, special invoices, non-residents' invoices, import permits, payroll receipts, etc. Excluded and/or exempted items of income are not deductible, and the lack of appropriate apportionment could lead to a proportional rejection on overall deductible costs and expenses. Some costs and expenses are limited to quantitative ceilings, e.g., royalties and unrecoverable debts. However, for the 5% or 7% regime, there are no available deductions. In regard to deduction of interest payments, income tax has assumed an undercapitalization rule, which allows for a maximum deduction equal to the rate determined by the Monetary Board applied to the net asset value multiplied by three.

As a resident employee, the only allowable deductions are:

a. cost of living allowance—about US$6,180.7 yearly;
b. social security contributions and contributions to pension funds; and
c. life insurance premiums, which do not provide for a rescue value.

As a result of a new amendment to the income tax law, taxpayers that are constituted abroad who carry out activities of transportation of cargo and people, and their operations that generate income are made by agencies, branches and other permanent establishments in Guatemala, have to determine the deductible costs and expenses adding to them a proportion of the global costs and expenses reported by the parent company in accordance with a specific formula dictated by law.

1.1.3. Depreciations

For the 25% regime, tangible and intangible fixed assets depreciation is deductible. The depreciation term varies depending on the nature of the assets.

1.1.4. Transfer Pricing

Since 2013, Guatemala has transfer pricing rules applicable to transactions between Guatemalan entities and non-resident, foreign related entities. Such rules do not apply to related Guatemalan resident entities. Documentation supporting the price must be ready at the moment of submitting the tax return.

The system follows approximately the OECD rules on transfer pricing, including valuation methodology, reporting requirements and criteria on company groups.

There are different methods to apply for the arm's length principle, as well as different definitions for related parties. Income tax also contains rules regarding advance pricing agreements.

The Guatemala income tax law does not provide a closed definition of permanent establishment and, as a result, article five from the OECD Model Tax Convention on Income and Capital can be used for guidance.

1.1.5. Inflation Adjustments

Guatemala does not have inflation adjustment mechanisms. However, it permits the revaluation of tangible or intangible assets.

1.2. Payment and Filing

For taxpayers under the 25% regime, the ordinary tax year covers the period from January 1st to December 31st, with an annual filing deadline three months after the close of the corresponding tax year. Taxpayers under the 5% or 7 % regimes must file their returns on a monthly basis.

1.3. Interest and Penalties on Unpaid Tax or Tax Paid Belatedly

Unpaid taxes are subject to an interest charge that assessed at rate established by law, roughly the average of the lending interests charged by banks, plus a fine that, subject to some qualifications, may be up to 100% of the unpaid taxes.

Late payments (where no inspection has taken place yet) are subject to a fine calculated by multiplying the unpaid tax times the number of days of delay by a factor of 0.0005.

1.4. Dividend Tax/Branch Profits Tax

Payment of dividends is considered taxable income for income tax purposes. A 5% withholding tax is levied on dividends paid to both residents and non-resident shareholders, as well as on the remittances made to the parent corporation of local branches.

Dividends received from foreign companies, not operating in or residing in Guatemala, are considered foreign sourced income and not subject to taxation in the country. Dividends are not deductible.

1.5. Cross-Border Payments

1.5.1. Withholding Taxes

Withholding of non-residents

A business vehicle must pay income tax in Guatemala on Guatemalan-sourced income, regardless of its nationality or residence. However, the tax regimes applicable to residents differ from those applicable to non-residents. While tax-resident vehicles are taxed according to the nature of their income (whether derived from their main business activity or from capital investments etc.), non-tax resident vehicles are subject to withholding taxes, the rates of which vary according to its category (interest, dividends, remuneration for services, royalties on IP etc.). Tax-resident businesses do not pay tax on worldwide income.

Residence depends broadly on:

- being physically present in Guatemala for more than 183 days in a year;
- carrying on business activities in Guatemala on a habitual basis;
- having a company's main business interests or administrative headquarters in Guatemala; and
- organizing a business under the laws of Guatemala and establishing its tax residence there.

Because the income tax law has adopted a definition of resident for tax purposes, two different regimes have evolved:

- non-residents with permanent establishment; and
- non-residents without permanent establishment.

On the on hand when Guatemalan sourced income is remitted abroad to a beneficiary that is a non-resident without permanent establishment, payment is subject to a withholding tax. On the other hand, if the alien has a permanent establishment in Guatemala, the tax regime of non-residents with permanent establishment, sets that taxes have to be paid as a resident.

Withholding of Tax-resident employees

The employer must calculate the monthly withholding for the year, but a final payment is made to the tax administration at the end of the fiscal year, if more or less than the required tax would have been withheld.

Employers must withhold and pay on behalf of their employees the applicable income tax and social security contributions, including the employer's social security contributions.

1.5.1.1. Royalties

Royalty payments, as intellectual property royalties paid to non-residents, are subject to a 15% withholding tax.

1.5.1.2. Dividends

Please refer to numeral 1.4 above.

1.5.1.3. Technical, Administrative, Scientific, Financial or Economic Services

Payments made to a non-resident without permanent establishment for technical, administrative, scientific, financial, or economic services are subject to a 15% withholding tax.

1.5.1.4. Other

Other payments made not to a non-resident without permanent establishment are subject to a 25% residual withholding tax.

In all cases, the payer must withhold the tax on credit or payment and pay it on behalf of the non- resident (the actual taxpayer) to the tax administration within the first ten working days of the following month of the withholding date.

1.5.2. Interest payments

As a general rule, the payment of interest is subject to 10% tax withholding, whether paid to residents or non-residents, with some exemptions, such as:

- Government bonds;
- Insured mortgage-backed securities, for the development of low-income housing projects; and
- For foreign financing, interest on loans granted by fully licensed banks or financial institutions to Guatemalan companies (though it is recommended that a ruling is sought from the tax administration).

However, if a resident regularly charges interest, the income will be subject to corporate income tax.

1.5.3. Equity Reimbursements

Although tax liabilities may arise within this context, they would not be subject to withholding obligations.

1.5.4. Tax Havens

Guatemalan tax regulations do not have tax haven provisions.

2. Value Added Tax (VAT)

2.1. General Aspects

VAT's general rate is 12%. A reduced rate of 5% applies to minor taxpayers with annual gross income up to approximately US$64,000.00. The previous simplified regime for agricultural activities was replaced by two special tax regimes: (i) Production and Commercialization of agricultural products and handicrafts; and (ii) Production and Commercialization of livestock, hydrobiological, and beekeeping products. Under both regimes, taxpayers are subject to a 1.5% tax on gross sales, or

2% in the case of exports, with no practical income limitation. There are also VAT exemptions for specific entities.

2.1.1. Taxable Transactions

The law provides for the following taxable events:

- Sale or in-kind exchange of personal property, real property (for the first sale only) and/or rights over them.
- Provision of services within Guatemalan territory.
- Import of goods.
- Lease of movable property (chattels) and real estate.
- Judicially or otherwise mandated in-kind payments.
- Inventory discharges by a taxpayer or by the owner, partner, director or employee of a company for personal use and consumption.
- Destruction or loss of inventory, except for perishable goods or losses caused by force majeure or criminal events.
- Gifts of movable property and real[1] estate.

Among the general exemptions are the following:

- Temporary imports.
- Exports of goods and services.
- Transfer of ownership of movables and real estate resulting from mergers, acquisitions, contributions to corporations and other entities, and inheritance.
- Services provided by supervised financial institutions, reinsurance, and counter-guarantee operations.
- The issue or transfer of negotiable instruments and of any kind of shares, except negotiable invoices.
- The creation of trusts and the reversion of trust assets to the grantor.
- Contributions and donations made to non-profits.
- Retail sales of raw food and vegetables in municipal markets for less than $15.00.
- Services provided by non-profits.
- Sale of assets of financial institutions subject to bankruptcy proceedings.

2.1.2. Taxable Base

With respect to sales and services, the taxable amount is the price, excluding any discounts granted in accordance with trade practices, and including amounts charged separately to the acquiring party that also includes taxes other than VAT.

With respect to imports, the taxable amount is the CIF value, plus customs duties and other related charges.

Real estate sold on secondary markets is subject to stamp tax.

1 The contribution of real estate to companies is subject to VAT when the contributed property has already been previously contributed to another company whose business purpose is real estate development.

With respect to the leasing of movable or immovable property, the taxable amount is equal to the rent plus any financing charge. With respect to withdrawals of movable goods from a business firm, the taxable amount is the acquisition price or the production cost of goods.

The VAT tax liability is the difference between the total fiscal debits and the total fiscal credits generated.

2.1.3. Creditable VAT

As a general rule, the VAT taxpayer is entitled to a credit, on the VAT tax paid to its suppliers, for tangible movable assets bought or imported and for services hired, provided that they constitute a cost or expense of the taxpayer's income producing activity. The VAT paid in the acquisition of goods that will become fixed assets for the buyer is creditable to the VAT account.

VAT credit is the sum of the tax charged to the taxpayer on imports and/or purchases of local goods and services (which need to be directly related to his/her production, distribution and/or sale process). This is determined on a monthly basis.

VAT debit is the sum of the tax charged by the taxpayer in his/her transactions subject to VAT in the same period. The difference between the total VAT credit and debit is the amount of tax to be paid for the corresponding month.

Exporters have the right to request a tax refund for the VAT credit in their favor. The refund is made on a monthly, quarterly, or semi-annual basis depending on the applicable tax regime.

The refundable tax credit originates from the tax charged on the invoices for purchased goods and services destined to the exporter's commercial activity.

2.2. Payment and Filing

VAT has a monthly taxable period. Therefore, the tax must be assessed, and a VAT return filed monthly. The VAT return must be filed and paid in full on the filing date, 30 days after the closing of the monthly period.

3. Other Taxes

3.1. Property Taxes

There is a real estate tax paid on a quarterly basis. The tax rate ranges from to US$0.25 to US$1.17 per US$130.23 a year, calculated on a fiscal basis, which can be appraised according to different procedures contained in the law.

3.2. Stamp Tax

This is a documentary tax applicable to all written agreements and payment vouchers. The Stamp Tax has fixed rates for some specific documents and agreements; for documents which are not subject to a fixed rate, there is a general tax rate of 3%. The taxable base is the full amount of the consideration agreed in the document. The general exemption for this tax is that all transactions subject to VAT are not levied with the Stamp Tax.

This tax is levied exclusively on documents representing transactions and contracts and, therefore, the no document means no tax liability.

The second sale (and those subsequent) of real estate is subject to stamp tax.

3.3. Excise Taxes

Guatemalan law levies taxes on the distribution of specific consumer goods: crude oil, fuels, and other derivatives; alcoholic beverages; non-alcoholic beverages of various kinds; and cement. There is also a specific tax on the manufacture and import of tobacco products.

Tax rates range from 8% to 100%.

3.4. Custom Duties

Guatemala is part of the Central American Integration System, which is based on a series of treaties that regulate, among others, international trade among the member states and between the member states and non-member states. The full members of the system are Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, Panama, Belize, and the Dominican Republic.

There is a Central American Uniform Customs Code and a common customs product nomenclature across the region. Both have been developed to comply with basic World Trade Organization rules and policies. Trade among the member states is now basically free of any import duties, except for a few products that have a sensitive character for the economy of the member states.

In addition, there are several free trade agreements, in particular between:

The Central American states (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua), the Dominican Republic and the United States (CAFTA).

- The Central American states and Mexico.
- The Central American states and the EU.
- The Central American states and Chile.
- Guatemala, El Salvador, Honduras and, Colombia.
- Guatemala and Taiwan.
- Guatemala and Panama.

All these agreements create a fairly open international trade environment with only a few products subject to import duties, which will be gradually reduced over time.

In addition to VAT, imports are also subject to custom duties that range between 0% and 30%; for most goods, the average rate is 15%. There is also the application of zero rating to certain goods in the context of Free Trade Treaties.

Custom duties are computed on the CIF value of the goods, while import VAT is computed on the CIF value plus the corresponding custom duties.

There are no export duties, but there are products, such as sugar, which are subject to export quotas.

3.4.1. Filling and Payment

An import tax return must be filed upon nationalization of the goods, and all import procedures must be performed through an authorized customs agent.

3.5. Alternative Flat Income Tax

A minimum tax creditable to income tax, called Impuesto de Solidaridad (ISO), is levied on commercial or agricultural activities with a gross margin of more than 4% of gross revenue.

The tax base is the greater amount of either 25% of the net asset value, or 25% of the gross revenue and, when the net asset value exceeds four times the gross revenue, the tax base is 25% of the gross revenue.

The ISO tax is due on a quarterly basis and is creditable to income tax, in the 25% regime. Taxpayers affiliated with the gross income regime are exempt from the ISO tax.

4. Payroll Taxes/ Welfare Contributions

4.1. Social Security System

The Guatemalan Social Security Institute manages and operates the Social Security System and the National Health System. These systems provide services and benefits related to illness treatment, disability and pensions system, old age, maternity, and death insurance. Social Security contributions are applicable to employers and employees. The contributions are based on the monthly salaries with 12.67% apportioned to the employer and 4.83% to the employee.

4.2. Labor Risks Insurance

This mandatory insurance is covered under the state-owned monopoly of the Guatemalan Social Security Institute and covers the entire labor force.

4.3. Payroll Tax

In regard to labor income, the Guatemalan income tax establishes that tax-resident employees are liable to pay income taxes at 5% or 7%, depending on the amount of the taxable income. Employees with income below US$39,068.15 are taxed at a rate of 5%; Employees whose taxable income is equal to or above that amount, are taxed 7% on the surplus, plus a fixed amount of US$1,953.41.

It should be noted, however, that the only deductions allowed are:

a. Cost of living allowance of about US$7,813.63 per year;
b. Social security contributions and contributions to pension funds; and
c. Life insurance premiums (that do not provide for rescue value).

As mentioned above, the employer must calculate the monthly withholding to be made through the year, but a final payment is made at the end of the fiscal year, if more or less than the required tax would have been withheld.

HONDURAS MAYORA & MAYORA, S.C..

MAYORA & MAYORA, S.C.
ABOGADOS
EST.1966

IN-COUNTRY MEMBER FIRM:

www.mayora-mayora.com
(504) 2221-2095 | Fax (502) 2366-2540
Address: Centro Morazán, Torre 2, Piso 14, Local 21414, Tegucigalpa, M.D.C., Honduras, Centroamérica, 11101

CONTACT PARTNER(S):

Odín Alberto Guillén Leiva
oguillen@mayora-mayora.com

HIGHLIGHTS

National Rates 2025	
Resident or domiciled corporation	25%
Resident or domiciled individuals' income base exempt	L 217,493.16 (US$8,347.01)[1]
Resident or domiciled Capital Gain Tax	10%
Non-resident or non-domiciled Capital Gain Tax	4% of the total operation value[2]
General sales tax	15%
Sales tax for beer, hard liquor, compound liquor, and other alcoholic beverages, cigarettes and other tobacco elaborated products.	18%
Population Security rate	L. 2.00 (US$0.08)
Real State Tradition Tax	1.5%
Dividends Tax	10%

OVERVIEW

1. Honduran Tributary Jurisdiction

Honduras is ruled by the principle of territorial income since the approval of the new Tributary Code (Decree 170-2016), in force since January 1st, 2017.

This principle states that Honduran tax imposition can only be within its territorial jurisdiction, in other words, for tax obligations to occur in this State, it is imperative that the income comes from a Honduran source.

Equally important as the described principle, the Honduran tax base must be determined according to the principle of economic reality, normal and ordinary business usage, as well as accounting rules, principles, good practices, and regulations.

Therefore, the Honduran tax base must respond to the economic nature of the transactions rather than to the legal nature of the act.

No double taxation treaties are in force yet. Nevertheless, the Honduran tributary code refers that double taxation should be avoided, because of this, several double taxation treaties are being negotiated.

1 Resident or domiciled individuals' income base exempt was modified for 2025. Exchange rate of July 1st, 2025, US$1.00 = L26.12.

2 Honduran capital gain tax limit of liability is 10% of the net profit. However, the 4% withholding tax to the whole operation must be firstly done.

2. Income Tax

2.1. General Aspects

According to the Income Tax Law, the notion of taxpayer extends to all resident or non-resident, domiciled or non-domiciled individuals and corporations, partnerships, trusts, joint ventures, permanent establishments and any other business firm or establishment that perceives incomes deriving from Honduran sources.

There are three types of Honduran income sources, which are:

- Capital;
- Labor and services; and/or,
- Combination of both sources.
    a. Capital income: It is Honduran source income the incomes arising from assets situated in Honduras; as well as the gains or profits from the transfer of shares or stocks from Honduran corporations.
    b. The gains or profits from the transfer of shares or stocks issued by Honduran corporations, are considered Honduran source income regardless of the place of the execution of the sale.
    c. Labor & services income: The incomes from services and labor are considered as Honduran income source when they are rendered in Honduras. The incomes from those services are also considered as Honduran when they are rendered outside the country but paid from a Honduran source.
    d. Combination of both sources' income: When the income is generated by the combination of capital and services, the location of the source is determined according to the capital income regulations.

2.2. Income Tax Rate

2.2.1. Resident and Domiciled Tax Rate

The Honduran income tax has a specific rate for corporations and individuals.

a. For Honduran corporation the applicable tax rate is the 25% of the total net taxable income;
b. For individuals, the income tax law establishes a progressive rate of 15%, 20% or 25% depending on the amount of taxable income. This scale of progressive rates will be automatically adjusted on an annual basis and will be carried out by applying the interannual variation of the Consumer Price Index (IPC), published by the Honduran Central Bank (BCH) for the immediately preceding year.

The exempted income for 2025 is L217,493.16 (US$8,347.01), thus when resident or domiciled individuals have an income less or equal to that amount, no income tax is levied on them.

In terms of salary, the monthly salary exempted is L21,457.76 (US$823.51)[3].

3 Exchange rate of July 1st, 2025, US$1.00 = L26.12.

2.2.2. Dividends Tax Rate

In Honduras the payment of dividends or any other type of profit or reserves perceived by a resident or domiciled individual or corporation, are subject to a withholding tax of 10%, which must be withheld and paid by the corporation.

2.2.2.1. Partner Report and Profit Sharing

Article 47 of the Income Tax Law establishes that business enterprises of any kind that are established or are established in the future operating in the country, and distributing dividends among their shareholders, will be obliged to supply the Tax Administration, before last day of the month of February of each year, a report containing the name of their shareholders, according to their registration, the number of shares they own, the nominal value of each share, the percentage of dividends distributed per share in the semesters prior to the report and the total amount in cash paid or to be pay to each shareholder.

With the new Honduran Tax Administration virtual office, a new Annual Informative Declaration of Partners and Profit Sharing (Code 541) was created.

2.2.3. Non-resident or Non-domiciled Tax Rate

Article 5 of the Income Tax Law establishes the applicable tax rate for non-residents or non-domiciled individuals, or corporations, as follows:

Nº	CLASSIFICATION	TAX RATE
1	Incomes from movable or immovable property, except those in numbers 5 and 7 from this list	25%
2	Royalties from mining operations, quarries, or other natural resources	25%
3	Payments, salaries, or other monetary compensation from provided services, whether inside or outside Honduras, except remittances	25%
4	Incomes or earnings obtained by foreign enterprises through branches, subsidiaries, affiliate offices, agencies, legal representatives, and others that operate in Honduras	10%
5	Incomes, earnings, dividends, or other participation of profits or reserves, of natural or legal persons	10%
6	Royalties and other monetary compensation provided using patents, designs, and processes, trade secrets, trademarks, copyrights, except those in number 12 of this list	25%
7	Interests over commercial operations, bonuses, securities, or other types of obligations	10%
8	Incomes from aircrafts operations, boats, and cars	10%
9	Incomes from communication enterprises operations, software use, computing solutions, telematics, and others in Telecommunications	10%
10	Insurance and bond premiums or any other type of subscribed policies	10%
11	Incomes coming from public shows	25%
12	deo clubs and rights for cable television. Movies and videotapes for cinemas, television, video clubs and rights for cable television	25%
13	Any other income not mentioned in the previous numbers	10%

2.3. Withholding Tax

Any payment or account receivable arising from professional fees, allowances, commissions, bonuses, or remuneration for technical services is subject to 12.5% withhold tax.

Withholding Agents must submit the "Monthly Withholding Statement" within the first 10 days of the following month the retention was made.

2.4. Income Tax Rate for Natural and Legal Persons with Incomes of L.1,000,000,000.00 (US$40,448,165.68)[4]

The Decree number 31-2018 of April 20th, 2019, establishes that the calculation of Income Tax and its payments to accounts corresponding to fiscal year 2020 and the subsequent years must be performed accordingly to the following rules:

a. The Natural or legal persons who have obtained gross income equal to or less than L.1,000,000,000.00 (US$40,448,165.68)[5] in the previous fiscal year, will not be subject to the application of Article 22-A of the Income Tax Law, so the calculation of income tax and its payments to accounts of the corresponding fiscal period, must be performed in accordance with the provisions of Article 22 of the Income Tax Law; and,
b. The Natural or legal persons who the previous year have obtained income higher than L.1,000,000,000.00 (US$40,448,165.68[6]) gross income must pay an income tax of 1% of such incomes when the application of the rates established in Income Tax Law literals a) or b) Article 22[7], are less than 1.0% of the declared gross income.

2.5. Income Tax Deductible Expenses

As a rule, all costs and expenses needed to produce income are deductible from the income tax base.

2.5.1. Corporations Can Deduct from Their Taxable Base, The Following Costs, and Expenses:

a. **Wages, Propaganda and Maintenance:** Reasonable salaries, wages, commercial propaganda expenses, material usage, repair and maintenance of machinery or equipment and all costs and expenses related, useful, relevant and necessary to the income producing activity;
b. **Insurances:** Insurance premiums on source goods paid to national and foreign insurance companies that are duly incorporated in the country;
c. **Interests:** The interest paid or accrued on the amounts owed by the taxpayer, if the debts have been contracted to obtain the income;
d. **Depreciation value:** The depreciation value of the goods that are the source of income, considering their nature, usage, and normal wear;
e. **Taxes and contributions:** The amounts paid for taxes and/or tax, district or municipal contributions;

4 Exchange rate of July 1st, 2025, US$1.00 = L26.12.

5 Exchange rate of July 1st, 2025, US$1.00 = L26.12.

6 Exchange rate of July 1st, 2025, US$1.00 = L26.12.

7 The Honduran income tax has a specific rate for corporations and individuals. a. 25% of the total net taxable income is the income tax rate for Honduran corporations; b. For individuals the tax authority has established a progressive rate of 15%, 20% or 25% depending on the amount of the taxable income. This rate is increased year by year by the same tax authority.

f. **Verified damages:** Verified damages in the goods source of income;
g. **Allowance for uncollectible accounts:** 1% of the credit sales value done during the correspondent fiscal year, to constitute an allowance to write off uncollectible accounts;
h. **Amortization:**
   - An amortization of 10% for every contribution period during 10 consecutive years, over the value of new edifications made for the usage and shelter of workers;
   - An amortization of 20% for every contribution period during 5 consecutive years, over the value of all the works made with the objective of enhancing the social, hygienic and cultural workers conditions;
   - A reasonable amortization to compensate the depletion, wear or destruction of the properties and other goods used in the business activity that cannot be depreciated;
i. **Bonuses:** Bonuses granted to workers, if it does not exceed the workers' wages during a period of 6 months;
j. **Donations:** Donations made to the state, municipalities, educational, charity, sportive institutions legally constituted;
k. **Social security:** Social security fees; and,
l. **Representative expenses:** Verified representative expenses; bonuses forming part of the owners, shareholders, managers, directors, executives, or other employees' salaries.

2.5.2. Individual's Income Tax Deductible Expenses:

The individuals can deduct from their taxable base, the following costs, and expenses:

a. Educational and medical expenses for L.40,000.00 (US$1,616.81[8]);
b. Verified expenses incurred in the exercise of a profession, art or occupation;
c. Donations made to the state, municipalities, educational, charity, sportive institutions legally constituted for an amount of 10% of the net taxable base;
d. For ranchers and farmers, the production and maintenance expenses for their farms;
e. In the case of people over 65 years old, the annual sum for the taxpayer's expenses and fees for rendered services is up to L80,000.00 (US$3,233.62[9]).

2.6. Cedular Income Tax

Article 5 of the Income strengthening social equity and rationalization of public spending Law indicates a Cedular Income Tax of 10% that must be paid by the natural persons that rent houses or apartment buildings with a monthly value of L15,000.00 (US$606.30[10]).

This tax must be paid and presented to the Tax authority between January 1st until April 30th of every year.

8 Exchange rate of July 1st, 2025, US$1.00 = L26.12.
9 Exchange rate of July 1st, 2025, US$1.00 = L26.12.
10 Exchange rate of July 1st, 2025, US$1.00 = L26.12.

3. Capital Gain Tax

3.1. Resident and Domiciled Capital Gain Tax Rate

Honduran Income Tax Law states that the capital gain obtained by a corporation or individual must be taxed with a 10% of the total obtained gain.

According to the income tax law, Capital gains are generated from the benefits, rents, utilities, or any other increment in the corporation's patrimony or assets, coming from the disposition or alienation of real state, mining belongings, rights, shares or stocks in corporations, assets of the corporations fixed assets, water rights, intellectual and industrial property rights, goodwill, and any other positive results from activities that are not the corporations' commercial purpose over goods or shares that does not fit with the corporations' commercial main purpose, such as immovable property, shares or stocks, production goods among others.

3.2. Non-Resident and Non-Domiciled Capital Gain Tax Rate

The transfer of real estate or rights and securities, made by a non-resident or a non-domiciled, are subject to a 4% withholding tax on the total amount of the operation. The withheld tax must be paid to the tax authority within the first 10 days of the following month the operation was made.

This applies without affecting the Honduran capital gain tax liability of 10% of the net profit, which must be completed or retrieved whether a positive or negative difference arises from the equation.

The mentioned tax is also binding on real estate sales. The seller must pay it within 10 days of receiving the profit.

4. Sales Tax

4.1. Sales Tax Rate

Article 6 of the Sales tax law establishes the application of this tax to every activity that represents a sale.

The general sales tax rate is 15% over the value of the imported or sale goods or the rendered services.

The sales tax rate on importing or selling beer, hard liquor, compound liquor, and other alcoholic beverages, cigarettes and other tobacco elaborate products, is 18%.

For national or international business class, first class or other of similar standards airline ticket sales, the rate also scales to 18%.

For telecommunication services, there is a specific chart according to the type of service.

Telephone Service And Mobile Telephone Service		
Mode type	Monthly consumption	Tax rate
Postpaid	From US$0.01 to US$40.00	15%
	From US$40.01 onwards	15%
Prepaid	-	15%

Internet service with bandwidth and/or velocities	
Mode type	Tax rate
Bandwidth and/or velocities until 1.024 Mbps	15%
Bandwidth and/or velocities greater than 1.024 Mbps	15%
Television service by subscription with monthly consumption, in its different type of diffusion: • From L.0.01 until L.500.00 • From L.500.00 onwards • Other telecommunication services, except supplementary and vertical services performed by the personal communication service operators.	15%

4.2. Sales Tax Rate Exemption

4.2.1. Used Merchandise Exemption

Article 5-A subsection e of the Sales tax law indicates that whenever the goods or merchandise are already used, they are exempt from the sales tax.

4.2.2. Article 15 Sales Tax Exemption

Article 15 of the referred sales tax law establishes the exemption on the sale of the following goods:

- Pharmaceutical products for human use, including surgical healing material;
- Machinery and equipment for activities to generate electric energy already contracted and their respective spare parts, gasoline, diesel, bunker "C", kerosene, LPG gas, Av-jet, crude or reconstituted petroleum, books, newspapers or periodicals, scientific, technical and cultural magazines, notebooks, school supplies, paintings and artistic sculptures; minor handicrafts and flowers of national production; musical scores; hides and skins of bovine animals for small industry and handicrafts; musical scores; hides and skins of bovine animals for small industry and handicrafts; books, newspapers or periodicals, scientific, technical and cultural magazines musical scores; bovine hides and skins for small industry and handicrafts;
- Construction services, professional fees obtained by individuals; teaching; hospitalization and ambulance transportation; clinical laboratories and human clinical analysis; radiological services and other medical, diagnostic and surgical services, except for aesthetic beauty treatment services such as: spa, laser liposuction and similar; land transportation of passengers; transportation service of petroleum products; banking and financial services; except for leasing of personal property with purchase option; those related to insurance premiums for individuals and reinsurance in general. The sale or service of food prepared for consumption on or off the premises is subject to this tax;
- Raw materials and tools for agricultural and agro-industrial production of major and minor species, including poultry and fish; pharmaceutical products for veterinary use, fertilizers, manure, fungicides, herbicides, insecticides, pesticides, rodenticides and other anti-rodents; live animals; means of animal reproduction; seed and vegetative material for sowing and sexual and asexual propagation; raw materials for the manufacture of animal feed and animal feed in its final presentation, except those intended for pets;
- Members of the diplomatic corps accredited to the Government of Honduras shall also be exempt from payment of the sales tax, unless there is no reciprocity; constitutionally exempted

institutions; purchases of goods and services strictly related to the execution of programs in which this benefit has been granted; the transfer or transfer of ownership of goods or services made by commercial companies among themselves due to their merger or absorption and those verified by dissolution or liquidation; the purchase and sale and lease with option to purchase of real estate; the lease of commercial premises whose rent does not exceed Five Thousand Lempiras (L. 5,000 .00) per month; and the lease of dwellings except in the case of hotels, motels and lodging;

- The amount for admission to sporting events;
- The value for admission to concerts, conferences, Crusades and their assemblies of the Catholic and Evangelical churches grouped in the Evangelical Confraternity of Honduras (CEH), as well as all those churches that are registered at the Secretary of State in the Interior Offices, Justice and Decentralization[11].

4.2.3. Electric Power Consumption Exemption

According to the decree number 125-2019 establishes that from December 3rd, 2019, all electricity consumers in the range of residence fee are exempt from paying the sales tax.

4.3. Purchase Monthly Statement

The Monthly Purchasing Statement (DMC) was established by the Agreement number DEI – SG - 276 – 2015, the DMC is an informational statement, in which the sales receipt will be recorded chronologically corresponding to purchases made in the period to declare, having to inform all purchases made in the domestic market and their imports taxed and not taxed with Sales Tax.

The obligated subjects to present the DMC are the ones classified by the Tax Authority as Large and Medium Taxpayers, including those receiving Special Regimes and other taxpayers who exercise exempt business operations.

The Agreement number SAR-343-2019 was published On August 5th, 2019, in which the Agreement number DEI-SG-276–2015 was reformed, adding the State Institutions as part of the obliged subjects to present the "Monthly Purchasing Statement", whether they make purchases in the internal and external market, or those purchases be these taxed or not with Sales Tax, regardless of its category.

The Agreement number SAR-237-2024 modified part of the Applicable Procedure for the Presentation of the "Monthly Purchasing Statement" establishing the following:

1. Purchases that generate tax credit must be separated from purchases that are included in the costs and/or expenses of the company's accounting; and
2. The presentation of the statement must be done through the new Virtual Office.

Due to the new Virtual Office transition process Honduran Tax Authority has determined making changes to the date of presentation of the Monthly Purchasing Statement (DMC). **The new submission deadline starts in September 2024, the Monthly Purchasing Statement (DMC) must be submitted in the first 8 calendar days of each month.**

However, to facilitate the transition, an adaptation period of two months was granted. Therefore, DMCs submission dates during this period were:

11 Reformed by the Agreement number 160-2018 published on May 25th, 2019.

- August 30, 2024: Presentation of the DMC corresponding to the month of June.
- August 20, 2024: Presentation of the DMC corresponding to the month of July.

4.3.1. Monthly Informative Affidavit of Withholdings (DJMR)

The Agreement SAR 238-2024 establish es an automated system in which withholding agents can inform the Tax Administration the details of the withholding made to third parties, trough the "Monthly Informative Affidavit od Withholdings (DJMR)", which will provide the determination of the obligation to present and pay the tax in the Declaration Determination Jury of withheld taxes; consequently derogating the Agreement Number DEI-SG-155-2011; authorized by the Executive Directorate of Revenue (DEI) published in "La Gaceta".

Withholding Agents must present the Monthly Informative Affidavit of Withholdings (DJIMR) in the first ten (10) calendars days calendars of the following month in which the withholding was made.

Withholding Agents must prepare and submit a Monthly Informative Affidavit of Withholdings (DJIMR) for each tax code of retention, and this in turn, will provide the information in its determinative declaration and of third parties information.

Withholding Agents who do not comply with the obligation to report withholdings made through the Monthly Informative Affidavit of Withholdings (DJIMR), in the manner and term established herein Agreement, they will be sanctioned in accordance with the current Tax Code.

The Agreement SAR 256-2024 establishes that for the fiscal period corresponding to the month of May 2024 the Monthly Informative Affidavit of Withholdings will be presented through DET 5.5; understanding that for the fiscal period of the month June 2024 and subsequent must be submitted the, through the new Office Virtual.

4.3.2. Informative Affidavit of Withholdings Contribution for Financial Transactions

The Agreement Number SAR-239-2024 establishes an automated system to report the details of the withholdings and perceptions of the Pro-Security Population for Financial Transactions special contribution, through the Informative Declarations of the taxpayers approving the Informative Declaration called "Informative Affidavit of Withholdings Contribution for Financial Transactions" that forms part of the Web Service of the Administration Service Income (SAR); derogating the Agreement Number DEI- SG-110-2012; authorized by the Executive Directorate of Income (DEI) on November 13th of 2012, which establishes the Applicable Procedure for the Presentation of the Informative Declaration called "Monthly Declaration of Special Contribution Withholdings of Pro-Population Security Financial Transactions.

The presentation of the said affidavit must be submitted through the Web Service or by means provided for its purpose the Revenue Administration Service (SAR).

According to the fourth ordinal of the Agreement No. SAR-239-2024, the term to comply with the obligation to submit the Informative Affidavit of Withholdings of the Financial Transactions Contribution is the following:

1. The detail of what was retained or perceived within the first fortnight (from the 1st to the 15th of each month), must be submitted within the five (5) following calendar days; and,
2. The detail of what was retained or perceived within the second fortnight (from the 16th to the last day of each month), must be submitted no later than within the first five (5) calendar days of the following month.

The Agreement Number SAR-256-2024 establishes that the Informative Affidavit of Withholdings the Contribution for Financial Transactions, for the fiscal period corresponding to the month of May of 2024, must be submitted within the first fifteen (15) calendar days of the following month in which the withholding was made, understanding that the Declaration corresponding to the month of May will be presented on the fifteenth (June 15) through the Institutional Web Portal. The corresponding to the fiscal period of the month of June 2024, must be submitted exceptionally the first and second fortnight no later than the fifth (05) July 2024, through the new Office Virtual. And as of the fiscal period of July 2024 and subsequent periods, this must be presented in accordance with what is established in the Fourth Ordinal of the Agreement No. SAR-239-2024.

4.4. Fiscal Credit Modification and Unconstitutionality

The Unconstitutionality Judgment of Appeal of March 25th, 2021, issued by the Supreme Court of Justice Constitutional Chamber in File RI-0763-2011 indicates that Sales Tax Law article 5 concerning fiscal credit is unconstitutional, therefore cannot be used anymore.

4.5. Production and Consumption Tax

The agreement No. 125-2025 of April 26th, 2025 contains the adjustment of three point eighty-eight percent (3.88%) of the Production and Consumption Tax levied on cigarettes, soft drinks, alcoholic beverages, and other prepared or fermented beverages, undenatured ethyl alcohol with an alcohol content by volume greater than or equal to 80%, and ethyl alcohol and denatured alcohol of any strength, in accordance with the year-over-year variation in the Consumer Price Index as of December 2024 issued by the Central Bank of Honduras (BCH) and the provisions of Articles 25 and 34 of the Law to Strengthen Income, Social Equity, and Rationalization of Public Spending contained in Decree No. 17-2010, published in the Official Gazette (La Gaceta) on April 22, 2010.

5. Tax Incentives for Renewable Energy Projects

5.1. Sales Tax Exemption

Individuals and corporations who develop or operate projects for the generation of renewable energy are exempt from sales tax on the purchase of equipment, materials, services and any other type of good and services intended or directly related to the needed infrastructure for the generation of renewable energy, including, but is not limited to, systems, materials, machinery, and equipment for turbine generation, control, regulation, transformation, and/or transmission of energy; as well as equipment and machinery for construction. Excluding vehicles whose main function is to transport people, used in the study, development, design, engineering, engineering, construction, installation, administration, operation and maintenance of the renewable electric power plant.

5.2. Import Duties Exemption

Exemption of all taxes, fees, contributions, tariffs and import duties for the equipment, materials, spares, and any other goods acquired locally or abroad related to the needed infrastructure for the generation of renewable energy; including but not limited to systems, materials, machinery, and equipment for turbine generation, control, regulation, transformation, and transmission of energy; as well as equipment and machinery for construction, except for automobiles whose primary function is the transportation of people, and which will be used in the study, development, design, engineering, construction, installation, administration, operation, and maintenance of the electric power generation plant with renewable resources.

5.3. Income Tax, Capital Gain Tax, Supportive Contribution Tax, Net Assets Tax Exemption

Individuals and corporations can request an exemption for the Income Tax, capital gain tax, supportive contribution tax, net assets tax exemption for 10 years from the date of the start of commercial operation of the renewable energy generation project, established through the Commercial Operation Start Certification issued by the National Electric Energy Company (ENEE) or the Certification issued by the National Energy Commission (CNE), failing that.

5.4. Income and Withholdings Tax Exemption

Individuals and corporations may request the exemption from income tax and withholdings on payments for services or fees contracted with foreign individuals or corporations, necessary for the studies, development, design, engineering, construction, installation, administration, and monitoring of the renewable energy project.

5.5. Solar Energy Systems Import Duties Exemption

The equipment and materials needed for the installation of solar energy systems as solar photovoltaic and solar thermal, for rural, residential, and industrial use and / or self-consumption or generation of energy are excluded import duties including sales tax.

The corporations supplying these systems may also apply for this benefit.

6. Transfer Pricing

The Transfer Pricing Law was created with the purpose of regulating the commercial and financial operations that are carried out between related parties, valued in accordance with the principle of free or full competition (arm's length).

Honduras has transfer pricing rules applicable to transactions between Honduran entities and non-resident, foreign related entities, as well as the related Honduran resident entities.

6.1. Related Parties

The referred law establishes in what cases the involve parties would be considered related:

a. An individual or corporation directly or indirectly participating in the direction, control or capital of another, duly documented or legalized;
b. Corporations that individually constitute a decision unit, where one company is a partner of another and have direct or indirect participation greater than 50% and are related;
c. Direct and indirect commercial and financial operations are carried out between taxpayer's resident or domiciled in the national territory and people or corporation located in another jurisdiction qualified as a tax haven;
d. A resident corporation in the country that has permanent establishments abroad;
e. Whenever a corporation is related to another corporation that has the same directors or administrators;
f. When an agent, distributor or concessionaire has it has exclusivity for the sale of goods, services or rights by another, if the contractual relationship between them has preferential rights;

g. When contractual clauses of preferential nature are agreed, in relation to those granted to third parties in similar circumstances;
h. When there is financial or economic dependence, derived from joint action agreements, trust deposits, among the main ones; and
i. The counterparty is constituted in a country or territory classified as a tax haven.

As the above, individuals or corporations that carry out commercial or financial operations with their related parties inside or outside the country must determine the number of taxable profits according to the said principle.

The transfer pricing law states that Honduras must follow as general market practices and customs, the ones established in the OECD guidelines for transfer pricing, including valuation methodology, reporting requirements and criteria on company groups.

6.2. Applicable Method in Goods Export Operations with International Quotation

The Decree number 62-2019 was published on October 19th, 2019 interpretating article 10 of the Transfer Pricing Law, establishing that when it comes to export operations that have as their object goods with a known price in transparent markets, stock exchanges or similar, the exporter subject to Income Tax may choose to apply the comparable uncontrolled price method between independent parties, considering such, the quoted value of the merchandise in the transparent market, stock exchanges or similar, to the start date of shipment.

6.3. Country by Country Report

The agreement SAR-653-2023, in relation to the 17th Article of the Decree 232-2011, establishes that the country-by-country report is part of the information that must be presented to the Tax Administration by taxpayers with aim of aligning the transfer pricing documentation as in the 13th Action of the OECD BEPS Project.

Entities obligated to present the country-by-country report are:

- Ultimate Parent Entity of a Multinational Group residing in Honduras for tax purposes; and
- Member Entity other than the Entity Ultimate Matrix of a Multinational Group by complying with the indicated requirements in the said agreement.

This agreement will take effect with respect to the Fiscal Years Reportable Taxes of Multinational Groups that start from January 1st, 2025.

7. Industry, Commerce, and Services Tax

Honduran Municipality Law establishes the Industry, Commerce and Services tax, which must be paid monthly by any individual or merchant, for its commercial, industrial, mining, agricultural, and private or public service activities, electronic communication, urban development builders, casinos, savings and loan banking institutions, insurers, and any other lucrative activity.

To determine the Industry, Commerce and Services tax rate, the current arbitration plan of each municipality should be taken as a basis for calculation.

Non-Profit Non-Governmental Organizations can request the Industry, Commerce and Services tax exemption; however, it will depend on the municipality discretion to determine if they can be beneficiaries of the said exemption based on the ONGD´S purpose.

8. Population Security Rate

The security tax, taxes all transfers or financial movements in national or foreign currency, within the country, done through a financial entity. This Tax is now permanent due to the reform issued by Decree 275-2013.

The contribution rate is L2.00 (US$0.08[12]) per L.1,000.00 or fraction of a thousand based on the transferred amount.

9. Real Estate Transfer Tax

The transfer of property is subject to the real state tradition tax. The applicable tax rate is 1.5% on the total value of the transaction.

The seller is liable for the payment of the tax, which is due within 3 days after the sale.

The lack of payment within this period will be punished with a penalty fee of 20% of the tax value.

10. Supportive Contribution Tax

Corporations, except those in special regimes, that have a net taxable income greater than L.1,000,000.00 (US$40,420.37), must pay a supportive contribution tax, equal to the 5% of the L.1,000,000.00 (US$40,420.37[13]) surplus.

11. Net Assets Tax

The net assets tax, taxes the total net assets of the Honduran corporations that has as their main purpose of business, the acts of commerce (merchants).

The applicable tax rate is 1% on the corporations' net assets established in the balance sheet updated on December 31st of every year.

This tax is declared and paid jointly with the income tax.

12. Interest Tax

Since the Decree number 110-93 reformed be Decree number 135-94 Honduras has applied the interest tax on rents, securities, sight deposits, saving deposits and term deposits, accrued by individuals or corporations, in national or foreign currency, with a tax rate of 10% calculated over the total of those values.

12 Exchange rate of July 1st, 2025, US$1.00 = L26.12.

13 Exchange rate of July 1st, 2025, US$1.00 = L26.12.

13. Custom Duties

13.1. Central American Integration System (SICA)

Honduras is part of the Central American Integration System, which is the institutional framework of the Central American Regional Integration, created by the States of Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama. Subsequently, Belize became a full member in 2000 and Dominican Republic in 2013.

13.1.1. Guatemala, El Salvador and Honduras Customs Union

Honduras and Guatemala customs union entered in force on June 26th, 2017, with the Enabling Protocol for the deep Integration Process towards the free transit of goods and natural persons between the Republics of Guatemala and Honduras.

With this union, import duties (DAI) and trade regulations were eliminated to the essentials of trade in originating and nationalized merchandise between the parties of the Customs Union, allowing the free movement of national and nationalized merchandise between both countries.

On August 20th, 2018, El Salvador acceded to the Customs Union between Honduras and Guatemala.

It is estimated that the Customs Union between the three countries will allow free movement of people and goods.

13.2. Honduran Trade Agreements

Honduras has subscribed several free trade agreements with other countries, between:

- TLC RD – CAFTA; subscribed by United States, Dominican Republic and Honduras;
- TLC Mexico; subscribed between Honduras and Mexico;
- TLC Dominican Republic; subscribed between Honduras and Dominican Republic;
- Custom tariff preference between Central America; subscribed by Honduras, Guatemala, El Salvador, Nicaragua and Costa Rica;
- TLC Chile; subscribed by Honduras and Chile;
- TLC Taiwan; subscribed between Honduras and Taiwan;
- TLC Panamá, subscribed between Honduras and Panama;
- TLC Colombia; subscribed between Honduras and Colombia;
- Partial agreement scope Venezuela; subscribed Honduras and Venezuela;
- Partnership agreement with European Union; subscribed between Honduras and European Union;
- TLC Canada; subscribed between Honduras and Canada;
- TLC Peru; subscribed between Honduras and Peru; and
- TLC CHINA – Currently Honduras and China still negotiating to celebrate the said TLC between both countries.

The free trades agreements, grant tariff preferences between the Parties, which means an open international trade environment offering low custom duties in the import of products produced in the territories of the parts.

The custom duties vary according to the products; however, this preference treatment does not exonerate them from the sales tax, which must be paid if the products are subject to it.

13.3. International Convention on the Simplification and Harmonization of Customs Procedures (Revised Kyoto Convention)

By Decree No. 39-2024 Honduras joined to the International Convention on the Simplification and Harmonization of Customs Procedures; which purpose is the facilitation of trade at a global level through the harmonization and simplification of customs procedures and practices, with instruments and standards that give way to a modern, agile, competitive and transparent customs, which translates in a reduction of costs and times for international trade, which means exports and imports more expeditiously, promoting economic growth and therefore an increase in customs incomes.

14. Excise Tax

The excise tax in Honduras is applicable for the imported products, this tax will be based on the resulting amount from adding to the CIF value the correspondent custom duties plus the customs administrative service.

The obtained estimation from the previous calculation must be multiplied by 10% and the resulted value is the excise tax.

15. Tax Incentives for Micro and Small Enterprises

On December 21st, 2020, Decree number 163-2020 was published which reforms article 3 of the Micro and Small Enterprises support Law.

This reform extended the term validity of the tax incentives included in the referred law to 36 months to be counted since the mentioned Decree published date.

The micro and small businesses that will be constituted or that are constituted, or those that have been operating informally and legalize their situation can enjoy for a period of 5 years the following incentives:

- Income Tax payment;
- Net Asset Tax payment;
- Supportive Contribution Tax payment;
- Advance payment of 1% and 12.5% for Income Tax;
- Personal Tax; and
- Industry, Commerce and Services tax.

16. Social Contribution of the Economy's Social Sector Tax

On February 26th, 2019, was published the Decree number 131-2018 establishing the Social Contribution of the Economy's Social Sector which must be paid annually within the 3 months following the end of the previous fiscal period.

The Social Contribution is 15% of the net surplus or net profits generated in the previous fiscal period, understood as surplus net or net profit, the one that comes from the difference of total income, minus:

1. Total expenses directly related in the generation of said income; and

2. Funds for:
    - Capitalizations;
    - Reserve for loss or reserve cases legal;
    - Housing, education, and healthcare;
    - Social security and training; and
    - Properly documented donations.

17. Regulation of the Billing Regime, Other Fiscal Documents,and Printers Fiscal Registry

The Agreement 817-2018 of December 4th, 2018, makes mandatory from March 01st, 2019 that the Invoices, Shopping Tickets and Pre-valued Invoices contain the exonerated acquirer data, discounts and sales granted.

If the previous documents do not have the information required, they will not be considered valid documents to back up the credit from the sales tax, income tax, Social Contribution of the Economy's Social Sector tax and any other tax that taxes the net profits.

18. Amnesty

On April 4th, 2022, 15-2022 Decree was published and on April 10th, 2023, Decree 14-2023, was published extending to April 4th, 2026, vehicle amnesty. This amnesty allows vehicles with or without license plates of other countries, regardless of origin, or the type of vehicle or its age to be imported, nationalized, and register into Honduras.

2005 vehicles and back will make a single payment of L.10,000.00 (US$404.20) and vehicles from the year 2006 onwards will pay according to current tax regime, having to pay normal tuition and municipal rate municipal, according to owners' domicile.

On June 11th, 44-2025 Decree was published in which 6 new amnesties are approved; among them, the following stand out:

Municipal Tax Amnesty

The benefit is granted in all municipalities of the country until September 30, 2025, for the payment of interest, fines and surcharges caused by the administrative or judicial delay that has accumulated by December 31, 2024.

Vehicle Amnesty

The benefit is granted from the validity of the aforementioned Decree until September 30, 2025, to taxpayers who are in arrears or who have not fulfilled their formal and material obligations with the State of Honduras, due to the conduct of the Property Institute (IP) from the fiscal period 2024 onwards regarding movable property categorized as vehicles and similar that are administered in the Vehicle Property Registry.

19. New Virtual Office of the Income Administration Services

Agreement No. SAR-236-2024 creates the New Virtual Office of the Income Administration Services; according to the Agreements No. SAT-256-2024 the access to the refer platform started on 28th June 2024. Among the online procedures that can be carried out on the platform, the following stand out:

- Replenishment of the National Tax Registry;
- Request for Ease of Payment;
- Request for Records and Certificates;
- Request for Registration of Obligations;
- Request for Compensations and Refunds;
- Request for Deregistration's and Discharges;
- Request of Authorizations;
- Collection Requests;
- Presentation of Resources;
- Generate Payment Bulletins;
- Presentation of Declarations;
- Accept or Reject Declaration Proposals;
- Debit and Credit Inquiries;
- Billing, Electronic Mailbox, Data Update;
- Verification of Obligations;
- General Information; and
- Others Service.

The Agreement No. SAR-236-2024 also creates the service modality website for the preparation and presentation of certain Declarations Informative Juries, where the taxpayer, with the template provided by the Service Revenue Administration (SAR), will enter the information that will be processed for its acceptance or not.

20. Additional Information

32-2022 Decree was published on April 21st, 2022, entirely abolishing Constitutional Reform Decrees of approval and ratification containing creation, configuration and everything concerning Employment and Economic Development Zones (ZEDE).

In addition, this decree indicates that those legal norms derived from said constitutional reform. Such as organic Law, laws, regulations, resolutions, as well as any provision, act, contracts, concessions, or any other related regulations lack of legal validity.

Subsequently, on April 26th, 2022, 33-2022 Decree was published abolishing Employment and Economic Development Zones Organic Law and decrees number 368-2013, 153-2013, 32-2021 and its reforms that include ZEDES beneficial regulation; nevertheless, its abolishment has been ratified by National Congress.

On November 25, 2024, the Official Gazette published ruling SCO-0738-2021, declaring the following decrees unconstitutional:

a. Legislative Decree No. 236-2012, which amended Articles 294, 303, and 329 of the Republic's Constitution to authorize the establishment of Zones of Employment and Economic Development (ZEDEs);
b. Legislative Decree No. 120-2013, enacting the Organic Law of the Zones of Employment and Economic Development (ZEDEs);
c. Legislative Decree No. 368-2013, confirming the appointment of members to the Committee for the Adoption of Best Practices (CAMP);
d. Legislative Decree No. 153-2013, instituting the Program for the Establishment of Zones of Employment and Economic Development (ZEDEs);
e. Legislative Decree No. 32-2021, imposing a tax on the sale of goods and services by ZEDEs or their companies in the Honduran market;
f. The amendment to Legislative Decree No. 32-2021, enacted through Legislative Decree No. 68-2021; and
g. Any other regulations or legal acts related to ZEDEs that contravene the inalienable authority of the state.

21. Hourly Employment Law Abolition

38-2022 Decree was published on April 28th, 2022, entirety abolishing Hourly Employment Law. This disposition caused workers under this employment regime were supposed to become permanent employees.

22. Micro and Small Company Recovery and Economic Reactivation Law

Decree 48-2022 was published on May 26th, 2022, created Micro and Small Company Recovery and Economic reactivation Law. The law's objective is to grant tax incentives that promote creation, development, strengthening and formalization of the Micro and Small Company (MYPE).

The Law's validity period is one year since the decree's publication.

Consequently, on June 8th, 2022, Agreement 362-2022 was published creating Micro and Small Company Recovery and Economic reactivation Law Bylaws.

23. Additional Information

Reimbursement or refund of credits

On January 17th, 2022, Decree 142-2021 was published establishing that any request for reimbursement or refund of any type of tax, whether it has been declared to the Tax Administration and that has been unduly paid for any reason by companies covered by special regimes in the agricultural, re- exporting and aquaculture sector, in local purchases, as of January 2012, will be refunded.

This refund shall be made through a Credit Note or Electronic Transfer, without the need to prove the resolution of exemption from the payment of said taxes and the Fiscal Solvency issued by the Tax Authority (SAR). The requests for tax refunds submitted prior to the validity of the mentioned Decree may also apply the benefits indicated in the present document.

Taxpayers' reclassification

Honduran Tax Authority reclassified all taxpayers in Honduras by analyzing its income, assets, and other characteristics according to SAR-125-2022 Agreement published on May 26th, 2022.

Termination and settlement of contracts or agreements of trusts

Decree 66-2022 published on June 15th, 2022, establishes termination and elimination and all contracts or agreements of trusts subscribed by the State of Honduras.

Consequently, Executive Agreement number 395-2022 was published on August 4th, 2022, which contemplates Decree 66-2022 execution regulation Bylaws related to termination and liquidation of contracts or trust agreements.

Popular consumption Essential items list exempted from Sales Tax payment

Coffee in its different states of the production chain: coffee in gold, dry parchment coffee, wet parchment coffee and brown in grape coffee was included in Popular consumption Essential items list exempted from Sales Tax payment by 59-2022 Decree published on June 2nd, 2022.

Procedures for Control, Verification, and Validation of Exemptions Agreement

On May 6th, 2025, Agreement 143-2025 of the Regulation Containing the Procedures for Control, Verification, and Validation of Exemptions which gives the authority to the Finance Ministry to review and control exemptions granted to beneficiaries of special regimes. This Agreement grants them the authority to sanction and to cancel the exemptions that do not comply to the Honduran legislation.

MEXICO TURANZAS, BRAVO Y AMBROSI, S.C.

Turanzas, Bravo & Ambrosi
Abogados Tributarios

IN-COUNTRY MEMBER FIRM:

www.turanzas.com.mx
52 (55) 50814590
Address: Paseo de los Tamarindos No. 100, Piso 3, Bosques de las Lomas, C.P. 05120
Ciudad de México, México
Ciudad de Buenos Aires, Argentina

CONTACT PARTNER(S):

Mauricio Bravo Fortoul
mbravo@turanzas.com.mx

Carl E. Koller Lucio
ckoller@turanzas.com.mx

HIGHLIGHTS

National Level Tax Rates:	
Corporate Income Tax:	30%
Capital Gains Tax:	30%
Branch Profits Tax:	30%
Dividends Tax:	Not taxed if derived from CUFIN. Otherwise 30% on the grossed-up dividends
Tax Withholding to foreign residents on	
Dividends:	10%
Interest:	4.9%, 10%, 15%, 21%, or 35%
Royalties:	1%, 5%, 25% or 35%
Rental of property and assets:	25%
Sale of real estate and shares of stock:	25% (gross) or 35% (net)
Other Services:	25%
Net Operating Tax Losses Carry-Forward Term:	10 years
Transfer Pricing Rules:	Yes
Tax-Free Reorganizations:	Mergers, spin-offs, transfer of shares, etc., provided that certain requirements are met.
VAT on sales, services, use and enjoyment of goods, and imports	16% (general rule) virtual (importation)
VAT on exports:	0%

Treaty Taxation:

Dividends				
Countries	**General**	**Substantial shareholding**	**Interest**	**Royalties**
Argentina	15%	10%	12%	10/15%
Australia	15%	0%	10/15%	10%
Austria	10%	5%	10%	10%
Bahrain	0%	0%	4.9/10%	10%
Barbados	10%	5%	10%	10%
Belgium	10%	0/10%	5/10%	10%
Brazil	15%*	10%*	0/15%*	10/15%*
Canada	15%	5%	10%	10%
Chile	10%	5%	5/15%*	5/10%*
China	5%	5%	10%	10%

Colombia	0%	0%	5/10%	10%*
Costa Rica	12%	5%	10%	10%
Czech Republic	10%	10%	10%	10%
Denmark	15%	0%	5/15%	10%
Ecuador	5%	5%	10/15%	10%
Estonia	0%	0%	4.9/10%	10%
Finland	0%	0%	10/15%	10%
France	515%	0/5%	5/10/15%*	10/15%*
Germany	15%	5%	5/10%	10%
Greece	10%	10%	10%	10%
Hong Kong	0%	0%	4.9/10%	10%
Hungary	15%	5%	10%	10%
Iceland	15%	5%	10%	10%
India	10%	10%	10%	10%
Indonesia	10%	10%	10%	10%
Ireland	10%	5%	5/10%*	10%
Israel	10%	5%	10%	10%
Italy	15%	15%	10/15%*	15%
Jamaica	10%	5%	10%	10%
Japan	15%	0/5%	10/15%	10%
Korea (Rep.)	15%	0%	5/15%	10%
Kuwait	0%	0%	4.9/10%	10%
Latvia	10%	5%	5/10%	10%
Lithuania	15%	0%	10%	10%
Luxembourg	15%	8%	10%	10%
Malta	0%	0%	5/10%	10%
Netherlands	15%	0/5%	5/10%	10%
New Zealand	15%*	15%	10%	10%
Norway	15%	0%	10/15%	10%
Panama	7.5%	5%	5/10%	10%
Peru	15%	10%	15%	15%
Philippines	15%	5/10%	12.5%	15%
Poland	15%	5%	10/15%	10%
Portugal	10%	10%	10%	10%
Qatar	0%	0%	5/10%	10%
Romania	10%	10%	15%	15%
Russia	10%	10%	10%	10%

Saudi Arabia	5%	5%	5/10%	10%
Singapore	0%	0%	5/15%	10%
Slovak Republic	0%	0%	10%	10%
South Africa	10%	5%	10%	10%
Spain	10%	0%	4.9/10%*	10%*
Sweden	15%	0/5%	10/15%	10%
Switzerland	15%	0%	5/10%	10%
Turkey	15%	5%	10/15%	10%
Ukraine	15%	5%	10%	10%
United Arab Emirates	0%	0%	4.9/10%	10%
United Kingdom	15%	0%	5/10/15%	10%
United States	10%*	0/5%	4.9/10/15%	10%
Uruguay	5%	5%	10%	10%

* A most favored nation clause may be applicable with respect to dividends, interest, or royalties.

OVERVIEW

1. Income Tax

1.1. Corporate Taxation (Mexican Resident Entities)

A legal entity is deemed as a tax resident when it has established in Mexico its principal administration or its effective place of management.

Joint venture contracts, or "asociación en participación", shall be treated as corporations for tax purposes.

Foreign tax transparent legal entities and legal figures that have their principal administration (headquarters) or their effective place of management in Mexico are also deemed corporations for tax purposes, since their "tax transparence" is not recognized in Mexico for income tax purposes.

Resident corporations of Mexico are subject to Mexican corporate income tax on their worldwide revenue.

The corporate rate is 30%.

All entities must use the calendar year. There exists the obligation to make monthly provisional (or advance) tax payments on account of the annual tax. The annual tax return has to be filed and the tax shall be paid within 3 months after year-end (i.e., March of the following FY).

Taxable profit shall be determined by subtracting from gross income earned in the fiscal year, the authorized deductions and the employees' profit sharing. Taxable income of the fiscal year shall be determined by reducing from the taxable profit, as the case may be, the tax loss carryforwards from previous years (i.e., tax losses may be carried forward for 10 years).

Taxable revenues include all types of income, whether received in cash, in kind, in services or in credit, as well as income received from abroad. This includes all profits from transactions, income from investments not relating to the regular business of the corporation, and capital gains.

Ordinary business expenses are deductible if they are properly recorded and supported. Typically, deductions are fully taken on an annual basis; however, investments are deducted on the corresponding depreciation coefficients throughout the corresponding number of tax periods.

1.2. Optional Tax Treatment for Small-Size Sole Proprietorships

The simplified trust regime ("RESICO, for its Spanish acronym"), is applicable to corporations formed exclusively by individuals, whose annual income does not exceed 35 million pesos.

The following taxpayers are excluded from this regime:

- Companies whose individual partners, shareholders or members participate and have control over other related companies or their administration.
- Taxpayers carrying out activities through a trust or joint venture.
- Financial institutions, integrating and integrated companies, coordinated entities, taxpayers subject to the special regime for agricultural, livestock, forestry and fishing activities, and non-profit entities.
- Production cooperatives.

These taxpayers shall accrue the income obtained when effectively obtained, and shall apply their authorized deductions when effectively paid. No inflationary adjustments shall be made at the end of the fiscal year.

This special regime, as the general regime for corporations, allows for investment depreciation, but provides for more beneficial tax depreciation percentages, insofar as the total amount of the investments in the FY does not exceed 3 million pesos.

Monthly payments in advance of the annual income tax may be determined by subtracting the authorized deductions from income obtained in the corresponding period, and applying the 30% rate on the result. These payments are accreditable against the annual tax.

These taxpayers are required to comply with the general obligations for corporations.

1.3. Interest Regime

Interest tax treatment is applied to the following elements:

- Inflationary annual adjustment.
- Interest income and interest expense.
- Exchange gains and losses.

A comparison of the annual average balance of debts and the annual average balance of credits has to be made. If the former is higher than the latter, the difference is multiplied by the inflation factor of such year, and the result is the accruable inflationary annual adjustment.

Loss from inflation is deductible (deductible inflationary annual adjustment). In accordance with the above-mentioned procedure, if the annual average balance of credits is higher than the annual average balance of debts, the difference is multiplied by the inflation factor of such year and the result is the deducible inflationary annual adjustment.

Interest income is included in the taxpayer's taxable income on accrual basis.

Accrued interest is deductible (at its nominal value, without any adjustment, since it will be subject to the inflationary annual adjustment) provided that the funds obtained from the loan are invested in the business' corporate purposes.

There is a limitation on the deduction of the "net interest" exceeding corporations' adjusted taxable profit multiplied by 30%, applicable to corporations that accrued interest derived from debts in excess of 20 million pesos. If the net interest is less than such 30%, the item shall be fully deductible. This threshold jointly applies to all corporations and to PEs of foreign residents that form part of the same group or are related parties, in proportion to their taxable income of the prior fiscal year.

Non-deductible net interest (i.e., net interest exceeding the adjusted tax profit multiplied by 30%) may be deducted during the following 10 fiscal years.

- Net interest: Payable interest / deductible interest (-) accrued taxable interest income (-) proportional amount of the 20 million pesos. If the interest income is greater than the deductible interest, no deduction item arises.
- Adjusted taxable profit: Taxable profit (+) payable interest / deductible interest (+) investments deduction (CapEx) If the adjusted taxable profit is 0 or a negative number, the deduction of all payable interest will be disallowed.
- Limit to the deduction of net interest: Adjusted net tax profit (X) 30%.
- Non-deductible interest: Net interest (-) limit to the deduction of net interest. If the result is 0 or negative, the total amount of the payable interest will be deductible. Conversely, if the result is positive, such amount will correspond to the non-deductible interest. Non-deductible interest may be deducted during the following 10 FYs.

There are certain exemptions to this net-interest deductibility limitation (i.e., interests derived from debt contracted to finance public infrastructure works or hydrocarbon-related projects etc.).

As mentioned, exchange gains and losses resulting from financial assets and liabilities are deemed as interest for income tax purposes. If a Mexican company has foreign currency liabilities, a devaluation of the peso will result in an exchange loss. The exchange loss is recognized on an accrual basis and is added to the interest expense for the month.

If a company has an exchange gain resulting from a financial asset denominated in a foreign currency (i.e., a Mexican company with accounts receivable in U.S. dollars), then the gain is added to interest income.

The foreign exchange gain and loss may not be less than or exceed, respectively, that which would result from considering the exchange rate established by Mexico's central bank.

Interest from credits extended to Mexican corporations by national or foreign related parties can be recharacterized as dividends, if some statutory triggering events are triggered, for example, when interest is derived from back-to-back loans, even if extended through a financial institution residing in Mexico or abroad. As a result of the tax reform for FY 2021, the definition of "back-to-back" loan was broadened to include any interest-bearing financing transaction that lacks of a "business reason".

1.4. Capital Gains

An inflation adjustment is made to the acquisition cost of (i) shares of stock or (ii) fixed assets to compute the gain on their sale. Capital gains and losses are treated as ordinary income.

1.5. Depreciation

The basis for deductible depreciation is the acquisition value as defined in the law, adjusted for inflation.

Depreciation should be computed using the straight-line method at the maximum rates. Examples of such rates are:

Item	Rate
Buildings and other related structures	5%
Office furniture and fixtures	10%
Computer equipment	30%
Peripheral computer equipment	30%
Patents, trademarks, copyrights, etc.	15%
Automobiles, heavy trucks, tractor trucks, tow trucks, buses	25%
Anti-pollution equipment and equipment for conversion to natural gas consumption	100%
Equipment used in research of new products and development of technology	35%

In the cases of the railway system, telephone and satellite communications, depreciation rates are subdivided, according to the different kinds of assets they involve.

Automobile investments are limited to $175,000 pesos. Regarding automobiles powered by rechargeable batteries, electric with internal combustion engine or hydrogen-powered engines, the investment deduction is limited to $250,000 pesos.

1.6. Cost of Sales

Mexican corporate income tax follows at cost of sales system treats the purchase of inventory as deductible when sold. As such, it is necessary to compute the cost of goods sold for tax purposes.

1.7. Employee Profit Sharing

Profit sharing contributions to employees may be subtracted from revenues obtained in order to determine the taxable profit. Thus, said contributions have a deductible effect for corporate income tax matters.

Employees' individual right (rather than their "collective" right) to participate in the company's profits is subject to the following ceilings: (i) three months of the employee's salary or (ii) the average of the profit sharing received in the last three years; whichever is most favorable for the employee.

1.8. Specific Deductible and Non-Deductible Expenses

1.8.1. Provisions

Provisions to create or increase asset or liability reserves are not deductible.

1.8.2. Payments for Labor Benefits

Payments made in the benefit of employees that in turn are considered as exempt income for such individuals will be deductible for Mexican entities only up to 47% of the disbursement made (or 53%

when the benefits are not reduced with respect to the previous tax year). It is important to note that for income tax purposes, payments considered as labor benefits encompass fringe benefits, savings funds, separation payments, bonuses, overtime, and vacation and Sunday bonuses, amongst others.

1.8.3. Contributions for retirement plans

These are only deductible up to 47% of the disbursement made (or 53% when the contributions are not reduced with respect to the previous tax year) and when companies comply with the following requirements:

- Contributions should be funded through an irrevocable trust ("fideicomiso") in a Mexican banking institution, or be managed by mutual insurance companies or institutions, brokerage houses, mutual-fund operators, or retirement fund management companies authorized to operate in Mexico;
- Contributions must be computed based on an actuarial study; and
- At least 30% of said reserves should be invested in government securities or in investment in shares of debt securities mutual funds (the difference is subject to specific rules when it comes to its investment).

1.8.4. Other Non-deductible Items

- Expenses incurred for renting airplanes that do not have a permit or concession from the Federal Government to be commercially exploited.
- Social security fees owed by employees but paid by the employer.
- Goodwill.
- Expenses incurred abroad and allocated on a pro-rata basis, unless some burdensome requirements are met.
- Payments to members of the board of directors, bondholders or other parties where the payments represent shares of profits or are contingent upon the taxpayer's profits.
- Sanctions, indemnities for damages and contract penalties unless imposed by the Law.
- Disbursements made by a Mexican entity when such expenses are also considered as deductible items for a member of the same group or for the Mexican entity in a jurisdiction where the latter is also considered as tax resident, and payments made by a foreign resident who has a PE in Mexico if payments are also deductible in its country of residence.
- Payments made to related parties or through structured agreements when income of the recipient is subject to preferential tax regimes.
- Payments made to related parties or through structured agreements when income of the recipient is subject to preferential tax regimes, unless said payments derives from a business activity carried out by the recipient.
- Payments made for subcontracted services other than "Specialized Services". As a result of the labour reform of April, 2021, subcontracting (outsourcing), understood as "when an individual or legal entity provides or makes available its own workers for the benefit of another", is prohibited. This prohibition is also applicable to insourcing. Outsourcing is solely allowed for the provision of "specialized" services and performance of "specialized works" that are not part of beneficiary's corporate purpose and predominant economic activity, insofar the service provider is registered before the public registry of Mexico's Ministry of Labour ("Specialized Services").

1.9. Dividends

It is established that when corporations distribute dividends, they must calculate the related tax by applying the 30% tax rate to the amount resulting from multiplying said dividends by a factor of 1.4286;

which derives in an actual (or economic) effect of taxation at a 42.86% rate.

This tax can be considered as a tax credit against the income tax of the year of dividend distribution and carried forward for the 2 subsequent tax periods.

Dividends paid from the net taxable income account (CUFIN), which is defined as the income for which corporate tax has already been paid in past years, are not subject to the corporate tax on dividends as previously referred.

Mexican resident entities must withhold an additional 10% income tax on dividends paid to both (i) individuals resident in Mexico and (ii) legal entities or individuals resident abroad.

A temporary tax incentive consisting in a credit against the additional 10% tax on dividends is granted to Mexican resident individuals for dividends distributed by Mexican resident entities derived from profits generated from January 1st, 2014 to December 31st, 2016, as long as said income is reinvested in the productive unit, and the distributing entity complies with certain formal obligations. The tax credit will be determined according to the following chart, and will not be considered as accruable income for tax purposes:

Fiscal year	Amount of Tax Credit
2017	1% of distributed dividend
2018	2% of distributed dividend
2019 onwards	5% of distributed dividend

1.10. Tax Integration

Mexican law allows corporate groups to be taxed under an integration regime (similar to tax- grouping) that allows the companies part of the group to differ a part of their income tax due for that tax year over a three-year period.

For income tax purposes, an integrated group consists of the Mexican holding company and the subsidiaries in which it has effective direct or indirect ownership interests in excess of 80% of the voting shares. It is important to note that the integration regime works on a proportional basis, based on the percentage owned directly or indirectly by the controlling company.

Only companies resident in Mexico can be part of the integration regime.

1.11. Losses Carry Forward

Tax losses can be carry forwarded 10 years. The amount of the tax loss that can be carried forward to a given year is inflationary adjusted. Loss carry backs are not allowed.

1.12. Permanent Establishments

A permanent establishment of non-residents can be created due to the following circumstances:

a. By conducting business activities, in whole or in part, within Mexico, through a fixed place of business at the disposal of the foreign tax resident.
b. By performing construction or installation projects, maintenance or assembly activities on real property or supervisory activities in connection therewith, should such activities last more than

six months (including working days of subcontractors), consecutive or not, in a twelve-month period.

c. When performing business activities in Mexico through a "fideicomiso".

d. When conducting business activities in Mexico through a dependent agent, where the latter (a) habitually concludes contracts or (b) habitually plays the principal role leading to the conclusion of contracts entered into by the foreign resident, provided that:
   - They are concluded in the name or on behalf of the foreign resident;
   - Such contracts provide for the transfer of ownership of an asset possessed by the foreign resident;
   - Such contracts provide for the grant of the temporary use or enjoyment of an asset over which the holder has a temporary right of use or enjoyment;
   - They bind the foreign resident to provide a service; or
   - They are not of an auxiliary or preparatory nature in terms of article 3 of the ITL, as discussed below.

e. When conducting business activities in Mexico through an independent agent that does not act pursuant to the ordinary course of his own activities; considering that such occurs when, among others, the agent:
   - Exercises the authority to enter into contracts on behalf of the foreign entity.
   - Assumes risks in the name of the resident abroad.
   - Acts under instructions or general control of the resident abroad.
   - Performs activities that economically correspond to the foreign resident, not to its own activity.
   - Obtains guaranteed remuneration, regardless of the results of his activities.
   - Having inventories with which deliveries are made on behalf of a foreign entity.
   - Carries out operations with the resident abroad, establishing prices or compensation different from those that would be used between independent parties in comparable transactions.

f. Insurance companies that obtain insurance payments from within Mexico or issue insurances on risks located within Mexico through a person other than an independent agent, except in the case of reinsurance.

Basically, permanent establishments are subject to the same taxing rules as Mexican resident companies or Mexican resident individuals, as the case may be.

The income tax treaties that Mexico has in force ordinarily establish narrower hypotheses under which a permanent establishment is deemed to exist.

1.13. Non-Residents Having Taxable Source of Wealth Located in Mexico

Non-residents, either legal entities or individuals that do not have a permanent establishment located in Mexico may be taxed on certain specific sorts of revenues.

Generally, the Mexican payer must withhold the corresponding tax on the gross payment made to a foreign resident.

Mexico's income tax treaties with other countries reduce the withholding tax rates on certain Mexican source payments made to non-residents.

A Mexican payer that is subject to tax withholding must deliver the income tax (i) when the payment becomes due or (ii) when the payment is actually made, whatever occurs first. In addition, the gross payment is subject to tax withholding without deductions.

In specific cases, the non-resident may be subject to taxation under a "net" basis, and not on a "gross" income, which is the general rule. This usually occurs when the non-resident has a representative in Mexico, who remains as jointly liable of the tax so triggered.

Some of the relevant tax rates levied on gross income are as follows:

- Services on real estate projects, 25%
- Rental of property and assets, 25%
- Sale of real estate and shares of stock, 25%
- Technical assistance, 25%
- Royalties for the use of patents, invention or improvement certificates, trademarks, and commercial names, 35%
- Other royalties, 25%
- Interest paid to foreign banks, 4.9% or 10%.
- Interest from certain securities, 4.9% or 10%
- Interest paid to suppliers of machinery and equipment, 21%.
- Interest paid to other creditors, 35%
- Any payment to residents of territories with preferential tax regimes (tax havens), 40%
- Shareholders resident abroad that receive dividends or profits derived from capital redemptions paid by a Mexican entity will be subject to an additional 10% income tax on the amount received. The tax due will be withheld by the Mexican entity.

Profit obtained from the transfer of shares in the Mexican Stock Exchange will be taxed at a 10% rate; however, when the seller is resident in a country with which Mexico has a Treaty for the Avoidance of Double Taxation, such tax will not be triggered subject to the completion of certain formal requirements.

1.14. Transfer Pricing

In interpreting / applying this regime, tax authorities and taxpayers use the OECD Commentaries; this pursuant to administrative rules issued by the Federal Executive Branch that so establishes it.

Throughout the period in which transfer pricing rules have been adopted, the Mexican tax authorities have been taking a more international approach, rather than a local one (Mexican) to audit related parties transactions.

1.14.1. Persons and/or Entities Subject to Transfer Pricing

The transfer pricing rules apply to related resident and non-resident legal entities and individuals, as well as to permanent establishments in Mexico of non-residents.

The term legal entity includes commercial and civil entities, governmental agencies developing commercial activities, credit institutions, and associations. Non-profit organizations and mutual funds are not subject to the rules of transfer pricing.

Mexican joint ventures ("asociación en participación" agreements) are treated as taxpayers, and thus, subject to transfer pricing regulations themselves.

The pricing of transactions is regulated only in the case of transactions between related parties.

It should be stressed that Mexican resident companies are obliged to apply this system not only with respect to their transactions with related parties residing abroad, but also with other related parties resident in Mexico.

Two or more parties are related when one party participates directly or indirectly in the management, control or capital of the other, or when one party or group of parties participates directly or indirectly in the management, control or capital of others.

It is worthwhile to mention that when related parties enter into transactions, they are obliged to determine their taxable revenues and/or deductible items considering the prices and/or considerations that would have been agreed upon unrelated parties in comparable transactions.

1.14.2. Transactions Subject to Transfer Pricing

Transfer pricing rules are applied to any import or export or goods, services and rights entered into between related parties.

1.14.3. Methods

The arm's length nature of a transaction between related parties (i.e., a controlled transaction) is tested by comparing the pricing, terms, and other characteristics of the transaction in question with the pricing, terms, and other characteristics of comparable transactions entered into between unrelated parties (i.e., uncontrolled transactions).

The comparable uncontrolled price method preempts the applicability of other methods; and only if said is not suitable for the taxpayer's circumstances, the taxpayer should elect any other of the five additional methods contemplated by the law.

Herein are the acceptable methods for price fixing under transfer pricing rules:

a. Comparable Uncontrolled Price Method. The CUP method requires comparison of pricing in the controlled transaction to pricing in uncontrolled transactions.
b. Resale Price Method. Under the Resale Price Method, the resale price charged by the controlled party to unrelated purchasers is reduced by an appropriate gross profit amount to arrive at the deemed sales price on the sale between the controlled parties.
c. Cost Plus Method. Under the Cost Plus Method, the cost of the company selling to the related party is first determined and then an appropriate gross profit margin is added to this amount, to arrive at the appropriate deemed sale price on the sale between the controlled parties.
d. Profit Split Method. Under the Profit Split Method, the profitability of a related company group is allocated among members of the group in accord with their economic contributions to the enterprise.
e. Residual Profit Split Method. Consists in assigning the operation profit obtained by the related parties in the proportion in which it would have been assigned among unrelated parties.
f. Operation Marginal Transactional Method. Consists in determining in transactions among related parties, the operational profit that would have obtained comparable unrelated companies in comparable transactions, based on profitability factors taking into account variables such as sales and costs.

1.14.4. Standards of Comparability

The lack of comparable data in Mexico is one of the problems that Mexican taxpayers are facing.

The current sources of comparable used by the taxpayers are the following: (i) internal comparable, (ii) data from the Mexican Stock Exchange (approx. 300 companies are publicly trading in the Stock Exchange) and (iii) public Mexican company's data basis (information from approx. 90% of companies belonging to the public sector). If no comparable are found in these sources of information, Mexican taxpayers are using foreign databases (US and Europe) and are making price adjustments taking into account the specific characteristics of the Mexican market.

Mexican law allows the use of secret comparable. Secret comparable have not yet been used by the Mexican authorities and according to officials of the Tax Administration; they are viewed as a last resort information resource.

There are rules stating that confidential information obtained either by the taxpayers as well as tax officials during transfer pricing procedures, should remain secret, and their improper use is subject to penalties.

1.14.5. Arm's Length Range

In some cases, application of a pricing method will produce a single result that is the most reliable measure of an arm's length result. However, in other cases, application of a method may produce a number of results from which a range of reliable results may be derived. A taxpayer will not be subject to adjustment if its results fall within such range (the arm's length range).

Mexico has included in its regulations the concept of the arm's length range and have also provided for statistical methods in order to increase the reliability of the analysis made (i.e. interquartile range).

The Mexican regulations only make reference to adjustments made to the median of the results, in case statistical methods are applied; in this respect, it should be mentioned that these methods are not always applied. Also, the income tax law does not include a detailed description on how to reach the arm's length range, and does not make any differences between class A and class B comparables.

Mexican regime includes the possibility of using multiple year data when analyzing the comparability of transactions or entities.

1.14.6. Advanced Pricing Agreements ("APA")

The current APA regulations empower the issuance of rulings approving APAs for the effective year requested, as well as for one prior year and three subsequent years. As a result of the tax reform for FY 2022, this method is no longer available for maquiladora companies. The only method remaining is the colloquially know "safe harbor".

1.14.7. Information and Documentation Requirements

Only with respect to transactions with non-residents, Mexican law provides for information and documentation requirements in order to be able to demonstrate if required, that the arm's length principle has been accomplished.

There is no specific legal provision establishing that this information / studies need to be obtained when performing transactions with Mexican resident parties as in the present case; however, factually, they are needed in order to prove –in its case- before the Mexican tax authorities proper compliance with the applicable transfer pricing rules.

Derived from the recent international standards set forth by the Organization for Economic Cooperation and Development ("OECD") to avoid tax evasion, additional reporting obligations are included for certain taxpayers regarding transactions carried out with related parties residing in

Mexico and abroad. The taxpayers subject to these reporting obligations are the following:

- Mexican resident corporations that have reported accruable income equal or greater than $1,062,919,860 pesos in the last fiscal year (this amount will be annually updated for inflation purposes), as well publicly traded corporations.
- Business entities subject to the "integrated entities regime".
- State-owned entities of the Federal Public Administration.
- Foreign residents with a permanent establishment in Mexico.
- Mexican resident corporations, with regard to operations carried out with residents abroad.
- The relevant informative returns must be filed on December 31st of the applicable fiscal year, at the latest (starting on December 31, 2017 regarding fiscal year 2016) and consist of the following:
    - Master informative return of related parties in a multinational business group ("Master File").
    - It is intended to provide a general view of the multinational business group to assist the tax authorities in the evaluation of the existence of any significant risk for transfer pricing purposes.
    - This file shall contain information regarding the organizational structure of the business group, the description of the activity, the intangible assets and financial activities with related parties, and the fiscal and financial position of the business group.
    - Local informative return of related parties ("local file"). Its main purpose is to provide information related with intercompany transactions. This information will be useful to verify proper compliance of the applicable transfer pricing rules.
    - This file shall contain information regarding the description of the organizational structure, business and strategic activities, description of the transactions with related parties, and financial information of the taxpayer and the entities or transactions used as comparables in the analysis.
    - Country-by-country informative return of the multinational business group -only applicable to multinational entities that generate annual consolidated income equal or greater than 12 billion pesos- ("country by country report" / "CbC").

The entities obliged to file this report are (i) Mexican-resident controlling entities having subsidiaries or permanent establishment abroad, that report consolidated financial statements and obtained consolidated income for an amount greater than 12 thousand million pesos in the preceding fiscal year, as well as (ii) legal entities residing in Mexico or residing abroad with a permanent establishment in Mexico, that are designated for such purposes by the controlling entity of the multinational group residing abroad.

The information to be provided in this report includes information by tax jurisdiction on the global distribution of income and taxes paid; location indicators of economic activities in the tax jurisdictions in which the multinational business group operates in the taxable year; and, a list of all entity- members of the multinational business group and their permanent establishments, including the main economic activities of each of the entities of the multinational business group.

Tax authorities may require the CbC report to the Mexican resident legal entities that are subsidiaries of a company resident abroad, or to the foreign residents with a permanent establishment in Mexico, when the authorities are unable to obtain the relevant information through the information exchange mechanisms established in international treaties in force in Mexico. The taxpayers required to submit the CbC report in these terms will have a period of 120 working days for the filing.

Non-compliance of these reporting obligations will derive in economic penalties and the prohibition to conclude procurement agreements, leases, services or public works with the Federal Public Administration and the Attorney General of the Republic.

1.14.8. Secondary adjustments

Pursuant to transfer pricing principles, when a principal adjustment is made by the tax authorities, it is logic/reasonable that a secondary adjustment needs to be done.

However, under the income tax law, the possibility of this secondary adjustments are only expressly provided with respect to international transactions in which a contracting party is a resident of a country with which Mexico has in effect a treaty in income tax matters.

Accordingly, with respect to local adjustments, this secondary adjustment is not expressly provided for under current law; however, we are of the opinion that the related party is legally empowered to do it once its correspondent counterparty has been subject to a principal adjustment by the tax authorities.

Effectively, under the income tax law transfer pricing rules taxpayers are obliged to (i) accrue as taxable income principal adjustments pursuant to transfer pricing rules, as well as to (ii) deduct the taxable items considering the same transfer pricing amounts.

1.15. Tax-Haven Rules

This special tax treatment known as preferential tax regime ("PTR") solely applies to income obtained through foreign controlled non-tax transparent legal entities in which Mexican tax residents directly or indirectly participate, excluding income obtained through other type of foreign vehicles (i.e., foreign tax transparent legal entities and legal figures).

This regime also applies to controlled foreign legal entities obtaining income through foreign tax transparent legal entities and/ or legal figures depending on their participation thereof.

a) Income subject to PTR

Foreign-source-of-wealth income generated or obtained through a controlled foreign non-tax transparent legal entity in which a Mexican tax resident directly or indirectly participates will be deemed as income subject to PTR when: (i) it is not taxed abroad; or, (ii) it is taxed abroad, but the effective income tax triggered and paid is less than 75% of the ISR that what would have been triggered and paid in Mexico (i.e., the theoretical rate for corporations is 22.5% and 26.25% for individuals).

In order to determine if the income is subject to PTR, all taxes paid by the foreign controlled legal entity shall be considered regardless of whether they are paid at different levels of government. The Mexican 10% additional income tax on dividends or profits, the annual adjustment for inflation and the exchange gains or losses derived from the fluctuation of the foreign currency with respect to the domestic currency (Mexican peso) should not be taken into account for these purposes.

A tax is not regarded to have been paid if it was paid through tax credits or incentives.

Generally speaking, to determine the existence of income subject to PTR, the tax profit or loss generated by all the operations carried out by each entity shall be taken into account. However, there is an option to determine the existence of PTR if the foreign income tax statutory rate is equivalent to at least 75% of the corresponding ISR rate, provided that certain requirements are met, including that the foreign legal entity is not subject to multiple statutory income tax rates in its country of residence.

b) Effective control

This system solely applies if the Mexican taxpayer exercises an "effective control" over the foreign legal entity. Effective control is deemed to exist when, among other cases:

- Mexican tax resident's average daily participation (whether direct or indirect): enables the former to have more than 50% of foreign legal entity's voting rights, grants him/her the right to veto legal entity's decisions or it is required his/her favorable vote for decision-making resolutions, or said participation corresponds to more than 50% of the total value of the shares issued by the entity.
- The taxpayer has (direct or indirect) right to more than 50% of foreign legal entity's assets and profits, in the event of a capital reduction or liquidation, at any time of the calendar year.
- If the percentage sum of subsections (i) and (ii) above exceeds 50% of the rights above-mentioned.
- Both the taxpayer and the foreign legal entity consolidate their financial statements based on accounting standards.
- When the taxpayer has (direct or indirect) right to unilaterally determine the resolutions of the foreign legal entity's assembly or board of directors.
- In order to assess the existence of "effective control", all rights of the Mexican tax resident and of its related parties or linked parties shall be taken into account, regardless of their tax residence or place of incorporation. There is a presumption that Mexican tax residents maintain control over the foreign legal entities that generate income.

c) Exemption

Income obtained through controlled foreign legal entities engaged in business activities will not be subject to PTR, provided that their passive income does not represent more than 20% of their total income. This exception will not be applicable when more than 50% of the legal entity's income arises from sources of wealth located in Mexico or otherwise represent, or represented, an authorized deduction in Mexico, whether directly or indirectly.

d) Tax consequences

In general terms, income under this special tax treatment is subject to taxation in the fiscal year in which such income is generated abroad, even though the income has not yet been distributed. The payment of the corresponding income tax has to be made together with the annual tax return of the fiscal year in which the income is generated abroad. The relevant income tax shall be determined by applying the following rates: 30% to corporations and 35% to individuals.

The taxable basis is the proportion of the taxable income that corresponds to each taxpayer based on his/her/its direct or indirect participation in the foreign vehicle. The taxable income is to be determined each calendar year, in accordance with the general rules for Mexican corporations, using the foreign currency in which the vehicle keeps its accounting records, converted into Mexican pesos at the exchange rate in effect on the last business day of the year-end.

By virtue of the tax reform for FY 2022, it is specified that the taxable income foreign vehicle must be determined without including the annual adjustment for inflation, nor the exchange gain or loss derived from the fluctuation of the foreign currency, with respect to the domestic currency (Mexican peso).

e) Informative tax return

Taxpayers must file in the month of February of each year an informative return before Mexican tax authorities regarding: (i) income generated in the previous tax year subject to PTR, (ii) income generated in jurisdictions of the "Blacklist", or (iii) transactions carried out through tax transparent foreign legal entities or figures.

1.16. Transparent Entities and Figures

1.16.1. Payments Made to Tax Transparent Legal Entities and Legal Figures

As of January 1, 2021, the tax transparence of tax transparent legal entities and figures is not recognized for tax purposes in Mexico, thus, deeming them as if these were legal entities; this entails that payments received by the latter shall be considered (by the payer) as obtained by them, rather than by their partners, beneficiaries, members or participants.

If the tax transparent legal entity or figure has its main administration (headquarters) or place of effective management in Mexico, income earned by the former shall be taxed under the following tax regimes: corporations, non-taxpayer legal entities or controlled foreign corporations subject to PTR.

Conversely, if such entities and figures only earn income from sources of wealth located in Mexico (without a permanent establishment, main administration or place of effective management in Mexico), they shall be solely taxed on such Mexican-source income.

This lack of recognition of the tax transparence of the aforesaid entities and figures with respect to payments made to the latter will not apply provided that an applicable treaty for the avoidance of double taxation (and/or the tax authorities as result from a mutual agreement procedure) specifically recognizes its application for transparent vehicles.

Therefore, in the case of Mexican-source payments made to such entities and figures, the lack of recognition of their tax transparence shall result in the latter being considered as effective beneficiaries thereof.

1.16.2. Income Obtained by Mexican Residents Through Foreign Tax Transparent Legal Entities and Figures

There is a special tax regime applicable to income obtained through foreign tax transparent legal entities and legal figures (regardless of their tax treatment abroad), in which Mexican tax residents directly or indirectly participate.

Foreign companies and other entities created or constituted under foreign law that have own legal personality, as well as legal entities constituted under Mexican law that are resident abroad are deemed foreign legal entities, while "fideicomisos" (similar to the Anglo-Saxon "trusts"), partnerships, investment funds and any other similar legal figure of foreign law without legal personality are considered foreign legal figures.

Such entities and figures shall be deemed tax transparent when: (i) they are not tax residents for foreign income tax purposes neither in their country or place of incorporation nor in the place where they have their main administration or place of effective management, and (ii) their income is attributable to their members, partners, shareholders or beneficiaries (attribution of income must be made by the foreign tax legislation, in order to assess, for Mexican income tax purposes, the existence of tax transparence or not). The aforesaid tax transparence definition requires the joint presence of both elements.

a) Income obtained through foreign tax transparent legal entities.

The tax transparence of these entities is recognized. Therefore, income obtained or generated through them is deemed taxable and accruable income for the Mexican resident participating therein, in the fiscal year of its generation, in proportion to latter's direct or indirect participation thereof; regardless of whether the income has not yet been distributed or paid by said entities.

There are two rules to determine the amount of accruable income depending on whether said entity is fully transparent or, otherwise, partially transparent, under the foreign tax law.

If said entity is fully transparent, its accruable income shall be determined by considering entity's taxable profit of the calendar year (calculated as if it were a corporation). In order to assess the proportion of income that corresponds to (or is attributed to) the Mexican tax resident, the criteria of "effective control" provided for in the PTR system must be taken into account, even when the taxpayer has no "control" over such entities.

Conversely, if such entity is partially transparent, Mexican tax residents will solely be required to accrue the income attributed to them under foreign tax law. A foreign legal entity is considered partially transparent when applicable foreign tax law attributes a part of its income to its partners or shareholders thereunder, while the remaining part is attributed to said entity.

b) Income obtained through foreign legal figures.

The tax transparence of these figures is also recognized. Thus, income (legally) obtained or generated through them shall be deemed taxable and accruable income for the Mexican tax resident participating therein, in the year of its generation, and in proportion to latter's' direct or indirect participation thereof; regardless of whether the income has not yet been distributed or paid by said figures.

There are also two rules to determine the amount of accruable income depending on whether such figures are tax transparent or not.

If said figure is tax transparent, the Mexican tax resident participating therein shall accrue the income that is attributable to the latter under the foreign tax law. The Mexican resident taxpayer shall be allowed to deduct the expenses and investments made by the legal figure in proportion to the income that is accrued.

Instead, if such figure is deemed as a separate taxpayer in its country of incorporation, the amount of accruable income will be the taxable profit of the calendar year (calculated as if it were a corporation) and, thus, the Mexican tax resident shall accrue the proportion of income that corresponds to the former in accordance with the PTR rules.

c) Common provisions for foreign tax transparent legal entities and figures.

This recognition of tax transparence applies when Mexican tax residents have direct or indirect participation in a chain (investment structure) solely integrated by foreign tax transparent legal entities and legal figures.

If Mexican tax resident's indirect participation entails at least one non-tax transparent legal entity, PTR rules will apply instead. In other words, if there is a PTR under which there are foreign tax transparent legal entities and/or legal figures, the PTR rules will be applicable.

Taxes paid by or through transparent foreign legal entities or foreign legal figures will be deemed as directly paid by the Mexican tax resident that participates therein, in accordance with the income accumulation ratio.

The Mexican tax resident that participates in ta foreign tax transparent legal entities or foreign legal figures may credit the Mexican income tax paid by such entities or figures, in accordance with the income accumulation ratio.

A special account similar to CUFIN must be kept for each foreign tax transparent legal entity or foreign legal figure subject to taxation. The existence of said account is questionable in foreign tax transparent legal figures.

The accounting records of the foreign tax transparent legal entity or legal figure must be kept at tax authorities' disposal, otherwise the deduction of the expenses or investments made will not be allowed, which would result in the taxable basis being integrated only by gross income.

1.17. Thin Capitalization Rules

Companies are required to meet the 3:1 proportion (debt / net worth ratio). The main features of the regime are the following:

- Interest derived from debts with foreign related parties, which exceed three times the net worth of the company, is not deductible.
- The procedure established to determine the non-deductible interest may produce awkward effects contrary to the spirit of the provision. In certain events, the higher the proportion of debt contracted by a company with its foreign related parties is, the higher will the proportion of non-deductible interest be, and the lower the proportion of debt is, the lower will the proportion of deductible interest be.
- Debt contracted (i) by the members of the financial system in the performance of their activities, and (ii) for the construction, operation and maintenance of the productive infrastructure linked with strategic areas or for the generation of electric energy, will not be considered for thin capitalization purposes.

1.18. Authorized Charities

The tax regime applicable to non-profit legal entities —i.e., charities authorized to receive deductible donations and other entities that, by virtue of their legal nature, are subject to the same regime (such as chambers of commerce, labor unions, among others)— is characterized by the following:

- Certain entities are not required to obtain authorization to receive tax-deductible donations in order to be considered as non-taxpayers for income tax purposes (such as chambers of commerce, labor unions, among others.
- Associations and partnerships governed by civil law dedicated to: assistance, scientific or technological research; the granting scholarships; to the research or preservation of aquatic or terrestrial flora or wild fauna; or to the reproduction of protected and endangered species and the conservation of those species' habitats, may only be included in this regime if they obtain authorization to receive tax-deductible donations.
- As a general rule, these entities are not subject to income tax, except in certain cases established by law.
- When there are unreported income items, purchases that were not made but improperly recorded, non-deductible expenditures, or loans granted to members or partners, among other cases, will be consider as distributable residual taxed at 35% income tax rate.
- If the authorization to receive tax-deductible donations is revoked due to non-compliance with tax obligations, validity has expired, or voluntary cancellation, it may be obtained again within a 12-month period. If not obtained within that timeframe, the entity must transfer all of its assets

to other authorized entity.

- If the revocation is due to the receipt of income from activities not expressly authorized, in an amount exceeding 50% of the entity's total income for the fiscal year, the authorization may not be regained.
- The requirements for obtaining and maintaining authorization to receive tax-deductible donations have become progressively stricter.

1.19. Tax Treaties

Mexico has a wide array of tax treaties in income tax matters; such treaties may only provide benefits with respect to the regime set forth in the Mexican law. Thus, such treaties may not impose burdens not established in the Mexican law.

Examples of treaty benefits are:

- Lower rates than those provided in the local law.
- Stringent cases (compared with those established under the local law) under which a permanent establishment is deemed to exist.
- Revenues not subject to taxation as the local law provides, example: "technical assistance" services payments.
- Non-discriminatory principle, which entails that the treaty partners' resident may not be taxed higher than local tax residents.

1.20. OECD's MLI

As previously mentioned, Mexico has a treaty network of 60 tax treaties in force.

Mexico is a contracting jurisdiction party to the OECD's Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting ("MLI"), which began its legal existence on July 1, 2018.

The MLI entered into effect for Mexico on January 1st, 2024.

On March 15, 2013, Mexico deposited its instrument of ratification before the OECD. Therefore, pursuant to arts. 34, section and 35 of the MLI, the latter entered into force for Mexico on July 1st, 2023, and entered into effect for Mexico (i) on January 1st, 2024, with respect to taxes withheld at source on amounts paid or credited to non-residents, and (ii) on January 1st, 2025, with respect with any other tax covered by the MLI.

Mexico listed 61 tax treaties (including Guatemala's tax treaty which is still not in force) as agreements covered by the MLI. The following tax treaties will not be affected because said jurisdictions are not contracting jurisdiction parties to the MLI or otherwise the tax treaty executed with Mexico was not listed in their instrument of ratification:

- Brazil;
- Ecuador;
- Guatemala;
- Philippines;
- United States of America; and
- Germany.

Likewise, the following tax treaties will be affected in the future by the MLI, but until the contracting jurisdiction parties to the MLI have deposited their instrument of ratification, acceptance or approval before the OECD:

- Argentina;
- Colombia;
- Italy;
- Jamaica;
- Kuwait;
- Peru; and
- Turkey.

In any case, how is the relevant tax treaty will be affected by the MLI must be assessed on a case-by-case basis.

One of the minimum standards that supersedes the preexisting anti-treaty shopping measures provided in Mexico's tax treaties is the MLI's principal purpose test ("PPT"), whose objective component requires to demonstrate the existence of real business or substance in the jurisdiction of residence in order for the benefits of the relevant tax treaty to apply, that means, to prove the objective element through a business reality test (i.e., the exercise of substantive economic functions using assets and assuming risks, jurisdiction's business attributes, economic and political environment and double taxation treaty network, etc.).

2. Value Added Tax

Mexico has a federal VAT based in the European VAT tax systems.

It is known that VAT has a keen territorial feature whereby taxed acts / activities are those performed within the applicable territory (Mexico) and without transferring its effect to outbound operations, reason why exports of goods and services are taxed with the 0% tax rate.

Thus, the following acts / activities furnished in Mexico will be subject to VAT:

- Transfer of goods.
- Rendering of independent services.
- Granting the use of goods.
- Import of goods / services.

VAT is triggered in each phase of their production, with the right of crediting the tax so transferred to the acquirer / recipient of the goods / services; thus, the ultimate person that bears the economic burden of the VAT is the final consumer of the goods / services.

Given (i) the right to credit VAT transferred to the taxpayer, and (ii) its transfer to the customers, VAT basically creates a financial effect and does not imply a remarkable economic burden for the taxpayers. This is true except for VAT exempted taxpayers that not being able to transfer VAT to their customers, need to integrate in their cost structures the VAT so transferred to them by their suppliers.

As a general rule, VAT is triggered at a 16% rate calculated over the consideration received as payment (i.e. on cash flow basis); however, there are special rules (e.g. in loans from financial institutions VAT is triggered on accrued interests).

Taxable digital services provided through applications or content in digital form over the Internet or another network, primarily automated, which may or may not require minimal human intervention, and for which a fee is charged, are subject to special VAT rules.

Nevertheless, various tax eases are in force to facilitate the foreign digital services' providers to comply with their VAT related obligations:

- Some categories of foreign tax resident service providers are relieved from complying with the obligations provided in the law (e.g., filing quarterly informative tax returns, paying VAT and issuing digital tax invoices, etc.), provided that: (i) such services are rendered through a Mexican tax resident / foreign tax resident providing billing and collection services, (ii) the latter withholds 100% of the VAT charged to the recipients of the digital services, as the case may be, and (iii) the latter issues the corresponding digital tax invoices; and
- Platforms acting as intermediaries between the sellers and acquirers of services / goods have the option to publish the price of such services / goods without declaring the VAT, expressly and separately, as long as they include the legend "VAT included".

A "temporary blocking of access to the digital service" is regulated as a sanction to those foreign tax resident service providers that fail to comply with certain obligations provided in the law.

3. Other Taxes

3.1. Estate Taxes

Mexican law does not provide estate taxes; moreover, revenues obtained *mortis causa* by Mexican resident individuals are income tax exempted.

Notwithstanding the above, it is important to consider that residents abroad that acquire shares issued by Mexican entities or properties in Mexico as part of an estate will be subject to income tax at a 25% rate.

3.2. Special Taxes

Special taxes are levied on the sale of vehicles, alcohol, alcoholic beverages, beer, flavored (sugared) beverages and energy drinks, foods with a high caloric content, manufactured tobacco and certain fuels.

4. Northern Border Zone Decree

4.1. Introduction[1]

a) Motivation

On December 31, 2018, the Decree of Tax Incentives for the Northern Border Region of Mexico ("Decree") was published in the Federal Official Gazette ("FOG"). The Decree aims to establish

1 Statement of reasons of the Decree.

mechanisms to strengthen the economy of those taxpayers in the northern border region of Mexico, in order to stimulate and increase investment, promote productivity and contribute to the creation of new sources of employment.

In accordance with the Decree, the northern border region of the country has been strongly affected by high levels of violence and a loss of dynamism in the economic activity.

Likewise, the north border region of Mexico has experienced a negative impact on the manufacturing industry due to China's entry as a commercial competitor, which results in a decrease in the sources of employment generated by this industry and an increase in violence in this region.

It is also alleged that the employment rate in the municipalities adjacent to the country's northern border region fell approximately 2% in the period from 2010 to 2015. The decrease in job opportunities generated an increase in crime and violence, which affected companies' production and inhabitants' jobs and income, which is reflected in the fall of the gross domestic product ("GDP") in the region.

Furthermore, the Decree establishes that the border with the United States of America generates differences between the taxpayers living within the northern border area and those living in the rest of the country, affecting their general welfare and making the lives of those living in this area more expensive, slowing down the commercial activity, and discouraging the tourism. Therefore, the

northern border maintains a distinct economic dynamic from the rest of the country, as a result of the direct competition with the border states of Southern United States.

Thus, the Decree seeks to: (i) improve competitiveness against the United States' market and retain the consumer in Mexican commerce, (ii) reactivate the domestic economy and raise income, (iii) generate jobs and a greater general welfare, (iv) attract tourism and investment, and hence to (v) achieve a greater tax collection (revenue).

The Decree will only remain in force until December 31, 2025.

b) General overview of the tax incentives

Based on the aforesaid considerations, the Decree establishes two tax incentives for the benefited taxpayers consisting of a reduction of a third part of the income tax (by means of an authorization) and the crediting of the 50% of the value added tax's ("VAT") rate (through the filing of a notice).

c) No taxable income or filing of a notice[2]

The tax incentives set forth in the Decree will not be considered as taxable income for income tax purposes.

Therefore, as an administrative simplification measure, taxpayers will be relieved from the obligation to file the notice to credit tax incentives[3].

2 Art. Fourteenth, of the Decree.

3 Art. 25, paragraph 1, of the Federal Fiscal Code.

d) Northern border region concept

The following municipalities are deemed to be comprised in the norther border region[4]:

i. Baja California:
- Ensenada
- Playas de Rosarito
- Tijuana
- Tecate
- Mexicali

ii. Sonora:
- San Luis Río Colorado
- Puerto Peñasco
- General Plutarco Elías Calles
- Caborca
- Altar
- Sáric
- Nogales
- Santa Cruz
- Cananea
- Naco
- Agua Prieta

iii. Chihuahua:
- Janos
- Ascensión
- Juárez
- Praxedis G. Guerrero
- Guadalupe
- Coyame de Sotol
- Ojinaga
- Manuel Benavides

iv. Coahuila de Zaragoza:
- Ocampo
- Acuña
- Zaragoza
- Jiménez
- Piedras Negras
- Nava
- Guerrero
- Hidalgo

4 Article One of the Decree.

v. Nuevo León:

- Anáhuac

vi. Tamaulipas:

- Nuevo Laredo
- Guerrero
- Mier
- Miguel Alemán
- Camargo
- Gustavo Díaz Ordaz
- Reynosa
- Río Bravo
- Valle Hermoso
- Matamoros

4.2. Income Tax Incentive

4.2.1. Categories Of Benefited Taxpayers

a) Taxpayers receiving income exclusively in the border zone[5]

The Decree establishes that individuals, legal entities and foreign residents with a permanent establishment in Mexico who exclusively obtain income in the border zone may apply a tax credit consisting of one third of the income tax caused in the same year or in the provisional payments.

For such purposes, these persons must pay taxes under the following tax regimes:

- The general tax regime applicable to legal entities, pursuant to Title II, of the Mexican Income Tax Law ("ITL").
- The regime applicable to individuals with business activities, pursuant to Title IV, Chapter II, Section I, of the ITL.
- The elective regime applicable to legal entities that chose to accrue income on a cash-flow basis, pursuant to Title VII, Chapter VIII, of the ITL.

The tax credit is applied in the proportion that the total income obtained in the border zone represent from the total income obtained by the taxpayer during the fiscal year ("FY") or the period corresponding to the provisional payments.

For these purposes, it is deemed that income is exclusively perceived in the border zone when the income obtained in the border zone represents at least 90% of the total income obtained by the taxpayer in the immediate previous FY.

It is important to note that in order to benefit from this tax incentive, within this category of taxpayers, the beneficiaries must demonstrate that they have had their tax address in the border zone for at least 18 months prior to their registration date in the "Register of beneficiaries of the tax incentives for the northern border region", which will be addressed latter on this document.

5 Article Two of the Decree.

b) Individual taxpayers receiving different income from those derived from carrying out business activities in the border zone[6]

In the case of individuals, since the tax incentive is established for individuals carrying out business activities, the Decree provides for an additional rule that establishes how to apply the tax incentive for income other than those referred therein.

For such purposes, individuals receiving income other than those derived from carrying out business activities within the northern border region, are required to pay tax for said income in terms of the ITL, according to the tax regime that corresponds to them considering the totality of the income obtained by the latter.

In these cases, the tax incentive referred to in the Decree will be one third of the tax caused, in the proportion that the total income obtained by the taxpayer in the aforesaid zone represent from the total income received by the taxpayer during the FY or the period corresponding to the provisional payments.

c) Taxpayers having their tax address outside the border zone, and their establishment in the northern border region[7]

Taxpayers who have their tax address outside the border region, but have a branch, agency or any other establishment within the northern border region may benefit from this tax incentive, but solely for the proportion represented by the income corresponding to the border area.

For this, taxpayers will need to prove that the branch, agency or any other establishment has existed for at least 18 years prior to their registration in the "Register of beneficiaries of the tax incentives for the northern border region".

d) Branches, agencies, establishments[8]

Taxpayers who have their tax address in said border region, but have branches, agencies or any other establishment outside it, may benefit from the benefits established in the Decree, provided that they have had their tax address in the northern border region for at least 18 months prior to the date of registration in the "Register of beneficiaries of the tax incentives for the northern border region", and only in the proportion that the income corresponding to the branch, agency or any other establishment represents from the income attributable to their tax address, located in the northern border region.

e) Taxpayers initiating operations[9]

Taxpayers initiating activities in the northern border region may request for their registration in the "Register of beneficiaries of the tax incentives for the northern border region", provided that they have economic capacity, assets and facilities to perform their operations and activities thereat.

In these cases, taxpayers will have to demonstrate that they use new fixed assets to carry out their activities within the northern border region, and that the total income generated in that region represents at least 90% of their total income for the FY, in accordance with the general rules that will be issued by the Mexican Tax Administration Service ("SAT").

6 Art. Second of the Decree.
7 Art. Fifth of the Decree.
8 Art. Fifth of the Decree.
9 Art. Third of the Decree.

Goods are deemed to be new when used for the first time in Mexico. Taxpayers may also acquire fixed assets that have been used in Mexico, provided that the seller is a non-related party of the acquiring taxpayer.

Taxpayers registering in the Federal Taxpayers' Registry ("RFC") and constituting their tax address in the northern border region, or opening a branch, agency or establishment in said region, after the entry into force of the Decree, are also required to demonstrate that they use new fixed assets to carry out their activities within the northern border region, in order for them to benefit from the tax incentive.

Taxpayers must request for SAT's authorization to be registered in the "Register of beneficiaries of the tax incentives for the northern border region" within the month following the date of their registration in the RFC or the date in which the notice of opening a branch or establishment in the norther border area was duly filed.

Although this rule is set forth in the second paragraph of Article Three of the Decree, and it refers in its first paragraph to taxpayers having their tax address in the northern border for at least 18 months, we understand that this facility applies to all categories of taxpayers who choose to apply this tax incentive (also those taxpayers who have establishments inside or outside the northern border region).

4.2.2. Persons Excluded from the Benefit[10]

For income tax purposes, the following persons cannot benefit from the incentive provided for in the Decree:

a) By Regime

The applicable to credit, insurance and bonding institutions, general bonded warehouses, financial leasing companies and credit unions[11].

- The applicable to groups of companies, which allows the latter to defer the payment of income tax on charge of companies of the same group[12].
- The applicable to the coordinated entities, consisting of jointly fulfilling on behalf of their members[13].
- The regime of agricultural, livestock, forestry and fishing activities[14].
- The tax incorporation regime[15].

b) Maquila

The maquiladora companies that, complying with the requirements established in article 181 of the ITL, avoid the constitution of a permanent establishment for their non-resident Principal derived from the legal or economic relations hold with the latter, through the application of the "safe harbor" options provided for in Article 182 of the ITL[16].

10 Art. Sixth of the Decree.
11 Pursuant to Title II, Chapter IV of the ITL.
12 Pursuant to Title II, Chapter VI of the ITL.
13 Pursuant to Title II, Chapter VII of the ITL.
14 Pursuant to Title II, Chapter VIII of the ITL.
15 Pursuant to Title IV, Chapter II, Section II, of the ITL.
16 Pursuant to Arts. 181 and 182 of the ITL.

c) FIBRA's[17]

The regime applicable to taxpayers performing activities through a Trust Engaged in the Acquisition or Construction of Real Estate ("FIBRA")[18].

d) Production Cooperatives[19]

The operative-stimulus regime applicable to Production Cooperatives, pursuant to Title VII, Chapter VII, of the ITL.

e) Delinquent Taxpayers

- Taxpayers to whom the data protection (reserve) is not applicable, and thus their name, denomination or corporate name and tax ID are published on SAT's web page, in accordance with article 69 of the Federal Fiscal Code ("FFC")[20], except when said publication solely obeys to the payment of fines.
- Taxpayers who were subject to tax audit procedures for any of the five FYs preceding the entry into force of the Decree, to whom unpaid contributions were assessed, and have not corrected their tax situation.

f) EFCOS

- Taxpayers that issue digital tax invoices and to whom the presumption of non-existent operations was applied, pursuant to article 69-B of the FFC.
- Taxpayers that have a partner or shareholder who falls within the aforementioned legal presumption.
- Taxpayers who entered into transactions with the above-mentioned taxpayers but did not proved to SAT that they actually acquired the goods or received the services covered by the corresponding digital tax invoices.
- Taxpayers to whom the presumption of undue transmission of tax losses was applied, in terms of article 69-B bis of the FFC.

g) Trusts carrying out business activities

Taxpayers performing business activities through trusts.

h) By source of income

- Individuals and legal entities, for the income derived from intangible assets.
- Individuals and legal entities, for the income derived from their digital commerce activities, excluding those determined by SAT through general rules.
- Taxpayers providing personnel through an outsourcing scheme or taxpayers that are deemed to be intermediaries pursuant to the Federal Labor Law.

17 Pursuant to Title VII, Chapter III, of the ITL.

18 Consisting of: (i) a deferral to pay IT on the gains arising from the sale of real estates until the moment in which the certificates or the real estates are actually sold; an (ii) exemption on profit derived from the sale of the certificates in stock exchange or recognized markets; and, (iii) trustees' non-existing obligation to make provisional payments.

19 Title VII, Chapter VII, of the ITL.

20 Taxpayers with unpaid or unguaranteed tax assessments; non-located taxpayers; taxpayers who committed fiscal offenses; and, taxpayers whose debts were cancelled due to insolvency or condoned.

i) By application of other tax incentives

Taxpayers benefiting from other fiscal regimes that grant tax benefits or incentives, including exemptions or subsidies.

j) Other

- Taxpayers who are in liquidation.
- Legal entities whose partners or shareholders individually were removed from the "Register of beneficiaries of the tax incentives for the northern border region".
- State's Productive Companies and their respective Subsidiary Productive Companies, as well as Contractors, in accordance with the Hydrocarbons Law.
- Taxpayers whose income derive from the provision of professional services, pursuant to Article 100, section II, of the ITL.

4.2.3. Opportunity To Obtain and Keep the Registration by Authorization

Individuals and legal entities seeking to obtain the benefits of the Decree must request SAT's authorization to be registered in the "Register of beneficiaries of the tax incentives for the northern border region."

The authorization will be valid solely for the FY in which it was obtained. If the taxpayer intends to continue benefiting from the tax incentives provided for in the Decree, the former must request the renewal of such authorization [21].

4.2.4. De-Registration from the "Register of Beneficiaries of the tax Incentives for the Norther Border Region"[22]

Taxpayers may request, at any time, their de-registration from the "Register of beneficiaries of the tax incentives for the northern border region" to SAT.

In this case, or when the taxpayers no longer fulfill the requirements to apply the tax incentive, the stimulus will cease to apply for the entire FY, and the taxpayers will have to file their tax returns and make the corresponding income tax payments without considering the application of the Decree, no later than the month following that in which the de-registration request was filed.

4.2.5. Procedure And Requirements to Apply and Maintain the Tax Incentive[23]

a) Registration procedure by authorization

SAT will register the taxpayers in the "Register of beneficiaries of the tax incentives for the northern border region" within the first 3 months of each fiscal year. The registration notice will be effective during the fiscal year in which it was made. If the taxpayer chooses to continue applying this tax incentive in subsequent fiscal years, it must file a renewal notice no later than March 31 of the fiscal year in question, provided that it continues to comply with the requirements set forth in the Decree[24].

21 Art. Seventh of the Decree.

22 Art. Ninth of the Decree.

23 Statement of reasons and Art. Seventh of the Decree.

24 Art. Eighth of the Decree.

SAT may require the taxpayers registered in the above-mentioned list, the information and documentation it deems convenient, in order to verify that they comply with the requirements established in the Decree.[25]

b) Registration requirements

In order to benefit from the tax incentive set forth in the Decree, taxpayers must comply with the following requirements:

- Request for the registration in the "Register of beneficiaries of the tax incentives for the northern border region." The SAT must solve said request no later than the month following that in which the request for authorization was submitted.
- Taxpayers with a tax address in the northern border region must prove that they have had their tax address thereat for at least 18 months prior to the filing of the request for registration in the "Register of beneficiaries of the tax incentives for the northern border region."

Those taxpayers whose residence time in their tax address, branch, agency or establishment, is lesser than 18 months from the date in which the request for registration in the "Register of beneficiaries of the tax incentives for the northern border region" was filed, or those who register in the RFC and constitute their tax address in the northern border region, or open a branch, agency or establishment in that region, after the entry into force of the Decree, must demonstrate to SAT that they have (i) the economic capacity, (ii) assets and (iii) facilities to carry out their operations and business activities in said region.

- Have an advanced electronic signature, a positive opinion of compliance with their tax obligations, and access to their tax mailbox.
- Collaborate with SAT's real-time verification program on a annual basis.
- Not to be in the procedure of temporary restriction of the use of digital seals for the issuance of digital tax invoices.
- Not to have cancelled the certificates issued by the SAT for the issuance of digital tax invoices.
- Non-existence of fraudulent conducts to evade compliance with their tax obligations.
- Request for the authorization no later than March 31 of the FY in question.

4.2.6. Transitional Regime Applicable at the Termination Date of the Tax Incentive[26]

Taxpayers who benefited from the income tax incentive but executed acts prior to the termination date of this tax incentive without receiving the income derived from such acts, can benefit from the incentives provided for in Article Eleventh of the Decree, regarding such income, whenever said income is received within 10 calendar-days following the termination date of the income tax incentive.

4.2.7. Limitations to the IT Incentive

The application of the benefits established in the Decree will not give rise to any refund or compensation different from the one that would have resulted from not applying said benefits[27].

Taxpayers that did not benefited from the tax incentive provided for in the Decree, despite been able to do so, will lose the right to apply it in the FY or the period corresponding to the provisional payments.

25 Art. Eighth of the Decree.

26 Second Transitory Provision of the Decree.

27 Art. Fifth of the Decree.

The foregoing shall apply even if the referred taxpayer is in suspension of activities[28]. The simultaneous application of other tax incentives can turn this tax incentive inapplicable.

4.3. VAT Incentive

4.3.1. Scope[29]

There is also a tax incentive consisting of a credit equivalent to 50% of the general VAT rate (the 16% general VAT rate is reduced to 8%) on the value of the acts or activities regulated in the Value Added Tax Law ("VATL"), applicable to taxpayers engaged in the sale of goods, provision of independent services, or grating of the temporary use or enjoyment of goods at establishments located within this region.

For these purposes, the material delivery of the goods or the provision of services must be carried out in the northern border region[30].

In our understanding, there must be an office, branch or tax address in the northern border region in order to benefit from the Decree.

As indicated in the Decree, the tax credit will be applied directly on the tax rate, for administrative simplification purposes.

4.3.2. Formal Requirements[31]

In order for the taxpayers to benefit from said tax incentive, they must comply with the requirements established in general rules, as well as with the following requirements:

- Submit a notice of application of the tax incentive within 30 calendar-days following the entry into force of the Decree. The deadline expires on January 30, 2019 (there is a possibility that this deadline will be extended subject to the rules governing the procedure to file the aforesaid notice).
- In the case of taxpayers initiating their activities after the above-mentioned date, they will have to file the notice together with their registration application before the RFC.
- Taxpayers may only benefit from the tax incentive, provided that they filed their notices on time. Failure to submit such notices will result in the imposition of penalties, in accordance with the tax provisions (FFC).

4.3.3. Cases and Persons Excluded from the Benefit[32]

This tax incentive does not apply in the following cases:

- The sale of real estate. The benefit aims to encourage consumption in the northern border region and to prevent consumers from displacing to the United States to acquire goods, which does not occur with real estate.
- The sale of intangible assets or the granting of the temporary use or enjoyment of intangible assets. By its nature, intangible assets can be used outside the northern border region.
- The supply of digital content such as audio and video, through downloads or temporary reception

28 Art. Fifth of the Decree.
29 Art. Eleventh of the Decree.
30 Art. Twelfth of the Decree.
31 Art. Twelfth of the Decree.
32 Art. Thirteen of the Decree.

of files. By its nature, digital content and audio can be used outside the border region.

- Taxpayers that fall under articles 69, 69-B and 69-B Bis of the FFC. This limitation applies in similar terms to those foreseen in the IT incentive.
- Taxpayers providing transportation services of goods or persons by land, sea or air, except when the rendering of such services begins and ends in said region, without making stopovers outside of it.

4.3.4. Transitional Regime Applicable at the Termination Date of the VAT Incentive[33]

Taxpayers who benefited from the VAT incentive, but engaged in the sale of goods, provision of services or granting of temporary use or enjoyment of goods prior to the termination date of this tax incentive without receiving the payment of their respective considerations, can benefit from the incentives provided for in the Decree, with regard to such considerations, provided that the payment of said considerations is made within 10 calendar-days following the termination date of the VAT incentive.

5. Decree Granting Tax Incentives to Taxpayers

On January 8, 2019, a presidential decree was published in the FOG, which was extended by a presidential decree that was published in the FOG on December 23, 2021, whereby the following incentives were granted:

a) Elimination of withholding income tax on interest derived from bonds issued by Mexican Companies

Mexican residents are legally required to make income tax withholdings to foreign residents receiving interest income from bonds issued by Mexican companies, whenever such bonds are placed among the general investing public through stock exchanges operating under concession, in accordance with the Securities Market Law ("SML")[34].

In order to encourage a greater number of investors to acquire corporate bonded debt, a tax incentive is granted to Mexican residents that are required to make the income tax withholdings consisting of a tax credit equivalent to 100% of the tax caused by the foreign resident. The amount of the credit is solely creditable against the payable tax corresponding to the income tax withholding.

Requirements:

- No withholding should be made.
- Interests payments shall be made to a resident in a country or jurisdiction that has entered into a Treaty to Avoid Double Taxation or an Exchange of Information Agreement. From wording used in the Decree, it is unclear if this requirement excludes the possibility of applying the tax incentive when the withholding obligation is triggered by the enforceability of the interest and not by its payment.

The tax incentive neither will be deemed as taxable income for those required to make the income tax withholding, nor for the foreign taxpayer. Furthermore, the application of this tax incentive will not give rise to any refund or compensation.

33 Third Transitory Provision of the Decree.

34 Art. 166 of the ITL.

If the Mexican resident that is legally required to withhold the income tax does not credit the tax incentive in the FY, the former will lose the right to do so, up to the amount of the tax credit generated by the specific operation.

From the wording used in the Decree, it seems that not withholding is required when the beneficial owners of the interest income, directly or indirectly, individually or jointly with related persons, receive more than 5% of the interest derived from the bonds and are (i) shareholders, directly or indirectly, individually or jointly with related persons, of more than 10% of voting shares or (ii) legal entities whose shares (more than 20% of their shares) are, directly or indirectly, individually or jointly with related persons, owned by the issuer.

If no withholding was made to the foreign taxpayer, it is to be expected that the crediting of the tax abroad is not allowed.

b) 10% IT rate on capital gains derived from the sale of certain stock shares

For FYs 2019 to 2025, foreign residents and Mexican resident individuals will be subject to a 10% income tax rate on the sale of shares issued by Mexican resident companies, provided that such sale takes place in stock exchanges operating under concession, in terms of the SML, and that the following conditions are met:

- The sale must be made through an initial public offering made by an issuer who has not previously traded on stock exchanges or in recognized markets, pursuant to the SML.
- Issuer's equity capital shall correspond to a maximum amount of $25,000,000,000.00 pesos (amount that may be modified by means of the MFR).
- The Decree also comprises the sale of shares that are not deemed placed among the general investing public, whose acquisition has not been carried out in stock exchanges operating under concession, in terms of the SML, or in foreign stock exchanges that have been authorized and operating from at least 5 years in accordance with the laws of the country in which they are located, where prices determined are of public knowledge and cannot be manipulated by the contracting parties of the derivative financial transactions, although in these cases exceeds 1% of the outstanding shares of the issuer.

Excluding the foregoing, the benefit does not extend to (i) a person or group of persons that, directly or indirectly have 10% or more of the voting shares of the issuer within a 21-month period, and transfer 10% or more of the shares paid or when the control of the issuer is disposed of, (ii) sales carried out outside the stock exchange and (iii) mergers and spin-offs.

c) Extensive application of the tax incentive (10% rate) to capital gains for the sale of certain stock shares for the participation of FICAPS or similar vehicles

The aforementioned tax incentive is also applicable to the person or group of persons who, directly or indirectly having 10% or more of the shares representing the share capital of the issuer, in a 24-months period, sales 10% or more of the shares paid or when the control of the issuer is transferred provided that:

- At least 20% of the shares have been acquired by a FICAP, whose certificates are placed among the general investing public through a stock exchange operating under concession, pursuant to the SML, or in recognized markets, and that the sale corresponds to a disinvestment transition process by the FICAP, in order to directly initiate the public listing of the company object of investment.

- The shares of the company subject to investment have been acquired by another investment vehicle similar to the FICAPS that, in addition to the aforementioned conditions, meets the following requirements: (i) The investment in the shares is maintained by at least 2 years before the shares are sold through the initial public offering, (ii) the investment vehicle is constituted in Mexico in accordance with national legislation and, in the case of trusts, the trustee is a credit institution or a brokerage house resident in Mexico (which leaves out foreign partnerships), (iii) invest at least 80% of its assets in shares of Mexican resident companies that were not previously listed in the stock exchange and (iv) the other requirements established by means of the MFR.

6. Decree Granting Tax Incentives under the "Plan México"

On January 21, 2025, the Decree granting tax incentives to support the national strategy called "Plan Mexico" was published in the Official Gazette. This initiative aims to promote new investments, foster dual training programs, and encourage innovation. The Decree will remain in effect until September 30, 2030.

The main objectives of the Plan Mexico Decree include enhancing Mexico's competitive advantages, strengthening local and regional supply chains, improving workforce training, promoting technological development, and facilitating integration into strategic sectors.

The beneficiaries of the Decree include legal entities under the general and simplified tax regimes (including RESICO), as well as individuals engaged in business and professional activities.

The key tax incentives granted under the Decree are as follows:

- Immediate deduction of investments in new fixed assets acquired from the effective date of the Decree. The maximum deduction rates range between 41% and 91% for fiscal years 2025–2026 and between 35% and 89% for fiscal years 2027–2030.
- Additional deduction equivalent to 25% of the increase in expenses incurred for the following eligible items: (i) Technical or scientific training programs related to the taxpayer's activities, conducted under a collaboration agreement with the Ministry of Public Education through dual education schemes; (ii) Innovation projects involving investments aimed at obtaining patents; (iii) Innovation projects related to initial certifications required for integration into local and regional supply chains.

Industries expected to benefit most from the incentives include: computer component manufacturing, technological research and development, construction for primary industries (agriculture, livestock, forestry, fishing), restaurant services, air transport, communication services, and electric transport.

PANAMA RIVERA, BOLÍVAR Y CASTAÑEDAS

IN-COUNTRY MEMBER FIRM:

www.rbc.com

507-397-3000

Address: Calle Aquilino de la Guardia, Torre Banco General , 9th Floor Panama City, Panama

CONTACT PARTNER(S):

Javier Said Acuña

said.acuna@rbc.com.pa

HIGHLIGHTS

National Leve Tax Rates:	
Corporate Income Tax: 1. Generation and distribution of electricity; 2. Telecommunications; 3. Insurance and Reinsurance; 4. Financial regulated by Law No. 42 of 2001; 5. Manufacture of cement; 6. The operation and management of games of chance; 7. Mining in general; 8. Banking business and 9. The subsidiary or affiliate of any company engaged in the activities mentioned above.	25%

The Income Tax (ISR) of the companies described above will pay the following rate:

Rate Tax Periods	
Effective January 1, 2010	30%
Effective January 1, 2012	27.5%
Effective January 1, 2014	25%
Companies in which the State has a stake greater than 40% of the shares, will pay the income tax rate to 30%.	
Companies dedicated to agricultural activities and small businesses will have a special rate lower than the ISR.	
Capital Gains Tax:	10%
Capital Gains Tax in real estate and the total property value	3%
If the transaction is within the ordinary course of business of the taxpayer	General tax rate
Branch Profits Tax:	
Dividends Tax: Definitive withholding	Nominative Shares 10 % Bearer Shares 20%
Dividends paid members or shareholders in respect of income from	5%
Withholding Taxes on:	
Interest: (general rule). Rates applies on	50%
Royalties: Rates applies on	50%
Other Services. Rates applies on	50%
Tax losses carry-forward term:	5 years
Transfer Pricing Rules:	Yes
Treaties to avoid double taxation:	Yes
Tax-free Reorganizations: “fusion and spin off company”)	Yes
Local Level Tax Rates:	
Real Estate Tax: (at national level). Progressive tariff	0.60 % to 1.00%
Real Estate transaction within the ordinary course of business of the taxpayer	General Tax Rate

Overview

1. Income Tax

1.1. Corporation Income Tax

a. Net taxable income calculated by the method established in this title. The first step is to reduce from the gross income (only from Panamanian source) the deductible costs and expenses, which gives the taxable income. Then, you may proceed to deduct tax incentives and carry over losses from the taxable income. The result is the net taxable income (traditional method).
b. Alternative Calculation on Income Tax (CAIR) has been eliminated, however, remains an estimate calculation for corporations whose taxable income exceeded US$ 1.5 million annually.

These corporations will pay the higher amount between:

- The taxable net income calculated by the traditional method; and
- The taxable net income resulting from applying 4.67% to the total taxable income.

The total taxable income for tax purposes is the amount resulting from subtracting from the total income of the taxpayer's the exempt income and / or non-taxable income and the income of foreign source.

Loss Carry-forward

Losses of the tax payer will be able to be deduced in the 5 following fiscal years at the rate of 20% of the loss per year.

1.2. Foreign Gains and Losses

Panama applies the Principle of Territorial Source, in such a way that only the income generated within the Republic of Panama is taxable. (Article 694 of the Fiscal Code).

The same Article 694 of the Fiscal Code had a modification by means of which it will be considered produced in Panama (Panamanian source income), the income received by individuals or corporations domiciled outside of Panama, derived from any service or act that benefit persons within the Republic of Panama. Income includes among others, fees and incomes for copyrights, commercial and trade names, patents of invention, know-how, technology, and scientific knowledge, commercial or industrial secrets, in the way that these services affect the production of income of Panamanian source and its value has been considered deductible expenses by the person in Panama who received them.

Therefore, individuals and corporations in Panama who benefit of the service, will have to apply the rates settled in Articles 699 (27.5% - 25%) and 700 (progressive tariff) of the Fiscal Code on the fifty percent (50%) of the amount to be transferred to the beneficiary outside.

Individuals or corporations that, because of their activities of international businesses, perform activities outside of Panama that are required with the purpose of getting income in Panama, will not be subject to withholding taxes.

1.3. Payment

Income tax is set up through an annual tax return to be filled out before March 15th. (individuals). Together with the annual tax return, the taxpayer must present an estimated income tax. The estimated income must be paid on June 30th, September 30th, and December 31st, respectively (individuals).

1.4. Transfer Pricing

In Panama, the operations that a taxpayer performs with related parties that are fiscal residents of other Jurisdictions, are subject to the transfer pricing regulation, provided that such operations have effects such as income, costs or deductions in the determination of the taxable base of the income tax, of the fiscal period in which the operation is declared or carried out.

The Transfer Pricing Guidelines for Multinational Enterprises and tax administrations of the Organization for Economic Cooperation and Development in 2010, or those that substitute them, are applicable as a technical reference.

When referring to corporations, annual tax return must be presented within three months after the closing of the fiscal year (12 months).

Under the OECD transfer pricing rules, the Panamanian party must keep and file supporting documentation with the tax authorities; it must also perform a transfer pricing report and/or study showing that its prices or profit margins on the transactions are within the comparable arm's-length prices or profit margins ranges for its activity and similar transactions. The Fiscal Code sets forth a wide range of penalties aimed at compelling taxpayers to comply with transfer pricing rules and regulations; be they compliance-type of provisions or substantive ones.

1.5. Dividend Tax

Dividends are subject to a final (definitive) income tax withholding of 10% (in case of nominative shares) or 20% (bearer shares).

Dividend tax of 5% in case of distribution of proceeds from tax exempt income or income from foreign source.

In the case of income derived from services and other activities rendered outside of Panama, that benefits persons in Panama, payments made from persons in Panama are subject to a definitive withholding applied on 50% of the amount transferred and according with rates settled in Articles 699 (25%) if beneficiary abroad is a corporation or progressive rates if beneficiary is an individual.

If there are not dividends, or the distribution is under 40% of the fiscal income, the corporation must pay a special tax (Complementary Tax), as an advance tax on Dividend Tax.

All loans or credit that a company grants to its shareholders will pay a 10% dividend tax.

The dividends distributed and corresponded to nominative preferred shares receive an equal tax treatment that applies to deductible interests. Also, the amount distributed as dividends will be exempt from income tax rates.

For this purpose, the nominative preferred shares must observe the following conditions:

a. That their maturity is not more than five (5) years;
b. It must not be part of the capital, according to the International Financial Reporting Standards (IFRS);

c. Belonging to common stockholders of the issuer;
d. That performance earned no more than 6%;
e. Not transferable; and
f. The issuance of such preferred shares does not exceed 40% of equity.

1.6. Capital Gains

Income from the occasional sale of real property, shares and other movable goods, are subject to a capital gain tax of 10%.

Capital Gains tax in Real Estate

The taxpayer will be required to pay a sum equivalent to three percent (3%) of the higher between the total value of the transfer and the property value, as an advance of the income tax.

The taxpayer may choose to pay 3% of the total value of the transaction as the final capital gain tax.

If the transaction is within the ordinary course of business of the taxpayer, the taxpayer paid under the general tax rate established by the tax code (25%).

In the case of first sale of homes and business premises the following rates apply:

Value of new housing	Rate
Value that does not exceed US$35,000.00	0.5%
More than US$35,000.00 up to US$80,000.00	1.5%
Over US$80,000.00	2.5%
New Business	4.5%

This rate applies only to the first sale of residential and business premises with building permit given in 2010.

Real estate related to agricultural activities, and real estate devoted to residential use, located in rural areas with a rate value of up to ten thousand dollars (US$10, 000.00) will pay capital gain tax at a definitive rate of three percent (3%).

Law 70 of 2019 Fraud and tax evasion

In compliance with the international commitments acquired, Panama adopted the Law 70 of 2019 that modifies the Criminal Code to add to the crimes against the Treasury the crime of tax evasion and related, as well as the consideration that they are a preamble to a felony, money laundering.

The new Law states that whoever personally or interposed receives, possesses, deposits, negotiates, transfers, or converts monies, securities, assets, and other financial resources knowingly that they come from crimes against the National Treasury, in order to hide their Illegal origin will be sanctioned with a penalty of two to four years in prison.

The person who, for his own benefit or that of a third party and with intent, incurs in tax fraud against the National Treasury and affects the correct determination of a tax obligation to stop paying, in full or in part, the corresponding taxes, shall be punished with imprisonment of two to four years.

If the authorities determine that the anticipated crime has been committed, through one or more legal persons, the penalty will be imposed on the legal person in question. It will be a fine of one to three times the amount of the defrauded tax.

Anyone who fraudulently obtains a waiver, refund, enjoyment, or approval of undue benefits will be punished with imprisonment of 2 to 4 years and with a fine of one to three times the amount of the tax evaded.

When a legal entity is used in some of the behaviors described above, or benefited by these, this entity will be penalized with a fine for not less than the amount of the fraudulent tax, nor greater than the amount of the amount defrauded.

However, the penalties provided above will only be applicable when the amount defrauded of tax in a fiscal period is equal to or greater than US$300,000,000, without including fines, surcharges, and interest in the calculation of the amount.

2. Other Taxes

2.1. Transference Of Movable Goods and Services Tax (ITBMS)

ITBMS (for its Spanish abbreviation) is a type of Value-added Tax (VAT). The rate is 7% applied on the amount of goods transferred and services performed within Panama, including imported goods.

Exception

The producers, traders, and service providers whose gross annual income is less than thirty-six thousand dollars (US$36,000.00) are not considered as taxpayers of this tax.

This tax will be paid monthly in case of corporations or quarterly in case of liberal professionals.

In the tax return, the taxpayer will determine the tax by calculating the difference between the tax debit and tax credit.

a. Tax debit will be constituted by the amount of the taxes accrued in the sales of goods and services rendered in the fiscal period (monthly or quarterly).
b. Tax credit will be composed by:
    - The amount of taxes including in the invoices of purchases made in the internal market of goods and services corresponding to the same period, whenever they fulfill the exigencies anticipated in Paragraph 13 in the matter of documentation.
    - The tax paid in the referred period regarding the import of goods.

Tax credit will be apportioned to the goods or services that are affected directly or indirectly to the taxable operations.

2.2. Selective Consumption Tax (ISC)

Tax applied on the transfers of several goods and services performed considered luxurious or not essentials.

For instance, in addition to the ITBMS, the companies of cable television service, by satellite and microwaves, as well as the cellular services are subject to the ISC on the amount of the invoice in such

concepts. Jewelry, guns, and cars also pay ISC at a variable rate depending on the value and type of the consumer goods.

2.3. Property Tax

With the changes given by Law 66 of the 17th of October of 2017 and Executive Decrees 362 and 363 of 2018, which regulate it, the taxable rate was reduced.

The new Law also introduced two new figures: the "Tributary Family Patrimony" (TFP) and the "Primary Residence" (PR). Under these figures, the exemption was increased on the initial US$120,000.00 (Previously US$30,000.00) of the registered value. Besides, a reduced tax rate is also applicable.

Effective as of 2019 to calculate the tax rates, Panama has a Progressive Combined Tax:

Tax rate for primary residence (Declared as Tributary Family Patrimony or Primary Residence)	
Property Value	**Property Tax**
Up to US$120,000.0	0%
US$120,001-US$700,000.00	0.5%
US$700,001 or more	0.7%

Tax rate for other properties	
Property Value	**Property Tax**
Up to US$30,000.0	0%
US$30.001-US$250,000.00	0.6%
US$250,001 - US$500,000	0.8%
US$500,001 or more	1%

Condominium properties are also eligible for the Tributary Family Patrimony or Primary Residence benefit; however, immovable property may be granted two exemptions from this tax simultaneously.

2.4. Transfer of Property Tax

This tax applies on the transfer of Real Estate property. The tax rate is 2%.

2.5. Operations Notice Tax (Aviso de Operación)

Annual tax applied with a rate of 2% on the net capital of individuals and corporations engaged in commercial activities. The maximum tax is US$60,000.00.

Exceptions:

a. Individuals and corporations with invested capital lower than US$10,000.00.
b. The person or company established or to be established within international free trade areas that owns or operates the Colon Free Zone or any other zone or free zone established or to be created in the future, does not require to obtain an Operations Notice. Nevertheless, these companies are obliged to pay 1% annually on the capital of the company, with a minimum of US$100.00 and a maximum of US$50,000.00.

3. Special Economic Regimes

What sets Panama apart from the rest of its regional neighbors is its privileged geographical position. Therefore, Panama has promoted several strategies to develop its economy, such as an enviable port and logistics system, a service-based economy, tax incentives, among other benefits, which are now some of the reasons why companies see Panama as a strategic location from where they can oversee their investment.

As part of an incentive to attract foreign investment and promote international trade, Panama has three different legislations for Special Economic Zones. One for the Colon Free Trade Zone, another for the Panama Pacifico Special Economic Area and another one for the Free Zones; considering that there are 12 different free zones in the countries, with the two most prominent being the before mentioned Colon Free Zone and Panama Pacifico Area. Additionally, we have a special legislation for the Multinational Headquarters regime.

3.1. Colon Trade Free Zone (Zona Libre de Colón)

Conceived as a free zone and a port dedicated to re-exporting a wide variety of merchandise to Latin America and the Caribbean, the Colon Free Trade Zone it´s a large autonomous institution, located in Colon, near the Atlantic entrance to the Panama Canal.

Created by Decree Law No. 18 of June 17th, 1948, the Colon Free Trade Zone is the second largest Free Zone in the world and it allows the development of export and import activities, manufacturing, re-export, sale, and distribution, among other activities of International Trade.

Due to its privileged location, the Colon Free Zone has access to four important ports in the Caribbean and one in the Pacific, allowing those who perform their activities from the Colon Free Trade Zone to easily access the five continents.

The Colon Free Zone provides companies with an opportunity to achieve significant cost savings by legally minimizing their tax obligations associated with their commercial activities, all while retaining the extensive benefits and privileges offered within this customs area.

Among the tax benefits offered by the Colon Free Zone we can mention:

- Exemption from taxes on imported products for re-export.
- Exemption from the Operations Notice Tax.
- No import or export fees or quotas are paid.
- No taxes are paid for services that have effects abroad.

Taxes are not paid for the profits obtained in operations abroad. The municipal taxes are not applicable to the companies that operate in the Free Zone.

The most recent law governing the Colon Free Zone is Law No. 412, enacted on November 21, 2023. This law modifies Law No. 8 of 2016, introducing several innovations and benefits to enhance the zone's competitiveness.

Key modifications include the authorization of new business activities within the zone, such as multimodal and logistical services, real estate services, sales to nationals and foreigners, services related to the film industry and aviation, and high-tech manufacturing, among others.

Additionally, the Law provides significant tax incentives. For instance, companies in the Colon Free Zone will be exempt from the Income Tax (ISR) on income generated outside the national territory, as well as from property taxes and real estate transfer taxes. There are also exemptions on tariffs, customs duties, and the Special Interest Compensation Fund (FECI). Companies will also be exempt from the Stamp Tax and the Selective Consumption Tax for most goods and services.

Finally, the law grants a period of legal stability until 2028 for established companies, ensuring that the current terms and benefits will be maintained during this period. This aims to provide a more secure and attractive environment for long-term investments.

Transfer pricing rules

With the amendments to the Fiscal Code introduced by Law 69 of 2018, the companies operating under any preferential tax regime (including the Colon Free Trade Zone) will be subject to transfer pricing rules on their operations with related parties located in Panama, abroad or in any other preferential tax regime.

3.2. Panama Pacifico Special Economic Area

Created through Law 41 of 2004, the Panama Pacifico Special Economic Area is a special legal, fiscal, customs, labor, migration and business regime for the establishment and operation of a Special Economic Area in the Panama Oeste Province.

The main purpose is to encourage and ensure the flow and free movement of goods, services, and capital, in order to attract and promote investment, generate jobs, and make the Republic of Panama more competitive in the global economy.

The Panama Pacifico Area is an area free of all taxes for the Companies located on the Panama- Pacifico Area, the Operator and the Developer, except for the provisions of Article 60 of Law 41 regarding Income Tax, Dividend Tax, Complementary Tax and Foreign Remittances Tax and in matters of services inherent to the exercise of professions regulated in a special way by the current national legislation.

Among the activities exempted from the Income Tax, Dividend Tax and Complementary Tax and Foreign Remittances or the Transfer of Movable Goods and Services Tax (I.BMS), we can mention:

a. Sale or transfer of the shares of Companies located on the Panama Pacific Area, the Operator, and the Developer;
b. Sale of all types of merchandise and goods, as well as, the provision of services to visitors, passengers, or crew in transit to a foreign destination, except if the sale is made by the manufacturer of the goods or a company located at the Panama Pacifico Area that belongs to the same economic group of the manufacturer;
c. Sale of all types of merchandise and goods, as well as the provision of services to ships that cross the Panama Canal or airplanes that use authorized airports in the Republic of Panama with destination abroad, except if the sale is made by the manufacturer of the goods or a company of the Panama Pacific Area that belongs to the same economic group of the manufacturer.
d. Office Management Services;
e. Services related to aviation and airports;
f. Call center services for commercial use;
g. Capturing, processing, storage, switching, transmission and retransmission of data and digital information;
h. Research and development of resources and digital applications for use in networks;

i. Logistic and multimodal services;
   - The Dividend Tax or participation fees or the complementary tax applies.

j. Import, export, and re-export of merchandise activities, as well as sales transactions abroad of non-manufactured merchandise in the Panama Pacifico Area; and
   - The Dividend Tax or participation fees or the complementary tax applies.

Transfer pricing rules

With the amendments to the Fiscal Code introduced by the Law 69 of 2018, the companies operating under any preferential tax regime (including the Panama Pacifico Economic Area) will be subject to transfer pricing rules on their operations with related parties located in Panama, abroad or in any other preferential tax regime.

3.3. Multinational Headquarters Regime (SEM)

With the purpose of attracting and promoting investments, the generation of employment and the transfer of technology, there is a Special Regime for the Establishment and Operation of the Headquarters of Multinational Companies in Panama, which is focused on multinational companies that set its headquarters in Panama or that operate from Panama offering some services described in the Law 41 of 2007 to its headquarters, subsidiaries, affiliates, or associated companies.

Companies that hold a Regional or Multinational Company Headquarters License must pay Income tax in Panama on the net taxable income derived from the services rendered at a special rate of 5%.

Additionally, within the deductible expenses in the annual income tax declaration, companies may include the expenses incurred as compensation for all employees, in accordance with the Fiscal Code, even when their salary -workers- is exempt from Income tax. In addition, the amounts paid for this concept abroad can be applied as Income tax credit with respect to the taxable income generated in Panama, derived from the provision of services to non-residents and the amounts withheld by taxpayers in Panama as Income tax.

When tax credits are applied, the company with the SEM License must pay at least 2% of the net taxable income as Income tax. These credits cannot be considered as carry-forward credits nor can they be returned.

On top of that, the companies with the SEM License have other benefits and exemptions like:

- Exemption from dividend and complementary taxes.
- Exemption for branches tax.
- They are not required to obtain an Operation Announcement for the provision of the services established in Law 41 of 2007, therefore, they are exempt of the Operation Announcement tax.

Transfer pricing rules

In accordance to Law No. 57 of 2018 transfer pricing rules apply starting with tax year 2019, to any related-party transaction that an individual or entity conducts with companies with an SEM license.

With the amendments to the Fiscal Code introduced by Law 69 of 2018, the companies operating under any preferential tax regime (including Multinational Headquarters Regime) will be subject to transfer pricing rules on their operations with related parties located in Panama, abroad or in any other preferential tax regime.

3.4. Free Trade Zones

The Free Zones governed by Law 32 of 2011 are part of a simplified and integrated system that promotes the establishment and operation of companies to contribute to the development of the country, and the promotion of investment opportunities.

These zones offer a set of tax benefits, migratory and labor incentives that makes the establishment of this special area within the national territory more attractive, mainly addressed to foreign trade activities.

The Processing Zones are tax-free zones which offer multiple tax benefits for companies that wish to export their products to other countries. Except for commercial operations of sales and services carried out abroad or between free zones, companies that benefit from the regime are subject to the payment of:

a. Income Tax (ISR) and Transfer of Movable Goods and Services (ITBMS) on local lease and sublease operations. These taxes are not applicable to the promoters of the free zones;
b. Dividend tax at 5% regardless of the source of origin, and 2% of complementary tax, in case there is no distribution;
c. Annual tax of 1% of the capital of the company, with a minimum of US$ 100.00 and a maximum of US$ 50,000.00;
d. Selective Consumption Tax (ISC) of certain goods and services;
e. Special Interest Compensation Fund, except for loans guaranteed with bank deposits; and
f. Contributions derived from labor relations between the employer and the worker, and the conditions established in the social security system.

Transfer pricing rules

With the amendments to the Fiscal Code introduced by Law 69 of 2018, the companies operating under any preferential tax regime (including the Free Trade Zones) will be subject to transfer pricing rules on their operations with related parties located in Panama, abroad or in any other preferential tax regime.

3.5. Special Regime for the establishment and operation of multinational companies for the provision of services related to manufacturing (EMMA)

With the purpose of attracting and promoting investments and the generation of employment, the Panamanian government has promulgated Law 159 of August 31, 2020, by means of which the EMMA license is created. The Special Regime for the establishment and operation of multinational companies for the provision of services related to manufacturing (Also known as EMMA) is a special regime in Panama focused on multinational companies that operate from Panama, offering certain services to their headquarters, subsidiaries, affiliates, or associated companies.

EMMA is a license issued by the Ministry of Commerce and Industries for Multinational Companies, whether foreign or domestic, that carry out, from Panama, operations aimed at offering the services defined in the Law, to its parent company or its subsidiaries or its affiliates or to companies associated with entities from the same group.

Services included on this special regime includes service related to the manufacturing, assembly, remanufacturing, conditioning, maintenance, and repair of products, machinery, and equipment, provided to companies of the business group. It also includes product development services, research or innovation of existing products or processes, analysis, laboratory, testing, or others related to the provision of services, provided to companies of the business group. Logistics services such as storage,

deployment and distribution center of components or parts, required for the provision of services related to manufacturing, among others.

This Law will only by applicable in Panamanian territory and only applies to those operations of Multinational Enterprises for the provision of services related to manufacturing, as we said before. These Licenses will be granted indefinitely.

Transfer pricing rules

With the amendments to the Fiscal Code introduced by Law 69 of 2018, the companies operating under any preferential tax regime will be subject to transfer pricing rules on their operations with related parties located in Panama, abroad or in any other preferential tax regime.

4. Law 76 of 2019: Tax Procedures Code

Panama's **Tax Procedure Code is now in force**, marking a significant milestone in the modernization of the country's tax system. The Code, which applies to all national taxes, establishes fundamental rules and principles governing Panama's tax regime.

Among its key innovations, the Code introduces a clear classification of taxes and taxpayer types, modernizes notification procedures to individuals and legal entities, and sets general rules regarding the **fiscal domicile** in Panama. It also incorporates important procedural updates aimed at strengthening legal certainty for both the Tax Administration and taxpayers.

One of its notable features is the creation of the **Taxpayer Advocacy**, an institution responsible for ensuring respect for taxpayers' rights and procedural guarantees. The Code also clarifies the **burden of proof** in cases of tax evasion or fraud, strengthens the **binding nature** of the General Directorate of Revenue's (DGI) responses to formal tax consultations, and allows for the use of **alternative dispute resolution mechanisms**, subject to specific requirements.

Although the Code was originally intended to take effect on **January 1, 2020**, its implementation was repeatedly deferred through various laws—most notably **Law 160 of 2020**, which also extended the **Tax Amnesty** regime originally approved in October 2019. That amnesty allowed taxpayers with outstanding debts to benefit from payment moratoriums initially set to expire in mid-2019, but later extended several times until **January 31, 2022**.

Some specific provisions—such as those related to **tax debt**, the **expiration of the right to request tax refunds**, and **tax crimes and sanctions**—came into force **three months after the law's original enactment**.

Finally, after multiple delays aimed at allowing the DGI and the private sector to adjust their systems and processes, **the full Code entered into force on June 1, 2024**.

For further information about this and related topics, we invite you to visit the digital magazine *Legislación y Economía* at https://legislacionyeconomia.com.

5. Country-by-Country Report

Panama's tax authorities signed the Multilateral Competent Authority Agreement for Country-by-Country Reporting (MCAA CbCR) on 24 January 2019. This is a multilateral framework agreement that provides a standardized and efficient mechanism to facilitate the bilateral automatic exchange of country-by-country (CbC) reports. With the signature of the MCAA CbCR, Panama's tax authorities will be able to obtain, from foreign tax authorities, CbC reports containing information on the allocation of revenues and profits and other data of multinational entity (MNE) groups operating in Panama. The MCAA CbCR also requires Panama's tax authorities to provide CbC reports of the Panamanian headquartered groups to the tax authorities of all signatory jurisdictions in which the MNE group operates. The exchange of information will occur annually and automatically.

Panama's Government published, on 27 May 2019 the Executive Decree No. 46, which addresses the disclosure of information in the Country-by-Country (CbC) report by tax resident companies in Panama for purposes of the automatic exchange of information.

Any ultimate parent entity of a multinational group must file the CbC report on an annual basis if:

1. It has consolidated revenues higher than €750 million or its equivalent in balboas (Panamanian official currency), at the exchange rate as of January 2015, during a tax year, or;
2. It is tax resident in Panama.

Constituent entities that are members of a multinational enterprise (MNE) group and are tax residents in Panama must file the notification related to the country-by-country report. They must also comply with the notification obligations for the first year that the obligation is triggered.

The notification may be submitted by the constituent entity or a third party acting as the legally authorized agent for the MNE group's filing. To file the notification, constituent entities must register by completing an online form through the "Vizor for CbC Solution" platform on the "DGI FATCA & AEOI Portal" on the General Directorate of Revenue's website (www.dgi.mef.gob.pa/). The notification obligation must be satisfied no later than the last day of the tax year in which the MNE group to which it belongs files its country-by-country report. However, Panama's General Revenue Directorate issued Resolution 201-9116 of 2019 and Resolution 201-9411 of 2019 to extend the due date for the filing of the country-by-country report and the notification for the 2018 tax period from 31 December 2019 to 31 January 2020.

CbC reporting is one of the four minimum standards of the OECD/G20 Base Erosion and Profit Shifting Project.

PARAGUAY
FERRERE

FERRERE

IN-COUNTRY MEMBER FIRM:

www.ferrere.com
+595 21 318 3000
Address: Torres del Paseo, Tower 1 – Lever 24 and 25. Avda. Santa Teresa No. 2106

CONTACT PARTNER(S):

Néstor Loizaga
nloizaga@ferrere.com

Erika Bañuelos
ebanuelos@ferrere.com

HIGHLIGHTS

National Level Tax Rates:	
Corporate Income Tax:	10%
Capital Gains Tax:	N/A
Dividends Tax:	8% or 15%
Withholding Taxes on:	
Dividends:	8% or 15%
Royalties:	Non-resident Income Tax 15% VAT 10%
Technical Assistance:	Non-resident Income Tax 15% VAT 10%
Interest:	Income Tax 15%; or 4.5%; VAT 10%
Other Services:	Income Tax 15%; VAT 10%
Tax losses carry-forward term:	5 years
Transfer Pricing Rules:	Yes
Tax-free Reorganizations:	Yes
VAT on sales:	5%,10%
VAT on Services:	5%,10%
VAT on Imports:	5%,10%
Custom Duties:	0-35%
Net-worth (Assets) Tax:	N/A
Stamp (Documentary) Tax:	N/A
Local Level Tax Rates	
Tax on Industrial Activities	National/Municipal Level
Tax on Commercial Activities	National/Municipal Level
Tax on Service Activities	National/Municipal Level
Real Estate Tax:	0.5 – 1%

Treaty Taxation:

Countries	Interest	Dividends	Royalties
Chile	4.5% and 15%	10%	15%
Uruguay	15%	15%	15%
United Arab Emirates	4.5% and 15%	15%	15%
Taiwan	10%	10%	15%
Qatar	4.5% and 15%	15%	15%
Spain	5% o 0%	5%, 0% o 10	5%

OVERVIEW

The tax system in Paraguay is regulated by the provisions of Law No. 6.380/2019 (the "Tax Law") and its regulatory decrees.

1. Income Tax

1.1. General Aspects

Paraguay collects taxes following the source principle. Therefore, tax is due, with some exceptions, on income derived from activities performed, property situated, or economic rights used in Paraguay, regardless of the domicile, residence, or nationality of those participating in the operations or where contracts are concluded.

1.1.1. Corporate Income Tax Rate

The general statutory corporate income tax ("IRE" as per its Spanish acronyms) applies a flat rate of 10% for entities incorporated in Paraguay, including branches or permanent establishments of foreign companies.

1.1.2. Taxable Base

This tax is paid on an annual basis on profits that companies earn in the year before. That is, on the positive difference between revenues and expenses for carrying out commercial, industrial, agricultural or service activities. The revenue generated from all activities conducted by taxpayers of the IRE outside Paraguay, is considered from Paraguayan source and therefore taxable.

We illustrate the process for further clarification:

(+) Sum of all revenues

(-) Costs

(=) Gross Income

(-) Total Expenses

(=) Net Income

(+) Non-deductible expenses

(-) Exempt Income

(=) Net Taxable Income

(x) Corporate Tax Rate (10%)

(=) Income Tax Charge Payable

1.1.3. Deductions

As a rule, all expenses necessary to obtain and preserve taxable income are deductible in determining net income, provided they are duly documented and are included at market prices.

In addition to the general rule, the following deductions, among others, are expressly admitted:

- Any taxes and social security contributions applicable to the business activity, assets and goods involved in the generation of income, except Income Tax;
- Organization expenses;
- Personnel compensations if contributions were made to the Social Welfare Institute (Instituto de Prevision Social – IPS) or independent service providers who are taxpayers of the personal income tax or the tax on the income of non-residents;
- Expenditures on interest and rents;
- Extraordinary losses not covered by insurance;
- Bad debts under certain conditions;
- Depreciation;
- The amortization of intangible property such as trademarks and patents;
- Expenses and payments made overseas whenever necessary to produce taxable income from export and import operations;
- Travel expenses, per diem, and other similar payments in cash or kind;
- Donations to the State or to entities dedicated to social welfare or education;
- Expenses and contributions paid to staff for health care, education, cultural development, or training.

As per thin capitalization rules, the payments of royalties, technical assistance and interest paid to related entities is toped to 30% of the net income before deducting these amounts.

The following items, amongst others, are expressly not allowed as deductions:

- Penalties imposed because of fiscal infringements;
- Earnings in any fiscal period retained in the business as capital increases or reserve accounts;
- Goodwill amortization;
- Personal expenses of the owner, partners or shareholders;
- Expenses for obtaining tax exempt income;
- Value Added Tax (hereinafter "VAT"), except when it is affected directly or indirectly by untaxed transactions or the VAT credit obtained to conduct export operations that are not reimbursable.

1.1.4. Depreciation

The percentage of depreciation of fixed assets will be equal and constant, and determined by the number of years of expected useful life of the asset. It is mandatory to determine the residual value of the assets -over the cost of acquisition-, as well as the depreciation, in accordance with the provisions of the regulatory decree of the Tax Law.

The depreciation of each of the assets will start from the month after, or the next fiscal year, to its incorporation to the company's fixed assets, or after the total or partial construction in the case of buildings, at the option of the taxpayer.

Useful life periods on the basis of which the relevant annual rate of depreciation will be applied are:

Fixed Assets

- Movable property: 5 years. The residual value can be of 10%.
- Ground transport: 5 or 10 years. The residual value can be of 10 or 20%.
- Air transport: 2 or 20 years. The residual value can be of 10 or 20%.

- Fluvial transport: 5, 10 or 20 years. The residual value can be of 10 or 20%.
- Real State: 5, 10, 15, 20, 25 or 30 years. The residual value can be of 0, 10 or 20%.

Biological assets

- Animals and livestock: 4 years. The residual value is 20%.
- Plantations: 5 or 10 years. The residual value is 5%, 10% or 20%.

Intangible Property

Intangible assets, such a trademarks, patents and copyrights are amortizable up to 5 years.

1.1.5. Transfer Pricing

The Tax Law provides transfer pricing rules applicable to entities considered as related in a transaction, in accordance with the new parameters established. These rules came into force from January 1st, 2021.

The Tax Law basically provides that the arm's length principle must be observed in order to determine whether a transaction is being conducted between related entities at market value or not. To assess this, the following methods are introduced:

a. Comparable uncontrolled price (CUP);
b. Resale price method (RPM);
c. Cost plus method (CPM);
d. Profit split method (PSM);
e. Residual profit split method (RPSM);
f. Transactional net margin method (TNMM); and
g. Market value method (MMM).

1.1.6. Tax Loss Carry-forward

The carry-forward of losses is now allowed in Paraguay, in accordance with the Tax Law. However, only the fiscal losses incurred from the fiscal year of 2020 onwards can be offset against the net income from the next fiscal years, in a limit of 20% of the net income, over the next five years counting from the next fiscal years when the losses were generated.

1.1.7. Tax-Free Reorganizations

Transfers resulting from company reorganization or capital contributions to a company will not be considered taxable. In these cases, the predecessor's tax credits shall be transferred to the successor in proportion to the net assets transferred in relation to the total net assets of the predecessor.

1.1.8. Leasing Tax Treatment

The taxable base of an operating or financial leasing is equal to each of the net payments accrued, which includes both the capital and the financial portion, and all other amounts charged to the borrower. Lease Back operations are treated as a sale of goods.

1.2. Foreign Exchange Gains and Losses

Profit or losses resulting from exchange differences of transactions in foreign currency are determined by the annual revaluation system of balances, including differences apply to payments or collection made during the year.

Sell exchange rate shall be applicable to payments made by the taxpayer and buy exchange rate shall be applicable to charges made by the taxpayer, according to the rates published by the tax authority.

1.3. Payment and Filing of Tax Returns

The fiscal year generally coincides with the calendar year, but certain industries are required to use specific fiscal years (i.e. insurance companies).

A company must make 4 advance payments based on the previous tax year's liability. A return sheet must be filed for corporate income tax purposes. In general, the return is due within 4 months of the end of the taxpayer's tax year, but the taxpayer's identification number determines the exact due date.

Consolidated returns are not permitted; each company must file a separate return.

1.4. Penalties On Unpaid Tax or Tax Paid Belatedly

Penalties range from 4% to 14% of the total tax due, plus monthly interest at 1.5%.

1.5. Dividends Tax Branch Profits Tax

In addition to the 10% IRE, the dividends distributed among the shareholder, either local o foreign, are subject to a withholding tax on the distribution of dividends and profits ("IDU" as per its Spanish acronyms) on the net amount credited or paid. Dividend remitted, credited or paid to shareholders who reside in Paraguay, is subject to the withholding rate of 8% and shareholders located abroad are subject to 15% withholding on the net amount remitted.

The withholdings of the IDU can be used as fiscal credits to offset the withholding obligation of this tax, if the share or quota holder who receives the dividends is another legal entity.

Otherwise, the withholding of the IDU is a final and definitive payment of this tax for the share or quota holder.

Some entities are not obliged to withhold the IDU when profits are distributed, such as the simple partnership, mutual funds, cooperatives, or the entities that are taxpayers of the simplified version of the IRE. However, the dividends and profits distributed by these entities will be taxable income for the beneficiaries who reside in Paraguay; if the beneficiaries are resident abroad, the entity distributing the profits is obliged to withhold the income tax on non-residents ("INR" as per its Spanish acronyms) at a 15% rate.

1.6. Cross-Border Payments

1.6.1. Withholding Taxes

1.6.1.1. Dividends

Dividends paid abroad are subject to a 15% withholding tax in concept of IDU or INR, depending on the nature of the entity that is distributing the profits, as detailed in point "1.5".

1.6.1.2. Royalties

Royalty payments are subject to a withholding of the INR, imposed on 100% of the payment, resulting in an effective rate of 15%.

In addition, the VAT must be withheld at an effective rate of 10%.

1.6.1.3. Services and Technical Assistance

Technical assistance and other services provided by the employees of foreign companies are considered to be performed in the national territory (and thus subject to an effective 15% INR withholding tax) when such assistance and services are utilized or taken advantage of in Paraguay.

These services are also subject to 10% VAT. The local company will be required to operate as an INR and VAT withholding agent.

1.6.1.4. Interest on Loans obtained abroad

When a loan is granted by the parent company or its shareholders, a 15% INR tax is levied on 100% of interest payments (i.e., an effective 15% rate), plus a 10% VAT.

1.6.1.5. Digital Services

From January 1st, 2021, digital services are taxed by VAT at a 10% rate. For this purpose, the Paraguayan payment processor adds VAT on the customer bill considering the price of the digital service. VAT is discriminately registered through the Paraguayan customers' bank statements.

Therefore, it can be used as an input VAT by VAT taxpayers and as a deductible expense by customers in their IRP tax assessments.

In the case of B2C transactions, from January 1st, 2022, the non-resident service providers must proceed with registration within ten business days after starting their activities in the country. This registration proceeds with or without a representative in Paraguay. INR for digital services is due monthly and shall be assessed and paid on the 15th business day following the assessed month.

When digital services are rendered to IRE taxpayers, they must withhold the amount when paying the digital service providers.

Furthermore, non-resident digital service providers intermediating land transportation services must proceed with the registration, self-assess, and pay VAT and INR monthly.

1.6.2. Payments To Non-Residents

A payment made to a non-resident natural person that provided services in Paraguay is subject to withholding tax at an effective rate of 10.5% (15% of the taxable base of 70%) on the gross amount. In case that the nonresident is the parent company, the withholding will apply at the effective rate of 15% of the gross amount (15% over the taxable base of 100%). These services are also subject to 10% VAT. The local company will be required to operate as a VAT withholding agent.

1.7. Law 60/90 on Promotion of Investment for Economic Development

1.7.1. Purpose

The purpose of Law 60/90 is to promote investment and reinvestment of capital by granting special tax benefits. To obtain these advantages the foreign investor must submit its investment project to the Ministry of Industry and Commerce and the Ministry of Economy and Finance. The benefits granted are irrevocable provided investors comply with the obligations established by the Law.

Investment projects are generally approved within a term of 45 days as of the date of submission of the project.

1.7.2. Forms of Investment

Investments can be made in:

- Money, supplier credits or financing;
- Capital goods, machinery, industrial installations, office equipment, electrical and electronic equipment, transportation equipment, etc.;
- Manufacturer's trademarks and other forms of technology transfer; and
- Lease of capital goods, particularly of interest for the operation of river way and air transportation.

1.7.3. Tax Incentives

The tax incentives granted are as follows:

- Exemption from national and municipal taxes on organization, filing and registration of companies;
- Total exemption from customs duties on imports of capital goods;
- Exemption from taxes on remittances of dividends and profits provided the amount of the investment is at least USD 13,000,000 -under the condition that the investment does not come from a territory of low or null taxation; and
- Total exemption from the Tax on Acts and Documents for the beneficiary on acts, contracts and obligations documenting investments.

2. Value Added Tax (VAT)

2.1. General Aspects

The VAT is levied upon the sale of goods, the rendering of services, excluding those of personal character that lend in dependency relation, and the introduction of goods into the country. The sale of goods and the rendering of services performed within Paraguayan territory and the introduction of goods regardless of the place where the contract was entered into or the parties' domiciles, residence or nationality will be taxed.

2.1.1. Tax Rates

The standard rate is 10%, with a lower 5% rate applying to supplies of basic foodstuffs, pharmaceutical products, agricultural products in its natural state, hunting and fishing animals, alive or not, in natural state, and the transfer of the right to use goods or immovable property. Exports are zero-rated. Exemptions include raw farm products, some fuels, foreign currency, books and newspapers.

2.1.2. Natural And Legal Persons Subject to VAT

VAT taxpayers are:

- Individuals on personal services and real estate renting.
- Sole proprietorships.
- Companies, with or without legal personality, and private entities in general, including the branches and permanent establishments of foreign entities.
- Autonomous entities, government corporations that engage in commercial, industrial or service activities.
- Importers of goods to Paraguay.
- Taxpayers of the INR.

- Undivided inheritances
- Pass-through entities

2.1.3. Taxable Transactions

The taxable event occurs in general, when the first of the following takes place: (i) transfer of goods or rendering of the services; (ii) collection of the full or partial payment for the goods transferred or services rendered; or (iii) expiration of the term to make the payment for the services. Also, the VAT obligation will take place in the following cases:

a. In the case of imports, the tax liability occurs at the moment of numeration of the customs declaration of goods at the Customs.
b. When the services are rendered from abroad, the tax liability originates when the payments for the services are conducted or when any other method of cancellation takes place, or when the term to make the payments expires.
c. In the case of derivative financial instruments, the tax liability originates when the term to make the settlement is due.
d. For the payment of interests, the tax liability originates when the first of the following events takes place: (i) full or partial payment; or (ii) expiration of the term to make the payment of any other concept different from capital amortization.

2.1.4. Taxable Base:

This tax is calculated on net amounts invoiced for sales and services. The tax base shall in all cases include the value of other taxes applicable to the transaction but excluding VAT.

In the case of imports the taxable base shall be the Customs value plus Customs duties in addition to other taxes applicable to the delivery of goods, but excluding VAT.

2.1.5. VAT Credits:

Tax Credit shall consist of:

- Tax included in the purchase bills of goods or services during the month before.
- The tax paid within the month of the importation of goods.
- The tax included in the purchase invoices in case of adjustments.
- The tax included in an invoice that verify the concept of un-collectability.
- The withholding tax payments made to beneficiaries residing abroad for carrying out taxable transactions in Paraguay.

The tax credit cap: Taxpayers who apply a rate lower than 10% may use 100% tax credit up to the amount depleted corresponding tax debit. Surplus for the tax credit, produced at the end of fiscal year for income tax, shall not be used in subsequent assessments, nor shall be requested its return, becoming a cost for the taxpayer. Refund in the event of closure or termination of the activity of the taxpayer will not correspond.

The Tax Authority will return the VAT credit of exporters and equivalent included in the purchase of goods or services applied to goods exported, under certain conditions. This benefit does not apply to every type of good exported, in accordance with the Tax Law.

2.2. Selected VAT Benefits

Amongst others, the following transactions are VAT exempted:

Sale of goods

- Foreign currency and public and private values;
- Assets of an estate in favor of heirs of specific devise or legacy, or heirs of general legacy or devise, excluding assignees;
- Credits assignments;
- Educational, cultural, and scientific interest magazines, books, and journals; and
- Capital goods produced by domestic manufacturers of direct application in the industrial or agricultural production cycle made by investors who are protected under the Law 60/90.

Services

- Interests of public and private values;
- Deposits to banks and financial institutions regulated by Law No. 861/96, as well as in Cooperatives, entities of savings and housing loans, and public financial entities; and
- Those provided by permanent staff or employed by embassies, Consulates and international organizations accredited by the national government.

Imports of

- Goods whose sales are VAT exempted;
- Traveler's luggage;
- Goods introduced into the country by members of the Diplomatic Corps, Consular and International Organizations, accredited by the national government in accordance with the law; and
- Capital goods directly applicable in industrial or agricultural production cycle made by investors who are protected under the Law 60/90.

2.3. Payment and Filing

VAT filing and payments are due monthly, with the due date determined according to the taxpayer's registration number.

The deduction of the Tax credit is conditional to the fact that the same comes from goods and services affected directly or indirectly to the transactions subject to the tax.

When the tax credit exceeds the tax debit, such excess may be used as such in the next tax liquidation, from the month immediately following, but without generating right to reimbursement under any circumstances.

If a credit arises from the deduction of VAT credit assimilated to export, it can be returned by the delivery of certificates of credit or against the payment of other taxes of the exporter.

In the case of import VAT will be liquidated and pay in the Customs Office prior to removal of goods.

3. Other Taxes

3.1. Personal Income Tax

In accordance with the provisions of the Tax Law, the personal income tax ("IRP") is in force since January 1st, 2020.

3.1.1. This tax applies to the following

- Individuals residing in Paraguay; and
- Undivided successions.

The IRP divides the taxable income into two categories, which result in two different taxable bases: (i) capital gains and income; and (ii) income from personal services. These categories have different rules of assessment and the deductible expenses that are related to each type of taxable income, can be used exclusively to offset income from that taxable base.

3.1.2. Base of calculation

Deductive expenses admitted by law and duly documented are subtracted from the total gross income from each category. The result of the latter is net income for each taxable base. The IRP tax rates vary for each category, as will be seen below.

3.1.3. Taxable Income

Taxable income will be Paraguayan-source income derived from the following categories:

Income from personal services

- Income derived from personal services rendered either as an employee or free-lance contractor from public or private entities, decentralized entities, autonomous or semi-public companies or binational entities.

Capital gains and income

- Dividends obtained by entities that are not obliged to withhold the IDU, such as the simple partnership, mutual funds, cooperatives or taxpayers of the simplified versions of the IRE.
- Capital gains arising from the occasional sale of immovable and movable assets and from rights, shares or quotas of capital from corporations assigned.
- Interests, commissions and savings income.
- The income that derives from the redemption of shares or quotas from companies incorporated in Paraguay, for the value that surpasses the capital effectively contributed.

3.1.4. Rates

Personal services

Progressive rates are applied to every segment of net income obtained from personal services, as follows:

Net income	Applicable tax rate
Up to PYG 50.000.000 (USD 7,712.89 approximately[1])	8%
From PYG 50.000.001 to 150.000.000 (USD 23,138.68 approximately)	9%
Equal or more than PYG 150.000.001 (USD 23,138.68 approximately)	10%

1 The exchange rate is of USD 1 = PYG 6.497.

Capital gains and income

For the capital gains, the flat rate of 8% is applied over the net income, which is assessed according to the rules applied to each type of operation.

4. Real Property Tax

Real property is subjected to an annual tax administered and collected by the municipalities where the property is located, at a rate of 1% (0.5% for certain rural properties) of the cadastral value.

This value shall be increased annually until they match prices set by the market following the consumer price index. Increases shall not exceed 15% per annum. In the case of rural properties any improvements or buildings shall not be computed in the tax base. Taxpayers are the owners, any of the co-owners in case of shared ownership, or usufructuaries of the land.

4.1. Selective Consumption Tax

A selective consumption tax it's applicable to certain products, whether imported or produced locally. This tax is levied on the importation of these goods, and in the case of domestic products, on their initial sale. The export or subsequent sales of these products will not be levied by this tax.

The rates are set by Executive Decree within the limits established by Law.

Goods and tax rate applicable:

Goods	Tax rate
Cigarettes and cigars	18 to 24%
Tobacco	18 to 24%
Soft drinks or drinks with up to 2% alcohol	5%
Beer	10%
Ciders, wine and liquor products	10%
Whisky	12%
Champagne and equivalents	12%
Alcohols in different forms	10%
Fuel oil	50%
Perfumes, eau de toilette and makeup preparations	6%
Natural pearls and precious stones in general	6%
Luxury watches	6%
Air conditioning equipment	1%
Appliances	1%
Arms and ammunition	6%
Musical instruments, toys, games and recreation products	1%

Importers and manufacturers of the taxable domestic products shall be liable for this tax. In the case of imports the taxable base shall be the value for the customs plus Customs Duties and fees for services. In the case of domestically manufactured goods the taxable base shall be the ex-factory price excluding VAT and this tax. In the case of fuel oil the taxable base shall be the sales price to the public established by Executive Decree, except on items not subject to price controls, which shall be subject to the rules governing imports.

This tax shall be liquidated on a monthly basis except in the case of fuels, which shall be liquidated weekly, from Sundays through Saturdays.

5. Customs Regime – General Aspects

5.1. Customs Duties

All imported goods, except those expressly exempted, are subject to a customs duty. The maximum rate of this tax is 30% on the taxable value of the goods, according to the classification and tariff classification of them.

Categories	Ad valorem rates
Intrazone Tariff (MERCOSUR)	0%
MERCOSUR's Common External Tariff (CET) averages	0-35%
Average basic list of exceptions	10%
Capital goods	0-2%
Telecom & IT	0-2%
Exceptions List	0-25%
Average automotive sector - Intrazone	0-20%
Average automotive sector - Extrazone	0-28%
Sugar sector	30%
Raw materials	0-14%

Imports from MERCOSUR (Intrazone), with some exceptions, have a general rate of 0% and the average Common External Tariff for member countries to products from third parties (Extrazone) is 10% - 18%. In addition to the custom tariff rates other taxes must be paid:

Categories	Rates	Observation
Valuation Services	0,5%	On the value determined by Customs
VAT (General)	10%	On the value determined by Customs and on customs duties that affect the operation, prior to the withdrawal of goods from the customs area
VAT (Tourist regime)	1,5%	It applies to products that are sold to nonresident foreigners.
Selective Consumption Tax	1-50%	Average applied to the affected goods on the customs value determined prior to the withdrawal of goods from the customs area.
Advance income tax	0,4%	On the value determined by Customs

5.2. Taxable Base

The customs tax base is the value CIF or CIP of the goods.

5.3. Filing and Payment

A custom declaration must be filed, and the pertinent tax must be paid in cash.

5.4. Selected Custom Duties Regimes Available

5.4.1. Ordinary Importation Regime

It applies to all goods that will remain permanently in Paraguayan territory. Full payments of customs duties and import VAT are required upon filing of the custom declaration.

5.4.2. Temporary Importation Regime

This regime allows the suspension of duties and taxes on imports of certain goods aimed for a specific purpose and intended for re-exporting within a specified period, either without or having undergone a process of transformation, repair or manufacture. Prior authorization is required, and this regime shall not exceed 12 (twelve) months, renewable only once for the same term. For capital goods this regime could not exceed 3 (three) years, renewable only once for the same period.

Regardless of the filing of a request for a temporary admission, the temporary importer must present the production and export plan for the review and supervision of the competent authority.

The Maquila regime, a special economic regime created to promote foreign investment, allows the temporary entry of goods, products and services into the country to be assembled, repaired, improved and manufactured or be used in manufacturing processes, for subsequent export after incorporation of value added or national components.

5.4.3. Drawback Regime

The Drawback regime is not applicable in Paraguay

5.4.4. Free Trade Zone Regime

Companies operating in the Paraguayan free zones are exempted from any tax levied on the formation of societies, profit remittances, payment of commissions and fees and all other remuneration for services, technical assistance, technology transfer, loans and financing and any other service provided to them from third countries.

Companies involved exclusively in exportation are taxed on a single tax called the “Free Trade Zone”, where the rate is 0.5% of total gross revenues from those sales.

Imports into the customs territory from companies located in export processing zones are subject to all import taxes. Capital goods introduced into the free zones are exempted from all taxes. Exports of any kind from the customs territory of a zone are made as if exports to third countries.

6. Payroll Taxes/ Welfare Contributions

6.1. Retirement And Health Fund Contributions

The Social Security Administration (Spanish acronym IPS) is the ruling public body of the social security system, collecting the installments made by companies and employees and keeping up to date the record of the labor history of each member.

Generally, income from any source, whether in money or in kind, received by an employee in remuneration for services performed in the country, is subject to the Social Security Tax.

The employer must make part of the contribution to Social Security and the employer must make the other part. The respective contribution rates are as follows:

- Employee contribution: 9.00% of salary received.
- Employer contribution 16.50% of salary paid.
- Payments are done on a monthly basis.

6.2. Labor Risks Insurance System

Social Security contributions cover risks of non-occupational illness, maternity, on-the-job accidents and occupational illness, disability, old age, and death of salaried workers in Paraguay.

6.3. Family Bonus

Workers are entitled to collect a supplement equivalent to 5% of the minimum monthly legal wage (approximately USD. 349[2]) for each marital, non-marital or adopted child, up to 18 years of age when the worker earns less than 200% of minimum monthly legal wage amongst other legal requirements.

6.4. Benefits

The most important benefits are:

a. **13th month salary:** it is also called complementary annual salary (in Spanish "Aguinaldo"), equivalent to 1/12 of annual salaries paid by the employer during calendar year for all items (salary, overtime, commissions, other income), which must be paid before December 31, or upon termination of the employment relationship if earlier.

b. **Paid annual vacations**: workers have the right to vacations per year after having completed one year of continuous work at the service of the same employer. Duration of vacations are as follows:
   - Workers with up to 5 years of service: 12 consecutive business days;
   - Workers with more than 5 and up to 10 years of service: 18 consecutive business days;
   - Workers with more than 10 years of service: 30 consecutive business days.

In the event of contract termination without having made use of the vacation days generated, compensation in money is to be provided for same based on current salary.

Vacations can be accumulated at the worker's request for two years if it is not detrimental to the interests of the company.

2 Exchange rate USD 1 = Gs. 6.051.

PERU
RUBIO, LEGUÍA, NORMAND

RUBIO LEGUIA NORMAND

IN-COUNTRY MEMBER FIRM:

www.rubio.pe

51-1-2083000

Address: Dos de Mayo N° 1321, San Isidro, 15073, Lima, Perú

CONTACT PARTNER(S):

Luz María Pedraza

mpedraza@rubio.pe

Luisa Godomar

lgodomar@rubio.pe

HIGHLIGHTS

National Level Tax Rates:	
Corporate Income Tax	29.5%
Capital Gains Tax	5%
Capital Income Tax	5%
Withholding Taxes on:	
Interests	4.99% or 30%
Royalties	30%
Technical Assistance	15% or 30%
Digital services	30%
Independent personal services	30%
Employment	30%
Imports	N/A
Withholding Taxes (Non Resident) on:	
Lima Stock Market	5%
Others	30%
Tax losses carry-forward term	4 years or for unlimited time up to 50% of the net income each year
Tax losses carry-back term	Not permitted
Transfer Pricing Rules	OECD Guidelines
Tax-free Reorganizations	Merger and Spin offs between resident entities
VAT on Sales	18%
VAT on Services/Digital Services	18%
VAT on Imports	18%
Custom Duties	0%, 6% or 11% depending on the tariff classification of the goods
Temporal Net Assets Tax	0.4% of the value of the total assets over PEN 1M
Stamp (Documentary) Tax	N/A
Financial Transactions Tax	0.005%
Online gaming and sports betting Tax	12% of monthly revenues net of platform maintenance expenses
Local Level Tax Rates:	
Real Estate Property Tax	Up to 1%
Motor Vehicular Property Tax	1%
Real Estate Transfer Tax	3%. The first 10 tax units are exempted
Real Estate Tax	0,5 - 1%

Treaty Taxation:

Countries	Dividends[1]	Interest[2]	Royalties[2]	General Services	Technical Assistance
Colombia		Unlimited source taxation only[3]			
Bolivia		Unlimited source taxation only[3]			
Ecuador		Unlimited source taxation only[3]			
Chile	10% or 15%	15%	15%	Residence taxation, unless a Permanent Establishment in the Source State.	
Canada[4]	10% or 15%	10%	15%	Residence taxation, unless a Permanent Establishment in the Source State.	
Brasil	10% or 15%	15%	15%	Residence taxation, unless a Permanent Establishment in the Source State.	
Mexico[4]	10%	10%	15%	Residence taxation, unless a Permanent Establishment in the Source State.	
South Korea[4]	10%	10%	10% or 15%	Residence taxation, unless a Permanent Establishment in the Source State. In case of Technical Assistance, royalty rate no more than 10%.	
Portugal[4]	10% or 15%	10%	10% or 15%	Residence taxation, unless a Permanent Establishment in the Source State. In case of Technical Assistance in connection with the use, right to use, any copyrights, goods or information, royalty rate no more than 10%.	
Switzerland[4] [5]	10% or 15%	10%	10% or 15%	Residence taxation, unless a Permanent Establishment in the Source State. In case of Technical Assistance and digital services, royalty rate no more than 10%.	
Japan	10%	10%	15%	Residence taxation, unless a Permanent Establishment in the Source State.	
United Kingdom[6]	10% or 15%	10%	15%	Residence taxation, unless a Permanent Establishment in the Source State.	

1 The rate varies depending on the percentage of the direct or indirect ownership of the beneficiary in the payer company. In Peru, the Income Tax rate on dividends is 5%.

2 The beneficial owner's resident status and other conditions may be required to apply the reduced rate.

3 Under Andean Community Decision to avoid international double taxation. Andean Pact Commission, Multilateral Act No. 578–2004 (Decision 578).

4 The Tax Treaty has a Most Favored Nation (MFN) clause, thus the extension of lower rates on dividends and interest established in subsequent tax treaties can be claimed (currently DTC with Japan).

5 The Tax Treaty with Switzerland has been renegociated.

6 The Tax Treaty with UK was signed on March 20, 2025, however, it is still pending the ratification process for both States to enter in force.

OVERVIEW[7]

1. Income Tax

1.1. Income Tax General Aspects

Companies and legal entities resident in Peru are subject to tax on their worldwide taxable income. Income tax is levied on net income and is determined annually.

Companies and legal entities nonresidents in Peru are levied only on their Peruvian source income, as it is defined in the Peruvian Income Tax Law. Furthermore, domestic branches, agencies and any other permanent establishment of non-resident entities which are established in Peru are also subject to tax only on their Peruvian source income.

The tax year as well as the accounting year must be considered on the basis of the calendar year. No exception is allowed regarding this matter.

For local corporate purposes, income is recognized on an accrual basis. Starting on January 1, 2019, the Income Tax Law includes a tax definition of accrual which is not necessarily based on the provisions of the IFRS.

1.2. Market Value Rules for Transfer of Peruvian Securities

As a general rule, direct transfers of Peruvian securities are subject to income tax. Taxable income is the difference between the sale price of the shares or the fair market value, whichever is greater; less the tax cost of such shares.

- For securities listed on the Stock Exchange, the applicable methodology is the Quotation value, provided that such value corresponds to similar or comparable conditions; and
- If the quotation value methodology does not apply, a Discounted Cash Flow method must be used, following specific rules. If cannot be applied, it will be the equity value based on the last balance sheet closed within the 90 days prior to the transfer or the appraisal value established in the six months prior to the transfer of shares.

For transfers between economic related parties or with a resident in a tax heaven or in "non-cooperative" jurisdictions and with entities whose income or profits are subject to a tax preferential regime, the fair market value analysis must be calculated according to the Peruvian transfer pricing rules and supported in a Transfer Pricing Local Report.

1.3. Expenses Deductions

As a general rule, all costs and expenses are tax deductible provided that they are necessary to produce taxable income, or to maintain its source. Any costs or expenses related to exempted income are not deductible. Some costs and expenses are limited (e.g. as vehicles expenses, donations, directors' fees, travel and recreation expenses, etc.); or forbidden (e.g. expenses without invoices, personal expenses, donations not permitted by law, expenses derived from transaction with companies resident in tax havens, among others).

7 Please note that this section is intended to be a merely informative summary of the Peruvian main tax dispositions. It does not include or intends to provide any kind of legal advice.

Organization expenses, initial pre-operating expenses, pre-operating expenses resulting from the expansion of a company's business and interest accrued during the pre-operating period may be deducted, at the taxpayer's option, in the first taxable year, or they may be amortized proportionately over a maximum term of 10 years.

It is necessary to use certain "means of payment" for the deduction of cost or expenses in excess of approximately PEN 2,000 or US$ 500, including deposits, transfers of funds, payment orders, wire transfers, debit or credit cards issued in Peru and non-negotiable (or equivalent) checks issued according to Peruvian legislation and other "means of payment" commercially permitted in international trading with non-resident entities. Not using these methods for payments also would imply any VAT associated to said transaction would not be used as tax credit.

1.4. Transfer Pricing

Although Peru is not an OECD member yet, local transfer pricing rules are based on the arm's length principle as interpreted by the OECD and should be considered only for income tax purposes.

Peruvian TP rules apply both to transactions carried out with foreign and domestic related parties and to all transactions carried out with residents in tax havens. As of 2019, these rules also apply to transactions carried out with residents located in "non-cooperative" jurisdictions and with entities whose income or profits are subject to a tax preferential regime.

Formal TP obligations may arise based on the amount of annual revenues in the taxable year and annual transactions with related parties, tax havens, noncooperative jurisdictions and/or entities subject to preferential tax regimens (Local Report, Master Report, Country-by-Country Report).

1.5. Interest Deduction

The deduction of interest on financing (entered into related or unrelated debt) shall only be allowed for an amount of up to 30% of the company's EBITDA for the previous fiscal year. For purposes of this rule, EBITDA is defined as the net income after setting off net operating tax losses, plus net interest, depreciation and amortization.

For taxpayers not having net income or having losses equal to or more than their net income, EBITDA is the sum of net interest, depreciation and amortization.

Non-deductible interest exceeding the aforementioned limit may be carried forward to the following 4 years. The aforementioned rules are not applicable to certain limited taxpayers.

1.6. Stability Agreements

Companies and Investors may enter into Tax and Legal stability agreements with the Government provided they comply with minimum requirements. The stability regime guarantees for at least a 10-year period the following conditions:

i. application of a permanent rate of the Income Tax Regime plus 2 additional points (i.e. current rate 29.5% + 2%) that would be settled at the beginning of the agreement;
ii. no exchange controls;
iii. nondiscrimination;
iv. application of custom duties in force at the time the agreement is settled; and

v. setting disputes in national and international arbitration tribunals.

1.7. Bilateral Investment Treaties

Peru has signed numerous Bilateral Investment Treaties (BITs) that establish substantial protections and standards of conduct for covered investments, such as National Treatment, Most Favored Nation Treatment, Fair and Equitable Treatment; Protection against Expropriation; and Free Transfer of Resources, with full protection and security. BITs allow investors to resort to international arbitration to resolve disputes.

2. Value Added Tax (VAT)

2.1. General Aspects

2.1.1. Tax Rates

The General Sale Tax (locally known as IGV) is a value added tax. The general tax rate is 18%.

2.1.2. Taxable Transactions

The following transactions are subject to IGV:

i. import and sale of goods within the country;
ii. services rendered within Peru;
iii. services rendered by non-resident economically used by a resident, including the digital services consumed by B2C consumers;
iv. construction contracts; and,
v. the first sale of real estate property by the constructor.

There are exempted goods and services such as basic goods, agriculture and fishery goods, individual professional services, financial services, passenger transport.

2.1.3. Debit/Credit System

IGV paid on purchases of goods and services (input IGV) can be deducted from IGV charged on taxable transactions (output IGV). The output IGV which is not offset in certain month can be carried forward without limitation; but as a general rule it cannot be reimbursed in cash by the Tax Administration.

2.1.4. Tax Base – Consideration

Everything received as retribution for the supply of goods or the provision of services will be regarded as the taxable base for IGV purposes.

2.1.5. Payment and Filing

Tax must be self-assessed on a monthly basis.

2.1.6. Zero-Rated Goods and Services

Exports of goods and services are taxed at zero-rated. IGV paid on purchases to produce goods to be exported is eligible to be recovered from:

i. output IGV;
ii. Income Tax;
iii. other tax debts; and/or
iv. cash or check refund from the Tax Administration.

2.1.7. Early Recovery System

Companies on a pre-operational stage may qualify to an Early IGV Recovery System. In order to be entitled to this system, the companies:

i. shall enter into an investment agreement with the Peruvian government for projects of a minimum invest cost of US$ 5M; and,
ii. must have not less than two years of pre-operational stage.

3. Payroll Taxes/ Welfare Contributions

3.1. Retirement Contributions

The employee might choose between a private pension fund (AFP) or a public pension Fund (SNP). In the first case, the employee must contribute 13% approximately of their salaries, depending on the respective AFP. In the SNP, employees must contribute a 13%. The employer is responsible for withholding the employee's corresponding contribution in a monthly basis.

3.2. Health Contributions

9% of the total payroll shall be paid by the employer to the National Health System (ESSALUD). In addition, employers might acquire further coverage with private health care companies (EPS). In this case, employers can use part of the fees paid to the EPS as a credit against the ESSALUD contribution, but not in excess of the 25% of it.

3.3. Labor Risks Insurance System

The employer must provide an insurance coverage to its employees that carry out activities involved in a significant level of risk.

3.4. Other Legal Benefits

During the employment relation, employees are entitled to the following benefits:

a. **Salary:** A minimum monthly payment of approximately US$ 260 (PEN 1,025).
b. **Legal Bonuses:** Legal bonuses to be paid in July and December, each one equal to one monthly salary.
c. **Severance Pay (CTS):** The employer must deposit in a bank account elected by the employee an amount equal to one monthly salary per year. This amount must be paid on May and November.
d. **Family Allowance:** To be paid monthly to employees with children under 18 years old, it is equal to approximately US$ 25.8 (10% of the minimum legal salary).
e. **Profit-Sharing:** Employees are entitled to share in the profits of the company through the distribution of a percentage of the annual income before taxes. The distribution percentage varies from 5% to 10% depending on companies' activities.
f. **Vacation Leave:** Employees who work more than 4 hours per day for the same employer are entitled to 30 calendar days of paid vacation leave for each full year of service.

Under the "Integral remuneration Peruvian regulations" it is possible to negotiate an integrate amount remuneration, which substitute all mentioned benefits.

3.5. Employment Contracts

Employment contracts can be entered for an indefinite term, fixed term and part-time work. Fixed term contracts may be entered into whenever it is required by the market needs or because of the increase of the production activities of the company, as well as whenever it's required by the temporary or occasional nature of the services to be provided or work to be performed. These contracts must be made in writing and submitted to the Administrative Labor Authority.

Foreign personnel contracts are limited to the 20% of the total number of workers and the remuneration must not exceed 30% of the cost of the total payroll. These contracts must be entered into in writing and for a fixed term. There are specific cases in which the foreign worker is not considered in the aforementioned limitations, among others, this is the case of specialized professional or technical staff, and directors and managers of a new business or in the case of business reorganization.

3.6. Termination of the Employment Contract

Dismissals in Peru can only be associated to justify causes, expressly stated in the law. If the employer performs an unjustified dismissal the employee can file a claim in order to be hired again in the company or to obtain an indemnity payment, which in case of employees without a fixed term equals to one and a half remuneration for each year of services or in case of employees under a fixed term contract, said indemnity payment could go up to one and a half remuneration for each month of services until de expiring date of the contract. In any case said indemnity payments could not exceed twelve remunerations.

URUGUAY
FERRERE

FERRERE

IN-COUNTRY MEMBER FIRM:

www.ferrere.com

+598 (2) 900 1000

Address: Juncal 1392, Montevideo, Uruguay

CONTACT PARTNER(S):

Gianni Gutiérrez

ggutierrez@ferrere.com

HIGHLIGHTS

National Level Tax Rates:	
Corporate Income Tax:	25%
Capital Gains Tax:	25%
Dividends Tax:	0%
Withholding Taxes on:	
Dividends	7%
Interest:	12 % / 25%
Royalties:	12 % / 25%
Technical Assistance:	12 % / 25%
Technical Services:	12 % / 25%
Other Services:	12 % / 25%
Tax losses carry-forward term:	5 years
Tax losses carry-back term:	0 years
Transfer Pricing Rules:	OECD like
Tax-free Reorganizations:	Depends on chosen way[1]
VAT on Sales:	22%
VAT on Services:	22%
VAT on Imports:	22%
Custom Duties:	0-35 %
Net-worth (Assets) Tax:	1.5 %

Treaty Taxation:

Country	Interest	Dividends	Royalties	Tech. Services
Germany	Shall not exceed 10%	Shall not exceed 15%	Shall not exceed 10%	No withholding
Hungary	Shall not exceed 15%	Shall not exceed 15%	Shall not exceed 15%	Shall not exceed 10%
Spain	Shall not exceed 10%	Shall not exceed 5%	Shall not exceed 10%	No withholding
Mexico	Shall not exceed 10%	Shall not exceed 5%	Shall not exceed 10%	No withholding
Switzerland	Shall not exceed 10%	Shall not exceed 15%	Shall not exceed 10%	No withholding
Ecuador	Shall not exceed 15%	Shall not exceed 15%	Shall not exceed 15%	No withholding
Liechtenstein	Shall not exceed 10%	Shall not exceed 10%	Shall not exceed 10%	No withholding

1 Please refer to 1.1.9.

Malta	Shall not exceed 10%	Shall not exceed 15%	Shall not exceed	No withholding
Portugal	Shall not exceed 10%	Shall not exceed 10%	Shall not exceed 10%	No withholding
Romania	Shall not exceed 10%	Shall not exceed 10%	Shall not exceed 10%	No withholding
Finland	Shall not exceed 10%	Shall not exceed 15%	Shall not exceed 10%	No withholding
Korea	Shall not exceed 10%	Shall not exceed 15%	Shall not exceed 10%	No withholding
India	Shall not exceed 10%	Shall not exceed 5%	Shall not exceed 10%	Shall not exceed 10%
United Arab Emirates	Shall not exceed 10%	Shall not exceed 7%	Shall not exceed 10%	Shall not exceed 10%
United Kindom	Shall not exceed 10%	Shall not exceed 15%	Shall not exceed 10%	No withholding
Vietnam	Shall not exceed 10%	Shall not exceed 10%	Shall not exceed 10%	Shall not exceed 10%
Belgium	Shall not exceed 10%	Shall not exceed 15%	Shall not exceed 10%	No withholding
Luxemburg	Shall not exceed 10%	Shall not exceed 15%	Shall not exceed 10%	No withholding
Singapore	Shall not exceed 10%	Shall not exceed 10%	Shall not exceed 10%	No withholding
Chile	Shall not exceed 15%	Shall not exceed 15%	Shall not exceed 10%	Shall not exceed 10%
Paraguay	Shall not exceed 15%	Shall not exceed 15%	Shall not exceed 15%	Shall not exceed 15%
Italy	Shall not exceed 10%	Shall not exceed 15%	Shall not exceed 10%	No withholding
Japan	Shall not exceed 10%	Shall not exceed 10%	Shall not exceed 10%	No withholding

OVERVIEW

1. Income Tax

1.1. General Aspects

Uruguay collects taxes following the source principle: investments located, and activities performed outside Uruguayan territory are not subject to taxation. However, since 1st January 2011 there is an extension of the source principle and some investments located outside Uruguayan territory from Uruguayan fiscal residents are subject to taxation.

As per Law 20,095, For financial years beginning on or after January 1, 2023, certain income obtained by a taxpayer entity that is part of a multinational group will be considered to be of Uruguayan source,

if the entity is "unqualified". Pursuant to the provisions of the law, a multinational group comprises a set of two or more related entities, resident in different jurisdictions. The entities will be considered as "related entities" when:

a. The entity is included in the consolidated financial statements of the group, or it would have been appropriate to include it if the entity were required to prepare such statements; or should be included in them if the equity interests in said entity were traded on a public stock market; or
b. Configuring the inclusion hypotheses established in the preceding paragraph, it is excluded from the group's consolidated financial statements solely for reasons of size or relevance.

The income obtained by an entity that is part of a multinational group that Law 20,095 considers to be of Uruguayan source - and therefore taxed by the Income Tax on Business Activities (IRAE) - are the following:

- The income derived from intellectual property rights related to patents or registered software, sold or used economically outside Uruguay, in the part that does not correspond to qualified income. When said income is exempted by other provisions, it will be considered entirely from Uruguayan source; and
- The following foreign passive income, which comes from assets located or rights used economically outside Uruguay, as long as they are obtained by an entity that is part of a multinational group considered "unqualified":
    a. Income from real estate capital;
    b. Dividends;
    c. Interests;
    d. Royalties;
    e. Other income from movable capital;
    f. Patrimonial increases derived from patrimonial transfers originated in any legal transaction that imports a legal title to transmit the domain and its dismemberments, of the assets liable to generate the preceding yields;
    g. Any other increase in equity derived from the assets capable of generating the returns included in subparagraphs a. to e . The income derived from the alienation or economic use outside the national territory of trademarks will be considered of Uruguayan source in all cases.

Law 20,095 considers certain income obtained abroad by a taxpayer entity that is part of a multinational group to be of Uruguayan source, if it is considered "unqualified". On the contrary, if a taxpaying entity that is part of a multinational group is "qualified", these incomes will continue to be considered from a foreign source and are therefore not covered by the IRAE. An entity is "qualified" if it has adequate economic substance during the fiscal year. Law 20,095 establishes that an entity is considered to have adequate economic substance if, with respect to each asset that generates potentially included income, it simultaneously meets the following conditions:

a. Employs human resources according to their number, qualification and remuneration to manage investment assets, and has adequate facilities for the development of this activity in Uruguay;
b. Makes the necessary strategic decisions, and bears the risks in Uruguay;
c. Incurs the appropriate expenses and costs in relation to the acquisition, possession or disposal, as the case may be.

For the purposes of the provisions of literals a. and b., it will be understood that the entity has an adequate economic substance even when the activity is carried out by third parties contracted for such purposes in Uruguay and under the adequate supervision by the aforementioned entity, enabling outsourcing.

Regarding literal a., it is considered that there is adequate substance when the majority of the entity's human resources are in Uruguay and they are adequately qualified to develop the activities that generate the corresponding income, or when the company has a director who is a fiscal resident in Uruguay and has the adequate qualifications to manage the investments assets.

In turn, for entities whose main activity is holding equity interests in other entities (holding companies where the participation in the capital of the subsidiaries represents more than 75% of the total assets), or acquiring and maintaining real estate, they will only be required to comply with the condition contained in literal a.

1.1.1. Corporate Income Tax Rate

Annual tax at a rate of 25% is imposed on income from industrial or commercial activities of Uruguayan source as well as on income from agricultural activities.

1.1.2. Taxable Base

Tax is levied on profit or net income of any economic activity of any nature (Economic Activities Income Tax - Spanish acronym: IRAE). Income resulting from activities performed, assets situated at or rights economically exercised within the Republic shall be considered as coming from a Uruguayan source, regardless of the nationality, domicile or residence of parties in the transactions and of the place where the legal business takes place. The taxable amount is determined by the net income, estimated according to fiscal regulations, which in practice is usually similar to accounting standards with the addition of specific limitations as to the deduction of certain expenses.

We illustrate below this assessment process for further clarification:

[+] Net income

[–] Tax-exempt Income (Income not included, income from foreign source, Tax exempt Income).

[+] Expenses for obtaining tax exempt income

[+/–] Inflation adjustment[2]

[–] Tax losses from previous years

[–] Savings Channeling[3]

[–] Tax exemption for Investments[4] [=] Net taxable income

[*] 25% Corporate Tax

[=] Income Tax Charge Payable

2 Inflation adjustment is calculated on the basis of balance sheets at the beginning of the financial year.

3 The Executive Power may determine that physical or legal persons conducting industrial activities deemed of national interest and that make capital contributions may deduct some amount of their investments from their taxes (within a maximum amount established by Law).

4 A maximum amount of 40% of income destined for acquiring certain assets or perform some improvements from the investment made during the financial year is tax exempt.

1.1.3. Minimum Taxable Income

Income obtained by taxpayers whose annual income does not exceed a certain minimum amount established by the Executive Branch will be tax exempt. Notwithstanding that, the Executive Branch may establish a minimum number of dependants or any other indexes to determine the existence of a reduced economic capacity that may justify such exemption.

These taxpayers will pay taxes on a notional basis.

The following are not included in the abovementioned exemption:

- Professional land cargo carriers, opticians and those whose exclusive business is the sale of books;
- Those whose income arises from agricultural activities;
- Those who have decided to be levied by the Economic Activities Income Tax; and
- Those whose income does not come from business operations.

1.1.4. Deductions

As a general rule, all expenses necessary to obtain and preserve taxable income are deductible in determining net income, provided they are duly documented.

In application of the so-called "padlock rule", the only expenses that can be deducted are those that constitute for the other party (resident or non-resident), income levied by business or personal income tax, and in the proportion resulting from applying to the expense the ratio between the maximum rate applicable to income of the other party and 25% corresponding to the IRAE rate.

Certain expenses are not subject to this proportionality rule.

The following items are expressly not allowed as expense deductions:

- Expenses for obtaining tax exempt income;
- Personal expenses of owners, partners, shareholders or relatives;
- Losses stemming from illegal operations;
- Penalties imposed because of fiscal infringements;
- Amounts drawn by stockholders that may be deemed profit distributions;
- Books profits credited to capital or reserves;
- Income tax, specific additional Income tax on large scale mining and Net Worth tax provisions;
- Goodwill amortization;
- The amounts paid in respect of leases, subleases and credit agreements for use of properties; if it has not been provided for in the respective contract that the corresponding amounts agreed in money are to be accredited into an account in a financial intermediary institution or it has not been made effective through this modality; and
- The amounts paid for freight and fees for services provided by free-lance professionals if not made effective by means of electronic payment or through accreditation into an account in financial intermediaries' institutions or by electronic money instrument.

1.1.5. Depreciation

The straight-line method must be applied. However, an alternative method may be authorized by the Tax authorities.

Acquired intangible assets, such as trademarks, patents and copyrights are amortizable on a straight-line basis over five years if they represent an actual investment and the sellers are identified. Capital

goods other than real estate are depreciated on a straight-line basis considering the presumed remaining useful life of such assets. Rates of write-offs allowed are 2% per year for urban and suburban properties, 3% per year for rural properties and up to 10% per year for new vehicles.

1.1.6. Transfer Pricing

Uruguay has developed transfer pricing rules in Law number 18,083.

Transfer pricing rules are applicable to:

i. transactions with related companies; and
ii. transactions with third parties located in tax havens. The Executive Branch delegated to the National Tax Administration ("DGI") the creation of a list of jurisdictions considered as tax havens for the purpose of applying transfer pricing rules. The latest list was issued by DGI Resolution No. 3034/2024.

While some aspects differ from the OECD transfer pricing directives, the rules generally reflect those guidelines, which can be used as a reference and relevant precedent when interpreting the Uruguayan rules.

The rules adopt the five methods suggested by the OECD guidelines:

- The comparable uncontrolled price method;
- The resale price method;
- The cost-plus method;
- The profit-split method; and
- The transactional net margin method.

The regulations establish no preferential order for applying the methods, stating only that the "most appropriate" method should be chosen. The analysis can include the situation of the local company as well as that of the foreign entity. Also, for some commodity import and export transactions, the transfer price must be adjusted to the quotation for the commodity on an internationally recognized transparent market at the date of execution of the contract, provided the adjustment generates a higher taxable amount for income tax purposes.

In addition, Law number 19,484 establishes an annual obligation for the IRAE taxpayers, who are part of a multinational group with a large economic dimension, to submit a "Master Report" and a "Country-by-Country Report".

1.1.7. Inflation Adjustments

This is used as a fiscal adjustment in the computation of the taxable base. It is calculated based on the balance sheet at the beginning of the financial year in order to show the currency changes, calculated by using the increase/decrease in the wholesalers' price index between the previous year and the current year.

This calculation is made by applying the variation percentage of the price index between the months from the ending of the previous financial year to the current month that is being calculated regarding the differences between:

a. The value of the assets adjusted for tax purposes less the assets affected for obtaining non-taxable income, fixed assets and livestock.
b. The amount of the liabilities at the beginning of the financial year composed of debts of sums of money or in kind, reserves and temporary liabilities.

In the event of such result being positive, tax losses will be calculated by inflation, otherwise, benefits will be calculated for the same concept.

This adjustment will only be made in those years in which the percentage change in the Consumer Price Index (CPI) accumulated in the thirty-six months prior to the closing date exceeds 100%.

1.1.8. Tax Losses Carry-forward / Carry-back

A Uruguayan taxpayer can carry-forward the tax losses which can be deducted as an expense from gross taxable income of the following five financial years (refer to 1.1.2). There is no carry-back possibility.

Therefore, the taxable income will depurate/set apart the tax losses from previous years already computed. Tax losses will be adjusted for each year, using the wholesalers' index price between the moment when the losses occurred and the date of the fiscal year we are calculating. In short, a tax loss deduction cannot generate further tax losses.

Tax losses cannot be transferred to other taxpayers (not even to the shareholders), except as provided in the cases of reorganizations. In the case of mergers, sometimes tax losses are transferable to the new or surviving entity under some conditions.

Please note, that in all cases, inflation adjustments are applicable to update tax loss amounts and that the deduction is computed on the adjusted amounts.

1.1.9. Tax-Free Reorganizations

Acquisition or merger operations may trigger income tax (IRAE) and value-added tax, but taxation will depend on the way chosen to carry out such operations. Reorganization of companies (mergers, acquisitions or demergers) can be exempted from Uruguayan income tax only by decree of the Uruguayan government as established in Law 16,906.

In case of selling a corporation, for the seller the excess of the price received, or the value of the shares received in the case of a merger, over the fiscal value of the net assets transferred (assets less liabilities) is treated as taxable income. For the buyer this excess is treated as goodwill, which cannot be amortized, not even in the case of a merger.

An acquisition or a merger can always be affected in a more tax effective manner by transferring the shares or the capital quotas. In case of an acquisition by transfer of assets, or assets and liabilities, Uruguayan commercial law provides for certain procedures to protect the buyer from the risk of contingent liabilities. In case of an exchange of shares or capital quotas, this protection obviously cannot be obtained.

In the case of a branch of a foreign company, since it is not a Uruguayan entity, the transfer of the branch can only be applied by transferring its assets and liabilities.

In case of selling shares of a company, if the seller is an individual or a non-resident entity such sale will be subject to a 12% withholding tax or 25% if the transfer is made by entities incorporated or located in no-tax or low-tax jurisdictions. An entity is considered to be incorporated in a no-tax or low- tax jurisdiction when both of these conditions are met: (i) the effective tax rate is lower than 12% and (ii) there is no exchange of information agreement with Uruguay in place. The National Tax Administration ("DGI") has published the list of jurisdictions that meet these conditions[5].

5 DGI Resolution No. 3034/2024.

If there is an acquisition in cash of assets, the buyer cannot change the fiscal value or the valuation and depreciation criteria for tax purposes. For the seller, the price received in excess of the fiscal value for the assets transferred is considered gross taxable income. For the buyer, the excess is treated as goodwill, as explained before.

Companies that decide to merge or spin-off as a result of a corporate restructuring process, but do not obtain a beneficial economic result, may choose not to compute the corresponding goodwill (affecting directly on income tax), provided that they meet the following conditions: (i) that the beneficial owners of the participating companies are the same (maintaining at least 95% of their proportions and that these are not modified in 2 years); (ii) that the National Internal Audit Office (AIN) has been informed about the chain of beneficial owners; and (iii) that they maintain the commercial line of business for 2 years.

1.1.10. Leasing Tax Treatment

Operating leases are treated as a sale of goods or as a lease depending upon the terms of the agreement (i.e. purchase option).

Under some conditions, leasing operations performed by financial institutions are VAT exempt. Likewise, it has been provided that financial entities granting goods under the leasing regime have a VAT credit included in the procurement of goods which are the object of tax-exempt contracts.

1.1.11. Investment Law N° 16,906

This law grants two types of tax benefits:

General benefits for investments

There is no need to file any investment project to obtain these benefits, since they apply generally and automatically. They are applicable to all payers of Economic Activities Income Tax (IRAE) who carry out whether industrial, manufacturing or extractive activities.

General benefits consist of exemption from the Net Worth Tax, Value Added Tax (VAT) and Excise Tax (IMESI) when importing goods or data-processing equipment and the refund of VAT included on local purchases of goods. Likewise, the government may approve exemptions from net worth tax on assets that involve improvements related to industrial activities, brands, patents and any other goods that contribute to technological enhancement.

Other benefits include an accelerated amortization schedule for fixed assets or the possibility to reduce employer Social Security payments for manufacturing industry.

Furthermore, Law No. 18,083 provides for an Exemption for Investments granted to all taxpayers at a maximum rate of 40% (from IRAE) upon the investments carried out during the financial year for obtaining:

- Machines and premises for commercial, industrial and services activities (excluding financial activities and leasing of real properties);
- Farming Machines;
- Fixed improvements in farming sector;
- Utility vehicles;
- Personal property used for equipping and re-equipping hotels, motels and tourist restaurants;
- Capital assets for improving the services rendered to tourists;
- Equipment for electronic data processing and communications;

- Machines, premises and equipment for the productive innovation and specialization; and
- Phosphate fertilizers (only for livestock producers).

The exemption provided above comprises exclusively taxpayers whose incomes within the previous year of the investment execution, do not exceed 10 million indexed units. This limitation does not extend to professional charge transport companies.

Benefits for specific investments, Law No. 16,906

These benefits may be granted to industrial, agricultural and services-related activities, provided the investment project to be carried out is approved first.

The tax benefits that the Executive Branch may grant through this procedure are the following:

- Exemption of fees, other taxes (VAT) and duties on importation of machinery and capital assets required for the project approved, in the event the same are certified as not competitive with Uruguayan national industry;
- Exemption of income tax (depending on the investment sum and the filed project);
- Net Worth Tax: movable property included in the Project is exempted during its entire useful life. Also, real property (construction or repair) located in Montevideo is exempted for 8 years and real property located in the interior of the country is exempted for 10 years. This does not include the land; and
- Reimbursement of the Value Added Tax included in the acquisition of services exclusively used in construction works.

1.1.12. National Dividends

Until 2016, the profits shareholders receive on their stakes in companies were taxed at 7% upon formal approval of their distribution by a shareholders meeting.

According to Law N° 19,438, profits generated as of 2007 are deemed to have been distributed upon lapsing of three years from their generation and taxed at a 7% rate. The only exception is if they are reinvested in line with the conditions set forth in the rules.

1.2. Payment and Filing of Tax Returns

Nationwide taxes are administrated by the General Tax Office (DGI).

All information furnished by taxpayers to the Tax authorities or obtained by them during their investigations, is required by law to be treated as secret and cannot be divulged under any circumstances, except before the courts dealing with criminal or family cases or special property rental cases, and only if the information required is considered essential.

The tax system operates on the basis of definitive self-assessment, which may be audited by the Tax authorities. The basis for assessment is the financial year of the business, provided proper accounting records are kept. Otherwise, the financial year is deemed to be the same as the calendar year.

However, Tax authorities may establish financial year-closings in periods other than the calendar year. The same basis is applicable for the deduction of expenses.

For any given taxable year, the corresponding income tax return must be filed and paid within 4 months after the closing date, according to the filing and payment dates set out by the tax authorities in the corresponding schedules (for instance if the closing date is January, then the payment and filing should be made in May).

The filing schedule is issued yearly by the tax authorities, in the schedule the paying and filing date should be the day determined according to the last figure of the Tax Sole Register number (Spanish acronym: RUT for "Registro Único Tributario").

Filing and payment dates are generally similar year after year.

Taxpayers must make advance payments monthly and pay the balance of these tax liabilities when filing their annual tax returns.

Withholding income tax on royalties, technical assistance fees, profits or dividends is due within the month following the payment to the foreign recipient's account; in general, there exist withholding agents determined by Law for these cases.

1.3. Penalties On Unpaid Taxes

Unpaid taxes are subject to penalty of 5% on the first 5 days, 10% on the 3 months after the payment date and 20% in all other cases, calculated over the unpaid tax amount. This penalty is subject to daily interests that shall be assessed at the official fixed rate.

Other penalties apply for non-filing, inaccurate or out of term filing, and other non-compliances with formalities. These penalties are not calculated depending on the amount on the taxes to be paid; rather, it is a fixed amount established by the tax authorities. For 2025, these sanctions range from approximately US$ 16 (sixteen United States Dollars) to US$ 305 (three hundred and five United States Dollars).

Tax liabilities related to any financial year prescribe five calendar years after the finalization of the year of the closing date. This period is extended to ten calendar years in case the corresponding tax return was not filed to the corresponding Tax authorities or in case of fraud.

1.4. Dividends Tax/ Branch Profits Tax

Local branches of foreign companies are subject to income tax at the rate of 25% on annual net profits and may also be subject to withholding tax on profits when remitted or credited to the head office.

Local branches of foreign companies are also subject to Net Worth tax, which is levied on assets at year-end less certain debts. The tax rate is of 1.5%.

In short, local branches of foreign companies are ruled by the same tax regulations as the Uruguayan Corporations.

1.5. Cross-Border Payments

1.5.1. Withholding Taxes (Nonresident Income Tax)

Non-resident Income Tax (IRNR) is levied on Uruguayan-source income obtained by non-residents in Uruguay, and the services provided by the latter to Uruguayan companies.

Uruguayan source income is that derived from activities carried out, goods located, or rights economically used in Uruguay, regardless of nationality, domicile or residence of the parties involved in the transactions or the place where these take place.

1.5.1.1. Dividends

Dividends paid abroad by Uruguayan companies are subject to a tax withholding of 7% applicable over income tax by IRAE at the company's level; the remitting company will be the withholding agent of said tax.

1.5.1.2. Royalties

Royalty payments are subject to a 12% withholding tax or 25% for royalties paid to entities incorporated or located in no-tax or low-tax jurisdictions. An entity is considered to be incorporated in a no-tax or low-tax jurisdiction when both of these conditions are met: (i) the effective tax rate is lower than 12% and (ii) there is no exchange of information agreement with Uruguay in place. The DGI has published the list of jurisdictions that meet these conditions[6].

Income arisen from leasing, subleasing, assignment of use or possession rights upon tangible personal property or intangible property, such as goodwill, trademarks, patents, industrial models, copyrights, federative sportsmen rights, royalties and similar rights, is included within this classification.

1.5.1.3. Leases/ Equity Growth

Unpaid taxes are subject to penalty of 5% on the first 5 days, 10% on the 3 months after the payment date and 20% in all other cases, calculated over the unpaid tax amount. This penalty is subject to daily interests that shall be assessed at the official fixed rate.

Other penalties apply for non-filing, inaccurate or out of term filing, and other non-compliance with formalities. These penalties are not calculated depending on the amount on the taxes to be paid; rather, it is a fixed amount established by the tax authorities. For 2025, these sanctions can vary from approximately US$ 16 (sixteen United States Dollars) to US$ 305 (three hundred and five United States Dollars).

Tax liabilities related to any financial year prescribe five calendar years after the finalization of the year of the closing date. This period is extended to ten calendar years in case the corresponding tax return was not filed to the corresponding Tax authorities or in case of fraud.

1.5.1.4. Services and Technical Assistance

Payments of fees related to industrial and mechanical processes are subject to a 12% withholding tax, or 25% for entities incorporated or located in no-tax or low-tax jurisdictions. An entity is considered to be incorporated in a no-tax or low-tax jurisdiction when both of these conditions are met: (i) the effective tax rate is lower than 12% and (ii) there is no exchange of information agreement with Uruguay in place. The DGI has published the list of jurisdictions that meet these conditions[7].

Income obtained and related to technical services granted in a foreign country shall be considered of Uruguayan source only if these services are related to the obtaining of income included within the IRAE.

Therefore, services and technical assistance rendered by non-residents individuals will be taxed at a rate of 12% or 25%, which shall be withheld by the entities subject to the Economic Activities Income Tax who pay for the services and technical assistance rendered by non-residents. The withholding may be eliminated or reduced to 0.6% (or to 1.25% in the case of no tax or low tax jurisdictions) if the entity that receives the services has no or less than 10% income subject to IRAE.

1.5.1.5. Earnings of local branches to their parent companies

Same conditions as in dividends are applied (25% of the branch's local income tax and 7% on distribution).

6 The latest list was issued by DGI Resolution No. 3034/2024.

7 The latest list was issued by DGI Resolution No. 3034/2024.

1.5.1.6. Interest Payments

These incomes are considered capital returns, including the income obtained from monies or in kind coming from deposits, loans and in general any capital or credit collocation of any kind and nature.

The general tax rate for interest payments is 12% (25% withholding applicable to interest payments made to entities incorporated or located in no tax or low tax jurisdictions).

Interests from loans granted to Uruguayan companies, whose assets affected for acquiring tax- exempt income exceed 90% of the total of assets are tax exempt.

2. Value Added Tax (VAT)

2.1. General Aspects

Value Added Tax will be levied upon the internal circulation of goods, the rendering of services within national territory, the importation of goods, and the increase of value arisen from building on real property.

Exportation of goods and services is subject to a "zero rate" system to allow for recovery of VAT included in the acquisition of goods and services directly or indirectly applied to the goods and services to be exported. Any VAT credit in favor of the exporter can be refunded by credit certificates or assigned to payment of other taxes payable by the exporter.

Executive Branch regulations establish a restrictive list of services considered as "service exports" and thus included in the "zero rate" system. By way of example, the list includes:

- Consultancy services provided in relation with activities undertaken abroad;
- Services provided abroad for designing or developing software to be used abroad;
- Assignment of software use and exploitation rights in favor of foreign individuals;
- Services provided abroad by International Call Centers;
- Quality control services, advisory services, commission agent activities provided exclusively to persons abroad relating to export of goods and services;
- International freight for the export of goods, ship maintenance or provisioning; insurance and reinsurance for exported or imported goods, freight for transportation of goods abroad;
- Data processing services if data corresponds to activities carried out, goods located, or rights used abroad insofar as the processed product is enjoyed exclusively abroad; and
- Services which must be provided exclusively within the free trade zone.

2.2. Tax Rates

VAT is the principal source of state revenue in Uruguay. The standard VAT rate is 22%. However, a reduced rate of 10% (minimum rate) is imposed on sales of specific products and services (for instance, this minimum rate levied certain items of the family basket, health services, medications, travel packages and the provision of hotel services).

According to Law No. 19,210, currently, a VAT rate reduction of 2 percentage points applies to purchases of goods and services to final clients provided such goods or services are paid through credit or with debit cards, or other similar instruments.

2.3. Individuals And Legal Entities Subject To VAT

All business entities that are Income taxpayers are also VAT payers. VAT also applies to professionals, self-employed individuals or associations of individuals rendering professional services. Legal entities that carry out taxable activities will be also included, regardless of whether they have a permanent establishment in Uruguay or not.

2.4. Taxable Transactions

This tax is levied on imports, sales of goods, and the rendering of services in Uruguay.

The VAT liability arises at the time of delivering goods, rendering services and delivering or introducing goods through Uruguayan borders.

2.5. Taxable Base

This tax is calculated on net amounts invoiced for sales and services and must be specified in the invoice.

The tax paid to suppliers regarding goods and services purchased which are directly or indirectly included in the cost of goods sold or services rendered by the taxpayer (provided it is clearly specified in the purchase invoice), is compensated with the tax invoiced by the taxpayer on their own sales and services.

2.6. Creditable VAT

VAT paid on imports, local purchases of goods, raw materials and services grants tax credit, provided that imports and purchases are supported by the vouchers and invoices accepted by the Tax Law.

In the case of Zero-rated Exports, the VAT is not computed on the net amounts invoiced, thus allowing for the refund of the VAT included in the purchase of goods or services when these are part of the cost of exports.

In the case of tax-exempt goods or services, the tax invoiced for goods or services purchased must be computed as a cost factor of the exempt goods and/or services.

2.7. Selected VAT Benefits

The following transactions are VAT exempted, among others:

- Interest on Public and private bonds, securities and deposits;
- Rental of real state;
- Banking operations except for interest from loans to individuals;
- Services rendered by hotels in low seasons related to lodging;
- Personal remunerations related to cultural events performed by resident artists;
- Foreign currency, precious metals;
- Agricultural machinery and accessories;
- Fuel derived from oil (except from fuel oil and gasoil);
- Milk and goods to be used on agricultural production and its raw materials;
- Books, newspapers, magazines and educational material;
- Water supply for family consumption;
- Mutton, pork, white meat (bird and fish), fruits, vegetables, and horticultural products in their natural state;
- Firewood.

2.8. Payment and Filing

The DGI administrates the VAT. Tax returns are filed monthly by the end of the following month. If the tax return shows a credit, it will have to be carried forward (without any inflation adjustment) to the following months until VAT offsets itself on sales.

In the case of exporters and agricultural income taxpayers, the credit certificates issued by Tax authorities regarding the paid VAT on purchases can be used to compensate other tax liabilities or be endorsed to the exporter as a mean of payment.

These certificates can be requested monthly by exporters and annually by farming income taxpayers. They are generally issued within two or three months after the application date.

3. Other Taxes

3.1. Net-Worth Tax

This is a national level tax assessed at a flat rate of 1.5% per year. This tax rate arises from the difference between taxable assets located in Uruguay and deductible fiscal liabilities. In the case of banks or financial institutions the rate is 2.8% calculated over the net equity.

Individuals will also be taxpayers of this tax (please, see item 3.4 Taxation on Individuals).

The following liabilities are deductible from the tax computation: an average of the value of the loans from local banks at the end of each month, debts owed to suppliers of goods and services (except for loans, guarantees and balances on the imports), debts from taxes and rendering to non-governmental public entities, debts issued as from the effective date of the law documented in liabilities, debentures and any other securities if they were issued by public subscription and are quoted at the Stock Exchange, and any particular conditions and debts incurred with foreign financial institutions for the financing of long-term productive projects.

Assets located abroad are not taxable.

This tax must be paid within 120 days after the closing balance sheet date and monthly payments of 11% of the tax paid in the last fiscal year must be made.

3.2. Trading Companies' Tax

For offshore trading activities, it is also possible to use regular Uruguayan corporations under a regime that allows them to compute their Uruguayan source taxable income on a notional basis.

Under this regime, the taxable income of trading companies is deemed to be equal to 3% of their gross margin (i.e. sales less cost of goods sold). This taxable income is subject to the regular Uruguayan 25% corporate tax rate. Dividends paid by these trading companies are subject to the general withholding tax (only for the part considered as Uruguayan income –3%-).

Uruguayan income source is defined at 3% of the difference between the selling price and the purchase price of the goods or services in the following cases:

- Operations involving the purchase and sale of goods that are not physically transferred through Uruguay; and
- Intermediation in the rendering of services provided these are rendered and economically used outside Uruguay.

3.3. Corporations Control Tax (ICOSA)

This tax is mandatory for all Uruguayan domestic corporations and for foreign companies redomiciled in Uruguay and is levied on the basis of values set by the Government.

ICOSA is applied:

a. upon incorporation of the corporation, at a rate of 1.5% on a base established by law (the tax is approximately US$ 1,286, according to the value set for 2025); and
b. at the close of each corporate year at a rate of 0.75% on a base established by law (the tax is approximately US$ 643, according to the values set for 2025).

Corporations can deduct the amount paid for the Corporate Oversight Tax when computing their Net Worth Tax.

3.4. Taxation on Individuals

Before Law No. 18,083 there was a partial system of personal income tax that was withheld by employers at the time of paying their duties. This applied to any dependent individual or employee, but individuals with a non-dependent relationship were not taxed.

As from the Tax Reform that entered into force on July 1st, 2007, individuals are taxed in two categories of income, pure capital income and labor or personal services income. Although the territorial principle is maintained, since 1st January 2011 there is an extension of the source principle and some investments located outside Uruguayan territory are subject to taxation. Also, Uruguayan residents dependent of local companies must pay income tax over activities performed abroad.

The first category, pure capital income, includes lease, equity growth, interests, royalties and dividends (among others).

The applicable rate of the capital income will be as follows:

Concept	Rate
Interests corresponding to local currency deposits with fixed nominal rate	0.5 to 5.5%
Interests corresponding to local currency deposits with adjustment clause	5 to 10%
Interests corresponding to foreign currency deposits	7 to 12%
Interests from liabilities and other debt documents, by means of public subscription and quoting at the Stock Exchange	0.5 to 12%
Income of participation certificates issued by financial trusts by public subscription and quoted in a stock exchange on national entities	0.5 to 12%
Dividends or profits paid by Uruguayan commercial companies	7%
Income from copyright of literary, artistic, or scientific works	7%
Dividends or profits paid or credited by Corporate Income Taxpayers originated in returns from movable capital, arising from deposits, loans and generally in all equity placement or any kind of credit, such as returns that come from non-resident entities and constitute passive income	12%
Other Income	12%

The second category includes income derived from a dependent activity or non-dependent relationship.

Work incomes are taxed with progressive rates applicable to each income stage. There is a non- taxable minimum for these incomes. The applicable rate goes from 0% to 36%, notwithstanding the advance payments that shall be made during the year.

Furthermore, there exists a deductions system based on progressive rates; the deductible expenses are included in a short, restricted list and capped at 14% or 8% depending on the income level.

There is also an annual net-worth tax levied on assets of individuals, family units, and undivided estates that is applied on assets located in the country, excluding certain liabilities, as well as on nominated bank accounts (please see Item 3.1 Net-Worth Tax). Only assets located, placed, or economically used in Uruguay are subject to this tax.

The rate of this annual net-worth tax is 0.1% for resident taxpayers. For certain non-resident taxpayers, the rate is progressive, ranging from 0.7% to 1.5%.

3.5. Excise Tax (Domestic Specific Tax)

This tax levied the first transfer, at any title, made by the manufacturer or the importer of certain goods in the local market, namely vehicles, drinks, tobacco, perfume, cosmetics, and fuel.

Also, this tax levied the destination of the taxed goods to the personal usage and the import of such goods by non-taxpayers.

Neither exports nor subsequent transfers are subjected to this taxation. The rates vary by item and are usually set by the government within certain ceilings established by Law.

Rates are applied to the real values or fixed values set by the Executive Branch taking into consideration the consumer's sale price.

4. Customs Regime: General Aspects

4.1. Customs Duties

Uruguayan economy is free, open and there are no restrictions on imports and exports, therefore, there is freedom to import all kinds of goods[8].

The exchange market is totally free and there are no restrictions of any kind regarding foreign trade transactions.

In terms of customs duties, Uruguay has made a great effort to reduce the tariff levels, something that has advanced with the creation of the Southern Common Market (Mercado Común Del Sur or MERCOSUR).

The Treaty of MERCOSUR provides for the free circulation of goods, services, and productive factors within the signatory countries (Argentina, Brazil, Paraguay and Uruguay), through the progressive elimination of tariff and non-tariff barriers.

8 Notwithstanding regulatory requirements.

Imports are subject to VAT at the rate of 22%, plus a mandatory VAT advance at a 10% rate. This advance is returned by way of "Credit Certificates".

In addition to import VAT, imports are also subject to a tariff ranging between 4.5% and 8%, from goods coming from MERCOSUR countries.

In case of products coming from outside MERCOSUR, the imposition of the Common External Duty (AEC Spanish acronym, which stands for Arancel Externo Común) established between 0 and 35%, is added to the rest of the rates.

4.2. Taxable Base

As Uruguay is a member of the WTO (World Trade Organization) and has subscribed the Agreement for the Application of Section VII of the GATT, custom valuation rules in Uruguay are those determined by the above-mentioned organisms. Therefore, the value of the goods is established on account of the price paid, if it is not possible, other methods of valuation and corresponding adjustments are applied.

Customs duties are computed on the CIF value of goods. If the importation comes from a country outside MERCOSUR, VAT is computed on the CIF value plus the corresponding Common External Duty.

4.3. Filing and Payment

An import tax return must be filed, and the pertinent tax must be paid before the good is nationalized.

4.4. Selected Custom Duties Regimes Available

4.4.1. Ordinary Importation Regime

It applies to all goods that will remain permanently in Uruguayan territory without any use or jurisdictional restrictions. Full payments of customs duties and import VAT are required upon nationalization.

4.4.2. Temporary Importation Regime

The imports of consumables for the exports industry are subject to Temporary Admission Regime, which permits imports without custom duties. The condition is that imported goods must take part directly in the elaboration of the product to be exported.

The only entities that can use this regime are industrial companies or commercial companies registered within the Industrial and Commerce Chamber.

To apply to this regime one of these three conditions must be fulfilled:

a. The product to be imported does not exist in the local market;
b. The product to be imported exists in the local market but the price is significantly expensive to produce the final product; and
c. The product to be imported exists in the local market at a reasonable price but the productive process takes longer than if the product is imported.

Prior authorization is required, and the final products must be exported within a period of 18 months.

Applying to this regime, manufacturing companies may introduce without duties: raw materials, parts, pieces, engines, containers and packing materials, molds, casts and models, semi-elaborated and intermediate products, cattle and farming products and products that are consumed during the

productive process, taking part directly in the elaboration of the product to be exported and being in contact with it, but are not incorporated into the final product.

4.4.3. Draw-Back Regime

There is a DRAW-BACK regime for certain products, which allows the devolution of imports duties, when re-exported, after being industrialized in the same state.

4.4.4. Exports Regime

Regarding exports, Uruguay has a promotion policy through instruments of a diverse nature and reach, all of which satisfactorily fulfill the regulations of the WTO Subsidy Code.

The basic principle is freedom of exports with no impositions or bans. Exceptionally, the exports of certain derivatives from the cattle and farming sector are subject to taxes and payments destined to controller organizations, the incidence of which is not significant.

With regards to VAT, there is a special regime through which exports are exempt.

There is also a regime of refund of indirect taxes, by which the exporter may retrieve the internal duties that are included in the cost of the exported product. The amount to be retrieved is determined as a percentage of its FOB value, set by the Executive Power.

4.4.5. Free Trade Zone Regime

Companies operating in the Uruguayan free zones are exempt from all taxes "created or to be created" according to the provisions of Law 15,921 (Act of Free Trade Zones). In addition, products, raw materials and components may be brought into the free zones free from all customs duties provided that those items are used by the companies within such zones or are subsequently re- exported, either in their original form or after having been transformed at the free zones. They are also exempt from any type of withholding. Moreover, Intellectual Property rights and other intangible assets income are also exempt if they stem from research and development activities performed within the Free Trade Zone.

Pursuant to the dispositions in force, the allowed activities for the Free Trade Zone Companies are:

- Trading of goods, deposit, storage, improvement, and transformation within the place of the Free Trade Zone;
- Rendering of several services from the free trade zones to other users of the free trade zone, to abroad or to IRAE tax taxpayers;
- Rendering of telephonic or informatics' services from the free trade zones to the non-free zone of the Uruguayan territory; and
- Ancillary activities, with a prior authorization of the Executive Branch.

Some Free Trade Zone Users[9] can develop complementary activities outside of the Free Trade Zone, in certain administrative offices specifically supplied to do it. Public relationships, storage of auxiliary documents, billing and collection of goods and services are considered "complementary activities".

Sales and services transactions will not be considered as complementary activities under any circumstances.

9 Free Trade Zone Users located outside of the Metropolitan Area, a geographic zone within a radius of 40 kilometers from Montevideo.

The normal social contribution and payroll taxes are imposed on all employees working for companies that operate within the free zones. An exception to this rule is that expatriate employees may elect not to be subject to the Uruguayan social security system. However, the number of expatriates that companies operating in the Uruguayan free zones can employ is usually limited to 25% of their total number of employees. The Executive Branch is empowered to authorize an alternative limit of up to 50% of the total number of employees, considering the particularities of the activities of the company.

In addition to the tax benefits described above, the Uruguayan free zones offer other significant benefits in areas, such as, logistics, communications, and availability of skilled workforce. For these reasons, they have become one of the preferred locations where multinationals can set up different types of operations to serve their affiliates and/or customers throughout Latin America.

The types of operations that are conducted in the Free Zones include:

- In the case of multinationals that are setting up so-called entrepreneur or principal type structures for the Latin American region, Uruguayan Free Zones are possible locations for the principal and/or for the toll or contract manufacturer;
- Treasury functions, such as, group lending, hedging and pooling activities may be conducted, on a regional basis, from regional treasury centers located in one of the free zones;
- These zones are also suitable locations for shared service centers where internal functions, such as, accounting systems, financial control services, invoicing, procurement of products and services, HR support and other administrative and clerical back-room type functions, may be centralized;
- Service and calling centers may also be set up in the free zones to provide services to customers throughout the region. In this regard, it is important to point out that the government's telecommunication and electricity monopolies are not applicable in these zones and, as a result, companies may use other suppliers;
- For internet-related companies with activities, such as, e-commerce (B2C or B2B), portals, incubators and software houses;
- It is, in many situations, advantageous for multinationals to set up assembly or manufacturing plants in the free zones to centralize production;
- Storage and warehousing facilities may also be used to deliver products to affiliates and, in many cases, defer the payments of custom duties in the countries where those affiliates are located.

5. Payroll Taxes/ Welfare Contributions

5.1. Retirement And Health Fund Contributions

The Social Security Bank (Spanish acronym: BPS), is the ruling public body of the social security system, collecting the installments made by companies and employees and keeping up to date the record of the labor history of each member.

Generally, income from any source, whether in money or in kind, received by an employee in remuneration for services performed in the country, is subject to the Social Security Tax.

Employers and workers are required to make social security contributions to the Social Security Administration on up to a maximum monthly salary of approximately US$ 6,555.

Part of the contribution to Social Security must be made by the employer and part must be made by the employee. The respective contribution rates are as follows:

Employer:

- Retirement: 7.5%
- Health: 5%
- Labor Credits Guarantee Fund: 0.025%
- Labor Reconversion Fund: 0.10%

Employee:

- Retirement: 15%
- Health: Between 3% and 8%
- Labor Reconversion Fund: 0.10%

The ceiling of US$ 6,555 is applied exclusively to retirement contributions. The contribution for medical insurance, the tax on personal wages and compensation, and labor reconversion fund must be paid on the total amount of income.

Filing of Tax returns and payments are done monthly.

5.2. Health Contributions

Employees must choose from a list of private hospitals that are affiliated to the public organism; therefore, employees and their children are covered for all medical assistance.

For contributions to the Health Fund, please refer to 5.1 above.

5.3. Labor Risks Insurance System

Companies are obliged to purchase insurance for labor risks which exclusively refer to labor accidents in the place of work and related to the work done. The State Insurance Bank ("Banco de Seguros del Estado", Spanish acronym BSE) is the only organism to which the companies can purchase the insurance.

The cost of labor insurance depends on parameters such as the type of activity involved, number of workers, working conditions, etc. The BSE establishes, considering these parameters, a rate to be paid over the wages of the employees. Filing and payment is done monthly.

The applicable law establishes that, having complied with the referred system, the employer is exempt from civil responsibility. Furthermore, this insurance covers 100% of the wage of employees during their absence of the place of work.

5.4. Child And Family Protection Services

These contributions are made by the State; and they are financed with the retirement contributions.

5.5. Unemployment Insurance

After the working relationship is finished the State covers for a period of 6 months 50% of the average of the last six received salaries. If the worker is married or in charge of an incompetent person there is a 20% supplement. These contributions are financed with the retirement contributions.

5.6. Benefits

The most important benefits are:

- 13th month salary: it is also called complementary annual salary, equivalent to 1/12 of annual salaries paid by the employer during the 12 months prior to the first day of December of each year.
- Paid annual vacation: workers have the right to at least twenty days paid vacation per year.
- Vacation Salary: it is an additional sum equal to 1/30 of the monthly salary per day of vacation.

VENEZUELA TORRES, PLAZ & ARAUJO

TORRES PLAZ & ARAUJO
ABOGADOS

IN-COUNTRY MEMBER FIRM:

www.tpa.com.ve
58.212.9050211
Address: Torre Europa, piso 2, Av. Francisco de Miranda, Campo Alegre
Caracas, Venezuela

CONTACT PARTNER(S):

Juan Carlos Garantón-Blanco
jgaranton@tpa.com.ve

HIGHLIGHTS

National Level Tax Rates	
Corporate Income Tax:	Bracket # 2 – 15% to 34% Upstream Oil Activities at 50% Mining Royalties at 60% Local banks and Insurance companies at 40% Overseas Insurance Companies at 10%
Capital Gains Tax:	Bracket #2 – 15% to 34%
Branch Profits Tax:	(equalization tax) 34%
Dividends Tax:	(equalization tax) 34% (50% oil)
Withholding Taxes on (for non resident entities payees/ applied on gross amounts):	
Interest:	Bracket 2 (top 34%
Interest to Qualified Financial Institutions	4.95%
Royalties:	30.60%
Technical Assistance:	10.20%
Technical Services:	17.00%
Services Other than Professional Services:	30.60%
Professional Services:	30.60%
Commissionaire Agent:	5.00%
Insurance Premiums (and payment upon reinsurance):	3.00%
Lease of property (immovable)	Bracket 2 (top 34%)
Lease of property (immovable)	5%
Sale of Shares in a Venezuelan Company	5%
Sale of Shares in Venezuelan Stock Exchange (flat)	1%
Tax losses carry-over term:	3 years / with limitations
API losses No API loss carryover	API losses No API loss carryover
Tax losses carry-back term:	No loss carry-back
Transfer Pricing Rules:	Yes (OECD Guidelines apply supplementary)
Tax-free Reorganizations:	Statutory mergers, change of legal form from/to partnership (see-through), and contributions to equity at cost (deferral)
VAT on Sales:	16% (WHT applies)
VAT on Services:	16% (WHT applies)
VAT on Imports:	(reverse charge) 16%
VAT Surtax on Transactions paid in foreign currency or non-government-backed cryptocurrency:[1]	between a minimum limit of 5% and a maximum of 25%

1 This new additional rate was included in the Value Added Tax Law (VATL 2020) passed by the "National Constituent Assembly" on January 29, 2020, published in Official Gazette N° 6.507. Although VATL 2020 entered in force as of April 1st, the additional rate is not yet applicable (as of February 22, 2021 the National Executive has not set the applicable rate).

VAT withholding (% invoiced VAT amount):	75% Special taxpayers
Custom Duties:	from 0% up to 20% (reductions provided under MERCOSUR[2] and Cooperation treaties)
Net-worth Tax:[3]	0.25% on net equity with a value equal to or greater than 150,000,000 U.T.[4]
Large Financial Transactions Tax (corporate)	from 2% up to 3% on certain foreign currency denominated transactions
Special Petroleum Windfalls Contributions	80%/90/95% when price of Ven basket exceeds USD 80/bbl
Excise Taxes:	
Spirits & Alcohol	
Tobacco (Cigarettes & Tobacco Products)	
Science & Technology Contribution (on Large Ventures)	
Alcohol, Tobacco & Gambling	(on turnover) 2%
Oil, Gas & Qualified Mining activities (related to strategic minerals) by private parties	(on turnover) 1%
Oil, Gas & Qualified Mining activities (related to strategic minerals) by State owned & General activities	(on turnover) 0,5%
Local Level Tax Rates[5]	
Stamp (Documentary) Tax:	Varies w. each transaction States and Capital District Contribution
Tax on Industrial, Commercial & Service Activities:	Established by each Municipality, commonly 1% to 15% of turnover (proceeds) (on net earnings) 2%

2 Venezuela was suspended from MERCOSUR in early 2016 and remains suspended to date.

3 Enacted on July 2nd, 2019 by the "National Constituent Assembly" via the Constitutional Law that creates the Networth Tax.

4 TU. stands for Tax Unit, which must be adjusted on a yearly basis to reflect inflation on nominal tax amounts. As of June 8th , 2023, one (1) T.U. is equivalent to VEB 9.00 (as such value was upward adjusted in almost 2150% through Administrative Ruling No. SNAT/2023/000031 issued by Federal Tax Authority back on April 13, 2023; i.e., it was adjusted from VEB 0.40 to 9.00), which is equivalent to USD 0.033 (at the current exchange rate resulting from Exchange Agreement #†T1).

5 As February 23rd, 2021 Local Level Tax Rates are being modified by several municipalities (those signatories of a Municipal Tax Harmonization Agreement) due to decision N° 0078 dated July 7th, 2020 (criticized for presenting serious violations of the Venezuelan system of attribution of constitutional powers) issued by the Constitutional Chamber of the Supreme Tribunal of Justice, which suspended for 90 days the application of any tax rule issued by Municipalities and States, and urged them to modify the Municipal and State tax rules with the supposed purpose of tax harmonization (such suspension was lifted for certain municipalities by decisions N° 0161 of November 20th, 2020 and N° 0273 dated December 30th, 2020 issued also by the Constitutional Chamber). The Municipal Tax Harmonization Agreement sets the Venezuelan cryptocurrency PETRO as a unit of account for tax and penalties computation (one (1) Petro is equivalent to USD 60,03 as of the date of issuance of this report), establishing the payment exclusively in its equivalent in Bolivars (VEB). The same expressly excludes computation and payment of Municipal taxes in foreign currency.

Tax on Real State property (currently only urban property)	Established by each Municipality, commonly 0.01% to 0.2% on assessed value
Motor Vehicles Tax:	1-4 Tax Units (T.U.) p/a
Legal Gaming & Gambling:	5-10% p/a
Commercial Advertisement Tax:	Established by each Municipality, commonly 1 T.U. per Square Meter
Tax on Public Shows and Performances:	Established by each Municipality, commonly 10%
Duties:	Vary for each service

Treaty Taxation (Income & Capital)

Countries	Interest[6]	Dividends[7]	Royalties	Tech. Services	Tech. Assistance
Austria	4.95-10%	5-15%	5%	5%	0-5%
Germany	5%	5-15%	5%	No WHT	No WHT
Barbados	5-15%	5-10%	10%	10%	10%
Belgium	10%	5-15%	5%	No WHT	No WHT
U.A. Emirates	10%	5-10%	10%	10%	10%
Brazil	15%	10-15%	15%	15%	15%
Canada	10%	10-15%	5-10%	5-10%	No WHT
China	5-10%	5-10%	10%	10%	10%
Korea	5-10%	5-10%	5-10%	5-10%	0-10%
Cuba	10%	10-15%	5%	5%	5%
Denmark	5%	5-15%	10%	10%	5%
Spain	4.95-10%	0-10%	5%	5%	No WHT
USA	4.95-10%	5-15%	5-10%	No WHT	No WHT
France	5%	0-5-15%	5%	No WHT	No WHT
Indonesia	10%	10-15%	20%	20%	10%
Iran	5%	5-10%	5%	5%	5%
Italy	10%	10%	7-10%	10%	10%
Kuwait	5%	5-10%	20%	20%	20%
Malaysia	15%	5-10%	10%	10%	10%
Mexico[8]	4.95-15%	5%	10%	0-10%	10%

6 Lower cap rate is commonly related to loans from financial institutions. Additionally, many tax treaties provide for full relief at source if loans are either granted or received by the Contracting States, their instrumentalities of State-Owned Financial Institutions or Agencies.

7 Lower cap is commonly applied in parent/subsidiary context. The test for affiliation (e.g. equity holding) varies among the different treaties.

8 Treaties already ratified but where no exchange of notes has taken place (not in force).

Norway	5-15%	5-10%	12%	12%	9%
Netherlands	5%	0-10%	5-7-10%	No WHT	No WHT
Portugal	10%	10%	12%	12%	10%
UK	5%	0-10%	5-7%	5%	No WHT
Czech Republic	10%	5-10%	12%	12%	12%
Russia	5-10%	10-15%	15%	10-15%	10%
Sweden	10%	5-10%	7-10%	7%	7%
Switzerland	5%	0-10%	5%	5%	No WHT
Trinidad & Tobago	15%	5-10%	10%	10%	10%
Qatar	5%	5-10%	5%	No WHT	5%
Belarus	5%	5-15%	5-10%	5-10%	0-10%
Vietnam	10%	5-10%	10%	10%	10%
Saudi Arabia	5%	5%	8%	8%	No WHT
Turkey[9]	10%	5-10%	10%	10%	10%

1. Income Tax

1.1. General Aspects

1.1.1. Worldwide Income

Since 2001 Venezuela adopted worldwide income taxation. Pursuant to the Income Tax Law provisions income (net accretions of wealth when realized pursuant to the tax law provisions) sourced in Venezuela is taxable regardless of whether the taxpayer is a Venezuelan resident taxpayer or an entity incorporated (set-up) in Venezuela or is a non-resident alien or company; at the same time, income from foreign sources obtained by taxpayers residing in Venezuela or attributable to permanent establishments (P.E.) of foreign entities in Venezuela is subject to taxation in Venezuela.

With regards to foreign source income the law recognizes a primary right to tax in the country of source and therefore allows for crediting foreign taxes ("FTC") paid by the taxpayer in producing foreign source income. The FTC system provides for an overall limitation (ordinary credit) but for the case of income subject to a schedular rate as it is the case of dividends which are treated under a separate basket (also with an ordinary credit limitation), as per the formula:

$$FTC = (WWI \times r)(FSI/WWI)$$

The FTC system, does not cover for indirect credits (i.e. credits for taxes paid by affiliates located overseas), requires foreign taxes to be effectively paid and does not allow for carry-over or carry-backwards of FTC, and it does not allow for the use of overall foreign losses to reduce domestic source income.

9 Treaty may be considered null and void. Negotiated and concluded by the Executive branch in 2018. It was not submitted to parliament (National Assembly) for approval as required under Article 154 of the Constitution; rather, it was approved by Foreign Affairs Ministry Ruling N° DM/498, published in Official Gazette N° 41.554, dated December 28th, 2018.

The system is coupled with an anti-deferral regime for income attributable to investment vehicles controlled by Venezuelan resident taxpayers and located in low tax jurisdictions (as per a "black list" issued by the Tax Authorities).

1.1.2. Income Tax Rate

The general statutory corporate income tax bracket applicable to Venezuelan sourced income as well as overseas income obtained by a Venezuelan resident taxpayer or a P.E. in Venezuela of a non-resident taxpayer is bracket # 2, with three marginal rates, being the minimum marginal rate 15% and the top marginal rate 34%. Taxpayers engaged in upstream oil activities are subject to a schedular tax rate (bracket # 3) of 50%.

In the last amendment of the Income Tax Law (published in the Extraordinary Official Gazette No. 6.210, dated December 30, 2015), Article 52 was amended adding a new paragraph to bracket # 2. Under the same, net income resulting from banking, financial, insurance or reinsurance activities in the country is subject to a flat 40% rate. Conversely, income sourced in Venezuela for foreign insurance and reinsurance companies (i.e., not domiciled in Venezuela) is taxable at a flat 10% rate.

1.1.3. Taxable Base

All revenues are subject to income tax unless otherwise excluded by law from the taxable base. Excluded Items of Income are subtracted from Gross Income, i.e., the sum of All Items of Income realized by the taxpayer. The result is the Gross Taxable Income from which Costs and Expenses are deducted. The after-deductions result is the Net Taxable Income to which the statutory corporate tax bracket is applied. Net income may be further impacted by the result from the application of the Adjustment per Inflation System (API) to earnings and losses and balance sheet items, to be recognized as income or losses to be added to or subtracted from the taxable base (API application has been reduced to a minimum). The result of applying brackets #1, # 2 or #3 to the taxable base (net taxable income) is Income Tax from which applicable Tax Credits are subtracted to find the actual Income Tax Liability.

We illustrate below this assessment process for further clarification:

[+] Sum of All Revenues

[=] Gross Income

[–] Excluded Items of Income [=] Gross Taxable Income

[–] Costs and Deductible Expenses [=] Net Taxable Income

[–] Exempted Items of Income [=] Taxable Base

[–] Conciliation API (increase/reduction taxable base)

[*] Corporate Tax Bracket (top marginal rate 34%) [=] Resulting Income Tax

[–] Tax Credits

[=] Income Tax Liability payable

1.1.4. Minimum Taxable Income

Currently there are no provisions requiring a minimum taxable income or providing for payment of a minimum alternative tax.

1.1.5. Credits for Activities and Investments

Credits for activities and investments covered in the Income Tax Law (ITL) for a long term and ultimately reenacted in the 2007 ITL or in other laws, were repealed on the ITL December 2015 amendment, under which, Chapter I of Title IV, regarding the system of credits for activities and investments (industrial, tourism, agricultural and environmental), was deleted, along with the reference to the possibility of carrying forward such credits for up to 3 years.

1.1.6. Timing for Taxation

Under the December 2015 amendment of the Income Tax Law, there was a significant change in the timing for income recognition rules.

Under the same, most scenarios under which income arises upon payment were repealed and income is hence triggered upon realization.

The following are now considered as triggered upon realization of the transactions giving rise to income, rather than payment:

a. the assignment of the use or enjoyment of movable or immovable property;
b. income derived from royalties or akin interests;
c. sales of immovable property;
d. income from professional services.

Sources of income which continue to arise upon payment:

I. income resulting from dependent services; and
II. income resulting from games and gambling.

1.1.7. Deductions

As a general rule all costs and expenses are deductible provided that they are related, proportional and necessary to the income producing activity. Any costs or expenses related to Excluded and/ or Exempted Items of Income are not deductible. In case the same are not clearly identifiable (i.e. allocable to taxable or excluded income) the law calls for an apportionment. Some costs and expenses are limited or disallowed, depending on the facts and circumstances for each case, e.g., related party charges, commissions, gifts, among others. All Other Taxes and Contributions, Customs Tariffs and Duties and Payroll Taxes and Welfare Contributions (see § 4, 5 and 6, below) are deductible for income tax purposes unless otherwise expressly provided in the law setting the tax or contribution.

1.1.8. Tax Holidays

In addition to the standard tax holidays provided in the Income Tax law (Article 14) and which have remained largely unchanged for the past thirty (30) years (but for a major change which took place back in 2014 repealing long-standing tax holidays as applicable to non- profit institutions devoted to religious, artistic, scientific, environmental conservation, fostering of technology, culture, education - including Universities and schools- or sports activities), the National Executive has issued in the past few years large numbers of tax holidays measure (Exoneration Decrees) spanning from mining operations to oil operations to agricultural businesses, in some cases tied to international commitments (e.g. execution of the projects destined to Recover the Capacity of Extraction, Grinding, Dispatch and Transformation of Iron Ore, which are developed under the Agreement on Economic and Technical Cooperation between the Venezuela and China, among others).

The largesse allowed to the Government in the issuance of said holidays has been somehow limited under the amendment of the Master Tax Code passed at the end of January 2020, which calls for a

single yearly Decree covering any and all tax holidays and reducing their term to a single fiscal (budget) year, plus a possible extension for an additional year.

For taxable years of 2019 and 2020 the National Executive has granted Income Tax exemptions to Venezuelan resident entities and individuals. In the case of legal entities, the holidays have basically focused on state owned companies and their joint ventures (e.g., PDVSA, its affiliates and empresas mixtas). In the case of residents individuals, the same seem aimed at expanding the de minimis exclusion covered under the law, the same extends to normal wages or income from other activities provided at the end of fiscal year they do not exceed:

- Year 2019: three minimum salaries in force as of December 31st, 2019 (VEB 450,000.00), equivalent to USD 0.26 at the time of preparation of this report[10]; and
- Year 2020: 5,000 UT (VEB 7,500,000.00) equivalent to USD 4.27 as of February 23rd, 2021[11].

1.1.9. Depreciation

Tangible fixed assets' depreciation is deductible. Depreciation terms vary depending on the nature of the asset, and the same are not provided by Law nor Regulations but referred to Venezuelan GAAP (VenNIF) (but for certain rules related to oil & gas assets); common practice is 20 years for real estate, 10 years for many other tangible fixed assets, except for motor vehicles and computers for which a term varying from 3 to 5 years, or 1 to 2 years for the latter, is commonly applied.

Globally used methods are generally accepted in Venezuela for tax purposes, e.g., straight-line method and UOP. Depletion is recognized for mining and hydrocarbon assets and investments, and other methods such as declining balance method or inverted digits method, inter alia, may be applied with the consent of the Tax Authority.

While changes in useful life do not require from prior consent from the tax authority, changes in the method for depreciation or amortization do. The taxpayer may take an impairment on the basis of Venezuelan GAAP (VenNIF), any future changes would result in a recapture.

1.1.10. Transfer Pricing

Venezuela has OECD like transfer pricing rules applicable to all transactions between a Venezuelan party (i.e., a Venezuelan resident taxpayer or company or a P.E. of a foreign company in Venezuela) and a foreign related party. In fact, the 1995 OECD Directives on transfer pricing are called in for application in a supplementary manner as provided by the Law and the Regulations (as they may be adjusted over time, and hence presumably as the said directives have been amended through 2017, and as may be further amended under the BEPS project). Transfer pricing provisions do not apply to transactions between two parties who are Venezuelan resident taxpayers but solely on cross-border transactions.

There are no particular rules regarding the tested party or comparable bases (local or overseas, internal or external) to be used, but the Tax Authority extensively relies on international data bases as there is little local information and the marketplace is very small. Under the Venezuelan transfer pricing rules, the Venezuelan party must keep and file supporting documentation with the tax authorities (PT-99 transfer pricing return), as well as it must perform a transfer pricing study showing that its prices or profit margins on the transactions are within the comparable arm's-length prices or profit margins ranges for its activity and similar transactions, on a yearly basis. Parties in low tax jurisdictions are deemed as related parties for these purposes (an assumption the taxpayer may trump).

10 Decree N° 4.171 published in the Official Gazette Extraordinary N° 6.523 dated 04/02/2020.

11 Decree N° 4.420 published in the Official Gazette N° 42.049 dated 01/08/2021.

The Venezuelan transfer pricing regime provides for a number of situations where two parties are deemed related. The catalog is complex, and its application should require a more detailed analysis on case-by-case basis. Venezuelan provisions allow for corresponding adjustments when a transfer pricing adjustment is made by a tax treaty partner, and the law (Master Tax Code) allows since 2001 for the execution of Advance Pricing Agreements (APA) with the Tax Authority; not a single APA has been executed to date.

1.1.11. Thin Cap

The transfer pricing section of the ITL includes a single provision regarding thin capitalization rules, under which interest owed/paid to related parties may only be deducted up to the amount corresponding to a debt-to-equity ratio of 1:1 (including all debt –related and unrelated-) averaged for the fiscal year. Any excess amount is treated as net equity for all purposes of the law, including API.

In any case, the Tax Authority may further disallow a deduction if debt with related parties is not entered into at "market conditions" (presumably arm's length), for which the statutes express the Tax Authority shall use as a proxy:

I. size of indebtness of the taxpayer;
II. whether the taxpayer may have accessed the lending with a non-related party without the intervention of the relevant related party;
III. amount of lending to which the taxpayer may have accessed with a non-related party without the intervention of the relevant related party;
IV. interest rate which the taxpayer would have obtained from a non-related party without the intervention of the relevant related party; and
V. other terms and conditions which the taxpayer would have obtained from a non-related party without the intervention of the relevant related party.

1.1.12. Inflation Adjustments

Venezuela has since 1991 an inflation adjustment system applicable to all non-monetary assets and liabilities[12] and to the taxpayer's net worth. The yearly adjustment is determined by applying the inflation index (Venezuelan Consumer Price Index "CPI") to the cost basis of the non-monetary assets and the result is a greater cost basis entered against a taxable income for the taxpayer.

On the other hand, the non-monetary liabilities and the net-worth of the taxpayer are similarly adjusted and the corresponding increase is entered against an increase in expenses. The difference between the taxable income and the expenses originated in the yearly inflation adjustments should result either in a net item of taxable income or a net loss for inflation (this loss is deductible).

Under the Venezuelan Income Tax Law (ITL) passed at the close of 2014, banks, financial institutions and insurance and reinsurance companies were excluded from the API system, and the Tax Administration (SENIAT) issued authority regarding the adjustments to the taxable base pursuant to the exclusion. Furthermore, the ITL amendment passed at the close of 2015 covers an express exclusion from the API system for taxpayers qualified as special taxpayers by the Tax Administration (SENIAT), which encompasses most significant businesses.

12 Assets other than cash, deposits and accounts receivable, which are monetary assets. Up until 2001 all liabilities in foreign currency and foreign currency denominated debt where also considered non-monetary assets and liabilities and therefore adjusted (on the basis of the increase or decrease in foreign currency exchange rate), since 2002 these are not considered non-monetary, but rather the API system deemed any foreign currency exchange gain or loss as realized by the end of the fiscal year of the taxpayer (provided the same has not been disposed of during said fiscal year).

In addition, the 2015 amendment established that Tax Authority was to issue regulations dealing with the accounting adjustments to be made by the taxpayers due to the "suppression" of the inflation adjustment for special taxpayers (no such regulations have been issued to date -other than those referred above for banking and insurance companies). The exclusion covers a transitional provision under which advanced income tax to be filed in an "estimated tax return" recognize net taxable income for the prior year without taking into account the effects of API.

Effective for fiscal years beginning on March 2007 onwards, the API system was to recognize differences in exchange ("DIE", gains or loss) at the close of the fiscal year for assets and liabilities denominated in foreign currency –as a necessary balance since the same are to be treated as monetary assets and liabilities under the law.

The provision has been amended over time resulting in different interpretations about timing for recognition of DIE. The interpretative issues were compounded by the lack of clarity of the provisions dealing with foreign currency exchange under the F/X control system in place since 2003, including the application of multiple foreign currency exchange rates at a same time. At this time, the API provision for DIE remains inapplicable at large, and as a result the criteria on DIE timing is to fall back on case-law in place prior to the application of the API rules.

1.1.13. Tax Losses Carryover

A Venezuelan taxpayer can carryover her tax losses for a maximum term of 3 taxable years. There is no carry-back.

Tax losses can be credited towards (and are capped by) the taxpayer's net income for the taxable year and the same are neither assignable nor transferable to third parties (they could only be transferred as a tax attribute through a statutory merger). The carryover term is not refreshed by the occurrence of a tax-free reorganization, e.g., statutory merger.

In addition to the 3 taxable years term limitation, an additional limitation applies since the law amendment of 2014, in the way of a cap or apportionment in any given carryover year. The carry-over losses may not exceed in any given year 25% of the net income resulting for the taxpayer for the given fiscal year.

The NOL deduction is allowed only when the tax loss arises from an income generating activity ordinarily taxable under the general income taxation rules. Should the tax loss lack such nexus, i.e., be related to a non-taxable or exempt income generating activity, the commonly applicable criteria by the Venezuelan Tax Authority is that the taxpayer is not allowed to take the tax loss deduction, nonetheless there is a trend in case law allowing for applying losses from exempted activities against other income of the taxpayer.

Venezuelan tax law and regulations provide for other limits (or conditions) for the computation and deduction of tax losses other than those generated as net operating losses (NOL), such as losses in the sale of shares in a Venezuelan company (which requires meeting a substantial activity and holding period tests), the sale of shares listed in stock companies (subject to a schedular rate of 1% on the amount of the sale), and losses which are the result of applying the API system (carryover was limited to 1 year prior to the Income Tax Law amendment of November 2014, with effect on FYs beginning from February 2015).

1.1.14. Tax-Free Reorganizations

There is only one type of tax-free reorganization authorized by Venezuelan law, i.e., a statutory tax-free merger where the tax attributes of the target company are transferable to the surviving or resulting

corporation. Statutory mergers are considered exempt from other taxes such as VAT (only if there is no increase in capital) or registered capital tax (stamp duty).

While other reorganization transactions are not expressly authorized under Venezuelan tax law and regulations, some advantages may be achieved from contributions to capital and distributions of capital of Venezuelan corporations since neither the law nor the regulations require for the same to be carried out at fair market value. In such sense, deferral may be achieved by transferring (contributing or distributing) assets at their tax cost (basis), which basis will be carried over (not stepped up) in the hands of transferee.

1.2. Payment and Filing[13]

For any given taxable year the corresponding income tax return and tax liability must be filed and paid on the dates set out by the Tax Authority during the immediately following year, commonly corresponding with a term of three months following the closing of the fiscal year of the relevant taxpayer (e.g., the filing corresponding to fiscal year 2021 of a taxpayer closing on December 31st, 2021, could take place up until the last day of March, 2022, or the first half of April for Special Taxpayers, nonetheless as of lately the special taxpayers´ compliance calendar has shortened the span for filing applicable to certain taxpayers.

There are special filing and payment schedules issued by the tax authorities for corporations and individuals classified as Special Taxpayers ("Sujetos Pasivos Especiales"). All Special Taxpayers must file their return no later than on the day indicated according to their last digit of the TIN as expressed in the calendar published by the Tax Authorities in their web site www.seniat.gov.ve.

Filing and payment dates are ordinarily similar year after year. The Tax Authority has imposed filing of income tax returns exclusively through electronic means, which has resulted in additional restrictions for the taxpayers as SENIAT´s web site assumes certain interpretations which are not necessarily consistent with the law and/or the Constitution. In recent years, the Venezuelan Tax Authority extended the filing date of returns for fiscal year 2017 and 2018 to May 31, 2018 and May 31, 2019, respectively (extensions were common in the past, but these were the first such broad extension granted in the last decade); a similar action was not adopted for FYs 2019, 2020 or 2021 filings despite of COVID-19.

A temporary regime for payment in advance of Value Added Tax (VAT) and Income Tax, applicable to special taxpayers, was enacted in August 2018 (Decree published in Official Gazette N° 6.396, dated August 21st, 2018), which entered into force since September 1st, 2018. While the regime is referred as temporary, no expiration date has been set forth for the same; hence, it will be in force until repealed.[14] The regime has been partially amendment through providencias issued by the tax authority amending the term for filings.

The advance payment regime for Income Tax applies to Special Taxpayers engaged in economic activities other than the exploitation of mines, hydrocarbons and related activities, and which are not recipients of royalties derived from said activities. Likewise, individuals under employment contracts will be excluded from this regime, even when qualifying as special taxpayers.

13 According to Decree N° 3.719, published in Official Gazette N° 6.420, dated December 28th, 2018, individuals or entities engaged in authorized transactions in foreign currency or cryptocurrencies within the national territory, which constitute taxable events, must assess and pay their tax obligations in foreign currency or cryptocurrencies. Trading of securities in stock exchanges and exports of goods and services by government entities are excluded from the scope of Decree 3.719. It scopes and application remain unclear to date. The same may also be considered null and void.

14 The regime is to be considered null and void as the same was implemented by the Executive Branch without been delegated enabling Powers and the same has been repudiated by Congress (National Assembly).

Advance Payment Rate

The amount of Income Tax is to be advanced, on a biweekly basis (from 2018 until August 2020 on a weekly basis[15]). The advance is computed as 1% on the gross revenue obtained from the local sale of goods and services during the prior two weeks. The Decree covers that the 1% rate for advance payment may be modified by the Executive Branch at any time, between a low 0.5% and a high 2%.

Rules are different for financial institutions, banks, and insurance and reinsurance companies, which must, on a daily basis, advance 2% on their gross revenue from the prior day.

Payments in advance are creditable against the final tax liability, as reported in the final Income Tax return.

Reporting and payment of advances

Special taxpayers (other than companies engaged in hydrocarbons or connected activities) must report and pay income tax advances as follows:

- Each two weeks an advance return must be filed, reporting gross revenue derived during the prior weeks. The tax to be paid in advance will be 1% of said gross revenue.
- The amount to be advanced shall be paid in daily installments throughout the relevant two weeks.

Financial institutions, banks, and insurance and reassurance companies must report and pay daily advances, equal to 1% on the gross revenue of the prior day.

1.3. Penalties and Interest on Unpaid Tax or Late Payment

Unpaid taxes are subject to late interest that should be assessed at the official rate fixed on a monthly basis by the corresponding regulations. Late payment interest rate is 1.2 times the banking rate posted by the government, currently somewhere between 52% to 58%.

Under the full repeal of the Master Tax Code (of November 18, 2014) by a new Master Tax Code of January 29th, 2020 (Official Gazette of the Bolivarian Republic of Venezuela Number 6.507 (Extraordinary) of January 29th, 2020)[16], issued by the "National Constituent Assembly" there is an increase in penalties applicable for non-filing or inaccurate filing. Under the new Code penalties for non-filing or late filing encompass (a) a fine for not filing or late filing which may range from the equivalent of 100 up to 150 times the official exchange rate for the highest value currency, as published by the Banco Central de Venezuela (BCV)[17], which in the case of "special taxpayers" is increased in 200%, (b) closure for a 10 day term; and (c) a penalty of 0.28% of the delayed amount up to 300% (for late filing), and between 100% and 300% for unpaid tax.

1.4. Dividends Tax/ Branch Profits Tax

Since the amendment of the law in 1999 (and effective from 2001) both dividend and "deemed dividend" taxes where reinstated under Venezuelan income tax. The applicable rate is a flat 34%, which

15 The weekly basis changed to biweekly for September 1st, 2020, onwards, first through Administrative Rule N° SNAT/2020/00057 published in Official Gazette N° 41.954, dated August 31st, 2020, and then as extended to 2021 through Administrative Rule N° SNAT/2020/000078 published in Official Gazette N° 42.038, dated December 30th, 2020.

16 A new Master Tax Code passed and published in Official Gazette on January 29th, 2020 entered into force on February 28th, 2020, thirty days after its publication in the Official Gazette.

17 Usually the Euro currency (€).

is ultimately to be applied on the excess of financial (accounting) income over net taxable income. i.e., the Venezuelan dividend tax is clearly not a classical system dividend tax, nor it is an imputation system dividend tax, it performs as an equalization tax.

Dividend tax arises on dividends paid by Venezuelan companies (corporations, such as the sociedad anonima, or LLC, such as the sociedad de responsabilidad limitada), and the same only arises on the excess –if any- of financial (accounting) earnings and profits of a Venezuelan corporation over net taxable income subject to income tax and is a single tier dividend tax. i.e., dividends paid on the basis of already taxed dividends are not subject to dividend taxation. Allocation rules help identify earnings and profits to which the dividends will be attributed to, i.e., first to net taxable income, then to dividends received, then to any excess of financial income over net taxable income. Then with regards to timing, the allocation rules refer to a LIFO in earnings and profits, recognizing first the distribution of E&P of later years.

The amount of said dividend tax on dividends paid to overseas entities may be further reduced or removed on the basis of tax treaty provisions (Cf. tax treaties chart above).

While the tax is a tax on the shareholder, the same is withheld at source at company level, and the rate remains the same, i.e., 34% regardless of whether the shareholder is a Venezuelan resident taxpayer or an overseas individual or entity.

On the other hand, a dividend tax also applies on out-bound investments, such tax applies on dividends paid from overseas corporations to Venezuelan resident taxpayers or Venezuelan P.E. of foreign entities. The applicable rate is 34% on the gross dividend amount and any taxes paid on said dividends may be credited under the Venezuelan FTC system.

A tax on "deemed dividends" (or branch remittance tax) applies also to amounts which may be remitted overseas by branches or P.E. of foreign entities in Venezuela, at a flat 34% rate.

While the statutory provisions refer to the shareholders in the overseas entity as the taxpayers, the tax is applied regardless of whether or not dividends are paid by the overseas entity home office or even regardless of whether earnings are actually remitted overseas by the branch or P.E. In fact, the tax applies on any earnings subject to remittance provided the same are not reinvested in fixed assets in Venezuela (such reinvestment to be certified by an independent auditor) for a term of at least 5 years (after which said amounts could be remitted tax free).

The "deemed dividend" tax is applied on the excess –if any- of financial (accounting) earnings and profits of the Venezuelan branch or P.E. over its net taxable income subject to income tax.

As with the dividends tax, the amount of said deemed dividend tax on dividends paid to shareholders of overseas entities with a branch in Venezuela may be further reduced (say, for Canada or USA) or removed on the basis of tax treaty provisions (most other tax treaties).

1.5. Cross-Border Payments

1.5.1. Withholding Taxes

When Venezuelan sourced income is remitted abroad to a beneficiary that is a non-resident alien individual or entity, the payment is commonly subject to a withholding tax, which is commonly deemed a final payment of tax in Venezuela for payee (based on the relevant facts and circumstances a return may also have to be filed with the closing of the fiscal year).

1.5.1.1. Dividends

If the corresponding profits were taxed at the corporate level then no income tax withholding applies, otherwise a 34% income tax withholding may apply (ultimately to be applied on any excess of financial income over net taxable income. i.e., the Venezuelan dividend tax is an equalization tax.), unless otherwise reduced or removed under a tax treaty. The applicable rate would be 50% for dividends paid by companies engaged in upstream oil activities and 40% for dividends paid by banks, financial institutions, insurance and reinsurance companies.

1.5.1.2. Royalties

The domestic income tax definition of royalties is neither directly tied to the nature of the goods transferred (e.g., intellectual property, such as copyright rights, patented rights or trademarks) nor to the rights afforded with the transfer, but rather to the form of payment. Royalties are defined under the Venezuelan income tax law as the amount paid for the use or enjoyment of patents, trademarks, copyright rights and other procedures, fixed in relation to a unit of production or sale, whatever the denomination of the transfer under the relevant contract.

In this latter case –royalties, net income is a notional 90% -far more burdensome than the above- of the invoiced amount and the general tax brackets apply, with a commonly applicable top marginal rate of 34%. Therefore, royalty payments are subject withholding tax up to an effective 30.60%.

As it should be clear, the term royalties used in our domestic tax laws is clearly not consistent with the understanding of such term in the international arena (e.g., OECD Model Tax Convention on Income and Capital, and even the U.N. Model Double Taxation Convention between the Developed and Developing Countries), and it is defined by the way payment is structured. In such sense, under Venezuelan domestic tax law, royalties may include transfers otherwise characterized as technological assistance or technological services, but at the same time it expands beyond covering trademarks.

1.5.1.3. Technical Services, Technical Assistance and Consulting Services

Technical assistance is defined under the Venezuelan domestic income tax law as the supply of instructions, writings, recordings, movies and other similar technical instruments, destined to the elaboration of a work or product to be sold or the rendering of a specific service for the same sale purposes.

Furthermore, when referring to technical assistance the law provides that it may include the transfer of technical knowledge, engineering services (including execution and supervision of the assembly, installation and startup of machinery, equipment and production plants; the calibration, inspection, repair and maintenance of machinery and equipment; and to carry out tests and trial, including quality control), project R&D (including elaboration and performance of pilot programs; laboratory research and experiments; exploitation services and technical planning or programming of production units), advisory and consultation services (on overseas procurement, representation; advisory and instructions supplied by technicians, and the supply of technical services for the administration and management of corporations in any of the activities or operations thereof) and the supply of production procedures or formulas, data, information and technical specifications, diagrams, plans and technical instructions, and the supply of elements of basic and detailed engineering.

On the other hand, technological services cover the concession for use and exploitation of invention patents, models, industrial drawings and designs, improvements or perfection to the same, formulas, revalidation or instructions and all technical elements subject to patenting. As it is clear from the law, the focus is placed on the characteristic of patentability of the intellectual property so transferred.

Net income is a notional 30% of the invoiced amount in the case of technological assistance, while a 50% of the invoiced amount in the case of technological services. In either case the general tax brackets

apply, with a commonly applicable top marginal rate of 34%. Hence, technical services and technical assistance payments are therefore subject to withholding for income taxes up to 10.2 % (technical assistance) and 17% (technology services).

1.5.1.4. Other Services

If rendered from abroad and not considered technical services or technical assistance, then withholding tax up to an effective **30.60%** should apply, unless otherwise provided by special rules.

1.5.1.5. Interest Payments

As a general rule, payments performed pursuant to foreign debt agreements are subject to withholding on the full amount of interest and financial charges paid at the corporate rate (bracket # 2). A reduced 4.95% withholding rate applies on interest paid to Qualified Financial Institutions ("QFI") incorporated overseas and not domiciled in Venezuela. A QFI would be an entity which is formally chartered in its home country to carry out financial, banking or insurance activities or an entity which is not otherwise limited from carrying out financial activities under the laws in place in its home country and performs such financial activities. Thin Capitalization rules have been introduced earlier this year, with effect for fiscal years beginning on or after March 1st, 2007 (see under 1.1.7 above).

1.5.1.6. Equity Reimbursements

Equity reimbursements not corresponding to dividend or profit distributions are not taxable items of income for the foreign shareholder. Therefore, **no withholding taxes should apply.**

1.5.1.7. Low Tax Jurisdictions

There are no provisions requiring for particular WHT on payments corresponding to items of income deemed from a Venezuelan source directed to a low tax jurisdiction beneficiary nor any particular limitations for deduction on said payments. In any case, any such payments are presumed –unless proven otherwise- among related parties and transfer pricing provisions apply. While there is a whole Chapter of the Venezuelan Income Tax Law dealing with Low Tax Jurisdictions and a "Blacklist" the same applies exclusively under worldwide income rules for foreign source income anti-deferral.

1.5.2. Tax Treaties

Up to date Venezuela has in place and has negotiated closely to thirty income and capital tax treaties (i.e., other than treaties on maritime and/or air transport), and even-though little or no official information is easily available the following is a list as to the status of tax treaties:

Tax Treaties in place: Austria, Barbados, Belarus, Belgium, Brazil, Canada, China, Cuba, Czech Republic, Denmark, France, Germany, Indonesia, Iran, Italy, Korea, Kuwait, Malaysia, Netherlands, Norway, Portugal, Qatar, Russia, Saudi Arabia, Spain, Sweden, Switzerland, Trinidad and Tobago, Turkey, United Arab Emirates, United Kingdom, United States of America and Vietnam.

Tax treaties ratified (pending exchange of diplomatic notes or beginning of following fiscal year): None.

Tax treaties finalized (initialed and pending from ratification): Netherlands Antilles.

Tax treaties under negotiation: Chile (negotiations have stalled), Mexico (adjustments to the treaty initially ratified have been under way during the last few years).

2. Net Worth Tax

2.1. General Aspects

On July 3rd, 2019, the National Constituent Assembly ("ANC"), passed the Net-Worth Tax Law (reprinted on August 16th, 2019) instituting for a first time a "general" worldwide basis net worth tax. Such law entered into force upon publication in the Official Gazette.

The tax applies solely to (i) taxpayers identified by the tax authority as special taxpayers ("Sujetos Pasivos Especiales"), and (ii) on the value of their net worth in excess of T.U. 150 million (VEB 60 million or USD 13,043,478[18]) on September 30th of each year. Taxable net worth includes property and rights over property of any kind, such as: In rem, personal, tangible and intangible. Administration, collection and control of the tax lies exclusively with the National government through the SENIAT.

2.1.1. World-wide Net Wealth

Pursuant to the Law net worth located in Venezuela (sourced) in Venezuela is taxable regardless of whether the taxpayer is a Venezuelan resident taxpayer or an entity incorporated (set-up) in Venezuela or is a non-resident alien or company.

At the same time, net-wealth located overseas and owned by taxpayers residing in Venezuela or attributable to permanent establishments (P.E.) of foreign entities in Venezuela is subject to taxation in Venezuela. As such:

a. Tax is levied on worldwide net worth for: (a) Individuals and legal entities qualified as special taxpayers for Venezuelan tax purposes, as well as entities without legal personality, deemed as Venezuelan residents for the purposes of the tax; and (b) Permanent Establishments in Venezuela of foreign corporations (only net worth attributable to the P.E.).
b. Tax is levied only on net worth located in Venezuela for Individuals (irrespective of their nationality) and foreign legal entities qualified as special taxpayers for Venezuelan tax purposes, with no tax residency in Venezuela.
c. The law does not include methods for elimination of double taxation (e.g., Foreign Tax Credit) nor particular rules dealing with recognition of foreign liabilities. It does not either thoroughly identify or segregate domestic from overseas net worth for computation purposes (only certain assets considered as local situs assets such as real estate, vessels, aircrafts, company shares and jewelry). Private International Law (rules of conflict of laws) may be used to identify nexus of assets and liabilities. Certain tax treaties in place (including tax on capital provisions) would result in an obligation for Venezuela to grant a Foreign Tax Credit for net worth taxes paid overseas.

2.1.2. Residence Criteria for Individuals

To qualify as Venezuelan residents for the purposes of this tax, individuals should meet the following criteria:

- Physical presence in Venezuela for a continuous, or discontinuous period, exceeding 183 days in a tax period (12 months, although not defined within the law);
- Having their vital economic activities or interests, directly or indirectly, in Venezuela;
- Being a Venezuelan national in public office, even if their vital economic activities or interests are located abroad; and

18 Computed at the foreign currency Exchange rate at the time of preparation of this report (i.e., VEB 4.60/1USD). When translating last year the amount equivalent in USD was of USD 125,000.

- Being a Venezuelan national residing in a low taxation, unless a broad agreement to exchange information is in place with that country.

Venezuelan tax residence is deemed when: (a) Home or habitual abode is located within Venezuela, (b) individual is a Venezuelan national, and (c) spouse or dependents meet the previous criteria. In any case, producing a foreign tax residence certificate should suffice to trump the deeming provision (with the exception of low tax jurisdictions).

2.1.3. Residence Criteria for Legal Entities and Entities Without Legal Personality

Legal entities (e.g., corporations, partnerships, etc.) or entities without legal personality will be considered as residents in Venezuela, in the following cases:

- They have been incorporated in and according to Venezuelan laws;
- Tax or corporate domicile is in Venezuela; and
- Venezuela is their place of effective management.

2.1.4. Tax Rate

Net worth tax rate may be set by the National Government between a minimum limit of 0.25% and a maximum of 1.50%. At this time the rate has been set at 0.25% by operation of law.

2.1.5. Tax Base

Net equity, understood as the result of adding the total value of the assets and rights, determined in the manner provided by law, excluding the value of the liabilities and encumbrances which correspond to said assets, as well as the assets and rights exempt or exonerated.

2.1.6. Value Attribution Rules

In general, assets are valued based on the greater value determined as per: (i) public or private records (e.g., municipal registry or stock exchange); (ii) fair market value; or (iii) adjusted cost as defined by tax administration rules. The Law assigns particular rules for assessing value on the following goods:

- Real estate located in Venezuela;
- Real estate located abroad;
- Other real estate;
- Shares and other right on legal entities;
- Jewels, pieces of art and antiques; and
- Other assets and rights.

Assets and rights that are subject to public registration formalities will be attributed to the registered owner, whereas assets not subject to registration shall be attributed to the holder. Specific attribution criteria are provided for the case of leases, civil-law trusts and certain personal assets. Legal title/possession is presumed for following tax periods unless evidence of transfer or loss is provided.

2.1.7. Reporting and Payment

A tax return must be filed annually, within 2 months following the occurrence of the tax event (taxable event is deemed to have occurred on the last day of the tax period, that is on September 30th of each year). Hence, a tax return must be filed every year by November 30th at the latest.

Ruling Nº SNAT/2019/00213 from the National Integrated Internal Revenue and Customs Service (SENIAT) was published in Official Gazette Nº 41,697 of August 19th, 2019, setting the rules for updating the value of goods and rights, as well as requirements and formalities for reporting and payment of the tax.

According to said Ruling: (i) the valuation rules for assets shall be those published by SENIAT in their web site; (ii) for valuation purposes, municipal authorities must keep updated, ex officio or at the request of a party, the cadaster value of the properties located in their jurisdiction; (iii) reporting and payment must be made within 2 months following the occurrence of the tax event as explained above.

As of end of July 2022 SENIAT has still yet to publish valuation/appraisal rules.

2.1.8. Duty to Inform

Judges, registrars, notaries, financial institutions, insurance and reinsurance companies, brokerage firms, exchange houses, depositories, museums, galleries, jewelers and other public or private entities in charge of registration of or that keep records regarding personal property and real estate; must provide information, at request, to the Tax Administration regarding those assets in their public or private records.

2.1.9. Deduction From Income Tax

The Net worth Tax is not deductible nor creditable for Income Tax purposes.

2.1.10. Withholding Agents

The Law allows the tax authority to appoint withholding or collection agents of the net worth tax.

3. Value Added Tax (VAT)

3.1. General Aspects

3.1.1. Tax Rates

VAT's general rate may be set by the National Executive between 8% and 16.5%. A surtax between 15% and 20% applies to luxury consumption goods and services as defined under the VAT law, which last reform took place on January 29th, 2020 (VATL 2020) and entered into force on April 1st, 2020. Current general rate has been set at 16% and the luxury goods rate at 15%.

Under the VATL 2020 amendment (January 2020) an additional rate (surcharge) has been created, ranging between 5% and 25% (to be set by the National Government and not yet set), applicable to the sales of goods and services paid in foreign currency or cryptocurrency not backed by the Venezuelan government. This new additional rate is limited to operations executed in Venezuela and will be levied to sales of goods and services exempt from the general rate (VAT exempt), or some even not subject to VAT (i.e., sales of real estate).

There is also an 8% reduced rate, applicable to certain imports and local sales of cattle, meats and breeding fare, as well as professional services rendered to Government instrumentalities, and domestic air travel services.

There are exempted and exonerated goods and services. The VAT law provides for exemptions on most basic services and basic consumption goods (like unprocessed food and beverages), but the list has largely increased with exonerations on imports and local sales of goods and services (there are many Exoneration Decrees in place). Since the exempted and exonerated goods and services are extensive the same should be checked in detail on a case-by-case basis.

A zero-rate regime applicable to domestic sales of crude oil was incorporated in the VAT law, and the Supreme Tribunal of Justice has ruled that sales and services to Free Trade Zones should receive zero rating treatment.

There are also some VAT exemptions for specific public entities of the national or local territorial level, which may or may not be relevant depending on which is the public entity that will act as contracting entity in any given project.

Elimination of an exemption for certain fuel components stands out in VATL 2020.

3.1.2. Taxable Transactions

These are: sale and imports of movable tangible property; and provision of services rendered in Venezuela.

In some cases, services rendered outside Venezuela are deemed as subject to VAT because of their nature and for being the beneficiary a party located in Venezuela, e.g., consulting, advising and auditing services. In these cases, the VAT does not affect the foreign party as the Venezuelan party must cover and withhold 100% of the VAT and transfer to the tax authorities the withheld amounts.

The sale of movable tangible property that is a fixed asset for the seller is not subject to VAT.

Under the amendment of the law of November 2014, the luxury consumption surtax is expanded to cover certain services in addition to the sale or import of certain goods.

3.1.3. Taxable Base

As a general rule, the taxable base is the price or value of the consideration paid for the goods or services, which should correspond to their Fair Market Value (FMV).

There are cases where certain items must be either included or excluded from the taxable base and/or cases with either mandatory or optional taxable bases, which should be analyzed on a case-by-case basis.

3.1.4. Creditable VAT

As a general rule the VAT taxpayer has a right to credit against payable VAT all VAT paid to her providers for tangible movable property bought or imported and for services hired. i.e., in order to compute the VAT quota, it is allowed to deduct from output VAT all input VAT, and any excess input VAT for a given month may be carried over to future months with no limitation.

The VAT paid in the acquisition of goods that will become fixed assets for the buyer is creditable against VAT regardless of whether the asset is capitalized for income tax purposes.

There are limitations in crediting input VAT paid on costs and expenses, when incurred in a VAT exempted or VAT zero-rated activity, the same need to be reviewed on a case-by-case basis.

Additional limitations in crediting input VAT were included on 2014, and effective from December 1st, 2014. Under the same: (i) there is an overall limitation which restrict crediting input VAT to 12 monthly periods from the moment the same was incurred; and (ii) there are other limitations, such as:

a. input VAT must correspond to habitual –customary- acquisitions from the taxpayer;
b. must be connected directly and exclusively with the activity of the taxpayer; and
c. input VAT must not relate to consumables (beverages, food and shows).

3.1.5. Tax Holidays

In addition to the standard tax holidays provided in the law and which have remained largely unchanged for the past ten years, the National Executive has issued in the past few years large numbers of tax holidays measure (Exoneration Decrees) mostly aimed at mining operations and imports.

The largesse allowed to the Government in the issuance of said holidays, as commented for income tax above, is likely to be limited under the full repeal and issuance of a new Master Tax Code passed at the end of January 2020, which calls for a single yearly Decree covering any and all tax holidays and reducing their term to a single fiscal (budget) year, plus a possible extension for an additional year[19].

3.2. Payment and Filing

Traditionally VAT had a monthly taxable period, which resulted in the tax being computed and a VAT return being filed monthly. The VAT used to be filed and paid in full on the filing dates scheduled by the tax authorities for these purposes, which were usually within the first 2 weeks following the corresponding monthly period's end. In the case of Special Taxpayers, the filing and payment dates was scheduled by the Tax Authority depending on the last digit of the taxpayer's TIN.

Now, in August 2018 a temporary regime for payment in advance of Value Added Tax (VAT) and Income Tax, applicable to special taxpayers, was enacted (Decree published in Official Gazette N° 6.396, dated August 21st, 2018), it entered into force on September 1st, 2018. This regime was intended to be temporary, yet no expiration date has been set forth; hence, it will be in force until repealed. As explained below, Regulations to this Decree have introduced important changes to rules governing the taxable period, as well as filing and payment dates for VAT purposes, in the case of special taxpayers (the monthly regime is still in force for regular taxpayers).

Scope of Application

The payment in advance regime for VAT only applies to Special Taxpayers engaged in economic activities other than the exploitation of mines, hydrocarbons and related activities, and which are not recipients of royalties derived from said activities. Likewise, individuals under employment contracts are excluded from this regime, even when qualifying as special taxpayers.

Tax assessment

The amount of VAT to be advanced, on a biweekly basis, will be equal to the final VAT reported for the two prior weeks. Payments in advance will be credited against the final VAT liability, as reported in the final weekly VAT return.

19 Notwithstanding, at the end of 2019 and 2020, the following Exemption Decrees were issued: (i) Decree N° 4.080 published in the Official Gazette Extraordinary N° 6.497 dated 12/26/2019 aimed to import of several goods until 12/31/2020; (ii) Decree N° 4.220, published in the Official Gazette N° 41.896 dated 06/08/2020 aimed to sales of fuels, inputs and additives to improve the quality of gasoline until 06/08/2021; (iii) Resolution N° 079 published in the Official Gazette N° 41.854 dated 04/03/2020 aimed to import of face masks and other supplies to combat COVID-19 (made by the Entities of the Public Administration) and; (iv) on December 29th, 2020 was issue Exoneration Decree N° 4.412 aimed to import of several goods until April 2021.

Reporting and Payment of advances

Taxpayers must report and pay VAT advances as follows:

a. Each two weeks an advance return must be filed, reporting an amount equal to the final VAT liability reported for the prior weeks. The VAT to be paid in advance will be equal to that final liability of the two prior weeks; and
b. The amount to be advanced shall be paid in full on the first day of the week or in daily installments throughout such week.

Reporting and Payment of final VAT

Although VAT Law provides for a monthly taxable period, enactment of the Temporary Regime for payment in advance of Value Added Tax and Income Tax, has in fact changed such taxable period for Special Taxpayers. Indeed, as a result of rules governing this regime, which include Ruling SNAT/2020/000078 (published in Official Gazette No. 42.038, dated December 30th, 2020) which covers the calendar of obligations for Special Taxpayers for fiscal year 2021, VAT is now payable on a biweekly basis (as said before, since 2018 until August 2020 it was payable on a weekly basis), hence the taxable period for most VAT taxpayers has been reduced to 2 weeks. The change also affects VAT withholdings, which must be also reported and remitted on a biweekly basis. Again, the monthly regime provided for in VATL is still in force for regular taxpayers (those not yet designated as special by SENIAT).

3.3. VAT Withholding for Special Taxpayers

Based on the VAT law authorization for the Tax Authority to provide for VAT withholding, the Venezuelan Tax Authority has established a broad VAT withholding regime. Under the regulations, those taxpayers defined by the Tax Authority as Special Taxpayers ("Sujetos Pasivos Especiales") are required to withhold on their acquisition of taxable goods and services from VAT taxpayers. Tax to be withheld is commonly 75% of the input VAT for purchaser of goods or services, but under some circumstances it may be the full amount (100%) of VAT charged by the provider of goods or services. The VAT taxpayer may credit the VAT so withheld against its VAT quota, i.e., the excess –if any- of output VAT over input VAT, and outstanding amounts of VAT withheld for a biweekly term may be transferred for their recovery in later periods (fortnightly), with no limitation in time; alternatively, any excess VAT withholding not credited during the following periods may be recovered by filing before the Tax Authority for setting off said amounts against any national taxes or assigning the same to third parties.

4. Other Taxes & Contributions

4.1. Taxation of Large Financial Transactions

At the close of 2015, the creation of a tax upon large financial transactions was passed. The administration, collection, assessment and control of this tax is vested in the Federal Tax Authority (SENIAT).

As recently as February 25, 2022, an Amendment of the Large Financial Transactions Tax Law (LIGTF) was passed by the Venezuelan Congress ("Asamblea Nacional") as published in Official Gazette No. 6,687. The amended law introduces new taxable events by means of expanding its personal and material scope to encompass not only transactions made by Special Taxpayers (as originally provided thereof) but to certain transactions made by any taxpayer (i.e., individuals, legal entities, contractual joint ventures, etc.) regardless of their qualification as Special Taxpayer. These new taxable events aim

at taxing payments made by any taxpayer in foreign currency or cryptocurrency not backed by the Venezuelan government (e.g., Petros) in certain circumstances.

Such law entered into force after a 30-days term following to the publication of the Law in the Official Gazette.

4.1.1. Taxable Event

The same include:

a. Debits from bank accounts, correspondent accounts, escrow accounts or any other sort of sight deposits, liquid assets funds, trust funds and in any other funds on the financial market, or in any other financial instrument, made in banks and other financial institutions;
b. The assignment of checks, securities, escrow accounts paid in cash and any other negotiable instrument, as of their second endorsement;
c. The acquisition of cashier checks with cash;
d. Lending operations by banks and other financial institutions among each other, and subject to terms of no less than two bank business days;
e. The transfer of securities held in custody among various owners, albeit no disbursement be made through an account;
f. The cancellation of obligations made without mediation from the financial system, by payment or other means of extinguishment;
g. Debits in accounts forming part of organized private payment systems not run by the Venezuelan Central Bank and other than the National Payments System, and
h. Debits to accounts for cross-border payments.

4.1.2. Taxpayers

The law defines several categories of taxpayers, described as follows:

a. Legal entities and unincorporated economic entities qualified as special taxpayers, on the payments made against their accounts in banks or financial institutions;
b. Legal entities and unincorporated economic entities qualified as special taxpayers, on the payments that they make without mediation from the financial institutions. Payment is deemed to include offsetting, novation and debt remission;
c. Legal entities and unincorporated economic entities legally bound to a legal entity or unincorporated qualified as special taxpayers, on the payments that they make from their accounts at banks or financial institutions, or without mediation from financial institutions; and
d. Individuals, legal entities and unincorporated economic entities, which without being legally bound to a legal entity or unincorporated economic entity qualified as special taxpayers, make payments on their behalf, charged to their accounts at banks or financial institutions, without mediation by financial institutions.

As mentioned above, two new categories of taxpayers are included in 2022:

e. Individuals, legal entities and unincorporated economic entities, for payments in foreign currency or cryptocurrencies/crypto assets (other than those backed by the Bolivarian Republic of Venezuela), within the Venezuelan banking system, without the intermediation of a foreign banking correspondent, in accordance with the policies, exceptional authorizations and parameters set by the Central Bank of Venezuela (BCV); and
f. Individuals, legal entities and unincorporated economic entities, for payments to any individual or

legal entity qualified as special taxpayer, in foreign currency or in cryptocurrencies/crypt assets (other than those backed by the Bolivarian Republic of Venezuela, without the mediation of financial institutions).

4.1.3. Withholding & Collection Agents

Under this Law, the Tax Administration may appoint withholding or collection/receiving agents for this tax. Any persons involved in acts or operations where they are in a position to directly withhold or receive the tax directly or through an intermediary may be so appointed.

Based on said provision, on March 17, 2022, the Federal Tax Authority (SENIAT) issued an Administrative Ruling No. SNAT/2022/000013 appointing all Special Taxpayers (Sujetos Pasivos Especiales) as "Collection Agents" of this Tax when taxable payments are made -and received- in foreign currency or in cryptocurrencies or crypto assets without mediation of a financial institutions.

4.1.4. Exemptions

a. The Republic and all other political-territorial entities;

b. Public entities with business purposes or otherwise, qualified as special taxpayers;

c. The Venezuelan Central Bank;

d. Foreign exchange operations performed by a duly authorized exchange operator;

e. The first endorsement made on checks, securities, escrow accounts paid in cash and any other negotiable instrument;

f. Debits derived from the purchase, sale and transfer of the custody of securities issued or backed by the Republic or the Venezuelan Central Bank, and the debits or withdrawals relating to the liquidation of the capital or interest thereof, and the securities negotiated on the agricultural products stock exchange and the stock market;

g. Operations of transfers of funds made by the owners between accounts, at banks or financial institutions organized and existing in the Bolivarian Republic of Venezuela. Such exemption does not apply to accounts with more than one holder;

h. Debits in checking accounts of diplomatic or consular missions and their foreign officers accredited in the Republic;

i. Debits to account for transfers or issues of personal or cashier's checks for the payment of taxes where the beneficiary is the National Treasury;

j. Debits or withdrawals made from the accounts of the Bank Clearing House, credit card clearing houses, national correspondent bank accounts and the clearing accounts for the operations of the banks; and

k. Purchases of cash in the sole accounts kept at the Venezuelan Central Bank by the Banks and other financial institutions.

As per the last amendment of the law, tax exemptions provided for in numerals 5 to 11 above shall be applied exclusively to transactions carried out in Venezuelan legal tender (i.e., bolivars) or in cryptocurrencies or crypto assets backed by the Bolivarian Republic of Venezuela (e.g., Petro).

4.1.5. Tax Base

The aggregate amount of each account debit or taxable transaction. In the case of cashier's checks, it is determined by the amount on the face of the check.

4.1.6. Tax Rate

Pursuant to the last amendment of the FTT Law in 2022, the National Executive may, at its own discretion and by means of decree, fix the rate of this tax according to the following rules:

a. From a minimum of 0% to a maximum of 2% as applicable to transactions covered under numbers 1 trough 4 of article 4 (see section 4.1.2 above);
b. From a minimum of 2% up to a maximum of 8% for transactions made in foreign currency or in cryptocurrencies other than those backed by the Bolivarian republic of Venezuela (ptr) when made through the national banking system without the intermediation of a foreign bank correspondent (article 4, num. 5); and/or
c. From a minimum of 2% up to a maximum of 20% for transactions made in foreign currency or in cryptocurrencies other than those backed by the Bolivarian republic of Venezuela (ptr) when made outside the banking system, provided the payment is made to a special taxpayer (sujeto pasivo especial) as so designated by the competent tax authority (Article 4, num. 6).

Nonetheless, the respective tax rates for each of the transactions above were originally fixed on a preliminary basis under the Amended Law and are to be applied until the time the National Executive sets a replacement rate by decree. As a result, general tax rate was legally fixed at 2% for transactions covered under numbers 1 to 4 of Article 4 related to taxpayers (See Section 4.1.2 above); and at 3% the tax rate applicable to transactions made in foreign currency or in cryptocurrencies other than those backed by the Bolivarian Republic of Venezuela (PTR) when made (i) through the National banking system and/or (ii) outside the financial system in favor of a Special Taxpayer (numbers 4 y 5, Article 4).

4.1.7. Taxation Period

Daily.

4.1.8. Tax Holidays & Not Taxable Transactions

On February 25, 2022, a tax holiday was granted for a 1-year-term through Presidential Decree N° 4.647 published in Official Gazette (E) N° 6.689 to be applicable on debits derived from the purchase, sale and transfer of the custody of securities issued or backed by the Republic or the Venezuelan Central Bank (BCV), and the debits or withdrawals relating to the liquidation of the capital or interest thereof, and the securities negotiated on the agricultural products stock exchange and the stock market, when made in foreign currency or cryptocurrencies other than those backed by the Bolivarian Republic of Venezuela (i.e., Petros), which otherwise would be taxed pursuant to this law.

Under the same Decree, the following transactions are considered as not subject to FFT[20]:

a. Exchange operations carried out by natural and legal entities;
b. Payments made in bolivars using a national and international debit or credit cards associated to foreign currency banking accounts, through point-of-sale terminal (POS) duly authorized by the official authorities, except when those payments are made by special taxpayers;
c. Payments made in foreign currency or in cryptocurrencies or crypto assets other than those backed by the Bolivarian Republic of Venezuela, in favor of individuals, legal entities and unincorporated economic entities that are not designated as Special Taxpayers; and
d. Remittances sent from abroad, through authorized institutions.

20 We must caution that a decree or instrument of regulatory nature issued by the National Executive and providing for a tax holiday cannot encompass non-taxation events (supuestos de no sujeción), and as a result said provision runs the risk of being repealed as unconstitutional.

4.1.9. Deduction for Income Tax

The Tax on Large Financial Transactions is not deductible for Income Tax.

4.1.10. Formal Duties

a. Keeping and delivering to the Tax Administration detailed reports on the bank or accounting accounts reflecting the amount of the tax paid or withheld; and

b. Meeting the formalities relating to the returns required to be filed to comply with the provisions of this Law.

The penalties applicable for breach of the obligations established in this Law shall be those contained in the Master Tax Code. This new law shall be effective as of March 27, 2022.

4.2. Real Property Taxes[21]

There are municipal (local territorial level) taxes on urban real estate. The rate for these taxes is set in municipal ordinances adopted by each locality, therefore they vary. Real estate tax usually ranges from 1 per thousand to 0.5 per cent[22].

The taxable base in the case of real estate is the cadastral value of the property. These taxes are usually paid, and a return filed yearly.

Incentives in these taxes are ruled by the ordinance of the municipality in which the property is located. Therefore, the availability of incentives must be checked on a case-by-case basis.

4.3. Local Activities Tax[23]

This is also a municipal tax applicable to all industrial, commercial and services activities (but for professional services) performed in the territory of said municipality. The taxable base is the turnover (gross proceeds) received by the taxpayer and arising from the activity performed in said locality. The tax rates vary from locality to locality and range from **0.5 to 15 per cent[24].**

This tax is usually paid, and a return filed yearly, and some basic rules regarding the same have been recently sanctioned by the Venezuelan Asamblea Nacional in order to avoid or reduce multiple taxation. In said sense, apart from tax base apportionment among different municipalities where an activity is carried out, and the formal recognition of the permanent establishment as a condition for the tax to arise, the law (Ley Orgánica del Poder Público Municipal) allows for the National power to establish a cap rate for certain activities (e.g., electric utility services, such as power plant and transmission are capped at 2%, radio broadcasting at 0.5% and telecommunications activities at 1%).

21 As indicated in footnote N° 5 Local Level Tax Rates are being modified by several municipalities (those signatories of the Municipal Tax Harmonization Agreement) due to Supreme Tribunal of Justice decision N° 0078 dated July 7th, 2020. A Municipal Tax Harmonization Agreement covers referential local level tax rates, however, the final tax rates will depend on each municipality. Although the official text of the Agreement has not been published, an unofficial draft has been circulating informally dated July 29th, 2020.

22 The Municipal Tax Harmonization Agreement sets referentially the rate in PETROS (Venezuela Government sponsored cryptocurrency) per square meter that goes from 0.01 to 0.16 Petro/m2.

23 Similar considerations as those covered in footnote N° 16.

24 The Municipal Tax Harmonization Agreement sets referentially a minimum and maximum monthly rate that goes from 0.25 to 6.00 per cent and a taxable minimum in Petros that goes from 0.2 to 0.12.

Incentives in these taxes are provided under the relevant local law (Ordinance or Major´s Decree) of the municipality in which the activity is performed and taxed. Therefore, the availability of incentives must be checked on a case-by-case basis[25].

4.4. Stamp Tax

This is a documentary tax applicable to all written agreements with effects in Venezuela or for a Venezuelan party which taxing power is vested on the States and the Metropolitan District (of Caracas). The tax rate varies on the basis of the acts and transactions. It is worth mentioning that under an interim arrangement some stamp taxes are charged by the National Government, such as the payment of a stamp tax of 2% over the registered capital of a company on its incorporation or subsequently when the same is expanded or increased with further contributions, as set pursuant to Administrative Ruling N° 002 issued by SAREN on January 6, 2022 based on the last Amendment of the Registries and Public Notaries Law passed by the Venezuelan Congress in December 2021.

The taxable base may be the full amount of the consideration agreed in the document, unless otherwise indicated by law, in which it performs as a tax, or the same may perform as a duty which is calculated on a given amount of tax units (T.U.) per transaction.

4.5. Registration Tax

The registration of acts and documents with the civil law registry office or the commercial registry office, is subject to this registration tax. The tax rate ranges between 0.5% and 2% depending on the type of act or document. The taxable base is the amount of the price or consideration shown in the document. Very few documents that are subject to registration are exempted from this tax, but if the document is subject to registration tax it is automatically exempted from the above-commented stamp tax.

4.6. Science & Technology Contribution

The contribution on science and technology provided by the "Ley Orgánica de Ciencia y Tecnología" (2014), is confirmed in the last amendment of the aforementioned law published in the Official Gazette of the Bolivarian Republic of Venezuela Number 6,693 (Extraordinary) of April 1st, 2022, which applies to entities defined in the law as Large Ventures "Grandes Empresas" (i.e., those companies with a turnover of 150,000 times the official exchange rate for the highest value currency, as published by the BCV in the immediately preceding fiscal (monthly) period or more)[26].

The contribution is a **2% on turnover** (gross proceeds)[27] for entities engaged in the manufacturing or commercialization of alcohol and spirits, as well as that of tobacco and tobacco products; gambling activities are subjected to a similar rate. Hydrocarbon activities as well as qualified mining activities

25 In light of COVID-19 several States and Municipalities have granted temporary incentives to taxpayers in order to mitigate the burden of taxes (based on turnover) and entice payment during the pandemic, such as: (i) extension of term for filing and payment; (ii) exemption of penalties and fines for late payment; and (iii) provision of tax discounts.

26 As this is one of the main changes recently introduced by the last Amendment of the Law (2022), since under the prior amended law (2014) the minimum turnover required for triggering the taxable event was represented in 100,000 Tax Units. Thus, computation in Tax Units was replaced by a number of times the official exchange rate for the highest value currency, as published by the BCV in the immediately preceding fiscal period. on the other hand, other of the main changes to be appointed is that fiscal period was reduced to be computed on a monthly-basis.

27 The taxable base of this contribution has been expressly amended to include any kind of proceeds, including differences in exchange as well as those obtained from interest, dividends, bonds and stock placement and operating income, among others, as the same are currently included within the scope of the term "turnover" for the purposes of this contribution.

(related to strategic minerals so classified by the National Executive such as gold, cassiterite, nickel, diamond, coal, rhodium, titanium among others, as governed by the Decree with Rank, Value and Force of Law that reserves to the State the activities of Exploration and Exploitation of Gold and other Strategic Materials), when carried out by private parties are taxed at 1% on turnover.

While when said activities are carried out by entities which capital is considered public capital (i.e. wholly or partially State owned, but controlled by the State) then the same are taxed at 0.5% on turnover; any other industrial or commercial activities, i.e. activities in general are subject to the latter 0.5% rate on turnover (including mining activities related to non-strategic minerals both when carried out by private parties or by entities which capital is considered public capital).

4.7. Anti-Drug Enforcement Contributions

A contribution for purposes of illegal drug enforcement and education is provided for, which contribution is computed as a 1% on net earnings of the relevant taxpayer engaged in commercial, industrial or services activities, but for those taxpayers engaged in manufacturing spirits and liquor and those manufacturing cigarettes and tobacco a contribution is 2% on their net earnings applies. The tax basis are net earnings (accounting income before taxes) as per Venezuelan GAAP, as it stems from the regulations (Providencias 006-2011 and 007-2011 of March and May 2011).

As a new anti-drugs enforcement law was passed on November 2010 ("Ley Orgánica de Drogas") the same covers in its Articles 32 and 34 the relevant contributions. Which contributions are to be paid in to the special fund created for those purposes ("Fondo Nacional Anti-drogas" or "FONA"), but the same is to be used in projects identified in the law, which may include reinvestment (up to 40%) in approved activities or projects within payor and payor employees (Providencia 0001-2011).

4.8. Sports Law Contribution

A contribution for purposes of funding a special Fund ("Fondo Nacional para el Desarrollo del Deporte, la Actividad Física y la Educación Física") was established in the Sports Law passed on August 2011.

The contribution under the Sports Law ("Ley Orgánica de Deporte, Actividad Física y Educación Física") arises upon the exercise in Venezuela of any commercial, industrial or service activity by any person (individual, companies, partnerships, inter alia) resulting in net earnings in a given year in excess of 20,000 T.U. and the same is computed as a 1% on net earnings of the relevant taxpayer.

The tax basis are net earnings (accounting income before taxes) as per Venezuelan GAAP, as identified in Regulation #1 to the law, and the contribution may be paid in cash in full or part of the same, may be used in projects identified in the law and approved by the Instituto Nacional del Deporte, which may include reinvestment (up to 50%) in approved activities or projects within payor.

4.9. Special Petroleum Windfalls Contributions

On February 20, 2013(G.O. dated February 20, 2013, No. 40.114) the Asamblea Nacional passed an amendment windfall profits tax –dubbed contribution-. Such tax is divided into two different contributions, a so-called contribution for extraordinary prices and a contribution for exorbitant prices, and the same apply to exporters and transporters of crude oil (including upgraded crude oil) and products (it does not apply to gas hydrocarbons or its byproducts), as well as on internal transfers of oil and products by Empresas Mixtas to PDVSA and its affiliates.

The contribution on extraordinary prices is triggered when the average monthly price of the Venezuelan basket of crude oil exceeds the price estimate provided for in Venezuela's annual budget law (e.g., for

2011 the same sits at USD 50/bbl) but is still below USD 80/bbl. The rate is 20% and when triggered the contribution is computed as 20% over the monthly average price in excess of the price estimate provided for in Venezuela's annual budget law. The contribution is assessed by the Ministry of Petroleum and Mines to be paid on a monthly basis, in foreign currency.

The contribution on exorbitant prices is triggered when the average monthly price of the Venezuelan basket of crude oil exceeds or is equivalent to USD 80/bbl. The contribution is applied in three different brackets with rates being 80%, 90% and 95%. This contribution is also assessed by the Ministry of Petroleum and Mines on a monthly basis, and payable in foreign currency.

The 80% rate applies over the monthly average price in excess of USD 80/bbl but under USD 100/bbl; the 90% rate applies over the monthly average price in excess of USD 100/bbl but under USD 110/ bbl; and the 95% rate applies over the monthly average price equivalent to or in excess of USD 110/ bbl.

The law provides for certain tax holidays, and it also establishes as a cap for the payment of royalties, severance tax and export registrar tax (all of them contributions and royalties under the Ley Organica de Hidrocarburos) the amount of USD 70/bbl.

5. Customs Regime: General Aspects

5.1. Custom Duties

As pointed out above, importation of goods is subject to import VAT at a general rate of 9%, unless otherwise exempted or exonerated. In addition to import VAT, imports are also subject to custom duties that range between 5% and 35%, also depending on the type goods being imported. Although a reform of the Master Customs Law was enacted on January 29th, 2020, no major changes were made to the topics discussed herein.

It is important to point out that Venezuela has entered into multilateral or bilateral Preferential Custom Tariffs Agreements (PCTA) with many countries, reducing or fully removing the applicable custom duties for certain merchandises from a certified origin.

Among the same it is worth mentioning that Venezuela has been suspended from its status as member to MERCOSUR, and hence, Venezuela may not avail preferential customs treatments corresponding to MERCOSUR.

At the same time Venezuela has been entering into transition agreements to extend and be extended preferential customs treatments corresponding to the Andean Community, until a more definitive agreement is finalized and executed. An interim agreement was finalized with Colombia back in 2011 and the same remains in place.

5.2. Taxable Base

Custom duties are computed on the CIF value of the goods, while import VAT is computed on the CIF value plus the corresponding custom duties.

5.3. Transfer Pricing

Custom valuation rules in place in Venezuela are those of the GATT (1994) valuation code, which are similar to the current WTO valuation rules. For valuation purposes, the Andean Pact valuation rules in Decisions 378 and 379 are still applied even-though Venezuela is not a party to the Andean Community.

These rules are substantially similar to the first mentioned rules.

5.4. Filing and Payment

An import return must be filed to begin the process of nationalization of the goods. As a general rule in the ordinary importation regime, custom duties and import VAT must be paid within the 5 days following the assessment and liquidation of custom tariffs and duties, when the payment slip is issued by the relevant Customs Office.

5.5. Selected Custom Duties Regimes Available

Importation of goods and equipment can be performed through a variety of customs regimes different to the ordinary importation regime. Each of these special custom duties regimes has a different customs duty and import VAT treatment.

For goods and equipment sold, the custom regime applicable will be ordinary importation. For leased equipment (or equipment and goods contributed as equity to a corporation or branch) the custom regimes applicable are either the ordinary or temporary regimes but with a non-reimbursable import license. Here are some of the most relevant importation regimes available.

5.5.1. Ordinary Import Regime

It applies to all goods that will remain permanently in Venezuelan territory without any use or jurisdictional restrictions. Full payment of custom duties and import VAT is required upon nationalization.

According to the Customs Organic Law, which last amendment took place on January 2020 (published in the Official Gazette of the Bolivarian Republic of Venezuela Number 6.507 -Extraordinary- on January 29th, 2020) the value of goods that will be imported shall be determined according to the appreciation methods of the World Trade Organization ("Organización Mundial del Comercio"), its general rulings, and the International Treaties on the matter.

5.5.2. Short-term Temporary Importation

This regime applies to specific goods that will be used for a specific activity that will take no longer than 12 months, although a further year extension can be authorized. Therefore, the permanence in the country of the goods is limited to that 24-month maximum period. At the end of the temporary importation the goods must be exported, or the importer must apply for a long-term importation regime, otherwise the goods will be forfeited or a fine will be imposed.

5.5.3. Short-term Temporary Importation for Active Transformation

This regime applies to specific goods that will be used as supply or raw materials for their processing, manufacturing or transformation in a product to be exported, within a given term, commonly not extending beyond 12 months, although a further year extension can be authorized. At the end of the temporary importation the goods –as transformed or incorporated in new goods manufactured- must be exported or the importer must apply for a long-term importation regime, otherwise the goods will be forfeited or a fine will be imposed.

5.5.4. Draw-Back Regime

The draw-back regime consists of the reimbursement of customs duties levied on goods used in the production process of goods to be exported. The beneficiaries are: i) Exporters who have paid the import tax directly; and ii) Exporters who have purchased finished goods for export, incorporating into

them inputs, raw materials, parts or spare parts that have been cleared through customs through the ordinary import regime.

5.5.5. Free Trade Zone Regimes

Venezuela has some convenient Free Trade Zone regimes that should be carefully explored by importers and other parties with business interest or permanent operations in Venezuela, such as the Paraguaná, Mérida, as well as Nueva Esparta and Santa Elena de Guairén. These regimes have proven to be useful in not few specific situations and in addition there are some VAT and income tax benefits attached to them that should be reviewed on a case-by-case basis.

5.5.6. Custom Returns

According to Article 41 of the Customs Master Law, in order to determine the customs regime applicable for goods, they necessarily shall be object of a "Custom Return" through the Automatized Custom System ("Sistema Aduanero Automatizado").

In addition, under the aforementioned amendment there is an "advanced Customs Return" which must be submitted by the importer prior to the entrance of the goods in Venezuela, also through the Automatized Customs System ("Sistema Aduanero Automatizado") and assisted by the particular Customs Agency.

This "Advanced Customs Return" shall be submitted prior to the entrance of the goods into Venezuela, and according to the following schedule:

For goods which arrive in Venezuela by aerial or ground transportation, the "Advanced Customs Return" shall be submitted within a term of no more than 15 calendar days and no less than 1 calendar day, prior to the entrance of goods into Venezuela.

For goods which arrive in Venezuela by maritime transportation, the "Anticipate Custom Return" shall be submitted not exceeding the 15 calendar days and not less than 2 calendar days, prior the entrance of the goods to Venezuela.

There are some exceptions applicable to the submission of this "Advanced Customs Return" (e.g., imports by diplomatic missions and international organizations)

6. Payroll Taxes/ Welfare Contributions

6.1. Social Security Contributions (IVSS)

This contribution is paid by both employer and employees. Employers must contribute to the Social Security Agency (Instituto Venezolano del Seguro Social or IVSS). These contributions vary depending on the risk of the companies' activities and are calculated based on the normal salary of each worker or employee, up to a limit of 5 minimum monthly salaries. The employer contributes between 9% and 11% of the portion of the worker's salary that does not exceed the cited minimum salary limit, depending on the risk of the company, and the worker contributes 4% of the same portion of salary. Filing and payment is done on a monthly basis.

6.2. Education & Apprenticeship Contributions (INCES)

Commercial or industrial employers with five or more workers must contribute 2% of the total wages and remunerations of any kind (excluding mandatory profit sharing "utilidades" under Labor law and

labor contracts) to the National Institute of Cooperative Education (INCE). Workers contribute 0.5% of their annual profit sharing, which employers must withhold.

6.3. Labor Risks Indemnity Contribution

This contribution is established in the Ley Organica de Prevencion Condiciones y Medio Ambiente del Trabajo or LOPCYMAT and is payable exclusively by the employer. The same varies between 0.75% and 10% (depending on the risks associated with the activity) of the worker or employee salary (with a minimum of a single minimum monthly salary -as provided in Regulations issued by the Government- and a maximum of 10 minimum monthly salaries.) and is computed and paid on a monthly basis.

6.4. Unemployment Contribution

This contribution is paid by both employer and employees as provided in the Ley Organica del Sistema de Seguridad Social. The contribution to the Regimen Prestacional de Empleo is a 2.5% of the normal salary of each worker or employee, with a minimum of a single minimum monthly salary (as provided in Regulations issued by the Government) and a maximum of 10 minimum monthly salaries. The employer contributes 2% of the same while the worker contributes the remaining 0.5%. Filing and payment is done on a monthly basis.

6.5. Housing and Habitat Contribution

This contribution is also provided in the Ley Organica del Sistema de Seguridad Social and to be paid by both employer and employees. The contribution to the Regimen Prestacional de Vivienda y Habitat is a 3% of the normal salary of each worker or employee, with a minimum of a single minimum monthly salary and a maximum of 10 minimum monthly salaries. The employer contributes 2% of the same while the worker contributes the remaining 1% via WHT. Filing and payment is done on a monthly basis.

LATAXNET®

LATIN AMERICAN TAX & LEGAL NETWORK

CONTACT INFORMATION

Catalina Loaiza

Phone: +569 7668.64.70

cloaiza@egbabogados.com

Javier Caire Barranco

Phone: +52 55 5081.4590

caire@turanzas.com.mx

LATAXNET.NET
@LATAXNET
@LATAXNET

wts global