MANAGING CORPORATE TAXATION IN LATIN AMERICAN COUNTRIES

AN OVERVIEW OF MAIN CORPORATE TAXES IN SELECTED JURISDICTIONS **2015**

LATAXNET®
LATIN AMERICAN TAX & LEGAL NETWORK

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HIGHLIGHTS

NATIONAL LEVEL TAX RATES

Corporate Income Tax:	35 %
Capital Gains Tax (shares, bonds and other stock):	35% (local corporations, branches and other business taxpayers) 15% (local individual taxpayers) 13,5% (foreign beneficiaries)[1]
Capital Gains Tax (other capital gains)	35% (local corporations, branches and other business taxpayers) 0 % (local individual taxpayers)
Branch Profits Tax:	35 %
Dividends Tax:	10%[2]

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[3]
Tax-free Reorganizations:	i) mergers; ii) divisive reorganizations, and iii) sales and transfers within an economic group.

VAT on Sales:	21%[4]
VAT on Services:	21%
VAT on Imports:	21%
Custom Duties:	from 0% to 35%
Excise Taxes[5]:	4% to 70%
Bank Debits and Credits (Transfers) Tax Rate:	0.6%[6]
Personal Assets Tax:	0.5% [7]

Local Level Tax Rates[8]:

Stamp (Documentary) Tax:	1%
Gross Turnover Tax:	1% to 3%
Real Estate Tax:	1.5%

Treaty Taxation:

Countries	Interest	Dividends	Royalties
Australia	12%	10%[9]/ 15%	10/ 15%
Belgium	12%	10%[10]/ 15%	3/ 5/ 10/ 15%
Bolivia[11]	No limits	No limits	No limits
Brazil[12]	No limits	No limits	No limits
Canada	12.5%	10%[13]/15 %	3/5/ 10/15%
Denmark	12%	10%[14]/ 15%	3/ 5/10/ 15%
Finland	15%	10%[15]/15%	3/5/10/15%
France	20%	15%	18%
Germany	10%[16]/15%	15%	15%
Great Britain	12%	10%[17]/15%	3%/5%/10%/15%
Italy	20%	15%	10%/18%
Netherlands	12%	10%[18]/15%	3/5/10/15%
Norway	12.5%	10%[19]/15%	3/5/10/15%
Russia	15%	10%[20]/15%	15%
Spain[21]	12%	10%[22]/15%	3/5/10/15%
Sweden	12.5%	10%[23]/15%	0/3/5/10/15%

1 The 15 % rate is applied over a deemed net income of 90% of the transacted amount, amounting the final tax burden to 13.5% of the gross selling price.

2 Dividends and profits distributed by local branches are subject to a 10% tax in Argentina, collected through source withholding. Dividends and profits distributed in excess of the company's net taxable income are subject to an equalization tax of 35%.

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

4 There are lower and higher differential rates, as set forth below.

5 Goods subject to excise taxes are: leaded and unleaded fuel (62%-70%); cigarettes (60%), alcoholic beverages (4%-25%), cars and certain engines (10%); insurances (0.1%-23%); among others. The digital, technological, and electronic assets considered as "luxury assets" are taxed with Excise Taxes at a 17% rate.

6 An increased rate of 1.2% applies whenever there has been substitution for the use of a checking account. These rates are partially creditable against other Federal Taxes.

7 This rate applies to withholdings to equityholders -either resident or non-resident- on the net-equity value of their participation in Argentine companies. Other assets -either hold by resident or non-resident taxpayers- are taxed differently, varying on a case-by-case basis.

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

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

10 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.

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

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16 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.

17 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.

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21 After the unilateral repeal by Argentina of the 1994 Treaty in July 2012, a new treaty has been negotiated, executed and ratified by Law 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.

22 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. Note that in Argentina dividend distribution is generally not subject to tax.

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.

OVERVIEW

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, is **35%**.

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 35% statutory corporate tax rate is applied. The result of applying the 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
[*] 35% 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:

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.

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.

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.

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

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

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.

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).

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[1] applicable to: i) transactions with related companies, ii) transactions with parties located in tax havens; 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.

In the case of exports of cereal, seeds, hydrocarbons or other commodities, with a set price in transparent markets, where an international middleman who is not the beneficial owner of the good takes part in the transaction, the best method deemed to assess the Argentine source income is the quotation of the value in the transparent market of the good on the day of shipment, or the price agreed upon with the middleman, only if this price was greater.

Under the OECD like transfer pricing rules, the Argentine party must keep and file supporting do-

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

cumentation 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. Parties in tax havens are deemed as related parties for these purposes.

Law 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. The current scenario reflects an anomalous situation in which, in order to optimize income, the government has maintained norms referred to foreign exchange gains and losses but has ceased to publish inflationary adjustment indexes, so that the adjustment is no longer effective. There are 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 be applied to Income Tax remains unresolved, given that the Supreme Court decided that the effective rate resulting from the ban on inflationary adjustments (62% or 55%) was confiscatory and therefore unconstitutional, but did not indicate where to draw the line between legality and illegality of the rate.

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 advantages of circumstantial opportunities.

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:
i) statutory tax-free mergers;
ii) statutory tax-free divisive reorganizations, and
iii) 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:

I. *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.
II. *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.
III. *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.
IV. *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.
V. *Compliance with the Corporate Law requirements*: the publication and registration requirements set forth by Law 19,550 must be observed.
VI. *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. 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 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 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 for.

Amongst penalties for incompliance with substantial obligations: i) tax omission is fined with a penalty from 50%-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; ii) furthermore, the TPL sets the penalty for tax fraud at 2 to 10 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.

Interest rates are 3 % monthly and punitive interest rates are 4 % monthly.

1.5 Dividends Tax / Branch Profits Tax.

Dividends and other profit distributions in cash or in kind -except for shares and quotas- are subject to a 10% tax, collected through source withholding, in addition to the 35% equalization tax, when applicable –i.e. whenever profits are distributed in excess of a company's net taxable income.

1.6 Cross-border Payments.

1.6.1 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.

1.1.6.1 Dividends.

If the corresponding profits were taxed at the corporate level then no income tax withholding applies. However, if such profits were not taxed a withholding of **35%** applies on account of equalization tax.

1.1.6.2 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.

1.1.6.3 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.

1.1.6.4 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).

1.1.6.5 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).

1.1.6.6 Rental Payments on moveable property.

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

1.1.6.7 Rental Payments on real estate property.

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

1.1.6.8 Proceeds from the sale of any type of property:

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

1.1.6.9 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.

Moreover, a "technology tax" was passed increasing the rate from 10.5% to 21% of imported technology-related goods considered as "luxury products". Hence, for enterprises engaged in the business of technological importation, the digital, technological and electronic assets considered as "luxury assets" under the tax reform, would be taxed at a higher rate within the VAT, whilst the ones manufactured in the territory of Tierra del Fuego would be exempted.

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.

In some cases, services rendered outside Argentina are deemed as subject to VAT because they are effectively used or exploited in Argentina. Imports of services are taxable when the importer is a VAT registered taxpayer.

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 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 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).

2.3 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.

OTHER TAXES

3.1. Minimum Presumptive Income Tax.

This is a 1% tax levying company assets (liabilities cannot be deducted).

Some assets are tax-exempt, e.g. stocks and other capital share of other entities subject to taxation, or assets of mining companies. The acquisition of new fixed assets –except for automobiles- as well as investments in the construction of new buildings or refurbishing (for the first two years) is excluded from this tax.

IT determined for the same fiscal year is considered payment on account of MPIT provided the inco-

me tax obligation does not exceed the amount of the presumed minimum income tax. Otherwise the excess of income tax does not constitute a tax credit.

The excess minimum presumed income tax of a given year over the income tax liability may be carried forward to offset income taxes for ten years.

3.2 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.

3.3 Property Taxes.

This tax levies the transfer of property rights referred to Argentine real estate property and provided that the owners are physical persons (resident or non-resident) or undivided estates. The tax rate is 1.5% and the tax applies whenever the transaction has not been subject to income tax.

3.4 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.

3.5 Stamp Tax.

The Stamp Tax is a local tax levying the instrumentation of onerous contracts. In the City of Buenos Aires,[2] 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 4%). The tax is paid by means of sworn statements or fiscal stamps. During 2004, several Federal Supreme Court rulings[3] 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).

3.6 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 tax rates vary according to a set schedule, from 0.5%, 0.75%, 1% or 1.25%, as the case may be. Taxable assets include both assets held within the country and abroad. Foreign residents

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

3 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".

shall be subject to a 1.25% rate on the value of all their assets held in Argentina; except for shares and equity holdings in Argentine companies, which are taxed differently. Non-resident aliens, in general, 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.

3.7 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 21.925% 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.

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 **35%** (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.

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 jurisdic-

tional 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. be 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.

BOLIVIA CHAPTER
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HIGHLIGHTS

NATIONAL LEVEL TAX RATES

Corporate Income Tax:	25%
Capital Gains Tax:	25%
Branch Profits Tax:	25%
Dividends Tax:	12.5%

Withholding Taxes on:	
Interest:	12.5%
Royalties:	12.5%
Technical Assistance:	12.5%
Technical Services:	12.5%
Other Services:	12.5%
Imports:	13%
Tax losses carry-forward term:	Three Years
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:	13%
Custom Duties: Net-worth (Assets)	from 5% to 10%
Tax: Stamp (Documentary)	None

Tax: Bank Debits (Transfers)	None
Tax Rate:	0.15%

Local Level Tax Rates:

Tax on Industrial Activities:	None
Tax on Commercial Activities:	None
Tax on Service Activities:	None
Real Estate Tax:	According to Periodical Charts issued by Municipal Governments
Taxes on Other Property:	According to Periodical Charts issued by Municipal Governments
Document Registration Tax:	None
Excise Taxes:	Taxed depending on the good

Treaty Taxation:

Items of Income					
Countries	**Interest**	**Dividends**	**Royalties**	**Tech. Services**	**Tech. Assit**
Andean Pact	12.5%	12.5%	12.5%	12.5%	12.5%
Argentina	12.5%	12.5%	12.5%	12.5%	12.5%
Spain	12.5%	12.5%[1]	12.5%	0%[3]	12.5%
Sweden	12.5%	0%[4]	12.5%	12.5%	12.5%
France	12.5%	12.5%	12.5%	12.5%	12.5%
United Kingdom	12.5%	12.5%	12.5%	12.5%	12.5%
Germany	12.5%	12.5%	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%.

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, 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 a 25% tax rate is the Resulting Income Tax from which applicable Tax Credits are subtracted to find the Income Tax Liability.

(*) Indicates Source Taxation Only under Andean Pact Multilateral Act to avoid international double taxation.'

1 A 10% rate applies in case the effective beneficiary owns 25% of the distributor's capital.

2 Andean Pact Commission, Multilateral Act No. 578 of 2004.

3 In case the service provider is a Spanish company.

4 In case the beneficiary owns 25% of the capital of the company paying the dividends.

1.1.3. Minimum Taxable Income

There is no minimum Net Taxable Income.

1.1.4. Deductions

As a general rule all costs and expenses are deductible provided that 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

Tangible fixed assets' depreciation is deductible. Depreciation term varies depending on the nature of the asset; 20 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 in five years. Globally used methods are generally accepted in Bolivia for tax purposes, e.g., straight-line method, declining balance method, etc.

1.1.6. Transfer Pricing

Bolivia has issued Transfer Pricing rules by means of Law 549, dated July 21, 2014. In order to regulate the above-mentioned law, Supreme decree No. 2227 was issued on December 31, 2014. The Tax Administration has also issued specific administrative regulations on April of 2015 in order to norm the previous regulations and therefore specifically determine the taxpayer's formal obligations with regards to the new regulations recently enacted such as: determining the scope of the mandatory transfer pricing studies to be files, the filing of special tax returns, additional information to be resented by taxpayers, dates to be complied with and penalties in case of non compliance.

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

1. 1. Comparable Uncontrolled Price Method.

2. 2. Resale Price Method.

3. 3. Cost Plus Method.

4. 4. Profit Split Method.

5. 5. Transactional Net Margin Method.

6. 6. Publicly quoted Prices in Transparent Markets Method.

In case it is not possible to determine the value of the transaction using any of the previous methods, a different method may be applicable pursuant to 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 a period of three (3) years. Losses will not be updated. New productive enterprises with a minimum capital of One Million Bolivianos may carry-forward tax losses for a period of five (5) years. This also applies to Hydrocarbon and mining enterprises. Losses will not be updated. Losses generated until the year 2010 will not be carried forward by financial and/or banking entities; losses accumulated beginning on the year 2011 will be

carried forward for a period of three (3) years.

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 part of the tax losses of the target entity are transferred to the resulting entities. A limitation was set forth by a decree supreme limiting the carry forward of losses resulting from any of the previous reorganizations in a period of four years. In light of 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.

An additional aliquot (bracket) is applicable to any income obtained by those entities carrying out banking and/or financial intermediation activities in the country and that are currently under the regulation issued by the Banking Regulation Entity ("ASFI", by its acronym in Spanish). Consequently, any income obtained by a financial -banking or non banking institution- that exceeds thirteen per cent (13%) of the profitable ratio with respect to the its net patrimony, beginning on the fiscal year of 2012, is taxed by an additional rate on the Corporate Income Tax of twelve point five per cent (12.5%). Such payment will not be able to be compensated with future monies owed pursuant to the Transaction Tax ("IT", by its acronym in Spanish).

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 and the Tax on Transactions.

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.

1.3. Penalties on Unpaid Tax or Tax Paid Belatedly

Unpaid taxes are subject to lateness interest that should be assessed at the official rate fixed by the corresponding regulations.

The Tributary Debt (DT) is the total amount to be paid once the term for the payment of the tributary obligation is due. The DT is constituted by the Omitted Tribute (TO), the Penalties (M) when applicable, expressed in U.F.V's (Housing Promotion Unit, a referential index) and the interests (r), according to the following:

DT = TO x (1 + r/360)n + M

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

1.4. Dividends Tax / Branch Profits Tax.

There is a 12.5% remittance tax on dividends and branch profits remitted abroad to non-resident alien entities or individuals. It applies only on all dividends remitted abroad, and on all branch profits realized on the taxable year whether they are remitted abroad or not. If the dividends or profits are reinvested, the tax still applies.

1.5. Cross-border Payments

1.5.1. Withholding Taxes

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

1.5.1.1. Dividends

Apart from the corresponding profits taxed at the corporate level, a withholding tax of 12.5% is applicable.

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

As a general rule, payments performed pursuant to 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 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

There are no specific rules regarding Tax Havens.

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:

- Andean Pact Countries, Directive 578.
- Republic of Argentina (October 30, 1976).
- Federal Republic of Germany (September 30, 1992).
- Kingdom of Sweden (January 14, 1994).
- United Kingdom of Great Britain and Northern Ireland (November 3, 1994).
- Republic of France (December 15, 1994).
- 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%.

2.1.2. Taxable Transactions

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

2.1.3. Taxable Base

As a general rule, the taxable base is the price or value of the consideration paid for the goods or services rendered.

2.1.4. Creditable VAT

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

2.2. Selected VAT Incentives.

The temporary importation of goods is not subject to import VAT. Among others, the following transactions are VAT exempted: Interests generated from banking operations. Transfer of shares, debentures and other securities Transfer of goods resulting of a securitization process. Assignment of banking, insurance and pension funds portfolios. Cultural activities rendered by Bolivian artists. Several incentives exist for tourism activities in the country.

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 tax return must be filed and paid in full on the filing dates scheduled by the tax authorities for these purposes, which are usually every fifteenth day following the corresponding monthly period's end.

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 obtained during a fiscal period resulting from the taxed activity at a rate of 3%.

3.2. Tax on Windfalls

This is a national level tax. It taxes the receiver of any windfall depending on his/ her relationship with the donor. Depending on said relationship, the tax rate ranges from 1% to 20%.

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 by each locality annually, 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 n the taxpayers account and it is withheld by Bolivian 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 0.15 per thousand. There are very limited exemptions. It is an important tax to keep in mind when structuring transactions cash-flow. Although the tax was created with a two year term limit, law 234 extended this term for another period, this time of 36 months commencing on July 24, 2012.

3.5. Excise Tax

This tax is applicable 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 and commercial participations carried out by legal entities in general. Those legal entities providing gaming and gambling activities or entertainment are taxed at a rate of 30% over the gross income obtained pursuant to the prices determined, minus VAT. The tax also taxes individuals participating in gaming activities or commercial participations with a 15% over the sale price, minus VAT.

3.7. Tax on the sale of foreign currency.

A tax levying the sale of foreign currency created for a period of thirty-six (36) months. Taxpayers responsible to comply with it are the financial entities (banks or otherwise), as well as currency exchange houses. The tax base is the amounts being sold and the tax rate is of zero point seventy per cent (0.70%). The tax does not apply to the Bolivian central Bank or to those individuals selling foreign currency to the aforementioned entity. The tax may not be deducted for purposes of determining the tax base of the Corporate Income Tax.

4. CUSTOMS REGIME GENERAL ASPECTS

4.1. Custom Duties

Importation of goods is subject to import VAT at a general rate of 13%. In addition to import VAT, imports are also subject to custom duties (GA) that range between 5% and 30%, also depending on the type of M&E being imported. It is important to point out that Bolivia has entered into Preferred Custom Duties Agreement (PCDA) with many countries, reducing the applicable custom duties for certain M&E from a certified origin.

Zero-rated custom duties regimes are available for some activities or importers. These must be checked further on 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 custom duties. Custom valuation rules in place in Bolivia 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 apply. These rules are also similar to the first mentioned rules.

4.3. Transfer Pricing

Bolivia has issued Transfer Pricing rules by means of Law 549, dated July 21, 2014. In order to regulate the above-mentioned law, Supreme Decree No. 2227 was issued on December 31, 2014. Specific administrative regulations are being developed by the Tax Administration in order to norm the previous regulations and therefore specifically determine the taxpayer's obligations with regards to the new regulations recently enacted.

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

7. Comparable Uncontrolled Price Method.
8. Resale Price Method.
9. Cost Plus Method.
10. Profit Split Method.
11. Transactional Net Margin Method.
12. Publicly quoted Prices in Transparent Markets Method.

In case it is not possible to determine the value of the transaction using any of the previous methods, a different method may be applicable pursuant to the nature and economic reality of the operation.

4.4. Filing and Payment

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 a variety of customs regimes different to the ordinary importation regime. Each of these special custom duties regimes has a 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 custom duties and import VAT is required upon nationalization.

4.5.2. 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 extendable to other 90 days. During this time, payment of custom duties and import VAT will be suspended.

4.5.3. Temporary Importation

Regime for Leased Equipment
The rules of this regime are similar to the above-explained rules.

4.5.4. Free Trade Zone Regime

Bolivia has a convenient Free Trade Zone regime that should be carefully explored by importers and other parties with business interest or permanent operations in Bolivia.

5. PAYROLL TAXES / WELFARE CONTRIBUTIONS

5.1. Payroll withholding tax

Employers should withhold an amount equal to 13% of the amount paid a salary to each employee, unless said employees are able to offset said tax with all the VAT credit resulting from goods and services obtained.

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

5.3. Health Contributions

The employee must be affiliated to 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 a professional risk insurance of the employee, 2% corresponding to the Social Housing Plan and 3% pursuant to a

BRAZIL CHAPTER
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HIGHLIGHTS

NATIONAL LEVEL TAX RATES

Corporate Income Tax (IRPJ)	25%[1]
Social Contribution on Net Profit (CSLL)	9%[2]
Capital Gains Tax 34%	34%
Branch Profits Tax	34%
Dividends Tax	0%[3]
Withholding Income Tax (WHT) on	
- Interest	15%
- Royalties	15%
- Technical Assistance	15%
- Technical Services	15%[4]
- Administrative Assistance Services	15%
- Other Services	25%
- Remittances to "tax havens"	25%[5]
Tax losses carry-forward term	unlimited years[6]
Tax losses carry-back term	not applicable
Transfer Pricing Rules	Yes
Custom Duties (II)	from 0% to 35%[7]
Excise Tax (IPI)	from 0% to 300%[7]
Contribution for the Social Integration Program (PIS)[8]	
- Non-cumulative system	1.65%
- Cumulative system	0.65%
Contribution for Social Security Funding (COFINS)[8]	
- Non-cumulative system	7.6%
- Cumulative system	3%[9]
Tax on Financial Transactions (IOF)	from 0% to 25%
Tax on Rural Property (ITR)	from 0.03% to 20%
Local Level Tax Rates	
VAT on Sales and Services (ICMS)	from 4% to 39%[10]

Tax on Services (ISS)	from 2% to 5%[11]
Tax on Urban Property (IPTU)	from 1% to 1.5%[12]
Tax on Vehicles' Ownership (IPVA)	from 1.5% to 4%[13]
Tax on Real Estate Transfer (ITBI)	3%[14]
Tax on Donation and Inheritance (ITCMD)	up to 8%[15]
Import Taxes	
Imports of services (except communication and transport services)	
- WHT	15% or 25%[16]
- ISS	from 2% to 5%
- PIS-Import	1.65%
- COFINS-Import	7.6 %
- Economic Intervention Contribution (CIDE)	10%[16]
- IOF	0.38%[16]
Imports of goods	
- II	from 0% to 35%
- IPI	from 0% to 300%
- ICMS	from 17% to 39%[17]
- PIS-Import	2.1 %[18]
- COFINS-Import	9.65 %[18, 19]

1 The regular rate is 15% but a 10% surcharge is applicable to taxable profits exceeding BRL 240,000 per year (USD 85,714 - estimated exchange rate: BRL 2.8 for each USD 1.00).

2 This contribution is also levied on corporate profits. The applicable rate to financial institutions and insurance companies is 15%.

3 See Section 1.1.2.9.

4 See Treaty Taxation – Additional Remarks.

5 See Section 1.1.2.3.

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

7 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.

8 Pharmaceutical, cosmetic, automotive, beverage, tobacco and fuel industries, among others, are subject to specific taxation regimes.

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

10 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.

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 Municipality. The tax rates mentioned apply to the city of São Paulo. The 3% ITBI rate is applicable as of March 30, 2015. Before that, the applicable rate was 2%.

15 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.

16 WHT rate is 15% if the service is technical (see Section 1.4.1.2) or 25% if not. CIDE (see Section 2.5) is only charged in case of technical services.

17 The ICMS rates generally applicable on imports vary according to the State where the importer is established and the goods imported.

18 Provisional Measure 668/15 increased the following rates as of May 1, 2015: (i) general import of goods, from 9.25% to 11.75%; (ii) pharmaceutical products, from 12% to 15.79%; (iii) perfumery, toiletries and personal hygiene products, from 12.5% to 20%; (iv) some vehicles, from 11.6% to 15.19%; (v) tires and inner tubes, from 11.5% to 16.56%; (vi) some auto parts, from 13.1% to 15.9%; and (vii) paper for printing books, newspapers and periodicals, from 4% to 4.76%. Such Provisional Measure is still pending approval by the National Congress.

19 Some products are currently subject to a surcharge of 1 %.

Treaty Taxation

Items of Income[1]

Countries	Interest	Dividends	Royalties	Technical Services	Technical Assistance
Argentina [2]	15% [3,4]	0%	15% [4]	15% [4,5]	15% [4,5]
Austria [2]	15% [3]	0%	10/15% [6]	0% [7]	0% [7]
Belgium [8]	10/15% [9,10]	0%	10/15% [11]	10% [5,7]	10% [5,7]
Canada [2,12]	10/15% [3,9]	0%	15%	15% [5]	15% [5]
Chile [12]	15% [13,14]	0%	15% [13]	15% [5,13]	15% [5,13]
China [12]	15% [3]	0%	15%	15% [5]	15% [5]
Czech Rep. [12]	10/15% [3,9]	0%	15%	15% [5]	15% [5]
Denmark [2]	15% [3]	0%	15%	15% [5]	15% [5]
Ecuador [2,12]	15% [3]	0%	15%	15% [5]	15% [5]
Finland [12]	15% [15]	0%	10/15% [11]	0% [7]	0% [7]
France [2]	10/15% [9,10]	0%	10/15% [11]	0% [7]	0% [7]
Hungary [12]	10/15% [3,9]	0%	15%	15% [5]	15% [5]
India [12]	15% [3]	0%	15%	15% [5]	15% [5]
Israel [12,16]	15% [3,14]	0%	10/15% [17]	10% [5,7]	10% [5,7]
Italy [2,12]	15% [3]	0%	15%	15% [5]	15% [5]
Japan [2]	12.5% [3]	0%	12.5/15% [18]	0% [7]	0% [7]
Luxembourg [2]	10/15% [3,9]	0%	15%	15% [5]	15% [5]
Mexico [12]	15% [3,13,14]	0%	10/15% [13,17]	10% [5,7,13]	10% [5,7,13]
Netherlands [12]	10/15% [3,9]	0%	15%	15% [5]	15% [5]
Norway [2,12]	15% [3]	0%	15%	15% [5]	15% [5]
Peru [12,16]	15% [13,14]	0%	15% [13]	15% [5,13]	15% [5,13]
Philippines [12]	15% [3]	0%	15%	15% [5]	15% [5]
Portugal [8,12]	15% [3,14]	0%	15%	15% [5]	15% [5]
Slovakia [12]	10/15% [3,9]	0%	15%	15% [5]	15% [5]
South Africa [12,16]	15% [3,13,14]	0%	10/15% [13,17]	10% [5,7,13]	10% [5,7,13]
South Korea [12]	10/15% [3,9]	0%	10/15% [17]	10% [5,7]	10% [5,7]
Spain [2]	10/15% [3,9]	0%	10/15% [17]	10% [5,7]	10% [5,7]
Sweden [2]	15% [3]	0%	15%	0% [7]	0% [7]
Trinidad and Tobago [8]	15% [3,13,14]	0%	15% [13]	15% [5]	15% [5]
Turkey [8]	15% [14, 19]	0%	10/15% [17]	10% [5,7]	10% [5,7]
Ukraine [12]	15% [3,13,14]	0%	15% [13]	15% [5,13]	15% [5,13]
Venezuela [16]	15% [3,13,14]	0%	15% [13]	15% [5]	15% [5]

1 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.

2 It is possible to argue that the treaty applies to the CSLL. However, Brazilian tax authorities may not have the same understanding.

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

4 There is no specific limitation in the treaty, thus the domestic tax rate applies.

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

Additional Remarks

Brazil has signed a tax treaty with Russia, which has not been ratified yet and, therefore, is 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 Brazilian Federal Revenue Service ("RFB") changed its position on the classification of service remittances under tax treaties by means of Interpretative Declaratory Act 5/14 ("ADI 5/14"). In the past, such income was either treated as royalties or other income, giving cause to double taxation. ADI 5/14 establishes that service remittances shall fall under: (i) article 12 (royalties) 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) Belgium, Israel, Mexico, 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.

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6 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.
7 See Additional Remarks.
8 The treaty applies to the CSLL.
9 The 10% rate applies to loans that meet some conditions (e.g., minimum repayment terms).
10 Exemption is granted if the beneficiary is the government of the other State.
11 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.
12 Such reductions are only applicable to the beneficial owner of the income.
13 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.
14 Applies to interest on net equity.
15 Exemption is granted if the beneficiary is the government of the other State or the Bank of Finland.
16 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.
17 The 15% rate applies to royalties arising from the use, or right to use, trademarks and 10% for other cases.
18 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.
19 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.

OVERVIEW

1. INCOME TAX

1.1 General Aspects

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 85,714[1]) or BRL 20,000 per month (USD 7,143) in case of base periods shorter than one year. CSLL is due at a 9% rate (except for financial institutions and insurance companies which are subject to a 15% rate).

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[2] or (c) the Arbitrated Profit[3]. 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) adopted by the International Accounting Standards Board (IASB), companies had to use the Transitory Tax Regime ("RTT")[4] to calculate the IRPJ, CSLL, PIS and COFINS based on the results ascertained according to the accounting rules in force on December 31, 2007 (prior to the convergence to the IFRS), which resulted in the tax neutrality of the new accounting rules.

Law 12973/14 introduced significant changes to the rules in force as of January 1, 2015[5] for the calculation of the IRPJ, CSLL, PIS and COFINS seeking to adapt them to the accounting rules and revoking the RTT.

For purposes of the transition to the new system, Law 12973/14 requires that companies maintain several additional accounting controls in order to: (i) ensure the tax neutrality of transactions occurred before the initial adoption date that have a different value in the RTT than the one registered in the accounting records of the company; and/or (ii) allow the deferral deduction of Present Value and Fair Value adjustments. Thus, companies that do not keep subaccounts demonstrating such differences must consider them in the calculation of the IRPJ and CSLL.

Among the changes introduced by Law 12973/14 are: (i) modifications to the tax deduction of depreciation expenses[6]; (ii) the setting out of additional requirements for the tax deduction of premium/goodwill amortization expenses[7]; 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;
- share-based payment (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 (IAS 17), allowing the deduction of the installments paid or credited provided some conditions are met;

- Services Concession Agreements (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 85,714 – per year)
[x] 9% or 15% 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:

(A) 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.

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

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

(D) Royalties: for deductibility purposes, payments must be done under agreements registered with

the Brazilian Patent and Trademark Office ("INPI") and, additionally, with the Central Bank of Brazil ("BACEN") in case of cross border remittances. Moreover, the sum of all royalties, technical assistance and other technology transfer payments due cannot exceed percentages varying from 1% to 5% of the net revenues derived from the sale of products manufactured or sold with the use of the relevant industrial property rights or technological knowledge. Technical assistance payments shall only be tax deductible for the first five years of operation of the relevant company (one renewal allowed) or in the case of introduction of a special production process. Although there is no legal basis to apply these limits in CSLL taxable basis, there are controversies on the case law.

(E) Bonus or Profit Sharing: if paid to officers are not tax deductible for IRPJ purposes, whereas, if paid to employees, are fully tax deductible[8].

(F) Depreciation: despite of the criteria and method adopted for accounting purposes, Law 12973/14 allows companies to deduct the depreciation calculated on the acquisition cost using the straight line method and the rates established by RFB, among which we highlight:

(rates may vary depending on tax classification)

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

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.

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

(H) Amounts paid by Brazilian companies for the acquisition of equity stakes in other companies (investments subject to the equity pick-up method of accounting): pursuant to Law 12973/14, 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).

The amount paid in relation to the net of assets (surplus or deficit) 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.

Differently from former rules, the appraisal report for acquisitions occurred as of January 1, 2015[5], 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.

(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 necessary[9] - formerly 20%); (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[9] - formerly 20%); (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; (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[10] and privileged tax regimes[10].

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:

i. presumption of non-deductibility of costs and expenses incurred in such transactions, for IRPJ and CSLL purposes;

ii. application of Brazilian transfer pricing rules (see Section 1.1.2.4), even if the involved parties

are not related; and

iii. 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: (a) 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 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 or credits of income from Brazilian sources to residents in tax havens are generally taxed at a higher WHT (25% instead of 15%).

1.1.2.4. Transfer Pricing Rules

Such rules apply to the following transactions, if carried out by Brazilian legal entities with related parties, related or unrelated parties domiciled in tax havens or non-residents subject to privileged tax regimes (see definitions on Section 1.1.2.3):

- import or export of assets, goods, services and rights; and
- interest expenses arising from transactions and interest revenues regardless of the registration with the Central Bank of Brazil

Transfer pricing rules do not apply to royalty and know-how payments made or received[11] by Brazilian companies to/by the parties mentioned above.

Brazilian tax law adopts a mathematical approach when describing the methods to calculate the transfer pricing benchmarks and, although the domestic transfer pricing rules are inspired by the OECD guidelines, there are relevant differences which must be considered.

One of such differences relates to the concept of related parties, which is broader than the concept of associated enterprises used by the OECD and includes not only the transactions between the legal entity and its branches; headquarters; controlled companies; controlling shareholders; managers and their relatives, but also the transactions with (among others):

- affiliate companies, as defined by Law 6404/76 (Corporation Law);
- companies that participate with the legal entity in a joint enterprise, under a “consortium” or “condominium”;
- foreign legal entities that grant to the Brazilian legal entity (as their agent, distributor or dealer), exclusive rights to buy or sell assets/goods/services/rights; and
- foreign agents, distributors or dealers of the Brazilian legal entity, to whom the latter has gran-

ted exclusive rights to buy or sell assets/goods/services/rights.

Brazilian law adopts specific calculation methods for imports and exports of commodities.

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 related parties, tax havens and privileged tax regimes are outlined in Section 1.1.2.3 and 1.1.2.4.

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:

<table>
<tr><th></th><th colspan="3">Creditor</th></tr>
<tr><th>Limit</th><th>Related party with (direct) equity stakes in the Brazilian company</th><th>Related party with no equity stakes in the Brazilian company</th><th>Resident in tax haven or subject to privileged tax regime (related or unrelated party)</th></tr>
<tr><td>Individual</td><td>Debt shall not exceed twice the value of the equity stake held by the related party in the Brazilian company's net worth</td><td>Debt shall not exceed twice the value of the Brazilian company's net worth</td><td rowspan="3">Debt shall not exceed 30% of the Brazilian company's net worth</td></tr>
<tr><td>Collective: debts with related parties with equity stakes or not (direct) in the Brazilian company</td><td colspan="2">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</td></tr>
<tr><td>Collective: exclusively for debts with related parties with no (direct) equity stakes in the Brazilian company</td><td>Not applicable</td><td>Debts shall not exceed twice the value of the Brazilian company's net worth</td></tr>
</table>

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.

Law 12973/14 introduced new rules for the taxation of profits earned abroad as of January 1, 2015[5], establishing different tax treatment for profits of controlled and affiliate companies, as follows:

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 2022[12]. 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 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 only be subject to taxation in Brazil on a cash basis. 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.

Several controversies came up with the new rules and disputes are expected, especially regarding the application of the tax treaties.

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 2022, 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[13].

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 forfeit tax losses proportionally to the spun-off part of its net worth. In the case of merger, the merged company’s tax losses cannot be offset against the profits of

the company in which was merged.

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).

Regarding profits accrued in 2014 by companies that have not opted for the early adoption of Law 12973/14 (as of January 1, 2014), Normative Instruction 1397/13 establishes that such dividends shall be subject to income tax if they exceed the profits ascertained according to the accounting rules in force on December 31, 2007 (the validity of this provision is controversial). The income tax rates vary according to the beneficiary, as follows:

- individuals domiciled in Brazil: subject to WHT ascertained based on the Monthly Progressive Table (up to 27.5%);
- legal entities domiciled in Brazil: the exceeding amount shall be included in IRPJ/CSLL taxable basis (up to 34%);
- beneficiaries domiciled abroad: subject to 15% WHT; and
- beneficiaries domiciled in tax havens: subject to 25% WHT.

The payment of interest on equity (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 (25% in case of beneficiaries located in tax haven jurisdictions). Normative Instruction 1515/14 does not allow the distribution of interests on equity of previous years, but this provision 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) [14].

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 on either on estimated income (calculated as in the Deemed Profit system2) 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.

As of 2015, the Corporate Income Tax Return (DIPJ) has been replaced for the Tax Accounting Bookkeeping (ECF), which must be filed up to the last business day of September following the end of the fiscal year (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 2014, the SELIC corresponded to 10.4%.

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), 150% (clear evidences of fraud) and 225% (fraud and refusal by the taxpayer to collaborate with the tax authorities). Discounts can be granted if the payment is made within certain deadlines.

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. Taxation of 2014 dividends is controversial. 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 haven jurisdictions. 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 provision of a Treaty). A higher 25% rate is applicable to remittances made to tax haven jurisdictions. 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 are subject to a 15% WHT (rate is increased to 25% if the seller is domiciled in a tax haven).

Until Law 10833/03 was passed, capital gains deriving from the sale of a Brazilian asset closed between non-residents were not subject to taxation. However, article 26 of this law provides that the attorney-in-fact of the non-resident buyer is responsible for the payment of the income tax on the capital gains earned by the non-resident seller, thus raising controversies regarding this matter.

1.4.1.6. Tax Treaties

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

2. OTHER TAXES

2.1. Excise Tax (IPI)

IPI is a federal tax charged on industrialized products manufactured or imported by Brazilian companies or shipment of goods imported or manufactured. 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 cost, insurance and freight (CIF) price (in compliance with customs valuation rules), 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 5% to 30%.

IPI is a value added tax, calculated by netting of credits for imports and domestic purchases, 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. inter-municipal or interstate transport services (including services originating from abroad); and

d. communication services (including services originating from abroad).

Exports of goods and services and financial transactions with gold (financial asset) are not subject to ICMS. Export exemptions shall not impair the taxpayers' ICMS credit rights, as provided by the Constitution.

Transportation services rendered within the territory of the same municipality are not subject to ICMS, but rather to the 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 the ISS.

Generally, ICMS taxable basis are:

a. for imports of goods: the CIF price, plus II, IPI, PIS-Import, COFINS-Import and ICMS itself (which must be included in its own taxable basis);

b. for circulation of goods: the 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 basis in case of goods for resale or manufacturing inputs; IPI must be included in ICMS taxable basis on transactions with end customers);

c. for transportation and communication services: the remuneration charged by the service provider, plus PIS, COFINS and ICMS itself (which must be included in its own taxable basis).

Applicable rates on imports, circulation of goods within the territory of the same State and interstate transactions whenever the recipient is not an ICMS taxpayer vary from state to state. Generally ICMS rates are:

a. 17% (North, Northeast and Middle West states), 18% (South and Southeast states) on imports and circulation of goods within the territory of the same State and interstate transactions whenever the recipient is not an ICMS taxpayer;

b. 25% on communication services; 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;

b. 7% on shipments from taxpayers based on the South/Southeast to taxpayers based in the North/Northeast/Middle West and state of Espírito Santo; and

c. 12% on other interstate transactions.

In case of interstate transactions with fixed assets and goods for own consumption between ICMS taxpayers, the recipient of the goods must pay the ICMS for the state of destination on the value of the transaction at a rate corresponding to the difference between the internal rate and the interstate rate.

In case of imports of goods, ICMS shall be paid to the state where the importer is based. Disputes among States arise when the recipient is not the ultimate importer.

The 4% rate is applied to the goods that are not submitted to manufacturing process after their customs clearance, and also to goods submitted to manufacturing if it results in a final product, with an import content higher than 40%.

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, liquid gas and energy.

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 user is domiciled, when the service is rendered through satellite; (ii) where the service is charged; or (iii) where the service provider is based, in case the service is pre-paid by card or similar.

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.

Currently, several transactions are subject to ICMS tax substitution rules. This system consists in the collection of the ICMS by the manufacturers and importers, who must pay the ICMS levied on their own operations, as well as the tax that would be due on subsequent taxable operations until the product is delivered to the end consumer within the State.

On interstate transactions, the State of destination shall charge the ICMS-ST from the purchaser upon the arrival of the goods in its territory. The supplier will be responsible for paying the ICMS-ST on these transactions only in case there is an Agreement in place between the State of origin and the State of destination of the goods.

ICMS incentives and benefits can only be granted by Agreements signed by all federal states to avoid harmful competition between them. However, several Brazilian states, aiming at attracting new investments, grant ICMS incentives, such as ICMS refunds, deemed credits, tax exemptions, without proper approval. This procedure has often been challenged and declared unconstitutional by the Supreme Federal Court.

2.3. Tax on Services (ISS)

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

Said law has fixed the ISS maximum rate at 5% and ruled the ISS exemption on exports, defining exports as the rendering of services to non-residents as long as the results of such services are not produced in Brazil. Such definition has raised serious concerns, as there is no clear criteria to identify what should be understood by “results produced in Brazil”.

The minimum rate is fixed by the Federal Constitution at 2% but some municipalities adopt lower rates – against the law – to attract investments.

Taxpayers are the service providers. However, in the case of imports of services, the importer is responsible for the calculation and collection of the tax due by the foreign party. The ISS taxable basis is the service price and tax rates vary from municipality to municipality by type of service.

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, 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 operational activities. Exemptions and specific rules apply to certain businesses and certain income on a case-by-case basis.

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.

2.4.1. Non-cumulative System

PIS and COFINS are levied on gross and other revenues of legal entities at rates of 1.65% and 7.6% respectively.

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. contribution paid on (i) domestic purchases or imports 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.

Generally, legal entities that calculate their corporate taxes (IRPJ and CSLL) based on the actual profit system are subject to PIS and COFINS based on the non-cumulative system. However, the cumulative system is mandatory in some cases, irrespectively of the method chosen for the calculation of the IRPJ and CSLL.

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 earned by legal entities are taxed at the rates of 0.65% (PIS) and 3% (COFINS)[15]. The taxpayer has no tax credits for the contributions paid on imports or relating to domestic purchases and expenses incurred. Other revenues are not taxed in this system.

Generally, legal entities that calculate their corporate taxes (IRPJ and CSLL) based on the deemed profit system are subject to PIS and COFINS according to the cumulative system (in some cases, the cumulative system is mandatory, irrespectively of the method chosen for the calculation of the IRPJ and CSLL – e.g. civil construction).

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 past or future transactions (in the latter case based on estimated prices).

Such tax centralization[16] 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.

2.4.4. PIS-Import and COFINS-Import

PIS-Import and COFINS-Import are due on:

a. imports of goods: as of May 1, 2015[17], at the rates of 2.1% (PIS-Import) and 9.65% (COFINS-Import) on the customs value (CIF). Before that, the applicable rates were 1.65% and 7.6%, respectively. Some products are currently subject to a surcharge of 1% of COFINS-Import, resulting in an effective rate of 10.65%. It should be noted that different tax rates apply to imports of pharmaceutical products, perfumery, toiletries and personal hygiene products, some vehicles, tires and inner tubes, some 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, employed or remitted abroad, before the WHT, plus the ISS and 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.

2.5. Economic Intervention Contribution (CIDE) on Payments of Royalties, Technical Services and Administrative 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[18] and any agreement involving royalty payments, except for payments for software licenses and for the commercialization and distribution of software which are not connected with a transfer of technology. Controversies about the taxable basis in case of the WHT assumed by the Brazilian part is not yet settled.

2.6. Tax on Financial Transactions (IOF)

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

Credit granted to legal entities is subject to the IOF at a 0.0041% daily rate plus a 0.38% surcharge. Foreign currency exchange transactions are generally subject to a 0.38% rate, with a few exceptions (including a 6% rate on the inflow of currency as loans granted or repaid in less than a certain period of time – in June 2014 this term was fixed in 180 days). 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.

2.7. Property Taxes

2.7.1. 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).

2.7.2. Tax on Vehicles' Ownership (IPVA)

IPVA is a state tax levied annually on the ownership of vehicles[19]. 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%.

2.7.3. 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 to 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, according to the table of rates below.

Utilization Rate - GU (%)

Total Area of the Property (per hectares)	Up to 30	Above 30 up to 50	Above 50 up to 65	Above 65 up to 80	Above 80
Up to 50	1.00	0.70	0.40	0.20	0.03
Above 50 up to 200	2.00	1.40	0.80	0.40	0.07
Above 200 up to 500	3.30	2.30	1.30	0.60	0.10
Above 500 up to 1,000	4.70	3.30	1.90	0.85	0.15
Above 1,000 up to 5,000	8.60	6.00	3.40	1.60	0.30
Above 5,000	20.00	12.00	6.40	3.00	0.45

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.

2.8. 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% as of March 30, 2015 (2% until then).

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.

2.9. 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 to a maximum 8% rate. In São Paulo, ITCMD is charged at 2.5% or 4% rates.

3. CUSTOMS DUTIES AND EXPORT TAXES

3.1. Customs Duty (II)

II is a federal tax 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, COFINS 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 (i) leather, fur and dead animal skin, which are subject to the tax rate of 9%; and (ii) cigarettes and guns (subject to few exceptions) destined to Latin America, 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 contributions due by companies are composed of a fixed rate of 20% supplemented by rates generally varying from 6.3% to 11.8%, in case of compensation paid to employees. The criteria to establish such variable rate depends 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.

For some specific sectors, such as agricultural, agro-industrial, IT, call center, hospitality, road passenger transportation, some types of cargo transportation, civil construction, some types of retailer companies and companies engaged in the manufacturing or sale of certain goods, the ordinary payroll contribution levied at 20% rate is partially or totally replaced by a rate of up to 2.5% levied on the company's gross revenues (export revenues are not included).

The professional's contributions (employees and self-employed professionals) are withheld by the companies at rates varying from 8% to 11%, limited to a maximum monthly contribution of BRL 513,01 (USD 183,21).

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 or unfair dismissal.
In case of unfair dismissal, the employer is subject to a fine of 50% on the FGTS balance on the termination date (40% fine reverting to the employee and 10% fine paid as a tax).

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 with the ZFM until December 31, 2018;

- 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; presumed 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 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 and may apply until 2018. 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[20] 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 compose 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;
- 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;
- 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. 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.

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

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 into 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.

ICMS exemptions or reductions apply pursuant to Agreement 58/99 and the laws of each State.

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) 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. exemtion 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 Customs duties, 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 certain goods to be sold in the domestic market or exported (e.g. aircrafts, vehicles, IT and telecommunication products,

semiconductors and highly technological components used by electronic and telecommunication industries).

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 aforementioned, 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

Culture, Sports and Audio-visual Activities	Reduction of the IRPJ due of percentages of the amounts invested in approved cultural or sports projects or approved Brazilian independent films. For sports and audiovisual activities, the reduction is granted, respectively, up to 2015 and 2016. Conditions must be met.
Informatics and Automated Products	IPI reductions for products manufactured in the regions under the jurisdiction of the Amazon, Middle West and Northeast Development Superintendencies (SUDAM/SUDENE): decreasing rates from 95% to 85% until 2029. IPI reductions for products manufactured in other regions: decreasing rates from 80% to 70% until 2029. The percentage varies according to the product. Reductions are granted regardless of the maintenance and use of credits derived from the purchase of raw-material, packaging and intermediate products. Requirements must be met. IRPJ and CSLL deductions up to 160% of the expenses with technological R&D. Further rules can provide for a deduction of 180%, depending on the number of employees and researchers hired by the taxpayer.
PROUNI (Educational Activities)	IRPJ, CSLL, PIS and COFINS exemption on income/revenues arising from educational courses, proportional to the scholarships actually granted. Requirements must be met.
RECAP (Special Regime for the Purchase of Capital Goods by Exporters)	Zero percent PIS and COFINS on imports of certain fixed assets by the beneficiaries of the regime and on sales of fixed assets in the domestic market to such beneficiaries if requirements are met. Regime applicable to Brazilian exporters (whose exports represent generally 50% or more of their annual sales) and Brazilian shipyards in relation to new capital goods listed by decree.
REIDI (Infrastructure Development)	Zero percent PIS and COFINS on imports, by the beneficiaries of the regime, of new fixed assets (including under a lease agreement), construction material and services. The benefit also applies to sales or lease in the domestic market, to such beneficiaries of the regime, of the same assets and services, if certain requirements are met. Regime applicable to infrastructure projects in the following areas: transportation, ports, energy, sanitation and irrigation.
REPORTO (Modernization of Brazilian Ports)	II and IPI exemption and zero percent PIS and COFINS rates on imports of certain machinery, equipment and other assets used in port activities and sales of the same assets in the domestic market, for the same purposes, to beneficiaries of the regime.

REPETRO (Import and Export operations related to the Oil & Gas Industry)	Industries of the O&G sector can import certain equipment, machinery and parts under the drawback suspension regime (see Section 5.4.2 above), export certain equipment, machinery and parts without shipment of these goods overseas, and use the temporary admission regime (see Section 5.4.1) to use the exported items within Brazil.
SIMPLES (Special Tax Regime for Small Businesses)	Payment of federal, state and municipal taxes and of payroll contributions under a simplified regime (in one single collection document). Taxes are calculated based on progressive rates (varying per type of company, activity, tax and gross revenue ceiling) on the gross revenues of the taxpayer. Regime applicable to small and medium sized companies with annual gross revenues in the preceding year and current year not exceeding R$ 360,000 (USD 128,571) or R$ 3,600,000 (USD 1,285,714) respectively. Not applicable to certain companies or activities (e.g. corporations, companies with foreign shareholders and companies engaged in consulting services).

It is worth mentioning that the Brazilian legislation provides for other tax incentives, such as:

- PATVD: Program to Support Technological Development of the Industry of Equipment for Digital TVs;
- REPES: Special Tax Regime for the Export Platform of Information Technology Services;
- REIF: Special Incentive Regime for Development of the Infrastructure of the Fertilizer Industry;
- RET: Special Tax Regime for Real Estate Development Projects;
- RETAERO: Special Tax Regime for the Brazilian Aviation Industry;
- REICOMP: Special Tax Regime for Computers to be used in Public Schools;
- RETID: Special Tax Regime for the Defense Industry;
- RECINE Special Tax Regime for the Development of the Cinematographic Exhibition Activity);
- Inovar-Auto: Program to Support the Technology Innovation and Strengthening the Production Chain of Automotive Vehicles; and
- Incentives for the 2016 Olympic and Paralympic Games.

6. ANCILLARY OBLIGATIONS

Brazilian taxpayers are required to inform their tax obligations in innumerous 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 paid shall be monthly informed), the Withholding Income Tax Return (DIRF, where income taxes withheld shall be annually informed) and others such as:

6.1. Public Digital Bookkeeping System (SPED)

As part of the SPED, all legal entities that pay corporate taxes based on the actual profit system and, as of 2014, on the deemed profit system[21] must keep their accounting records in digital format and submit such files to the RFB.

6.2. Eletronic Report of Foreign Trade (SISCOMEX)

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

6.3. Eletronic Report of Services, Intangibles, and any other Transaction that may change parties' net worth (SISCOSERV)

Transactions between Brazilian residents (individuals and legal entities) and non-residents regarding the export or import of services, transfer or acquisition of intangibles, and any other transactions that may change parties' net worth shall be informed through this system. The information required also includes services rendered abroad by a foreign related party of the Brazilian legal entity, but excludes any services or intangibles that are connected with imported or exported goods (which shall only be reported in SISCOMEX).

6.3. Eletronic Invoices

Commercial invoices are issued electronically, per economic activity.

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1 Estimated exchange rate: BRL 2.8 per each USD 1.00.

2 Usually applicable to small-size companies with total revenues of less than BRL 78 million (approximately USD 28 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.

3 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.

4 Optional in 2008 and 2009 and mandatory as of 2010.

5 Or January 1, 2014, at the taxpayer's choice.

6 See section 1.1.2.1 (F).

7 See section 1.1.2.1 (H).

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

9 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 in 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.

10 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, Channel Islands (Alderney, Guernsey, Jersey and Sark), Cayman Islands, Cook Islands, Costa Rica, Cyprus,

French Polynesia, Djibouti, Dominica, Gibraltar, Granada, Hong Kong, Isle of Man, Kiribati, Labuan, Lebanon, Liberia, Liechtenstein, Macao, Madeira Island, Maldives, Marshall Islands, Mauritius, Monaco, Montserrat Islands, Nauru, Netherlands Antilles, Niue, Norfolk Island, Panama, Pitcairn Islands, Qeshm, Saint Helen, Saint Lucia, Saint Kitts and Nevis Federation, Saint Pierre and Miquelon, Saint Vincent and Grenadines, San Marino, Seychelles, Singapore, Solomon Islands, Sultanate of Oman, Swaziland, Tonga, Tristan da Cunha, Turks and Caicos, United Arab Emirates, 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 Iceland (International Trading Company – ITC); in the United States (State LLCs – Limited Liability Companies – owned by non-residents and not subject to federal income tax); in Spain (Entidad de Tenencia de Valores Extranjeros – ETVE); in Malta (International Trading Company – ITC – and International Holding Company – IHC); and 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 a combined rate lower than 20% according to federal, cantonal and municipal legislation). 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, Netherlands and Spain have been temporarily excluded from the list of privileged tax regimes until a final decision is granted to their requests.

11 As per a Normative Instruction.

12 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.

13 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.

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

15 4% COFINS rate applicable for financial institutions and equity stake disposal.

16 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 20% and 15.79%, respectively), while the zero rate applies to the revenue derived from the resale of the products carried out by the wholesaler or retailer.

17 In accordance with Provision Measure 668/15, still pending approval.

18 Even if they do not involve technology transfer.

19 Cars, trucks, buses, tractors. Controversies arise regarding the levy of IPVA on the ownership of boats, yachts and aircrafts.

20 As long as the other profit reserves have been totally offset, with the exception to the legal reserve.

21 This obligation is only applicable in case the legal entity does not withholding the income tax due on the distribution of profits exceeding the value of the WHT's taxable basis net of taxes.

CHILE
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HIGHTLIGHTS

NATIONAL LEVEL TAX RATES

Corporate Income Tax (First Category Tax):	22,5% [1] Tax year 2015
Branch Profit Tax:	35%[2]
Dividend tax:	35%[3]
Interest:	35% or 4%[4]
Royalties:	15% or 30%
Technical Assistance	15% or 20%
Other services	35%
International leasing	1.75%[5]
Tax loss carry-forward term:	No time limited [6]
Tax loss carry-back term	Will no longer exist on January 1st 2017
Transfer Pricing Rules:	Yes
Tax-free Reorganizations:	Mergers, stock-for-stock, divisions, changes of the legal characteristics
VAT on Sales:	19%[7]

VAT on Services:	19%
VAT on Imports:	19%
Customs Duties:	6 % flat rate[8]
Stamp (Documentary) Tax:	0.033 up to 0.4%[9]

Local Level Tax Rates:

Municipal Tax:	0.25 a - 0.5 X mil[10]

TREATY TAXATION

Items for Income

Countries	Interest	Dividends	Royalties	Tech. Services and Assistance (Local Rules are applicable)
Australia	5/15%	15/15%	5/10%	15/20/35%
Belgium	15%	5/15%	5/10%	15/20/35%
Brazil	10/15%	15%	15%	15/20/35%
Canada	5/15%	10/15%	10%	15/20/35%
Croatia	5/15%	5/15%	5 /10%	15/20/35%
Colombia	0/7%	5/15%	10%	10%*
Russia	5/10%	15%	5/10%	15/20/35%
Denmark	5/15%	5/15%	5/10%	15/20/35%
Ecuador	5/15%	5/15%	10%	15/20/35%
Ireland	5/15%	5/15%	5/10%	15/20/35%
Malaysia	5/15%	15%	10%	15/20/35%
México	5/10%	5/10/15% **(6)**	10%	15/20/35%
Norway	5/15%	5/15%	5 /10%	15/20/35%
Paraguay	10/15%	10%	15%	15/20/35%
Peru	10/15%	15%	15%	15/20/35%
Poland	5/15%	5/15%	5 /10%	15/20/35%
Portugal	10/15%	5/10/15%	5/10%	15/20/35%
Spain	5/10%	5/15%	5/10%	15/20/35%
Korea	5/10%	5/15%	5 /10%	15/20/35%
Switzerland	15%	5/15%	5/10%	15/20/35%
Thailand	10%	10/15%	10/15%	15/20/35%
United Kingdom	5/15%	5/15%	5 /10%	15/20/35%
France	15%	5/15%	5/10%	15/20/35%
New Zealand	15%	10/15%	10%	15/20/35%

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

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1 Law 20780 (tax reform) increases gradually the corporate tax rate. The prevailing 21% First category tax rate will rise to 25% or 27% depending on which of the options the taxpayer exercised, This increase is expected to occur gradually: 22,5% , year 2015; 24% , year 2016; 25 or 25,5% (semi integrated system); year 2017 and 25% or 27% (semi integrated system), year 2018.

2 Withholding tax on dividend distribution is taxed with a 35% withholding tax, however the 21% First Category Tax could offset this tax, which results in a real 15% tax rate.

APPLICATION OF THE MOST FAVORED NATION CLAUSE

Many conventions include the "most favored nation clause". According to this clause if Chile agrees an exemption or a more reduced rate with respect 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 favored nation clause" with respect to 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 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.

Therefore, in order 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, then all those conventions executed afterwards should be analyzed to verify whether or not the condition for that clause to apply is met.

The Conventions signed by Chile and Brazil, Canada, Korea, Denmark, Ecuador, Mexico, Norway and Poland include the Most Favored Nation Clause.

Preferential maximum withholding rates agreed in different conventions and application of the most favored nation clause.

OVERVIEW

1. INCOME TAX

1.1. General Aspects

General Residents or domiciled persons are liable to income tax on their worldwide income.

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

3 Idem.

4 4% on bank or financial institution loans; 35% as a general rule

5 Legal presumed income equivalent to, 35% applied on 5% of each rental payment of the good

6 From 1 January 2017, only loss carryforward will be available. Loss carryback will no longer exist.

7 Law 20780 introduces certain amendments regarding VAT, which are expected to apply from January 1, 2016.

8 However, Chile has entered into over 50 Free Trade Agreements with several countries under which the tax rate for most goods imported from those countries will be 0%.

9 The tax reform introduces certain amendments regarding Stamp Tax, which are expected to apply from January 1, 2016.

10 Calculated on the Tax Owner's Equity up to 8,000 MTUs (equivalent to approximately US$ 547.000 with an exchange rate of US$ 1 = 630 Chilean pesos).

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 (this period may be extended by the tax administration in special cases).

In general, Chilean-source income is income 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:

a) Business income tax (first category tax) is levied on business income under the rules described in Corporate Taxation;

b) Employment income tax (second category tax) is levied on employment income;

c) Global Complementary tax (individual income 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.

Business income tax and employment income tax are creditable against the individual income tax.

Non-resident income tax (additional tax) is levied on Chilean-source income derived by persons who are non-residents and are not domiciled in Chile, generally when the income is made available.

1.1.1. Income Tax Rate

Chile is facing a structural tax reform in 2014 which is expected to make numerous changes to the grounds of the Chilean tax system.

The Law 20780, published on September 29th, 2014, introduces substantial changes to the Chilean tax system, including two alternative methods for computing shareholder-level income taxation, additional corporate tax rate increases, limits for goodwill amortization, important amendments to the thin capitalization rules, deductibility of related-party payments, general anti-avoidance rules (GAAR), and other substantial modification.

In addition, from January 1st, 2015 certain especial regimes set forth in articles 14 bis and 14 quater of the Income Tax Law are eliminated.

1.1.2. Tax Regimes for Income Taxes

Taxes established in the income tax law are the following:

a. First Category Tax:

This tax is paid by the business generating the income and is payable, at a rate of 21% per fiscal year 2014, 22,5% for fiscal year 2015, 24% for year 2016 and 25% as of 2017.

The law provides for two options, namely attributed income or semi integrated income.

In the case of attributed income the taxpayer must pay tax on the income he is entitled to, whether paid or not.

In the case of semi integrated income, the taxpayer will only pay personal income tax or additional tax assessed on partners or shareholders not domiciled nor resident in Chile when actually paid.

In the case of semi integrated income, the First Category Tax will be 27% in lieu of 25 but personal income taxes or additional tax will only be paid once the profit has been received.

The amount of this tax is considered as a credit against taxes, if any, payable by the owners or shareholders of the company following profit distributions.

In the case of semi integrated income, the credit will be 65% of the First Category Tax, unless the foreign investor is from a country with which Chile has a double tax treaty, in which case the credit will be 100% of the First Category Tax.

Monthly provisional payments -aggregating 1% of gross income during the first year- must be made by the company as an advance against the final tax accrued at the end of the respective fiscal year. After the first year, such provisional payments are calculated according to the ratio between the amount paid for First Category Tax and the interim payments.

b. Second Category Tax:
This tax is a progressive tax applied on the aggregate amount received by an employee on account of wages, salaries, profit-sharing or others. The taxation rates range from 0% to 40% of the relevant income per fiscal year. The maximum rate will be reduced to 35% as of 2017.

Second category taxpayers are not subject to any other income taxation, unless they have income from sources other than wages or salaries.

c. Global Complementary Tax:
This tax is applied to persons domiciled or residing in Chile on income of any source, including income originating from outside of Chile and must be yearly declared by the taxpayer.

d. Taxes on enterprises and their owners or shareholders
Business enterprises of any kind, as already mentioned, are subject to the First Category Tax on accrued income.

Thereafter, when the taxpayer is taxed under the attributed income tax system the shareholders,partners or owners domiciled or resident outside Chile, and in the case of a branch, such profits are subject to the Additional Tax on accrual basis, whether distributed or not.

Since the First Category Tax may be credited against the personal Progressive Tax or the Additional Tax, as the case may be, it represents only a projection of the final tax burden. In other words, First Category Tax affects only the cash flow of the company.

In the case of a foreign-owned company, the attributed 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 on-resident entity in the case of the attributed income alternative will amount to 25% payable by the company plus 35% payable by the foreign owner, minus 25% of distributed amounts, which is accepted as a credit against the 35%.

e. Transfer of Shares and Securities
In Chile, there are no taxes on transfers of shares and securities, only the income from it will be subject to income tax to the extent it produces a higher value between its cost value and its sales value.

This higher value is treated differently, depending on the concurrence of a number of requirements:

1. Corporate tax as the only applicable tax: If the shares have been owned for over one year, the seller is not habitual in these operations, and the transaction was not conducted between related parties.

2. General taxation regime: If any of the above requirements are not met.

3. Special taxation regime: Articles 106 and 107 of the Income Tax Law.

4. Article 106 regime establishes that the higher value obtained by foreign institutional investors will be exempt. The transfer must be on shares on publicly-traded, open corporations or on bonds or other papers issued by the Central Bank, the state or national companies and be done through a stock exchange or a public offer. This regime is of exemption.

5. Article 107 is quite similar to the above, except that it is only regarding shares traded on stock exchanges, other exchanges authorized by the Central Bank, or in a public offer and 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.

The tax reform equates the tax treatment established to determine the tax cost of the alienation of corporate rights and the alienation of shares of stock which are currently determined using different mechanisms based on the type of company and the beneficiary of that alienation.

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

This criterion was normally applied to the alienation of shares, then this change occurs at the level of the alienation of corporate rights as sometimes this rule was applied while some other times the tax cost equivalent to the adjusted carrying value (net worth) was the mechanism used to make this calculation as it is more advantageous for taxpayers.

This criteria unification puts an end to the difference explained above, that is to say, whether or not the alienation is performed by related parties and the type of taxpayers involved, i.e. whether or not they determined their effective incomes on the basis of full taxation.

The Tax Reform 2014 is intended to unify the treatment applicable on the higher value resulting from the alienation of corporate rights and/ or shares of stock, using the regime applicable to the latter in any of its three forms, namely: 1) 22, 5% first category tax as sole lien; 2) Revenues not representing income; 3) General regime, that is, global aggregate tax or withholding tax.

Capital gains realized by resident individuals or non-resident taxpayers on the disposition of shares in Chilean companies may presently qualify for a sole capital-gains tax, the first category tax.

The Tax Reform 2014 eliminates this reduced taxation and levies the capital gain with personal taxes from 2017.

From the year 2017, the Corporate Tax is no longer considered as Sole Income Tax for capital gains currently stated in article 17, number 8° 6, passing those incomes to pay taxes in accordance with the general or ordinary regime.

In case of non-habitual operations performed by persons that are not taxpayers that determine the Corporate 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 date and the sale date, only will be subject to the Complementary Global Tax or Additional Tax, as corresponds, and the taxpayers of the Complementary Global Tax may choose, in case of declaring on an accrued income basis, to re-liquidate the aforementioned tax in accordance with a new procedure that has been set.

Additionally, the Reform modifies the Tax treatment for the gain obtained from the selling of shares and rights on companies, as well as the tax treatment for the selling 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, this matter is regulated in the new N° 8 of article 17 of the ITL.

f. Taxes on Patrimony

Although there is no specific tax on patrimony, there is a municipal tax or commercial license to be paid each year to the municipality in which the taxpayer is domiciled for the development of a profession or commercial or industrial activities.

The above tax is a fixed amount in the case of professionals. In all other cases, a rate is applied on the own capital of the company to develop the activity, *i.e.,* its patrimony. Said rate is established by each municipality and it ranges from 2.5 to 5 per thousand with a cap of 8,000 UTM (*"Monthly Tax Unit")*.

g. Real Estate Taxation

Regarding real estate, there is a special tax, the real estate tax, which is applied on the fiscal valuation of the property determined by the Internal Revenue Service ("IRS"). The funds collected for this tax are designated for municipal funds. They are collected in four installments during the year: April, June, September, and November, the normal installments.

If any variations on the normal installments are to be considered, the IRS will effect 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 exempt.

The annual rate for properties destined for habitation and with a valuation equal to or less than CLP$52,342,100 is 1%. For higher valuations, the rate is 1.2% with an over rate of 0.025% (of fiscal destination), both on the amount exceeding the above figure.

The annual rate for properties not destined for habitation is 1.2% with an over rate of 0.025% (of fiscal destination). In the case of a new property, real estate tax must be paid from January 1 of the year in which it was incorporated into the charge roll, if the property is not exempt. This tax must be paid by the owner of the property, regardless of the right of use, lease or usufruct that third parties may have over it.

Note: The Tax Reform 2014 limits the exemption for the capital gain arising from the sale of real

estate, which will be only available for individuals domiciled or resident in Chile.

In these cases, the tax would be applied over the difference between the sale price and the cost of the real property, including in the cost of all improvements.

This exemption is limited to 8,000 UF (343,476 USD, approx.) regardless of the number of sales and real estates that the taxpayer owns.

The excess is levied according to the general rules or with a sole 10% tax, on a cash basis, at the taxpayer's election. If real estate was acquired before the tax reform's enactment, for purposes of determining the capital gain, the taxpayer can choose between:

1. Acquisition cost (including improvements) adjusted by inflation;
2. Official tax valuation at January 1, 2017, adjusted by inflation between December, 2016 and the month before the sale, or
3. Fair market value, proved by the taxpayer, at the date of the enactment of the law. If the real estate was acquired before January 1, 2004, the sale will be subject to the rules in force in 2014.

1.1.3. Attributed income regime versus semi integrated regime

As of January 01, 2017, the law creates two alternative corporate income tax regimes (first category tax):

A. Attributed income regime
(Article 14 A of the Income Tax Law ("ITL")) under which foreign shareholders will be subject to the additional tax (withholding tax on profit remittances abroad) on the income from their ownership held in companies in the same year in which the income is recognized, and

B. Semi integrated regime
(Article 14 B of the ITL) where foreign owners will be subject to the additional tax only on the profit effectively distributed by the company.

Each taxpayer will select one regime, taking into account the formalities established in the law. The selection should be made by the last quarter of 2016. If the taxpayer does not actively select a regime, the law provides for a default rule as follows:

A. Attributed regime will be applied to:

- individual entrepreneurs
- individual limited liability companies
- limited liability companies where the owners are only Chilean individuals

Under this regime, the company will be subject to first category income tax at a 25% rate on its annual taxable income. In addition, the same year the company shall attribute this income to the final owners that are subject to additional tax (foreign residents) or personal income tax ("global complementary", in the case of individual's resident in Chile).

The owners will pay the relevant tax and have the right to use the first category tax paid by the company that generated the profit as a credit. This means taxpayers subject to additional tax or personal income tax will be taxed on the income of the companies in which they have an interest in the year this income is recognized, with the corresponding direct tax credit, regardless of whether or not any

profit distributions are actually made.

For the nonresident taxpayers under the additional tax regime, this regime results in a total tax burden of 35% applied to the year the company generates profits (25% paid by the Chilean company and 10% by the owner abroad).

The attribution of income to be made by a company, as explained above, is made regardless of the number of companies in a chain of ownership and regardless of the taxation regime selected by each of the other companies in the ownership chain.

Therefore, a subsidiary subject to the attributed regime must attribute the income it derived to its owners that have the status of final taxpayers, regardless if the other investment companies or holdings in the chain of ownership are subject to a different regime. As an exception, attribution of income will not reach local individual or foreign owners if a company in the chain of ownership is in a loss position.

In these cases, losses will absorb the attributed regime profits, thereby giving the company in a loss position the right to request a refund for the amount of the first category tax paid by the company attributing the income.

For effective distributions from a company under the attributed regime, distributed profits will be subject to the following attribution order:

a. attributed regime income already taxed: no taxes are imposed
b. Exempt income: no taxes apply
c. Retained taxable earnings associated with income generated up until the end of 2016: in this case the former (current) taxation regime will apply
d. Excess distributions from prior items (e.g., temporary differences) will be affected by the 35% additional tax with first category tax credit, if any.

B. Semi integrated regime will be applied to:

- limited liability companies where one or more owners are legal entities or taxpayers not resident or domiciled in Chile
- taxpayers under the regime established in Article 58 No. 1 (permanent establishments)
- stock companies (SAs and Spas) Once the applicable regime is determined, by choice or by default, a five-year holding period is required.

Under semi integrated regime Companies under this regime will be subject to a first category corporate income tax at a 25.5% rate in 2017 and 27% as of 2018.

The semi integrated regime, as it stands today, entails the shareholders being taxed when the dividend is actually distributed by the local entity. However, under the new regime, the amount of the credit that may be offset against final taxes is modified. Hence, while the credit currently rises to the entire First Category Tax paid by the company, in this situation the actual credit will depend on the tax residency of the shareholder.

To this extent, the Bill still provides for the application of the whole First Category Tax credit but it is envisaged that 35% of that credit will be reimbursed as a tax debit by either the local or the foreign shareholder. This means that only 65% of the credit would be granted. However, such reimburse-

ment would not be due where the foreign shareholder resides in a state that has a double tax treaty in force with Chile.

C. SMEs regime

Letter A of article 14 ter of the Income Tax Law ("ITL") sets forth an especial regime for investment, working capital and liquidity. Its main features include as a general rule that taxpayers adhering to its dispositions will pay taxes on the difference to be determined between the received income and the expenses paid during the respective period.

Requirements for being admitted and remaining in the regime are modified; for example, the increase up to 50.000 UF[11] 4 out of the limit of the annual average of received or accrued income from sales and services of their line of business.

1.1.4. Increasing the First Category Tax rate

The prevailing 21% First Category Tax rate will rise to 25% or 27% depending on which of the options the taxpayer exercised. This increase is expected to occur gradually.[12]

The tax reform increases gradually the corporate tax rate :

Year 2015: 22,5%

Year 2016: 24%

Year 2017: 25%/25,5% (semi-integrated system)

Year 2018: 25%/ 27% (semi-integrated system)

Elimination of FUT and new record of profits

The reform eliminates the FUT form January 1st 2017, being this replaced by the Record of Profits which is different depending on whether the taxpayer adheres to the attributed income or semi integrated income system.

The Tax reform gives taxpayers under the First Category Tax regime the right to pay a 32% tax on the accumulated Retained Taxable Earnings Registry (FUT) and use as credit the First Category Tax paid on the referred FUT.

To exercise this right, the following requirements must be met:

a) Taxpayers under the First Category Tax regime must have initiated their operations before 1 January 2013.
b) As of 31 December 2014, they must have accumulated FUT.
c) The right must be exercised during 2015.
d) The tax must be levied against the portion of the retained earning balance in excess of the average annual amount of the total withdrawals, remittances or distributions annually made by the shareholders over the last three years

11 The Unidad de Fomento is a monetary unit created by law back in 1975 which is adjusted daily in accordance with the variation of the Consumer Price Index and which is used for tax, labor and other cases in which adjustments for inflation are provided by law or by agreement of the parties

12 Idem footnote N° 1

Once this tax has been paid, profits will be deemed revenues not representing income for distribution purposes. The IRS needs to regulate the procedure to apply this alternative taxation system.

As from January 1, 2017, the FUT is replaced by the record profits that is different depending on whether the taxpayer adheres to or attributed system or semi integrated system.

1.1.5. Taxable Basis

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.

1.1.6. 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. For example, automobile expenses are not deductible.

The Tax Reform established the deductibility of interest payments new provisions expressly allow the deductibility, for Chilean income tax purposes, of interest and other expenses derived in connection with the acquisition of shares, bonds, and similar instruments. This provision will take effect on October 1st, 2014.

Also established from January 1st, 2015 additional requirements are set forth for the deduction of expenses for the amounts referred to in article 59 of the ITL, when these result from operations with parties directly or indirectly related abroad, for example, that the AT affecting such amounts is paid.

1.1.7. Depreciation

The depreciation of the assets is regulated by the Income Tax Law as an expense for producing income and in this regard it has established that a deduction from the profits of the operation can be taken as an annual quota of depreciation for the physical goods of the fixed asset, from its utilization by the company.

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

However, the taxpayer 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 five years. Taxpayers may, at any time, waive the accelerated depreciation regime, thus returning to the normal regime.

By the end of the depreciation term of the good, a value of one peso should be recorded in the accounting books, which will not be subject to monetary correction and shall remain in the accounting records until the total elimination of the good, be it by sale or any other method. Regarding goods that have become of no use for the company before the expiration of the depreciation term, the latter can be doubled.

In any case, when the accelerated depreciation regime is applied, it will only be, for the purposes of global complementary or withholding tax, the normal depreciation. The difference between normal

and accelerated depreciation resulting in the corresponding operation may only be deducted as expense for the purposes of corporate tax.

Note: The Tax Reform introduced Instant and super-accelerated depreciation
This reform distinguishes between companies with sales below to US$ 1 million and those with sales between US$ 1 million and $4.2 million.

In the first case, businesses may depreciate investments in fixed assets using a useful life of one year, whether they are new or used.

In the second, businesses may depreciate investments in fixed assets considering effectiveness of one-tenth of its normal useful life, but only if they are new or imported. This benefit is only available to companies that have not opted to the article 14 ter special regime.

1.1.8 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).

1.1.9. Tax Loss Carry forward / Carry-back

As of 2017, only loss carryforward will be available and loss carryback will no longer exist. Up until now, it has been possible for a company that generates taxable income and pays tax on this income in year 1, which then suffers a loss in year 2, to claim back a portion of the income tax paid in year 1 to compensate for the year 2 losses ("PPUA"). This will no longer be possible.

However, the right to offset losses at the level of a holding company to dividends distributed by subsidiaries (with the corresponding right to obtain a refund) will still be available

1.1.10. Tax-Free Reorganizations

Tax-free reorganization rules remain unchanged, and conversions, mergers and demergers are still permitted without triggering taxable events; however, the company that is converted, created or absorbed should be under the same regime before the reorganization until it completes the mandatory five-year period.

If a company is subject to the semi integrated regime and the same is dissolved or merged into an entity subject to the attributed regime, a 35% tax on accumulated profits will apply.

1.1.11. Capital Gains Tax

Capital Gains Tax The first category tax regime as a sole tax applicable to capital gains derived from the sale of shares or social rights is eliminated as of January 01, 2017. Therefore, the sale of shares or quotas in a Chilean company performed by foreign residents will, as a general rule, be subject to a total tax burden of 35%, unless a special tax regime applies, i.e., exemption or no taxation (for example, shares acquired before 1984 or listed shares) or sales under special rules contained in a Tax Treaty.

In addition, if capital gains apply to indirect transfers, the capital gains can be charged to the Chilean

subsidiary that is transferred. On the other hand, interests related to investment in local companies will be deductible, regardless of the type of entity.

1.2. Payment and Filing

For any given taxable year the corresponding income tax return and tax liability must be filed and paid on the first date of the next year, according to the filing and payment dates set out by the tax authorities in the corresponding schedules.

All entities including corporations must file their income tax return and pay the corresponding tax liability every April regarding the prior taxable year.

1.3. Additional Tax / Withholding Tax

The Additional Tax is assessed, as a general rule, on income from Chilean sources earned by individuals or entities neither domiciled nor residing in Chile. This tax is also assessed on certain payments made by Chilean taxpayers abroad, as analyzed herein.

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

As mentioned before, the First Category Tax paid may be credited against the Additional Tax but must also be considered as additional taxable income for the Additional Tax.

In the case of semi integrated income and if the foreign investor is from a country with which Chile does not have a double tax treaty the credit for the First Category tax is limited to 65% of said tax.

In some cases the Additional Tax must be declared annually by the taxpayer, whereas in others it must be withheld by the person or entity making the payment.

These withholding taxes (Additional Tax) are assessed on profit remittances and dividends (35%) (dividends distributed by stock companies, joint stock companies and partnerships limited by shares incorporated in Chile, 35%) Shares or rights: 35% Income derived from the alienation of shares and social rights. Alienation with underlying assets: Alienation made by a non-resident, non-domicile taxpayer of social rights, shares, bonds or securities situated abroad whose value derives from underlying assets situated in Chile (if some legal requirements are met) 35%; royalties. Invention patents: Sums paid for the use, enjoyment or exploitation of invention patents, utility models, industrial drawings and design, layout-designs or topographies of integrated circuits, and new varieties of plants 15%; edition rights 15%; computer programs (15% software); film distribution fees (20%), interest on foreign loans(35% or 4% as the case may be), remuneration for services rendered abroad (35% except for engineering work or technical assistance, in which case a 15% rate applies) premiums for foreign insurance policies (22%) and reinsurance policies (2%), leasing of movable assets (1.75%) and compensation to foreign individuals which are neither residents nor domiciled in Chile on sport, scientific or cultural services in Chile (20%)

The 35% Additional Tax levied on certain payments to persons or entities not domiciled in Chile are not applicable to imports, provided the import prices are reasonable in terms of market values. Amounts paid in excess of reasonable prices are taxable.

Software payment exemption.

The bill contemplates providing for a Withholding Tax exemption to payments remitted abroad on account of acquired software use of licenses, including digital books. Please note that this amendment will indirectly seek to reduce the high levels of software falsification in Chile as we are the country with the highest rate among OECD members.

It is worth noting that prior to the Law amendments, the Internal Revenue Service through a great number of pronouncements sated that for customized software the applicable withholding tax rate was 20% for the same was deemed a "technical assistance". On the contrary, the payment for the use of standard software was subject to a 30% withholding tax rate for it was considered as a payment for the use of intangible assets.

Likewise, according to the last amendment to the law , the Withholding Tax rate on the remuneration paid abroad for engineering or technical services as well as professional or technical services rendered by a person or entity knowledgeable in a science or technique through advice, a report or plot, whether they are rendered in Chile or overseas, is 15% unless such services are rendered to related parties or beneficiaries located in a country deemed a "tax haven" in which case the withholding rate goes up to 20% .

In respect of payments made abroad to related parties (royalties, interests, services, etc.) is required as additional requirements deductibility they have been paid and should proceed, the Additional Tax (retention) has actually been declared and paid in Treasury. (1 January 2015).

1.4. Cross-border Payments

14.1. Withholding Taxes

When Chilean 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.

14.1.1.Royalties

Royalty payments are subject to an effective 30% withholding tax for income and remittance taxes.

1.4.1.2.Technical Services, Technical Assistance and Consulting Services

Whether rendered in Chile or abroad by a non-resident, technical services and technical assistance payments are subject to 15% withholding for income and remittance taxes.[13]

1.4.1.3.Other Services

If services are rendered from abroad and do not qualify as technical services, technical assistance or consulting services, then an effective 35% withholding should apply.

1.4.1.4.Interest Payments

As a general rule, payments made pursuant to foreign debt agreements are subject to a 35% effective withholding for income and remittance taxes. A reduced 4% withholding for income and remittance taxes applies in some specific cases to banks and financial institution foreign loans.

1.4.1.5 Leasing

Amounts paid to the lessor in compliance with a rental contract, with or without purchase option, of

13 With the exception indicated in the last paragraph of No 3 above.

an imported capital good, which may be subject to the system of deferred customs duties payment is subject to tax.

The applicable rate is 35% on the part of profit or interest in the operation, which for these purposes is presumed to be 5% of the amount of the quota paid for the above contract, resulting in an actual 1,75% tax rate.

1.4.2. Tax Treaties

Chile has Tax Treaties to avoid the Double Taxation with Australia, Belgium, Brazil, Canada, Colombia, Korea, Croatia, Denmark, Ecuador, Ireland, Spain, France, Malaysia, Mexico, Norway, New Zealand, Paraguay, Peru, Poland, Portugal, Russia, United Kingdom, Switzerland, Sweden and Thailand. There are subscribed, but non-effective tax treaties with Austria, South Africa, and the United States of America.

On June 29, 2012, Argentina send notice to Chile of the denunciation of the Convention for the Avoidance of Double Taxation executed in November 1976 and confirmed by both states on December 19, 1985, amending all subsequent protocols, which terminated the same.

On January 1, 2013 this Convention will no longer apply to individuals and to companies with respect to fiscal years beginning after the denunciation notice date. For Chile, the year beginning after December 31, 2012.

The benefits provided for in the Convention such as, exemption of tax on personal property applicable to residents in Chile with assets in Argentina, will no longer apply and those taxpayers will pay a 0.5% tax on the shares or interests they own in Argentine companies.

2. VALUE ADDED TAX (VAT)

2.1. General Aspects

Subject to a number of 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 and 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 corporal movable goods. Sales are deemed habitual 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 whose nature is commercial, industrial, financial, mining, construction, publicity, among others. Imports are subject to VAT, regardless of whether they are habitual or not. Professional services provided by employees or independent professionals are not subject to VAT.

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 totally built by it or in part by a third party, with a quota of ownership over said goods or of any real 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 in 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 of the activi-

ties listed in numbers 3 and 4 of Article 20 of the Income Tax Law[14] .

However, VAT Law has established a number of operations that are equivalent to "goods" or "services," such as imports, whether habitual or not; contributions to companies and other assignments of ownership over corporeal movable goods, done by sellers; sales of commercial establishments that comprise corporeal movable goods; leasing, subleasing, usufruct or any other form of temporary assignment of use of trademarks, patents, procedures, industrial formulas, and similar items; parking of automobiles and other vehicles in parking lots or other places destined for that purpose; premiums on insurance of insurance cooperatives; and sales of fixed assets.

The Law 20780 introduces certain amendments regarding VAT, which are expected to apply on January 1st, 2016.

The changes relating to VAT are:

- Unlike under prevailing law where the transfer of real estate is only taxed if the seller is a construction company, habitual sales of real estate will become liable for VAT whoever the seller is; and
- The sale of real estate belonging to fixed assets will always be levied with VAT provided that the taxpayer had the right to VAT credit for its acquisition, import, manufacture or construction.

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 next 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. Interest on loans and other financial operations. In the case of deferred payment of a sales price, interest charged is subject to VAT;
c. International freight, both by air and sea;
d. Personal services; and
e. Services subjected to Additional Tax, unless the services are provided in Chile and
f. also that those enjoy a specific tax exemption given by the Chilean law or by treaties to avoid double taxation in Chile.
g. Revenues which are not considered as income.

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14 Income from the following activities: manufacturing; trade; mining; exploitation of marine resources and other extractive activities; airlines; insurance; banks, loan and credit associations; mutual fund administrating companies; investment or capitalization companies; financial and other similar companies; construction; journalism; publicity; radio broadcasting; television; automatic data processing; telecommunications; brokers; auctioneers; customs agents; embarking agents and others in the maritime, ports and customs trade; private schools and educational institutions and other establishments alike; clinics, hospitals, laboratories, and other similar private establishments; and amusement and entertainment companies.

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 dates scheduled by the tax authorities for these purposes, which are usually within the first 12 days following the corresponding month end.

The tax reform of 2014, the payment of fiscal debit can be delayed up to two months, for the following taxpayers:

- Taxpayers subscribed to letter A) of article 14 ter of the Income Law (annual sales of up to 50.000 U.F; that is, micro and small companies).
- Taxpayers that follow the general rules, with average annual earnings of up to 100.000 U.F.

Time frame to apply

- During 2015; taxpayers that during 2014 registered earnings from their line of business of up to 25.000 U.F. may apply.
- During 2016; taxpayers that during 2015 registered earnings from their line of business of up to 100.000 U.F. may apply.
- During 2017; only taxpayers that have an average of less than 100.000 U.F. of income for the last 3 tax periods, may apply.

3. OTHER TAXES

3.1. Real Property

The sale of real property is subject to value added tax only when the sale is done within 12 months of its acquisition, initiation of activities, or construction, as the case may be, and by taxpayers that have been subject to the same tax.

As for income tax, there are two situations, for the higher value in the assignment of real estate may be subject to two different tax regimes, depending on compliance with certain requirements: it may be a non-income profit or be subject to the general regime, thus, paying 22.5% corporate tax (which may be a tax credit for global complementary or withholding tax, as the case may be).

The requirements for the higher value being considered a non-income profit are:

i. That the real estate is not part of the assets of companies that declare their income on actual income for corporate tax purposes.

ii. That the purchaser is not a company related to the seller, i.e., if the seller owns any amount of equity in the company or is a shareholder of it, in the case of open corporations, he has to own 10% or more of its shares.

iii. That the seller is not habitual in the sale of real estate, otherwise the operation will be subject to corporate tax and global complementary or withholding tax, when applicable.

Habitually is presumed in the case of the subdivision of urban land, sales of buildings by floors or apartments, or when the term between the acquisition and assignment of the real estate is less than a year.

iv. That the transaction is consistent with market values.

If the above requirements are not met, the higher value will be subject to the general regime. The only amount that will never be subject to taxation is the adjustment of the acquisition value.

Note: The Tax Reform modifies the tax treatment of the highest value obtained from the sale of real estate located in Chile.

New regulations are contained in the new letter b), N° 8, article 17, of the ITL. The aforementioned tax treatment includes certain improvements, for example, revenues that do not constitute income are only, provided all legal requirements are complied with, for natural persons or those domiciled or resident in Chile and up to a highest value equivalent to a total amount of 8.000 UF annually (USD 343.476), irrespective of the number of sales that the taxpayer performs or the number of real estate owned by the same.

With respect to 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, the readjusted acquisition value, the respective good's appraised value at January 1st, 2017 (readjusted) or the market value at September 29th, 2014. The current regulations will remain applicable for real estates acquired before January 1st, 2004.

Entry into force January 1st 2017.

3.2. Municipal Tax

There is a municipal tax applicable to all industrial, commercial and service activities carried out in the territory of said municipality. 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 per thousand with a minimum of one Monthly Tax Unit (US$ 68 approximately) and a maximum of 8,000 Monthly Tax Units (US$ 547.000 approximately). This tax is usually paid twice a year.

3.3. Stamp Tax

Is imposed on certain specified acts. It has a limited scope and is basically applied only with respect to documents representing a debt claim (e.g. 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 Tax reform introduces certain amendments regarding Stamp tax, which are expected to apply from January 1st 2016.

Stamp Tax maximum tax rate is increased from the actual 0,033% to 0,066% per each month or fraction of month, with a limit of 0,8% instead of 0,4%.

- In case on payable on demand documents the maximum rate is increased from 0,166% a 0,332%.

3.4. Mining Tax

This tax affects the operational income associated with mining activities derived by a mine operator, that is, any natural or legal person that extracts minerals in which respect a concession may be awarded, and sells them at any stage of production.

This tax is applied to the mining companies' incomes obtained in the exercise of its activities. Regarding mining companies with annual sales on any kind of minerals up to the equivalent to the value of 50,000 and not less than 12.000 metric tons of fine copper or less, they are subject to a progressive tax rate with a maximum of 4.5%.

Mining companies with higher sales are subject to a progressive tax rate from 5% to 14 %, depending on their operational margin.

The value of one metric ton of fine copper is determined based on the relevant commercial year average value at the London Metals Exchange.

The operational income derived from the mining activity is calculated according to a schedule established in the law that consists in adding to or deducting from the Taxable Base of the First Category Tax certain amounts or items specified in the relevant legal provision.

3.5. Importing and Exporting

Imports

All types of goods and services may be imported by any individual or entity except a limited number of specifically prohibited items (for example, used cars).

Imports must be registered with the Customs Service prior to 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)

Normally, imports must be shipped within 120 days after the license is granted.

Customs Duty

Customs duty is normally payable on imports at a rate of 6% of the CIF value of the imported goods, although this rate may be increased to counter-balance the effect of proven foreign subsidies. A number of treaties and trade associations have had the effect of reducing (or eliminating) the normal 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 north and south de Chile. (The cities of Iquique and Punta Arenas)

Exports

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

The Customs Service must be notified in advance of exports with the exception, among others, of transactions of up to US $ 3,000 FOB (or authorized by certain government bodies, when particularly sensitive products are at issue, such as copper, which requires authorization by the Copper Commission)

Foreign currency proceeds of exports sales (net or related overseas expenses) do not have to be returned to Chile, and if returned, such proceeds do not need to be converted into local currency. If not returned to Chile, the exporter is obliged to inform the Central Bank accordingly. Export incentives are available for "non-traditional" exports.

As indicated previously, exports are exempt from VAT. However, exporters may recover VAT charged. on purchases or services necessary for their exporting activities as a credit against the debit originated in their local sales. Additionally, they may recover this credit in cash as a refund.

Excise duty
In addition to VAT, excise or sales taxes apply on the sale and/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 13% to 27%), 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 be applicable 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 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. Construction

New housing, buildings and constructions of any kind sold by construction companies are charged VAT. Provisions have been established in the law allowing for the deduction of the cost of the land from the taxable basis. Revenues originating from construction contracts are also subject to Income Tax.

Note: Special Credit for Construction Companies (article 21 of DL 910, 1975).
The Tax Reform introduces a new limit to the special credit granted to construction companies, consisting in 65% of the VAT fiscal debit to which the sale of property destined to residential use was subject, as long as the property was constructed by a construction company or through a general construction agreement which is not by administration of such property.

3.7. Taxa ble Basis

Customs duties are computed on the CIF value of the goods, while import VAT is computed on the

CIF value plus the appropriate customs duties.

3.8. Filling and Payment

An import return must be filed upon nationalization of the goods. As a general 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.

3.9. Other taxes

3.9.1. Alcoholic, Soft Beverages and Tobacco taxation

Taxes on alcoholic beverages are increased in accordance to their volume of alcohol, just like for sugar-sweetened beverages, flavored mineral water, among other. In addition, tobacco tax is increased. In force on October 1st 2014

3.9.2. Environmental Taxes

a. New vehicles: The Reform sets forth that new motor, light and medium vehicles, with the exceptions stated by the same regulation, will pay a one-time additional tax expressed in UTM, in accordance with a included formula (based on their urban performance and the vehicle's emission of nitrogen oxides) .Effective 30 days after the respective regulations is published

b. Pollution sources: A tax is set forth for natural and legal persons that make use of certain fixed sources of air pollution such as particulate matter, nitrogen oxides, sulfur dioxide and carbon dioxide, produced by premises which fixed sources, individually or as a whole, have a thermal capacity over or equal to 50 MWt 2. First pay in the year 2018.

3.10 Transfer Pricing

Legislation and Regulations

Law 20.630 of September 2012 modified the previous transfer pricing regulations contained in article 38, paragraph three and the following, of the Income Tax Law, and introduced the new article 41 E, which meant an important advancement in transfer pricing for our tax legal system to match the international standards set by the OECD.

Furthermore, the Tax Code regulations are applicable to the way auditing and control processes are carried out, to the application of penalties, and to complaint processes. These regulations are complemented by the decisions, instructions, circular letters, and official letters issued by the Chilean Internal Revenue Service on the matter.

a. Methods

The Internal Revenue Service, for the purposes of challenging the corresponding prices, values, or profitability in cases or operations included in the transfer pricing regulations, shall summon the taxpayer according to article 63 of the Tax Code, to provide all the information necessary to verify that trans-border operations carried out with related parties have been performed at prices, values, or profitability considered normal in the market, according to any of the following methods: Cup Me-

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15 Market value: Those values agreed by unrelated parties in comparable transactions and circumstances. This is a Chilean mechanism similar to the Arm`s Length principle.

thod, Resale Price Method; Cost plus Margin Method; Profit Sharing Method and Transactional Net Margin Method.

The possibility for the taxpayer to present “residual methods” different from the previous ones is considered, if the circumstances deserve so.

b. *Recognized Methods*

Recognized transfer pricing methods are: Cup Method, Resale Price Method, Cost plus Margin Method, Profit Sharing Method, and Transactional Net Margin Method.

The taxpayer shall use the most appropriate method, considering the characteristics and circumstances of the particular case. If once the characteristics and circumstances have been considered, is not possible to apply any of the said methods, other methods may be applied. These circumstances shall be duly justified.

c. Voluntary Studies

Transfer price studies conducted by taxpayers are voluntary; however, the requirement to keep all supporting documents relative to the methods used remains unchanged.

d. Adjustments made by the Taxing Authority

Under the new provisions, the Tax Authority may introduce any adjustments deemed necessary when taxpayers are not able the produce evidence that operations were made at regular market prices, values or profits[15]

e. Advanced Agreements (APAs)

The bill also allows taxpayers to enter into advance price agreements (APAs) with the Tax Authority for a specified period of time up to 3 years in which the Tax Authority will not challenge the values involved in the taxpayer’s operation carried out under this agreement. Unfortunately, the final decision to accept or not these agreements relies upon the tax Authority, which is not even obliged to give an answer. As a result, taxpayers are at a disadvange as the decisions of the Tax Authority may not be appealed against.

f. Annual Sworn Statement

Taxpayers would be required to file before the IRS an Annual Sworn Statement for the operations carried out by related parties as and when established by this authority.

If no statement is filed, or if an erroneous or false statement is filed, fines will be imposed.
Note: The Law 20780 published on September 29th, 2014, provides that international reorganizations or structures that imply an export of assets or activities would be subject to Transfer Pricing.

Also the tax reform considers the inclusion of a sort of general substance-over-form regulation and new significant anti-elusion rules into the Chilean ITL. These rules, among other effects, will incentivize the use of legal structures only for cases where a relevant economic ingredient and its effects can be demonstrated.

The local tax authority will be empowered to interpret and assess the legal form of operation according to the business being carried out, notwithstanding the labels or legal forms that the parties have disclosed.

Furthermore, where a deferral of taxes is obtained by the use of specific legal structures or business reorganizations, which have no other economic reason than to obtain such tax deferral, the operation could be seen as abusive and therefore be subject to strong penalties.

Thus, all of the above will imply that every and any type of operation, transaction, tax or business planning, business restructure or other corporate modification, will have to bring an explicit, or implicit but yet identifiable and demonstrable business purpose and be performed under a credible economic rationale, with strict compliance to the general arm`s-length principle.

Moreover, as it has been recognized among the experts, the only, or at least the most evident, way to sustain prove, and justify the aforesaid conditions will have to be based on general Transfer Pricing methods in accordance to local regulation and the OECD guidelines, for which proper guidance and expert advice will become even more crucial.

Besides the above article 41 E is either referenced directly or linked indirectly by the tax reform a number of times. Transfer pricing rules are considered in general to indicate when, how or why two or more parties should be considered as related parties for purposes of the new law (since they comprehend more and broader situations than other relationship rules within the ITL), or to show how a certain transaction or situation may be analyzed by the tax authority to see if it complies with the arm`s length principle(becoming the basic legal tool for fiscal assessment).

However, the most recurrent, although indirect, reference to Transfer Pricing rules and is methods comes with the new procedures that regulate how the tax authority will be empowered to assess the allocation of profits arrangement that the taxpayers use to comply with the new core of the local ITL.

As anticipated above, the so called final taxes (taxation at the level of local individuals or foreign taxpayers) could be deferred up until their income was effectively paid and received by them.

With the elimination of the FUT, final taxpayers will be taxed over income or and accrued basis, meaning that local entities will have to perform a sort of upstream theoretical allocation of their profits among their owners or shareholders until they have been completely attributed to the final taxpayers, be them local individuals or foreign entities or individuals.

This so called attribution of income shall be performed as agreed by the parties (shareholders or partners of a Chilean legal entity) under certain circumstances or in accordance to the interest they hold over the paid capital of the entity.

However –and notwithstanding the method of attribution performed by the taxpayers-the tax authority will be empowered to assess such attribution/allocation in accordance to the Transfer Pricing methods stated in article 41 E to remunerate the stockholders in accordance to their functions and activities in relation to the entity that is designating its profits.

Additionally the Law 20780 considers two relevant direct changes to the local Transfer Pricing rules:

Exit charge/Tax

The tax reform modifies article 41 E of the Chilean ITL clarify that the local tax authority is empowered to assess any type of corporate or business restructuring process that is found to be removing or shifting from Chile to foreign countries any sort of tangible or intangible asset, or otherwise transferring an activity that could potentially have generated taxable income in Chile.

This assessment would be allowed when the tax authority is able to determine that the restructuring, with its embedded removal of assets or transfer of rights and the corresponding legal agreements or activities being performed for that reason, would have considered an arm's length price, value or otherwise profitability, if it had been agreed upon non-related parties or when the price, value or profitability agreed, as a consequence of the restructuring, does not comply with said arm`s length principle.

Until now, according tp the wording of the local ITL, business reorganizations would have been susceptible of tax assessment for an exit charge, if the transfer/shitting of assets and/or activities are moved to a fax heaven country.

Note: that the Chilean IRS has pronounced an administrative interpretation of the current rule stating that it needs not to be a tax heaven, but the fact that the new law bill is including this express change would corroborate our restrictive legal interpretation of the current rule.

The tax reform introduces some awaited tax measures envisaged as part of the BEPS project driven by the OECD, in especially controlled foreign company rules are introduced:

In general, passive income of foreign entities qualifying as controlled foreign corporations will be taxed in Chile. This passive income will be taxed whether it has been accrued or perceived by the controlled company. Obviously, dividends later paid by the foreign company, will not be taxed in Chile provided these can be allocated to passive income already taxed as such.

The Bill also grants tax credits regarding this passive income should the relevant tax have been paid or accrued. These tax credits will also comprise taxes paid by indirectly-controlled foreign companies, if the territory where those companies reside has a double tax treaty in force with Chile. These rules are expected to enter into force as of January 1st, 2016.

Penalty tax rate increased

The tax reform modifies article 21 of the Chilean ITL, which in turn will bring an increase from 35% to 40% rate for the penalty tax applicable in cases here the tax authority has determined a transfer pricing adjustment in accordance with the law.

Note that this rate could be raised to 45% in certain assessment cases if the taxpayer does not cooperate in due time and form with the fiscal investigation.

4. PAYROLL TAXES / WELFARE CONTRIBUTIONS

4.1. Retirement Contributions

Employees are subject to private pension funds. The contribution must be equal to at least 0.95% of

the employee's wages up to 72,3 Unidades de Fomento (UF) which is approximately US$ 2817.

The UF is a monetary unit expressed in Chilean pesos that varies according to the CPI on a monthly basis. Employees can make additional and voluntary contributions. Contributions must be paid to the pension funds on a monthly basis. The employees must cover 100% of the contribution.

The employer is responsible for withholding the monthly contribution in the pension fund. Filing and payment is made on a monthly basis.

4.2. Health Care Contributions

The employees must be affiliated to a general Health Care Plan. Contributions to the HCP administering entity must be equal to 7% of the employee's monthly gross income.

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.

Public system: 7% of a person's monthly gross income must be paid to FONASA. Those affiliated to this system are entitled to use the benefits starting from the third month, that is, after paying the third contribution to FONASA.

Private system: 7% of a person's monthly gross income must be paid to the Isapre chosen by that person. In addition, a specific health care plan may be negotiated and agreed upon by the parties in order to obtain more benefits than those included in a basic plan, which involves paying a higher percentage, hence an additional cost.

4.3. Labor Risk Insurance System

Labor accident and occupational disease insurance is financed with a 0.95% contribution of the employee's taxable base, to be borne by the employer, and an additional contribution segmented by activity and risk level of the company which may not exceed 3.4% of the taxable income, also borne by the employer. Therefore, the employer has the obligation to finance this insurance; however, the former may request to the insurance administrating entity (Health Institution, INP Normalization Institute, Non- profit Health Care Institutions for labor accidents) that the additional contribution rate is reduced if the company has implemented all such prevention measures that considerably reduce the labor accident or occupational disease risks, or to be exempt from the referred contribution rate if the company operates at a certain level of safety.

On the contrary, if the company's safety conditions are not satisfactory or the safety measures required by the administrating entity are not implemented, it must pay the additional contribution with a surcharge of up to 100%.

4.4. Unemployment Fund Contribution

Unemployment insurance provides a shared funding: provide worker, employer and state. The monthly contribution depends on the type of contract affiliate:

- When the worker has a permanent contract, the worker must provide monthly pocket 0.6% of its taxable income, to stop UF 108.5, while the employer contributes 2.4% of the same amount.

The contribution of the company, only 1.6% is payable on the individual account of the worker, and the remaining 0.8% admitted to distributing fund, called "Unemployment Solidarity Fund". Note that the 1.6% contribution by the employer is deductible from the compensation to which the worker is entitled to a permanent contract when fired "by business needs.

- When the employee has a fixed-term contract or one particular work or task, the entire cost of the insurance is paid by the employer, who must contribute monthly 3% of the employee's taxable income, with top-of UF 109.8.

In this case 2.8% accumulated in the individual account of the worker and the remaining 0.2% admitted to "Unemployment Solidarity Fund".

Unemployment Solidarity Fund is financed by employer contributions, and contributions defined by state law. Its purpose is to finance the minimum benefits that the law guarantees to those members who -complied with pertinentes- requirements are exhausted or no resources sufficient in their individual account when losing their jobs.

5. FOREIGN INVESTMENT STATUTE

Much of the language used in foreign investment contracts (DL 600) and other communication targeting foreign investors in Chile has typically been focused on assuring foreign investors that they will be treated on equal terms as local investors. Ironically, with the tax reform, foreign investors domiciled in a country with which Chile has a ratified Convention to Avoid Double Taxation ("Tax Treaty"), will receive preferential treatment compared to local investors.

Under the terms of the standard OECD model Tax Treaty, in the event taxpayers that are domiciled in a Tax Treaty country are subject to the additional tax, total taxation should remain at 35% even with the partially integrated regime. In this way, these foreign investors can essentially: 1. continue to postpone the additional tax levied at the moment of profit distribution, 2. continue to pay the total tax of 35% on distributed profits with the first category tax applied as a full credit, and 3. enjoy preferential tax treatment compared to those investors domiciled in Chile.

In order to determine the taxes applicable to each effective dividend distribution, the attribution order according to this regime is as follows:

a. Income subject to final taxes (additional tax or personal income tax), in which case the additional tax will apply as well as the appropriate credit.

b. This income is the difference between the equity (the higher between book and tax) and the exempt income and less the share capital adjusted by inflation (therefore, it includes book profits in excess of tax), whichever is higher

c. Exempt income: no taxes would apply

d. Retained taxable earnings (FUT) for income generated before January 01, 2017, in which case the former taxation regime applies In summary, ignoring for a moment the benefit enjoyed by investors domiciled in Tax Treaty countries, company owners can essentially choose between paying all of their tax each year (attributed regime) or postponing a portion of their total tax burden, but ultimately paying a higher rate (semi integrated regime).

Note: On January 1st, 2016, Decree Law Nº 600 is repealed. From that date, new foreign investments contracts subject to such. Decree law cannot be subscribed.

In line with the changes introduced by Law Nº 20.780 ("Tax Law Reform"), a bill was sent to the Chilean Congress in order to establish a new foreign investment regime ("New Bill") that supersedes the prior foreign investment regime ("Decree Law 600").

In case the New Bill is not passed into law as of January 1st, 2016, the effectiveness of Decree Law 600 will be deferred until the New Bill becomes a law effectively in force.

The New Bill ensures the enforceability of rights and liabilities arising from contracts already signed under the Decree Law 600 during the whole period established in those contracts, including clauses of tax invariability.

The following are some of the main aspects of the regime proposed by the New Bill: Firstly, under the New Bill the Chilean President is in charge of establishing strategies and policies for promoting and encouraging foreign direct investments ("FDI") in Chile. A new committee of ministers for promoting and encouraging FDI is established in order to advice the Chilean President in these matters.

In addition, the New Bill establishes a new agency for promoting and encouraging FDI ("FDI Agency"), which supersedes the current committee of foreign investment. The FDI Agency will be in charge of coordinating the effort aimed to attract FDI into Chile.

The FDI Agency might establish an advisory board with representatives of the private sector in order to achieve its goals. The regime enshrined in the New Bill applies for FDI in Chile. For these purposes, FDI means: (i) transference to Chile of foreign capitals or assets owned or controlled by a foreign investor; (ii) for an amount equal to or greater than USD 5 million, and (iii) materialized through effective cash flows of foreign currency, tangible assets, reinvestments of profit, capitalization of loans, different forms of capitalizable technology or loans related to foreign investments from related companies. It is also considered FDI in Chile the investment (i.e. acquisition or shareholding) in a legal entity incorporated under the Chilean Law that, directly or indirectly, grants to the foreign investor at least 10% of voting rights in the Chilean entity.

Foreign investors will be entitled to repatriate the invested capital and net profits, after complying with the applicable Chilean tax liabilities. Additionally, foreign investors will have access to the formal exchange market in order to sell the foreign currency needed to materialize their investments, or to acquire the foreign currency needed for organizing the invested capital and the net profits.

Under the new regime, foreign investors will not enjoy of tax invariability, and they will be subject in all respects to the general tax rules.

Notwithstanding, it is still in force the VAT exemption for foreign investors and Chilean companies receiving foreign investment, in connection with imports of capital assets for the development, exploration or exploitation in Chile of FDI projects. Nevertheless, the procedure for applying to this VAT exemption has been modified according to the new regulation.

In this regard, the FDI projects must generate income taxed, non-taxed or exempted from VAT, for at least 12 months since the import or acquisition in Chile of the relevant capital assets. The exemption request must be submitted before the Finance Ministry, which must check and verify that the legal requirements are met.

For a period of 4 years, counted from January 1st, 2016, or from the date in which the New Bill becomes a law in force (if it is subsequent to January 1st, 2016), foreign investors may apply for the Decree Law 600's regime, bearing all the rights and liabilities provided by the Decree Law 600 (including the tax invariability of income tax or mining tax, as the case might be). Notwithstanding, under this interim regime, the tax rate applicable under the income tax invariability regime will be 44.45% (instead of the current 42% rate). Bear in mind that the New Bill may undergo more or less substantial amendments during the legislative process in the Chilean Congress.

6. INTERNATIONAL TAX RULES

6.1. Articles 41F and 59 of the ITL. The norms about thin capitalization

The norms about thin capitalization are replaced (regulated until the amendment in article 59 of the ITL) in force on January 1st 2015.

This provision indicates the limit for company indebtedness with their related companies off the border, being understood that a company is able to normally operate up to a total indebtedness with its related companies not higher than three times its taxable net worth.

Although it is true that this 3 to 1 ratio may vary, depending on the type of company, Chile chose the said ratio, mainly used in world tax legislation.

Note: The Law 20780 indicated that: According to the new thin-capitalization rules, interest, commissions, services and any other conventional payment by virtue of loans, debt instruments and other operations and contracts which correspond to excessive indebtedness determined at the end of the tax year will be subject to a 35% sole tax.

There will be "excessive indebtedness" if the taxpayer's total indebtedness is larger than 3 times its tax equity at the end of the corresponding year, taking into consideration the following rules:

1. The 3:1 debt-to-equity limit would be tested on the aggregated of related-party and third-party debt. Currently, only related-party debt is counted.

2. The 3:1 debt-to-equity limit would be tested annually, in lieu of the one-time test that is currently applied upon disbursement of each loan.

3. The 35% surtax is levied, in addition to interest, on all charges and fees linked to excessive-indebtedness.

The concept of related company now applies to all kinds of guarantees granted by the group companies

6.2. Article 41 A of the ITL:

Various amendments are introduced in article 41 A. For example, it is indicated that will not give right to refund any balance credit from taxes paid abroad allocated against the Complementary Global Tax.

6.3. Article 41 G of the ITL: CFC Rules

The Tax Reform introduced new rules regarding the tax treatment that Chilean companies must carry on "Passive Income" generated abroad, internationally known as Controlled Foreign Corporation Rule (CFC). This time, we will specifically refer to the recognition of Passive Income Chilean companies must perform when they are received or accrued by entities controlled abroad.

This matter is regulated in the new art. 41 ° point G of the Income Tax Law, which states that individuals, companies and/or entities domiciled or resident in Chile whom, directly or indirectly, are in control of foreign entities, will have to consider, as accrued or received, in proportion to their share in the equity; the passive income, either accrued or received, by such entities abroad.

Passive Income is the one obtained without the need to exercise a commercial or economic activity, for example, the income earned by an investment company, which comes exclusively from the profits generated by companies or other instruments in which it holds investments. In the case analyzed in this report, the holding or Investment Company, is located abroad and is under the control of a Chilean company.

It´s important to make clear that the new law seeks that those passive incomes that are received or accrued by the foreign entities, are recognized in Chile and therefore become subjected to the appropriate taxes, in other words, the aforementioned rules do not affect income generated by operating companies, that is, companies that do not seek to obtain passive income as their main line of business.

In order to apply the provisions in the new art. 41 ° G, two copulative requisites must be met: first, a Chilean taxpayer must control a foreign entity, and then, that foreign entity should be getting, by itself or through a succession controlled companies, the passive income.

If the above hypothesis is verified, then the Chilean taxpayer, for the purpose of determining its own taxable income, will have to include the passive revenue perceived or accrued abroad by the foreign entity that is under its control.

For this purposes, it will be understood that a Chilean taxpayer controls a foreign company when, either alone or together with related persons or entities, it:

A. Owns, directly or indirectly, 50% or more of the capital, the right to profits or voting rights of the foreign company;

B. May elect, or choose to do so, or remove, the majority of the directors or managers of the company abroad, or to unilaterally modify the statutes of the latter;

C. If, regardless of the percentages or attributes mentioned on the two previous literals, the foreign company is resident or domiciled in a country of "low or no taxation", as established in accordance with Chilean regulations; and

D. The Chilean taxpayer has an option to purchase rights under the terms mentioned in letter A.

The new legislation provides a specific list of items that are to be considered as Passive Income, among which we can highlight, besides the aforementioned profits or dividends: Interests and movable capitals, unless it comes from a bank or regulated financial institution; Royalties; Capital Revenue

from property or rights; Revenue from the rental of real states, unless such activity is the main line of business of the foreign entity, among others.

6.4. Article 41 H of the ITL: Preferential tax regimes and SFC Regulations

In 2000, the OECD considered it convenient to publish a "black list" of countries that, given their tax and financial policies and practices, could be considered as "Unco-operative Tax Havens ".

Chile, through Decree No. 628 of 2003, issued by the Ministry of Finance, echoed the criteria used to prepare the list just mentioned, and listed the countries that would be considered tax havens for purposes of Chilean law.

In 2009, the OECD decided to remove from the list the last 3 countries that still remained in it, so there is currently no country that is officially recognized by such organization as a Tax Haven; however, in our country the mentioned Decree remains in full force.

This reality was not altered with the entry into force of the recent Tax reform, the new Article 41° letter H, introduces a new concept, "Countries of Low or No Taxation", however, this regime would now come to coexist with the one already established in the aforementioned decree.

Consequently, taxpayers must pay special attention, since now both statutes are in effect, and therefore, not being classified under one of them, is no guarantee of being exempt from the other; and to be included under either regime, or under both of them at the same time, will bring different consequences depending on the legal body from which each of them comes.

Thus, the new art. 41 ° letter H of the Income Tax Law establishes that a country is to be considered as a beneficiary of a preferential tax regime, if it meets at least two of the conditions set out below:

- In such country or territory, the effective rate of taxation on foreign source income is less than 50% of the currently prevailing rate of Chilean Additional Tax (i.e., 35%).
- Such country has not signed an agreement with Chile to enable the exchange of information for tax purposes, or, the agreement isn´t currently in force.
- Territories or jurisdictions that do not have legislation that enables the local tax administration to oversee transfer prices, with these being adjusted to the standards of the OECD and the UN.
- Territories or jurisdictions whose laws contain provisions prohibiting their respective tax administrations from requesting information to the people under its jurisdiction, and / or the provision and delivery of such information to third countries.
- Territories or jurisdictions whose laws are considered as preferential regimes for tax purposes by the OECD and the UN.
- Those territories or jurisdictions that tax only the income generated, produced or whose source is in their own territories.

The countries that belong to the OECD, by express provision of the article in question, are per se excluded from this classification. It is noteworthy that the IRS is the one tasked with making the call on whether a country qualifies as a territory of low or no taxation, or not.

As mentioned in our previous newsletter, this new categorization is especially relevant in light of the provisions incorporated by the reform regarding Passive Income, because, under the new law, when a Chilean taxpayer is in control of entities not domiciled or resident in the country, and the latter are domiciled in countries that qualify as of low or no taxation, the law presumes that the income earned by these entities are passive income and therefore, unless proven otherwise, such income shall be taxed in Chile.

6.5. Tax Crimes

In addition to determining taxes, the Tax Law, and especially the Tax Code, extensively regulates a series of tax infractions, ranging from fines and penalties to imprisonment.

Penalties are applicable in the case of a delay in filing tax returns, as well as malicious omission of documents that alters the resulting taxes, merchandise transport, or tax refunds.

Tax crimes that are especially regulated include:

1. Filing malicious, incomplete or false tax returns that may result in a tax being applied for less than it should be;

2. The malicious omission in the accounting books of records regarding merchandise purchased, sold, assigned or exchanged or other taxed operations;

3. The adulteration of balance sheets or inventories, or the submission of maliciously erroneous records;

4. The use of invoices, debit notes, credit notes or bills already used in prior operations; or

5. The use of other malicious procedures tending to hide or disguise the actual amount of the operations or to clearly evade a tax.

The penalty for the above crimes is a fine ranging from 50% to 300% of the value of the tax evaded and prison.

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.

In the same manner, those who, by the simulation of a tax operation or by any other malicious maneuver, obtain tax refunds to which they are not entitled will be subject to imprisonment and 100% to 400% fines.

If, in the commission of the above crimes, false, forged or adulterated invoices or other documents were maliciously used, the highest penalty will 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 eventually committing one of the above crimes, he will be fined with up to 40 UTA (yearly tax

units) and prison of 541 days to 3 years.

The IRS has a one-year term to audit the applicant's statement. It may challenge the taxes determined by the taxpayer and also 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 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 of the requirements, the taxpayer will not be refunded with the 8% tax it paid.

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

Note: The tax reform included Anti-elution norms in force on September 30 2015.

The main 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 main 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 quater and 4 quinquies are added to the Chilean Tax Code.

In addition, a new article 26 bis Tax Code is added, which sets forth that taxpayers or those liable to the payment of taxes that have 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 has designed or planned acts, contracts or business that constitute an abuse or simulation, in accordance with articles 4 ter, 4 quater, 4 quinquies and 160 bis of the Tax Code.

7. ADDITIONAL CONSIDERATIONS

7.1. Disallowed Expenses

From January 1st, 2017, the rate of the sole tax set for in article 21 of the ITL is increased from the current tax rate 35% to 40%.

7.2. Deduction of intra group remittances abroad.

Article 31 of the ITL is modified as follows from January 1st, 2015.

A new requirement has been introduced for the deduction of service-related expenses, royalties, interest, freight, insurance, leases and all types of income contemplated in Article 59 of the Income Tax Law paid to foreign related parties as follows:

- The applicable withholding tax should have been declared and paid, if appropriate
- The remittance of funds abroad should have been effectively made

7.3. Goodwill

Up until the end of 2014, goodwill has been treated as an amortizable asset. Effective January 01, 2015, goodwill arising out of a merger will be deemed a non-amortizable intangible.

7.4. Stamp tax

The stamp tax rate will double as of January 01, 2016, as follows:

- The monthly rate will increase from 0.033% to 0.066% and the maximum rate will increase from 0.4% to 0.8% (for loans of terms with one year or more).

- The rate applicable on documents issued on demand or with no specified maturity date will increase from 0.1666% to 0.332% (equivalent to the rate applied for five months).

7.5. Value added tax

As of January 01, 2016, the assumptions used to apply the value added tax will now also cover the customary sale of immovable property.

7.6. General anti-avoidance rules

In 2015 new substance-over-form rules will become effective. These new rules give the SII the authority to challenge a transaction due to abuse or simulation and to request payment of the relevant taxes that would have applied.

The tax courts may rule on the existence of abuse or simulation in a given situation; however, the burden of proof is on the SII.

These anti-abuse rules apply to transactions carried out after the entry into force of the substance-over-form rules; therefore, all prior transactions will be subject to the rules currently in force.

8. SPECIAL TRANSITORY REGIMES

8.1. Capital repatriation rules

A capital repatriation regime is established only for 2015 according to which Chilean taxpayers will be able to make a statement to report all such foreign assets or profits that had been acquired before January 01, 2014. Once the statement is filed, an 8% sole tax will apply on the total amount reported.

8.2. "32% sole tax on FUT"

The reform eliminates the FUT from January 1st, 2017, being this replaced by the record of profits which is different depending on whether the taxpayer adheres to the attributed income or semi integrated income system.

The tax reform gives companies the right to pay a 32% tax on their accumulated retained taxable earnings (FUT) and use as credit the first category income tax paid on these retained earnings.

This option applies to those companies that initiated operations before 2013, that have accumulated FUT as of December 31, 2014, and the tax must be levied against the portion of the retained earning balance in excess of the average annual amount of the total withdrawals, remittances or distributions annually made by the company owners over the last three years

9. ENDNOTES

9.1.

In general, the tax reform 2014 aims to increase the tax burden and to limit taxpayers deferring the payment of either global complementary tax or additional tax (final taxes).

A general anti avoidance rule will also be introduced and the Chilean IRS, will be granted further powers for assessing taxpayer`s transactions,

Due to the importance of the proposed amendments, they will not all enter into force at once. On the country, they Bill provides for diverse timing for the amendments to come into effect, to be specified later herein, consequently, some major changes will not apply until 2017.

9.2.

The reform gives the Chilean IRS the authority to issue regulations and instructions on how to implement the changes. Affected companies should monitor the guidance issued by the Chilean IRS.

9.3.

By the end of January 2015, the government is set to dispatch a Law Project that will replace the "Decree Law 600", thus eliminating tax invariability, though, in order to prevent negative impacts, especially to mining initiatives, a series of transitory measures are being pondered, so that cash flows are not affected.

The current text if the Law Project contains a series of fundamental measures meant to attract foreign and local investment, as a response to the deceleration process that the country is currently going through.

9.4. Evaluating the results.

On the law is approved, it is likely that additional regulations will be needed to obtain a full understanding of the new provisions and the way they will be implemented in practice.
Taxpayer will definitely need to review their individual tax situations to determine the actual impact of these measures. Chilean authorities will also need to evaluate the impact of the reform on inbound investment.

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CORE PRACTICE AREAS: International and Domestic Taxation, Foreign Investment Law, Foreign Exchange Law, Corporate and Business Law, M&A, International Trade and Customs Laws, Wealth and Estate Planning, Oil, Gas and Mining

HIGHLIGHTS

NATIONAL LEVEL TAX RATES

Corporate Income Tax	25% + 9% CREE
Foreign Entities	39%
Foreign Entities with PE or Branch	25% + 9% CREE
CREE (Equality income tax)	9%
CREE Surcharge (for income equal or higher than COP $800.000.000)	5%
Free Trade Zones Reduced Corporate Income Tax Rate	15%
Capital Gains Tax	10%
Regular Withholding Taxes on Cross-border Payments	
- After Tax Dividends (if untaxed at Corporate level)	0% (33%)
- Branch Profits (if untaxed at Corporate level)	0% (33%)
- Interests	In general, in-bound credit facilities and leasing transactions are subject to a 14% withholding. Interest payments on certain Qualified Credit Facilities are not subject to Colombian withholding tax.

- Financial Returns of Public Private Partnerships Funding	5%
- Royalties (on software)	33% (26.4%)
- Technical Assistance, Technical and Consulting Services	10%
- Imports	No withholding
- Tax Havens	33%
Tax Loss Carry-forward Term	Unlimited
Tax Loss Carry-back Term	Not available
Transfer Pricing Rules	Yes, OECD-like
Tax-free Reorganizations are available if certain requirements are met.	Statutory Mergers, Statutory Divisions, Transformations and capital contrinbutions.
General VAT Rate on Sales, Services and Imports	16%
Consumption Tax (Specific businesses)	8%
Custom Duties	0% - 20%
Bank Debits Tax	4 per thousand
National Stamp Tax	0%

Local Level

Tax on Industrial, Commercial and Service Activities	2-13.8 per thousand
Property Tax (including Real Estate)	0.5%-1.6%
Registration Tax	0.3%-1%
Local Stamp Taxes	1%, usually

Income Tax Treaties

Country	Dividends	Interest	Royalties	In Force
Bolivia	source	source	source	yes
Canada	up to 15%	up to 10%	up to 10%	yes
Chile	up to 7%	up to 15%	up to 10%	yes
Czech Republic	up to 15%	up to 10%	up to 10%	no
Ecuador	source	source	source	yes
India	up to 5%	up to 10%	up to 5%	yes
Mexico	0%	up to 10%	up to 10%	yes
Peru	source	source	source	yes
Portugal	up to 10%	up to 10%	up to 10%	no
South Korea	up to 10%	Up to 10%	Up to 10%	yes
Spain	up to 5%	up to 10%	up to 10%	yes
Switzerland	up to 15%	up to 10%	up to 10%	yes

OVERVIEW

1. INCOME TAX ON COMPANIES

1.1. Corporate Residence

An entity is considered Colombian for tax purposes if any of the following three criteria is met: (i) The entity is incorporated in Colombia; or (ii) its corporate domicile is in Colombia; or (iii) the entity

is "effectively managed" in Colombia. An entity is managed where the key managing decisions are taken.

It is important to highlight that foreign companies that (i) are listed in the Colombian Stock Exchange (or in another recognized Stock Exchange), or that 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 were incorporated; will not be considered Colombian entities (tax residents) even if their place of effective management is located in Colombia.

Please keep in mind that in Colombia, resident entities are taxed on their worldwide income, while foreign entities and foreign entities' branches and permanent establishments are taxed only on their Colombian source income.

1.2. Income Tax Rate

The general statutory corporate income tax rate is **25%**. Between 2015 and 2018 foreign corporate entities receiving Colombian source income not attributable to a Colombian Permanent Establishment, will be subject to the following general Corporate Tax Rates. As of 2019 the general tax rate will continue to be **33%.**

2015	2016	2017	2018
39%	40%	42%	43%

Please bear in mind that this increase in the general corporate tax rate applicable to foreign companies should not override currently applicable reduced withholding tax rates for certain cross-border payments. Certain companies in free trade zones are eligible for a reduced **15%** income tax rate.

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 **10%.**

In 2010 Law 1429/2010 was enacted in Colombia, introducing several incentives for small enterprises that complete the registration procedure in the merchants' registry after December 29th, 2010.

Only companies that have less than 50 employees and less than approximately USD 1,3 million in assets are eligible for these benefits. If at any point the company exceeds these thresholds it looses the benefits. Such benefits include a progressive income tax rate as follows:

First two years	0% of the applicable rate
Third year	25% of the applicable rate
Fourth year	50% of the applicable rate
Fifth year	75% of the applicable rate
As of the sixth year	100% of the applicable rate

Please note that the companies benefiting form this tax treatment will still be subject to the CREE at a rate of 9% as referred to in §1.3 below.

Additionally, payments made to such registered small business will not be subject to withholding for 5 years after the moment the small business is first registered in the merchant's registry.

In order to determine whether an entity can benefit from the progressivity on the income tax rate and

from the no-withholding treatment, the individual facts and circumstances of each case should be carefully considered.

1.3. 9% Equality (income based) tax CREE

In an effort to reduce the wage-based tax burden as a job creation incentive, in 2012 three material employer welfare contributions were eliminated, coupling the statutory income tax rate 8 points reduction with a new net income tax ("CREE").

Please note that the welfare contributions were only eliminated with respect to employees that earn 10 minimum monthly wages or less; with regards to employees that earn more, the company should pay both the welfare contributions and the CREE.

Foreign entities are only subject to the CREE on their profits attributable to permanent establishments or branches. The CREE does not apply to free trade zone companies currently benefitting from the **15%** reduced income tax rate.

Law 1739/2014 eliminated the reduction of the CREE rate, and established that as of 2016, the general CREE rate is **9%.**

1.3.1. Equality Tax (CREE) Surcharge

From 2015 to 2018, a surcharge will apply on CREE taxable income equal or higher than COP $800,000,000 (approximately USD $320,000). It is worth noting that this surcharge does not apply to taxpayers located in offshore free trade zones.

The surcharge will be paid in two equal yearly payments, and the applicable rate varies from year to year, as follows:

Taxpayer's taxable base		**Marginal Tax Rate**			
Minimum	**Maximum**	**2015**	**2016**	**2017**	**2018**
>0	<800,000,000	0%	0%	0%	0%
>=800,000,000	Onwards	5%	6%	8%	9%

1.4. Taxable Base and Income Tax Assessment Process

The Taxable Base should be multiplied by the applicable statutory corporate income tax rate. The result is the Income Tax Liability, from which applicable Tax Credits are subtracted to find the Income Tax Charge.

The Taxable Base of the Colombian corporate income tax is the result from 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. The NTI results from the sum of all revenues realized by the taxpayer, minus the sum of all specifically Excluded Items of Income, minus the sum of all costs and expenses allowed as Deductions. The Alternate Minimum Taxable Income computation is explained in §1.4 below.

The regular income tax assessment process can be illustrated as follows:

Gross Income

(Sum of all items of income, including short-term capital gains)

[-]	Excluded Items of Income
[=]	Gross Taxable Income
[-]	Allowed Deductions
[=]	NTI or Alternate Minimum Taxable Income (if greater)
[-]	Tax Loss Carry-forward (if applicable)
[-]	Exempt Items of Income
[=]	Taxable Base
[*]	25% Corporate Income Tax Rate (or 15% or progressive if applicable)
[=]	Income Tax Liability
[-]	Tax Credits
[=]	Income Tax Charge

The CREE assessment procedure is similar to that of the income tax described above. However, please note that some differences apply, and a case-by-case review is necessary.

1.5. Alternate Minimum Taxable Income ("AMTI")

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 3%.

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 (5) taxable years. This used to apply only to the income tax assessment and not that of CREE. However, as of 2015, a 5-year carry-forward is also available for the excessive alternate minimum taxable income (determined on the net-worth) over the CREE general tax liability (determined on the profits ascertained based on the applicable provisions).

1.6. Capital Gains

Short-term Capital Gains are deemed as a regular item of income subject to income tax. Long-term Capital Gains, i.e., gains realized on the sale or exchange of certain assets, owned for at least two (2) years, are subject to the Capital Gains Tax.

The taxable base of the Capital Gains Tax is the result of the amount realized, minus the taxpayer's adjusted tax basis on the asset, plus any recaptured depreciation, amortization or deductions, as applicable. Capital gains can be offset with capital losses only. The capital gains tax rate is 10%.

Except in certain isolated cases, the taxpayer's capital gains tax is assessed, filed and paid with the taxpayer's regular yearly income tax assessment.

The tax authorities 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) the "intrinsic" value in the case of stock or quotas. There are special rules to determine capital gains in the sale or exchange of intangibles depending on whether the intangible is formed or acquired.

1.7. Income Tax Deductions

Unless otherwise provided by the statute, 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. Costs or expenses related to specifically Excluded and/or Exempted Items of Income are not deductible. 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 §1.22. below).

1.8. Thin Capitalization Rules

Only interest derived from indebtedness with an average value not exceeding three times the entity's net equity (on December 31 of the preceding year) are deductible.

The aforementioned interest deductibility limitation implies, among others, the following issues: (i) it applies on indebtedness between both related parties and non-related parties; (ii) it applies on both cross-border inbound indebtedness and local indebtedness.

Thin capitalization rules are applicable both to income tax and to CREE and do not apply only on certain narrowly defined cases (e.g. when the debtor is a financial entity, when the loan is obtained in order to finance infrastructure projects related with activities considered of public interest).

1.9. Depreciation and Amortization

Tangible fixed assets' depreciation is deductible. The applicable depreciation term varies depending on the nature of the asset: twenty (20) years for real estate, ten (10) years for all other tangible fixed assets, except for motor vehicles and computers for which regulations establish a five (5) year term.

For tax purposes, regular methods commonly used worldwide (e.g. straight-line method, declining balance method, etc.) are accepted in Colombia. Unless specifically restricted, double and triple shift accelerated depreciation is also available and can be combined with the declining balance method when the asset needs to be depreciated in full in the first years of its useful lifespan.

When using the decline balance depreciation method the following limits should be observed: (i) the salvage value cannot be lower than 10% of the asset's cost, (ii) The depreciation rate cannot be accelerated by the application of additional shifts.

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 five (5) year period using any generally accepted amortization method.

1.10. Transfer Pricing

Colombia has OECD-like transfer pricing rules that are applicable, for both corporate income tax and CREE purposes, to all transactions between a Colombian party and (i) a foreign related party; or (ii) a related party located in a free trade zone (a different set of rules applies to transactions between two Colombian related parties).

Under these rules, the Colombian party exceeding certain statutory net assets or revenues 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 arm's-length.

The Colombian transfer-pricing regime has a catalogue of situations where two parties are deemed related. This catalogue is complex and its application requires a detailed case-by-case analysis. Parties domiciled in tax havens are deemed as related parties for transfer pricing purposes.

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 restructurings.

1.11. Tax Loss Carry-forward

In connection to corporate income tax, as of January 1st, 2007, an evergreen tax loss carry-forward against the taxpayer's NTI is available in Colombia; with respect to CREE, as of January 1st, 2015, there is also an evergreen tax loss carry-forward available, for losses incurred in 2015 and onwards, against the taxpayer's CREE tax liability.

The tax loss must arise from an income producing activity commonly taxable 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 (or CREE tax liability, when applicable) on the year the carry-forward is credited, i.e., a tax loss carry-forward cannot generate further tax loss.

Carry-back is not possible.

Except as provided for reorganizations, tax losses are not transferrable to share or quota holders, or to other taxpayers.

In the case of tax-free mergers and spin-offs the abovementioned general limitations continue to apply. Nonetheless, in these cases part of the tax losses is transferable to the beneficiary entity (ies).

However, the beneficiary entities will not be allowed to benefit from all of the tax losses accrued by the entities subject to the merger or the spin-off; only the part proportionally corresponding to their participation in the net-worth of the new, surviving or resulting entities, should be deductible.

In order to qualify for the tax losses transfer under reorganization tax rules, the corporate purpose of the merging/dividing entity should be the same as that of the beneficiary entity (ies). 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) for the assessment and deduction of tax losses other than those generated by the net operating losses. We list some of these cases:

a. Loss generated by acts of god damaging taxpayer's assets;
b. Loss generated in the sale of fixed assets;
c. Loss generated in the sale of assets (fixed or current) between related parties, or a corpora

tion and its shareholders – not deductible;

d. Losses in the sale of shares- not deductible.

1.12. Tax-Free Reorganizations

The Tax Code's reorganizations chapter determines specific anti-avoidance rules, in an effort to curtail M&A transfer strategies that resulted in acquisitions of corporate assets and businesses in Colombia that, due to loopholes that previously existed in the statutes, avoided local taxation.

1.12.1. Tax-Free Capital Contributions of Property

According to the applicable rules, unless otherwise provided by the statute, property transfers to companies, as capital contributions, are deemed tax-free. Therefore, the stock received by the transferor will inherit the tax cost in the transferred property, while the transferee corporation keeps the same tax cost in the property that the transferor had.

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.

1.12.2. Tax Free Statutory Mergers and Spin-Offs Restricted

In an effort 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. In order to achieve the tax-free treatment, the applicable rules provide for a tax cost roll-over concerning both the transferred assets and the new shares issued to the shareholders.

These requirements are based on a continuity of interest ("COI") and on continuity of business enterprise ("COBE"), in absence of which the reorganization will not qualify for tax-free treatment.

In addition to the adoption of COI and COBE requirements, the new statute differentiates acquisition mergers and spin-offs from organizational mergers and spin-offs. For acquisitional reorganizations, the participating entities are not deemed related-parties under Colombian regulations while in the latter, the participating entities are deemed related-parties under Colombian regulations. The difference would be on the adoption of stricter COI and COBE requirements for the organizational mergers and divisions.

In a reorganization between foreign entities entailing the transfer of assets located in Colombia, the transfer of the Colombian assets will be deemed as taxable, unless the Colombian assets transferred as a result of the reorganization represent 20% or less of the worldwide combined assets of the participating entities, in that 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.

Lastly, it is important to highlight that Colombian rules provide for joint and several liability for taxes between the participating entities in reorganizations.

1.13. 175% Research and technological investment special deduction ("RTISD")

In Colombia taxpayers are allowed to deduct 175% of their investments in Research and technologi-

cal projects. The 175% deduction cannot exceed the 40% of the taxpayer's taxable income before the deduction. In order to benefit from the RTISD, the investment should be completed through centers and entities approved by the Colombian Science and Technology Department "Colciencias" and registered with the same authority. Donations to specific scholarship funds are also a way to access the 175% deduction. This last issue is pending regulation.

1.14. Special Tax Treatment for Public Performances and Cinema

Public performances enjoy a series of tax benefits, which include, among others, the possibility to deduct 100% of the investment made in the necessary infrastructure for the performance. A special withholding rate as well as a differential VAT treatment might also apply. Please note that individual basis analysis would be needed in order to determine the applicability of the law to a specific case.

Regarding the cinema industry, taxpayers that make investments or donations to cinematographic projects approved by the Ministry of Culture have the possibility to deduct 165% of the amount of the investment or donation.

1.15. 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 principal decreases the liability while the portion allocated to interest is a deductible expense. Depreciation and amortization deductions are available, as applicable.

1.16. Certain Exempt Items of Income

Subject to eligibility and compliance by the taxpayer of the statutory requirements, income from the following activities is treated as an Exempt Item of Income:

i. A fifteen (15) year exemption on income from power generation activities based on wind, biomass and agricultural waste technologies;
ii. A fifteen (15) year exemption on income from fluvial transportation services using low draught boats;
iii. A thirty (30) year exemption on income from hotel services rendered in newly built or refurbished facilities, provided that the facilities were built or refurbished within the fifteen (15) year term following January 1st, 2003.
iv. As of January 1st, 2003, a twenty (20) year exemption on income from eco-tourism activi ties certified as such by the correspondent authority, available for twenty (20) years beginning on January 1st, 2003.
v. Use of qualified new forestry plantations or investment in new sawmills for the use of said plantations.

1.17. Permanent Establishment

Colombian regulation provides a domestic definition of permanent establishment (PE) inspired on the PE definition included in the OECD-MC, nonetheless, the project PE is not included in the Colombian PE definition.

Both PEs and branches are taxed on the profits attributable to them considering their assets, activities, functions and risks. Therefore, transfer-pricing considerations and the elements related with the "OECD report on the attribution of profits to permanent establishments" are to be considered.

Having a PE in Colombia has, among others, the following consequences for the foreign person or entity: (i) They will be required to file an income tax return and to have accounting records following the Colombian GAAP for each PE they have in Colombia, (ii) considerations regarding transfer-pricing and PE's profits attribution are applicable to both branches and PEs.

It is worth noting that, although Colombia has a domestic definition of PE, the rules governing PEs under international treaties entered into by Colombia, should always prevail.

1.18. 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. Every year tax authorities issue a filing and payment schedule with specific deadlines that vary depending on the last number of the taxpayer's Tax Identification Number. Usually, filing and payment dates are similar year after year.

For FY2014, all entities including corporations must file their income tax return on April 2015. The taxpayer can pay the Income Tax Charge in two (2) 50% installments. The first installment, on the filing date, and the second installment on June 2015, observing the yearly payment schedule issued by the tax authorities.

There are special filing and payment schedules issued by the tax authorities for certain companies in the list of "grand income taxpayers." For FY2014 all "grand income taxpayers" must file their return between March and April 2015. "grand income taxpayers" benefit from a three (3) installments payment facility. For FY2014 these installments are due on February, April and June 2015.

1.18.1. Special Return of Assets Held Abroad

As of 2015, taxpayers who pay income tax in Colombia with respect to their worldwide income and hold assets abroad should yearly file a special return disclosing such assets.

1.19. Non-payment and Lateness Penalties

Unpaid taxes are subject to daily interests at a rate equal to the highest legally accepted three (3) month rate certified by the Financial Regulatory Agency. The 2012 tax reform changed the interest calculation from a composed interest to a simplified one.

Depending on the facts and circumstances of each case, other penalties apply for non-filing, late filing, or inaccurate filing, which may range from 5% up to 200% of the corresponding tax liability.

1.20. Dividends Tax/ Branch Profits Tax

In Colombia, in order to avoid domestic economic double taxation, profits are taxable only at the entity's level (exemption method) and not at the shareholder's level. Conversely, when parts of income are not taxed at the entity's level (e.g. due to tax incentives or due to differences between the entity's accounting income and the entity's taxable income) they are taxed at the shareholder's level.

In order to treat Colombian entities and foreign entities' PEs and branches equally, transfers of profits from Colombian branches or PEs to their home offices are "deemed dividends". In consequence, transferring profits that were not taxed at the PE's or branches' level triggers Colombian taxation at a **33%** rate.

The application of these rules under the tax treaties Colombia has entered into should be carefully reviewed, considering each treaty's particularities.

1.21. Withholding Tax on Cross-border Payments

When Colombian source income is remitted abroad to a beneficiary that is a non-resident individual or entity, the payment should be subject to a withholding tax.

1.21.1. Dividends

If the corresponding profits were taxed at the corporate level, no withholding tax applies; otherwise a **33%** withholding tax would be applicable to all non-resident entities. In the case of branches and PE's of foreign companies, a **33%** withholding rate would be applicable on distributions of profits that were not taxed at the branch or PE level; otherwise no withholding would apply.

1.21.2. Royalties

Royalty payments are subject to a **33%** withholding tax for income tax, with the exception of royalties on movies and software that are subject to an effective withholding tax rate of **19.8%** and **26.4%**, respectively.

1.21.3. Technical Services, Technical Assistance and Consulting Services

Whether rendered in Colombia or abroad by non-residents, payments for technical services, technical assistance and consultancy services are subject to **10%** withholding tax.

1.21.4. Other Services

Other services, different from technical services, technical assistances and consultancy services, if rendered from abroad, are not subject to withholding tax. Conversely, if rendered in Colombia, then a **33%** withholding tax applies, unless otherwise provided by special rules.

1.21.5. Interest and Leasing Payments

Pursuant to the 2011 tax reform act and unless otherwise provided for in the applicable regulations, interest payments on certain inbound cross-border "*Qualified Credit Facilities*" and "*Qualified Leasing Transactions*" (*both as defined further below*), shall be subject to a **14%** withholding tax. If the **14%** withholding tax is not applied, the Colombian payer cannot deduct the corresponding interest payment, without prejudice of its joint and several liability for the tax that was not withheld.

For over 25 years, the Colombian income tax regulations privileged interest payments on certain Qualified Credit Facilities and Qualified Leasing Transactions, by deeming such payments as income not from a Colombian source thus not subject to Colombian Withholding Tax. If the cross-border inbound financing was not qualified or otherwise exempted, the corresponding interest payments were subject to a **33%** withholding tax.

Under the previous regime, the following cross-border inbound financings were deemed Qualified Credit Facilities and eligible for the withholding tax-free treatment:

a. Short term bank overdrafts and short-term financings (*without any changes in the 2011 tax reform act*).
b. Exports financings or pre-financings *(without any changes in 2011 tax reform act)*
c. Financings contracted abroad by Colombian financial institutions (*in the 2011*

tax reform act, Congress adopted certain modifications to this item to include Bancoldex and other financial type entities).

d. Financings for foreign trade operations through Colombian financial institutions (*in the 2011 tax reform act, Congress adopted certain modifications to this item to include Bancoldex and other financial type entities*).

e. Financings with foreign financial institution which funds were destined to a "*Qualified Activity*." Qualified Activities were those that according to the directives of the Colom bian Council for Social and Economic Development (*CONPES*), were deemed of public in terest for Colombia's social and economic development, which included all activities re lated to the primary, manufacturing and services sector, including transportation, enginee ring, lodging, tourism, health, trade, and housing construction.

Under the new regime, item (e) above has been revoked and no longer qualifies as a Qualified Credit Facility eligible for the withholding tax-free treatment, and any cross-border interest payments on such facilities made pursuant to agreements entered on or after January 1st, 2011, will be subject to a **14%** withholding tax, provided that the facility's term is equal or greater than 1-year. If the facility is not within items (a) through (d) and it's term is less than 1-year, the applicable withholding tax rate on the interest payments should be **33%**. For the avoidance of doubt, it is important to highlight that under the new regime, facilities within items (a) through (d) above with a term equal or greater than 1-year, will continue to be deemed as Qualified Credit Facilities eligible for the withholding tax-free treatment.

Under the previous regime, the following cross-border inbound leasing transactions were deemed Qualified Leasing Transactions eligible for the withholding tax-free treatment

f. Leasing transactions with foreign leasing providers to finance investments in a *"Qualified Activity"* (as defined above).
g. Leasing transactions to finance M&E investments in Colombian export activities.

Pursuant to the changes introduced by the 2011 tax reform act, both items (f) and (g) above have been revoked and no longer qualify as Qualified Leasing Transactions eligible for the withholding tax-free treatment, and the interest component of any cross-border leasing payments on such transactions made pursuant to agreements entered on or after January 1st, 2011, except otherwise provided by applicable regulations, will be subject to a **14%** withholding tax, and unless the equipment leased is a vessel, helicopter or airplane, case in which the reduced applicable withholding tax rate will be **1%**.

Any interest payments on inbound Facilities and Qualified Leasing Transactions under items (e), (f) and (g) above (*and also items (a) through (d)*), made pursuant to agreements entered on or before December 31st, 2010, shall continue to be eligible for the withholding tax-free treatment.

It is important to highlight that the new regime has made clear that offerings of notes, bonds and similar debt securities, are not deemed held in Colombia, provided that the offering is made by a Colombian issuer and that the securities are traded outside of Colombia. Nonetheless, please bear in mind that application of this rule should be carefully analyzed on a case-by-case basis.

Finally, cross-border interest payments on inbound cross-border financings where the borrowers/debtors are Colombian Governmental entities are eligible for withholding tax free treatment.

Lastly, please keep in mind the limits imposed by the thin capitalization rules, as previously explained in §1.8 above.

1.21.6. Financial Returns of Public Private Partnerships Funding

A special withholding tax rate of 5% applies on cross-border payments of interest and other financial returns in connection to loans that have been granted to fund infrastructure projects under a Public Private Partnership structure and that are granted for a term of 8 years or longer. It is worth highlighting that the general withholding tax rate on cross-border payments of financial returns is 14% or 33%, depending on the case (see §1.21.5. above).

1.21.7. 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.

1.21.8. Tax Havens

Payments directed to a tax haven beneficiary corresponding to items of income deemed from a Colombian source, are subject to a **33%** withholding tax. Otherwise the corresponding deduction will not be allowed. This higher withholding tax rate should not be applicable to certain payments related with financial operations duly registered with the Central Bank, provided that they meet the criteria to be deemed as income from a foreign source (see §1.21.5. above).

Colombian transfer pricing regulations apply on 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 threshold, it must keep and file with the tax authorities supporting documentation, and a transfer pricing study.

On October 2013 the Government published a list indicating what countries are considered as tax havens for Colombian tax purposes. In order to determine whether tax havens' regulation is applicable in a certain case, the individual facts and circumstances should be carefully considered.

1.22. Additional Limitations on Costs and 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 taking into account these deductible items. Exceptionally, whenever the payment abroad has been subjected to the corresponding statutory withholding tax, this 15% limitation does not apply on (i) certain commission payments, (ii) interest and leasing payments that are deemed not from a Colombian source, and (iii) payments on imported movable tangible property.

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 actually rendered. There are other limitations for deductibility of payments to foreign related parties, which need to be analyzed on a case-by-case basis. The application of these deducibility limitations should be carefully considered taking into account, among others, the transfer pricing regime and the application of tax treaties.

1.23. Statutory Foreign Tax Credit ("FTC ")

Individuals and corporate persons that are Colombian tax residents and are obliged to pay income tax abroad with regards to their foreign source income, have the right to a Foreign Tax Credit ("FTC"). In accordance with the FTC, the tax paid abroad can be credited against both the income tax and the CREE., provided that the amount to be credited does not exceed the income tax liability in Colombia. Excess tax credits can be carried forward for four years if certain requirements are met.

It is important to highlight that Act 1739/2014 introduced further regulation concerning the tax credit. In general, the new provisions attempt to: (i) Adapt the tax credit to the new rates and to the new income taxation structure (Income Tax + CREE), (ii) Limit the carry-forward of the excess tax credit, and (iii) Ratify that the creditable foreign tax cannot exceed a percentage of the taxpayers' alternate income tax liability.

Certain conditions need to be met in order to benefit from the foreign indirect tax credit (i.e. shares not granting voting rights cannot benefit from the credit, a minimum two years holding period is required).

1.24. Income Tax Treaties

Colombia's belated development of a network of OECD-like treaties has lead to the conclusion of income tax treaties with Spain, Chile, Switzerland, Canada, Mexico, India, Czech Republic, South Korea and Portugal. The treaties with Spain, Chile, Switzerland Canada, Mexico, India and South Korea are already enforceable. The treaties with Czech Republic and Portugal are not yet enforceable because the ratification process has not yet concluded.

Colombia is a member of the Andean Pact. Therefore, it benefits from the Andean Pact tax Directive 578 to avoid double income taxation, enacted in 2004. With isolated exceptions, this tax Directive provides for exclusive source taxation among member countries.

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), United States of America, and Venezuela.

Lastly, besides the treaties to avoid double taxation on income and capital, Colombia has also signed information exchange tax treaties with the United States, the Kingdom of the Netherlands with respect to Curaçao and Barbados. The treaty with the US is already in force, however the ratification process of the other two treaties has not yet concluded, and therefore they are not enforceable yet.

1.25. Consolidated Group Taxation

Colombian Tax Law does not provide for a consolidated group taxation mechanism.

1.26. General Anti-Avoidance Rule (GAAR)

Traditionally, the Colombian tax service has attempted to challenge tax abusive transactions based on the constitutional principle of substance over form and based on general law abuse considerations.
Additionally, as of December 27th, 2012 a general anti-avoidance clause was adopted, according to which, if the tax administration manages to prove three of the five criteria listed below, the burden of

proof will be shifted to the taxpayer, who will have to demonstrate that the transaction had a business purpose or that the prices or considerations related with the transaction meet the Colombian transfer-pricing rules. The criteria are:

i. The transaction involves related parties;

ii. The transaction involves a tax haven;

iii. The transaction involves an entity covered by a favorable tax regime;

iv. The price or consideration agreed differs in more than 25% from a fair market value;

v. The transaction does not include a feature, an entity or an agreement common to similar transactions, with the purpose of obtaining a tax advantage in an abusive manner.

If the taxpayer fails to furnish sufficient evidence of a business purpose or compliance with the transfer-pricing regime, the tax administration can re-characterize the transaction and tax it accordingly. It is worth noting that the anti-avoidance rule, allows the tax administration to pierce the corporate veil of entities interposed for tax abuse purposes.

2. VALUE ADDED TAX ("VAT")

2.1. Tax Rates

VAT's general rate is **16%**. A reduced **5%** rate applies for certain goods and services.
Some specific businesses are subject to a general Consumption Tax 8% rate.

2.2. Taxable Transactions

The sale and importation of movable tangible property, as well as the provision of services in Colombia, are subject to VAT. The sale of intangibles and fixed assets do not levy VAT. Certain public entities of the national and local territorial level are not subject to VAT.

Consulting, advising and auditing services provided to a Colombian party, although rendered from outside Colombian territory, are subject to VAT. However, in these cases a reverse charge applies and, thus, it is the Colombian party that is obliged to perform VAT back-up withholding and pay directly to the tax authorities **100%** of the accrued VAT.

Certain goods and services are exempted ("zero-rated") or not taxable with VAT ("excluded"). In the case of excluded goods and services, any input VAT paid by the taxpayer to its goods and service 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 service suppliers generates a VAT credit (See §2.4. 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

Please bear in mind that in Colombia there is also a consumption tax, which replaced the VAT that

was previously charged by restaurants and bars. The general consumption tax rate is 8%.

2.3. Taxable Base

As a general rule, the taxable base is the price or value of the consideration paid for the goods or services; this consideration should correspond the fair market value of such goods or services.
There are cases in which 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.

2.4. 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.

Unless otherwise allowed by law (See §2.5. below), VAT paid on the acquisition and importation of goods that become fixed assets for the buyer is neither creditable against VAT nor income tax. This VAT should be capitalized increasing the taxpayer's cost basis of the fixed asset.

There are certain limitations on the VAT credits available for zero-rated transactions.

2.5. Selected VAT Incentives

The following are some of the available statutory VAT incentives:

2.5.1. 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.

2.5.2. Acquisition and Permanent Importation of Heavy M&E

Act 1739/2014 extended to acquisitions the formerly only applicable to imports VAT deferral benefit in connection to the payment for Heavy Machinery and Equipment.

In fact, although acquisition and permanent importation of heavy M&E (whether or not produced in Colombia) is subject to VAT, if the M&E's is going to be used in a "basic industry" and it's CIF value exceeds approximately USD $500K, payment of the VAT can be deferred (40% upon acquisition or importation, and 30% in each of the following 2 years). In addition, in these cases the VAT paid can be credited against the taxpayer's income tax in the taxable year in which the VAT was paid or in the subsequent taxable years if the VAT paid cannot be initially credited in full.

Please note that if the asset acquired is sold before the end of its useful lifespan a proportional recapture applies.

2.5.3. 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.

2.5.4. Income Tax Deduction of VAT paid in the Acquisition or Import of Capital Assets

2% of the VAT paid in the acquisition or import of capital assets can be credited against the taxpayer's corporate income tax, in the year in which the assets were acquired. The latter provided that the taxpayer is a corporate entity and that the capital assets were taxed with VAT at the general tax rate (currently 16%).

If the asset that was acquired or imported is sold before the end of its useful lifespan a proportional recapture applies.

This treatment is not applicable in the import of heavy machinery for basic industries, which is regulated as explained above (see § 2.5.1. and 2.5.2).

2.6. Payment and Filing

VAT is paid on a bimonthly, quarterly or annual basis, depending on the taxpayer's gross income from the previous year. The VAT return must be filed and paid in full on the filing dates scheduled by the government for these purposes.

2.7. Andean Pact VAT Harmonization

In addition to Andean Pact Directive 578 to Avoid Double Income Taxation (see §1.24. above), Andean Pact Directive 599 establishes the framework for the harmonization of the VAT regimes in member countries, which is expected to take place in the near future.

3. WEALTH TAX AND NORMALIZATION TAX

3.1. Wealth Tax

Act 1739/2014 introduced a new Wealth Tax that applies on companies from 2015 to 2017.
In general, Colombian entities, as well as foreign entities, owning a gross-worth net of liabilities equal or higher than COP $1,000,000,000 (approx. USD $425,000) on January 1st 2015 are subject to this tax.

3.1.1. Taxable Base

In general, the taxable base of the Wealth Tax corresponds to the result of subtracting from the taxpayer's net-worth the value of the shares directly or indirectly owned by the taxpayer in Colombian companies.

Foreign entities are subject to the tax on the wealth they own directly or through Permanent Establishments. Notably, in contrast to the net-worth tax that was in place in previous years, the Wealth Tax covers foreign entities that do not file an income tax return in Colombia (i.e. entities exclusively taxed via withholding taxes). This has an important impact concerning in-bound inter group loans (nevertheless the application of this rule in a tax-treaty context should be reviewed).

Foreign entities that have Permanent Establishments in Colombia are taxed on the net-worth attributable to such Permanent Establishments. This should be determined based on an attribution study elaborated considering the assets used, the functions performed, the personnel involved and the risks assumed by the Permanent Establishment.

Foreign companies can subtract from the taxable basis the value of international leasing operations and its yields, if the underlying assets of the leasing operation are located in Colombia
Foreign Financial Institutions can subtract from the taxable basis the value of the loans granted to Colombian taxpayers.

3.1.2. Tax Rate

The tax rate varies from year to year, as follows:

Taxpayer's net-worth		**Marginal Tax Rate**		
Minimum	**Maximum**	**2015**	**2016**	**2017**
>0	<2,000,000,000	0.20%	0.15%	0.05%
>=2,000,000,000	<3,000,000,000	0.35%	0.25%	0.10%
>=3,000,000,000	<5,000,000,000	0.75%	0.50%	0.20%
>=5,000,000,000	Onwards	1.15%	1.00%	0.40%

Please bear in mind that in this edition of the Wealth Tax, the lawmaker introduced a taxable base lock-mechanism, aiming to prevent positive or negative variation of the taxable base first reported in 2015, higher than 25% of the inflation of the corresponding year.

3.2. Normalization Tax

For the years 2015 to 2017, Act 1739/2014 introduced a tax on the value of non-reported assets, when an obligation to report them exists. This tax should be assessed, paid and filed with the Wealth Tax return.

Hence, this Normalization Tax only applies to taxpayers who, either mandatorily or voluntarily, file a Wealth Tax return.

It is worth noting that the applicable regulation introduces a special provision indicating how rights in foreign trusts and foreign private interest foundations should be reported.
The tax rate of the Normalization Tax varies from year to year as follows:

2015	**2016**	**2017**
10%	11,5%	13%

The Normalization Tax should be paid and filed one time only, and the assets that have formerly been omitted should be taken into account in the assessment of the income tax and the Equality Tax (CREE) of the year in which the Normalization Tax is paid and onwards.

No penalty in connection to (i) income tax, (ii) CREE, or (iii) the breach of foreign exchange regulations, should be imposed as a consequence of not having reported the omitted assets in previous tax returns, provided that such assets are reported in the Normalization Tax return and the corresponding tax is paid

4. BANK DEBITS TAX

This is a national level tax. Colombian banks (and other savings institutions) must withhold the tax at source. It applies on any funds deposited that are either withdrawn or transferred from checking or savings

accounts. The taxable base is the amount withdrawn or transferred. The tax rate is **4 per thousand.**

There are very limited exemptions to this tax. It is an important tax to keep in mind when structuring a transactions' cash flow.

According to Act 1739/2014, until 2019 the bank debits tax rate will be **4 per thousand**, and the sunset of this tax through a phase-out tax rate scale that should have started on 2015 is postponed, to begin in 2019, as follows:

2019	2020	2021
3 x 1,000	2 x 1,000	1 x 1,000

As of 2022 the Bank Debits Tax should be repealed.

5. LOCAL TAX ON INDUSTRIAL, COMMERCIAL AND SERVICE ACTIVITIES

This is a municipal (local) level tax applicable to all industrial commercial and services activities performed in the territory of a municipality. The taxable base is the sum of the taxpayer's gross revenue from the activity carried out in the relevant municipality. The tax rates vary from one municipality to the next and range from **2 per thousand** to **13,8 per thousand.** This tax is usually paid and a return is filed yearly, with the exception of some municipalities that have adopted a two (2) month taxable period (e.g., Bogota). Incentives for this tax are created and regulated by each municipality. Therefore, the availability of incentives must be confirmed on a case-by-case basis.

6. PROPERTY TAXES

There are municipal (local) level taxes on real estate and vehicles. Each 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. Motor vehicles tax rates range between **1,5%** and **3,5%.** Unless otherwise specified, the taxable base in the case of real estate is the cadastral value of the property, and in the case of motor vehicles is their fair market value. Unless otherwise specified in the corresponding municipal ordinances, filing and payment is usually on a yearly basis.

Local tax incentives available, if any, are regulated by the relevant municipal ordinance applicable in the municipality in which the property is located or registered. Therefore, the availability of incentives must be confirmed on a case-by-case basis.

7. 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 with the cadastral registry office, and from **0,3%** to **0,7%** when the registration is with the merchants' registry office. Unless otherwise provided, the taxable base is the amount of the price or consideration reflected 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.

8. LOCAL STAMP TAXES

Certain laws authorize departments to enact local stamp taxes to support investments in hospitals, universities and other public entities and activities. Such local stamp taxes are usually levied at a **1%** rate on the gross income attached to the taxable event. Pursuant to a recent revenue ruling from the Colombian Tax Service, in some cases the amounts paid by the taxpayer that correspond to stamp taxes can be deducted from income tax.

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.

9. ROYALTIES ON NATURAL RESOURCES EXPLORATION ACTIVITIES

Unless otherwise provided, all natural resources exploration activities are subject to the payment of royalties. This summary does not cover the royalty regime. Prior to engaging on any natural resources exploration activity in Colombia, it is advisable to seek qualified legal advice on the royalty regime applicable to the specific activity and jurisdiction.

10. WELFARE CONTRIBUTIONS

10.1. Retirement Contributions

The employee can choose between private or public pension funds. The contribution must be equal to at least **16%** of the employee's wage; both employees and employers can make additional voluntary contributions. Contributions must be computed and paid to the pensions fund 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. The employer must withhold the employee's part of the contribution and deposit **100%** of the monthly contribution in the pension fund.

10.2. Health Contributions

The employee must be affiliated to a general Health Care Plan ("HCP"). Contributions to the HCP must be equal to **12,5%** of the employee's wage. Contributions must be computed and paid monthly. The employer must cover **8,5%** 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.

10.3. Employment Risks Insurance System

The employee must be affiliated to an employment risk insurance system of its election. The contribution varies between **0,522%** and **6,96%** of the wage of the employee (depending on the activity) and are computed and paid monthly. The employer must cover and pay to the insurer 100% of the contribution.

10.4 Contributions to Child and Family Protection Services, Public Training System, and Compensation Funds

These contributions were mostly eliminated as a consequence of the introduction of the Equality Tax CREE (see §1.3 above). In fact, the revenue collected by CREE is exclusively intended to fund the welfare entities that were formerly funded through the collections of these three welfare contributions.

10.5. Unemployment Fund Contribution

The employer must contribute an amount equal to one monthly wage per year to the employee's unemployment fund of choice. In addition, the employer must pay to the employee a 12% yearly interest on the amount of that yearly contribution. Both the contribution and the interest must be paid on a yearly basis.

10.6. Incidence on Wages Deductibility

Payment of the abovementioned welfare contributions is a requirement for the corresponding wages paid by the employer to be deductible.

11. CUSTOMS IMPORTS REGIME

The following sections summarize some (not all) general aspects of the Colombian customs imports regime.

11.1. Imports Custom Duties

Unless exempted, zero-rated or exceptionally subject to a different rate, importation of goods is subject to a 16% import VAT. In addition to import VAT, imports are also subject to custom duties ranging between 5% and 20%. Colombia has entered into Preferred Custom Duties Agreements with many countries, reducing the applicable custom duties for certain goods.

11.2. Taxable Base

Unless otherwise provided, 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.

11.3. Customs Valuation

Colombian custom valuation rules 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 Directives 378 and 379 apply. These rules are also similar to the first mentioned rules.

11.4. Filing and Payment

An import return must be filed upon nationalization of the goods. As a general rule in the ordinary importation regime, custom duties and import VAT must be paid and an imports return filed within the first month following the arrival of the goods to Colombia. In certain cases the importer can

request to the custom authorities a one (1) month filing extension.

11.5.Used M&E

Importing used M&E (and spare parts) requires a previous import license that will be granted by the foreign trade authorities if the M&E are not produc ed locally or in an Andean country. In practice, the importation of used spare parts is hardly authorized.

11.6. Free Trade Agreements

Colombia currently has thirteen Free Trade Agreements (FTAs) in force, including, among others, FTAs with various Latin-American countries, an FTA with the United States of America, an FTA with Canada and an FTA with 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 by 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, (iii) Trade Remedies – regulating subsidies, safeguards, and antidumping and countervailing measures, (iv) Investment – establishing investment protection and international arbitration for solving investment disputes under the FTA, (v) Trade in Services – liberalizing market access in services, and (vi) Intellectual Property – providing for further protection and regulation on intellectual property. Other issues such as government procurement, labor, environmental matters, among others, are also dealt with in some of these FTAs.

It is important to take into account that each FTA differs on the specific regulation of the areas mentioned. 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.

11.7. Selected Custom Duties Imports 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.

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 corporation or branch. Purchased M&E can only be imported through the regular importation regime. Below, some of the features of the different importation regimes will be described.

11.7.1. Ordinary Imports Regime

It applies to all goods that will remain permanently in Colombian territory without restrictions. Upon nationalization, full payment of custom 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.

11.7.2. 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 Administration has the authority to approve a longer importation period. During the importation period, the payment of custom 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 file within the above-stated one (1) month period. Regardless of whether the Customs Administration authorizes an extension of the importation, the duties and VAT must be paid within the initial 5-year period.

The importer must extent a compliance bond, guaranteeing payment default or delays. 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 custom duties or import VAT.

11.7.3. Long-Term Temporary Imports Regime for Leased Equipment

The rules of this regime are similar to the above-explained rules. Nevertheless, given that for foreign exchange purposes lease payments are treated as foreign debt payments, 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).

11.7.4. Short-Term Temporary Imports

This regime applies to specific goods that will be used for a certain activities taking no longer than six (6) months. The customs service can authorize a three (3) months 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 **200%** fine will be imposed. Although for control purposes an imports return must be filed, the operation triggers neither customs duties nor VAT, provided that a guarantee for **150%** of the VAT and customs duties amount is subscribed.

11.7.5. VAT Incentives

The VAT incentives mentioned above are available for imported goods, only if the legal requirements are met.

11.7.6. Free Trade Zones (“FTZ”)

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 15% income tax rate (instead of 25%), (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.

Please note that transfer-pricing regime is now applicable between FTZ users and related taxpayers located in Colombia (outside the FTZ).

11.7.7. “Plan Vallejo” Special Imports Regime (special Draw-back mechanism)

After meeting certain requirements, under the “Plan Vallejo”, raw materials and other goods can be temporarily imported without triggering custom duties and enjoying a preferential VAT treatment. Both agricultural and services activities could be covered with the “Plan Vallejo”.

COSTA RICA CHAPTER
FACIO & CAÑAS – FAYCATAX

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HIGHLIGHTS

NATIONAL LEVEL TAX RATES

Corporate	30%
Capital Gains Tax:	0%
Branch Profits Tax:	30%
Dividends Tax:	15%
Withholding Taxes on:	
– Interest:	15%
– Royalties:	25%
– Technical or Administrative Advice	15%
– Other services: (No specific rate)	15%
--Any other remittances abroad do not regulated in the articles 49 and 50 of the Income Tax Law, generated from the Costa Rican source income.	30%
– Imports:	0%
– Labor services:	10%
Tax losses carry- forward term:	Restricted to 3 years (industrial) Or 5 years (agriculture)
Tax losses carry-back term:	Not applicable
Transfer Pricing Rules:	Applicable
Tax-free Reorganizations:	Mergers
VAT on sales:	13%
VAT on services (specific according to the VAT Law):	13%
VAT on Imports:	13%
Custom Duties:	From 5% to 15%
Net- worth (Assets) Tax:	Not applicable
Stamp (Documentary) Tax:	Scheduler rates
Bank Debits (Transfers) Tax Rate	Not applicable

Local 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 Tax:	0.25%
Taxes on Other Property:	Scheduler rates applicable at National Registry for registration purposes.

Excise Taxes:

OVERVIEW

1. INCOME TAX

1.1 General Aspects

1.1.1. Income Tax Rate

The general statutory corporate income tax rate for Costa Rican entities including Costa Rican branches of foreign companies is 30%. For purposes of corporate Income Tax only, there are two preferential rates of 20% and 10% based on Gross Income amounts.

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, 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. The result of applying the 30% tax rate is the Resulting Income Tax Liability (Tax Credits only apply for physical persons.)

1.1.3. Deductions

As a general rule all costs and expenses 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.

1.1.4. Depreciation

Tangible fixed assets depreciation is deductible. Depreciation term varies depending on the asset. Globally used methods are generally accepted in Costa Rica for tax purposes e.g. straight-line method, sum of year's digits method.

1.1.5. Transfer Pricing

Costa Rican legislation approved on February 13, 2013 a new Transfer Princing Regulations, including:

- 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)

1.1.6. Inflation Adjustments

Costa Rica does not have inflation adjustments mechanisms. The revaluation of tangible or intangible fixed assets is forbidden.

1.1.7. Tax Losses Carry- forward / Carry-back

A Costa Rican industrial or agricultural taxpayer can carry-forward its losses for a maximum term of 3 or 5 taxable year, 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.

1.1.8. 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 be 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, the 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 an Asset Accounting (IAS 17). Effects this operation corresponds tax register as an expense to the extent the payment or indebtedness of the lease.

1.2. Payment and Filing.

Ordinary Tax Year covers period between October 1st and September 30th. Tax Administration has the discretionary authority to approve a special Tax Year, being the typical the calendar Tax Year (January 1st – December 31st), particularly for transnational or multinational corporations that need to homologate their consolidated financial statements. All taxpayer must observe a filling deadline of two months and fifteen working 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 Tax Paid Belatedly

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 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, when it used to be 25%, while omissions or mistakes with bad intentions will incur fines of 100% (it used to be 75%) for so-called “serious behavior”, and 150% on those denominated “very serious behavior.”

1.4 Dividends Tax / Branch Profits Tax

There is 15% remittance tax on dividends and branch profits remitted abroad to non-domiciled alien 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 alien individual or entity, the payment should be a 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 for foreign remittance tax.

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 for foreign remittance tax.

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 a 10% (labor) 15% (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 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 Rican tax laws do not have Tax Havens provisions.

1.5.2 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.

Recently on February 13, 2014 a treaty with Germany was signed, but the ratification is pending.

1.5.3 Tax Information Exchange Agreements

Costa Rica has an exchange of information valid with the following countries: Argentina, Australia, Canada, USA, France, Holland and Mexico.

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 5% for energy supply. There is a comprehensive list of exempted goods, and the zero- rated treatment is extensive. There are also some VAT exemptions for specific public entities of the national or local territorial level.

2.1.2 Taxable Transactions

There are: sale and importation of movable tangible property; and services rendered in Costa Rica. In the case of services, only the services specifically included in a list are taxable, leaving the non mentioned services excluded from the VAT coverage.

2.1.3 Taxable Base

As a general rule, the taxable base is the price or value of the considerations paid for the good services.

There are cases where certain item must be either or excluded from the taxable base and/or cases, which should be analyzed on case-by-case basis.

2.1.4 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, provided that they constitute a cost or expense of the taxpayer´s income producing activity.

The VAT paid in the acquisition of good that will become fixed assets for the buyer is creditable in VAT account.

There are limitations in the VAT credits available for VAT on costs and expenses (e.g. capital assets, raw materials), especially for non-manufacturing companies.

2.2 Selected VAT Incentives

The VAT law does not include selective Incentives.

2.3 Payment and Filing

VAT has 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 working days after the closing of the monthly period.

3. OTHER TAXES

3.1 Property Taxes

There national taxes on real estate and vehicles according to the corresponding laws. Real estate tax has a 0.25% tax rate. Motor vehicles tax ranges from approximately US $ 25 up to a 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 said locality, even though some municipalities use a mix of gross and net income. The tax rate varies according to each every 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 with 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 varies according to a scheduler classification. The taxable base is the amount of the price or consideration shown the document.

3.5 Annually Corporate tax

Costa Rica has approved an annual tax on all corporate entities registered in Costa Rica. The law comes into effect on April 1, 2012. The amount of the tax is active corporations 50% of base salary and inactive corporations is 25% of base salary. As such the amounts will change as the base is adjusted. The amount of tax to be paid is actually based upon the base salary of a Judicial Power employee (approximately US$720 in 2013).

This tax is due for payment on January 1st of each year.

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 the '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 is calculated on an annual basis and is due for payment every first of January each year.

4. CUSTOMS REGIME GENERAL ASPECTS

4.1 Custom Duties

In addition to import VAT, imports are also subject to custom 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 follows the GATT valuation code (1994). The department of the Custom Administration has the authority to manage a valuation database.

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 custom 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 custom 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 the 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, as long as the export is executed within a year from the raw materials importation.

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 holidays for VAT and Income taxes, subject to compliance of a Contract signed with the Ministry of Foreign Trade competent authorities.

This regimen was introduced by law 7210 and was based on the current export regime, but conditioning its effectiveness at the end of 2015.

It creates a system of incentives without adding conditions to the exports performance, and it's based on the three criteria:

a. That the investment has to be made in a strategic sector for the country's development, or to be established outside the Expanded Great Metropolitan Area (GAMA, for its Spanish acronym);

b. To be a new investment, and that the nature and characteristics of these investment are such that could be made in another country or move to another country, this circumstance presuming that the controlling entity operates abroad, outside Central America, and Panama, with at least one processing facility, similar to the one undertaking the regimen in Costa Rica.

c. That the company has not been previously subject to and not exempt from the income in Costa Rica, (in case of a merger with a company with these conditions, the incentives would be applied in proportion with the new assets and the total assets.)

Transitory III of this law, allows companies under the previous regime to transfer to the new regime, as long as they comply all the requirements.

The main tax incentive of this regimen, is on the income tax applying a 6% tax rate for the first 8 years, and a 15% for the following 4 years for companies operating in GAMA. It also includes other incentives such as the one's established in article 20 (traditional regimen) except the ones of the section g) which are the ones related to the income tax.

An special regime (section 21 ter e) is expected for companies with a new investment from at least $10.000.000- that must be done in a period of 8 years- and that have at least 100 permanent employees hired. To these companies it would be applied the exemption of the income tax established in the section 20, subsection g) 1): exemption of 100% for up to 8 years and exemption of 50% for the following 4 years. The same treatment is expected for the company that is simultaneously part of an strategic sector and that is installed outside of the Great Metropolitan Area (GAM, in Spanish), and that maintains 100 permanent employees throughout the operation of the company (section 21 ter h). The others companies (services, parks administrators, etc of the section 17), keep all the incentives established in the section 20.

Additionally, companies of the subsection e) of Article 21 ter, and the ones located outside the Metropolitan area, can defer the tax payable upon repatriation of earnings or in 10 years, whichever comes first; but with a payment of special interest rate -Passive basic rate average- for deposits to 6 months calculated by the Central Bank (Article 21 ter g)

5. PAYROLL TAXES / WELFARE CONTRIBUTIONS

5.1 Social Security Systems

The Costa Rican Social Security Administration (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 are applicable to employer and employees. The taxes are based on the monthly salaries with a 26% rate for the employer and 9% 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 and 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 monopoly 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

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 which usually engaged to make international operations. This reform includes a change on the withholding on remittances abroad.

6.2 The 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, in order 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 have to be done electronically through "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 taxpayers, information of the Legal Representative, Shareholders, tax obligations, agencies, branches, and other info.

7. NEW LAWS APPLYING SINCE 2014

7.1 Creation of Tax Procedure Regulation

Was effective since April 2nd, 2014 and repeal the General Tax Audit and Collection Regulations, giving the taxpayer clarity, transparency, legal certainty and simplicity in implementing the Tax Code of Standards and Procedures.

7.2 Tax Reform: Bill to improve the fight against tax fraud (Law Draft)

This tax reform, was included with the purpose of reduce the tax avoidance and the breach.

DOMINICAN REPUBLIC CHAPTER
DR&R ATTORNEYS & TAX CONSULTANTS

DOMINICAN REPUBLIC
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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]
Withholding Taxes on:	
- Interest:	10%
- Royalties:	27%
- Other Services:	27%
Tax losses carry-forward term:	5 years
Transfer Pricing Rules:	Economic group transfer pricing rules[3]
Tax-free Reorganizations:	i) mergers; ii) reorganizations and splits, and iii) sales and transfers within an economic group
VAT on Sales:	18%[4]
VAT on Services:	18%
VAT on Imports:	18%
Custom Duties:	from 0% to 20%
Excise Taxes:	7.5% to 20%[5]
Bank Checks and Transfers Tax Rate:	0.0015%[6]
Personal Property and Assets Tax:	1%[7]

Local Level Tax Rates[8]:

Stamp (Documentary) Tax:	2% on mortgages, motor vehicle transfers
Turnover Tax:	16% ad-valorem on fossil fuels
Real Estate Tax:	3% transfer tax

Treaty Taxation:

Countries	Interest	Dividends	Royalties
Canada	18%	18%	18%
Spain	10%	10%	10%

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 the Dominican Republic, including branches or permanent establishments of foreign companies, is **27%**.

Taxable Base

All revenue from domestic source is subject to income tax unless otherwise excluded by law from the

1 Branches or other forms of permanent establishments of foreign companies shall withhold and pay the same tax rate when sending payments to a parent company abroad.

2 Free Zone Enterprises when transferring goods or services to a person or entity in the Dominican Republic are subject to payment of a three point five percent (3.5%) fee on account of income tax on the value of gross sales made in the local market. Commercial Free Zones are subject to a 5% fee.

3 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, regulates the order of priority of the different valuation methods ruling transfer pricing, as well as the informal declaration obligation over transactions with related parties or affiliates.

4 There are lower and higher differential rates, as set forth below.

5 Goods subject to excise taxes are: leaded and unleaded fuel (16% ad-valorem tax); cigarettes (specific amounts of RD$25-50 per cigarette pack and a 20% ad-valorem tax), alcoholic beverages (specific amount of RD$498.4-540 per liter and a 10% ad-valorem tax), telecommunications (10%), insurances (16%) except if they fall under the application of Law 187-01, electronic items (10-20%); among others.

6 A tax of RD$1.50 per every thousand pesos (RD$1,000.00) is levied on the values of all checks or wire transfers.

7 This rate applies on the total value of the assets, including real estate properties as reflected in the tax payers' balance sheet, not adjusted by inflation and after applying the deduction for depreciation, amortization and reserves for non-collectable accounts. It will be excluded from the taxable base of this tax stock investments made in other companies, land located in rural areas, fixtures on agricultural exploitation and advance taxes.

8 Reference is made to the most usual rates, but different rates may apply.

9 There is a Non Discrimination clause in the treaty.

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 physical or legal persons or entities that obtain gains in the Dominican territory by means of a permanent establishment shall pay taxes on the total amount of the income applicable to said establishment in accordance to what is established for legal entities in the Tax Code, notwithstanding any norm that may be specifically applicable. Nevertheless, these permanent establishments do not automatically acquire the characteristics of a resident.

- Non-resident physical or legal persons or entities that obtain income without a permanent establishment shall pay taxes separately for each particular income subject to taxation.

- As established in Article 287 of the Tax Code of the Dominican Republic, the following rules apply:

- Contributors that make payments over Fifty Thousand Pesos (RD$50,000.00), in fiscal invoices with fiscal credit value, shall use any of the means established in the banking and financial system that single out the beneficiary and that are different from payment in cash, in order to be able to confirm costs and expenses that may be deducted or that may constitute fiscal credit and other income with tax effect. This amount may be adjusted by the inflation as published by the Central Bank.

- Financial Interests: Limits to their Deductibility.

The same Article establishes that when the expenses incurred through the constitution, renewal or cancellation of the debt, constitute taxable income to the lender, under the provisions of articles 306 and 306 bis of the same Tax code, the deduction shall be limited to the amount arising from applying to the expense the result of the application of the abovementioned articles, for a resident and non-resident lender, respectively, and the rate established in accordance to the dispositions of article 297 of the DR Tax code.

Example:

Credit Entity	Interests	Withholding (10%)	Withholding Paid	TET
ABC Bank of USA	225,000.00	10%	22,500.00	10%
ABC Bank of Panamá	350,000.00	10%	35,000.00	25%

Part of the deductible expense

	Deductible	Non-deductible	Percentage Loss
10/27*225,000=	83,250	141,750	63%
25/27*350,000=	325,500	24,500	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 three 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)).

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 to entities of the financial system regulated by the financial and monetary authority.

Interest not deducted in a fiscal period may be deducted in the following ones, up to the period three 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 ten percent (10%) of the taxed income. Nevertheless, said deduction shall not exceed twenty-five percent (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 goods that produce profits.

- 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 whose life has a defined limit, 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 Public Institutions of Charity.

- Research and Development 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 of the companies, up to 5% of the applicable tax for a fiscal exercise.

- Treatment of natural persons

Individual taxpayers, except those who are salaried, that carry out activities distinct from the business, have the right to deduct from the gross income of such activities the verified expenses necessary to obtain, maintain and conserve taxed income.

Natural persons shall be subject to a 25% tax rate when their income exceeds RD$833,171.01; 20% when their income falls between RD$599,884.01 and RD$833,171.00; 15% when it is between RD$399,923.01 and RD$599,884.01; while total income below those ranges is exempted[1]. This scale will be adjusted by inflation starting in the year 2016.

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

1 Which equals to a monthly income of up to RD$33,326.92.

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

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 the close of the fiscal year, 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 ITBIS that has been paid in the acquisition of a business.

Category 3. Any other depreciable assets may be deducted at a 15% annual rate over the acquisition or construction cost of such assets, minus the 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 by 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.

Amortization of intangible assets is permitted by the depletion of the monetary cost of each intangible asset, including patents, copyrights, drawings, models, contracts and franchises whose life has a defined limit, but it must reflect the life of said asset and the method of recovery in a straight line.

At the taxpayer's option, organization 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 natu-

ral 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 comparable transactions 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)
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 the their execution and for a limited time.

Likewise, Cost Sharing Agreements are permitted, as long as they comply with Article 3 of Decree 78-14.

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.

a. The adjustment ordered for any fiscal year shall be applied to the following concepts determined as of the closure of the preceding fiscal year:

1. The steps in the tax scale for personal income tax;
2. Any other amount expressed in Dominican currency ("RD$");
3. 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;
4. The transfer to future periods of the net losses for operations and of dividend accounts;
5. The credit for taxes paid abroad; and,
6. The nontaxable minimum established for individuals.

b. The Regulations shall include:

1. 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;

2. Provisions for rounding-off the adjusted amounts up to the appropriate limit in order to efficiently administer the taxes; and

3. Provisions that contemplate interim annual adjustments for the calculation of reserves for taxes, 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.

c. 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.

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 to the following rules:

a. In no case, in the current or future tax period, losses will be deductible from other entities in which the taxpayer has made a reorganization process nor losses generated from non-deductible expenses.
b. The enterprises may only deduct their losses of twenty percent (20%) of the total amount of such losses per year. In the fourth (4) year, this twenty percent (20%) will be deductible only to a maximum of eighty percent (80%) of the net taxable income related to such fiscal period. In the fifth (5) year, the maximum amount is of seventy percent (70%) of the net taxable income. The twenty percent (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.

i. The Dominican Republic Tax Code allows for three types of tax-free reorganizations:
ii. Tax-free mergers, preexisting through a third one that forms, or by the absorption of one of them;
iii. Tax-free split or division of an enterprise into others that jointly continue with the operations of the first, and,
iv. Sales or transfers within an economic group.

1.1.8 Tax-Free Reorganizations

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

i. Approval of the local IRS office 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 obligates such company to make a final income tax return within sixty (60) days after the closing of its activities.

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.

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;

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 the payment of ITBIS.

In the case of leasing of moveable assets between entities, the paying entity is required to withhold 30% of the ITBIS to be paid.

1.2 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 to the exchange rate index published by the tax administration.

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.

1.3.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, 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.

1.4. Penalties on Unpaid Tax 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:

i. 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, interests of 1.73% per each subsequent month or fraction of a month, and fine of five (5) to thirty (30) minimum salaries (a minimum salary is equal to approximately US$250.00). 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% if the taxpayer voluntarily pays the due tax by rectifying its tax declarations prior to any requirement made by the tax administration and if no tax audit has been initiated for the tax or the corresponding fiscal period;

ii. close down of businesses, which may be applied on establishments for lacking registry books, not registering determined goods or equipment, the delay in making the accounting registration after it has been required to do so, the destruction 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 two (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 (10) to fifty (50) minimum salaries;

ii. Tax Fraud: this is fined with a penalty from two (2) to ten (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 two (2) to ten (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 five (5) to thirty (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.

1.5. Dividends Tax / Branch Profits Tax

The distribution of dividends by local entities or corporations, as well as the repatriation by foreign branches established in the county of Dominican source profits, 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.

1.6. Cross-border Payments

1.6.1 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.

1.61.1. 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 ten percent (10%) of said interests.

1.6.1.2. Interest Paid or Credited to Residing Physical Persons

Those who pay or credit interests to physical persons residing or domiciled in the country must withhold and present before the Tax Administration, as a onetime and definitive payment, the ten percent (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 inferior to two hundred forty thousand pesos (RD$240,000.00);
b. When the net taxable income is under four hundred thousand pesos (RD$400,000.00), as long as the income for interests is not over twenty-five percent (25%) of the net taxable income.

As of 2015, the scale established above shall be adjusted annually by the accumulated inflation corresponding to the previous year, in accordance to the numbers published by the Central Bank of the Dominican Republic.

1.6.1.3. Dividends

Please refer to section 1.5.

1.6.1.4. Royalties

Royalty pay ments 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.

1.6.1.5.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.

1.6.1.6 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.

1.6.1.7. 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.

1.6.1.8. Rental Payments on real estate property

Just the same as above, 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.

1.6.1.9. Proceeds from the sale of any type of property

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.

1.6.1.0. 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%.

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	2015	From 2016
Milk products	Yogurts, butter	13%	16%
Coffee	Coffee, even toasted and decaffeinated	13%	16%
Animal Oils or Edible Vegetables	Soy Oil, peanuts, palm, sunflower, coconut	13%	16%
Sugars	Sugar from Canes and other sugars	13%	16%
Cocoa and Chocolate	Powdered, block and tablet Cocoa	13%	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 the payment of 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.

2.2.2. Tourism Development Law 158-01

Investments made on some tourism projects are exempted from the payment of VAT but limited to the machinery, equipment, materials and moveable 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 the payment of 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 the payment of VAT.

2.2.5. Law 122-05 Regarding Nonprofit Organizations

Nonprofit organizations are exempted tom the payment of 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 with cultural and scientific character.

2.2.7. Law 108-10 on the Promotion of Cinematographic Activity

This law establishes a VAT exemption over equipment, material and furniture required for equipping for the first time and putting into operation new movie theaters.

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 of goods exporters 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. 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

This is a 1% tax levying 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 19-00, as well as the electrical companies dedicated to the

generation, transmission and distribution, as defined by the General Electricity Law No. 125-01, shall pay this tax on the basis of their total fixed assets, net of depreciation as it appears in their balance sheet, with the exclusion of financial intermediation entities or corporations, as defined by the Monetary and Financial Law 183-02, which shall pay their tax pursuant to their productive net financial assets, which encompasses: a) their loan portfolio, net of provisions and b) their investments in titles, net of provisions, but excluding any investments in Dominican government's or the Dominican Republic Central Bank's titles.

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 six (6) months from the due date established for the first payment.

The following tax payers 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 tax payers 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 and industrial activities owned by individuals whose approximate value –accounting for all properties, and including the land – currently exceed USD$155,000.00. 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.

From the fiscal year of 2016, this tax shall be eliminated and substituted by the personal property tax rate of one percent (1%) established by Law 18-88 on Sumptuary Homes.

Once the tax over assets as established above has been eliminated, the tax over real estate assets established in Law No. 18-88 on Luxury Houses, shall be applied 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 pay a 3% municipal tax levied on their gross income generated from their annual invoices for each municipal term.

3.3 Stamp 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.

3.4. 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.

3.5. Selective Consumption Tax

The selective consumption 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[2].

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

2 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.

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 a selective consumption tax between 10% and 20%.

The products derived from tobacco and alcohols are levied with a selective consumption 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 Selective Consumption Tax to the products deriving from alcohol and tobacco are modified on an annual basis.

3.6. Tax on Motor Vehicles

An annual circulation tax on motor private vehicles of one percent (1%) of its value is established, according to the 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.

The annual tax on public transportation motor vehicles is as follows:

a. One Thousand Two Hundred Dominican Pesos (RD$1,200.00) for vehicles with over 5 years of manufacture; and,
b. Two Thousand Two Hundred Dominican Pesos (RD$2,200.00) for vehicles 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 20%, 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.

4.6. 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 three (3) additional periods of ninety (90) days by 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 business person that qualifies for the temporary entry of products in accordance to 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 liable for both income tax and social security contributions to be withheld to their salaries as required by applicable law. Employers are also designated as withholding agents for tax and contribution purposes, thus subject to withhold income tax and said contributions to its employees and pay such taxes directly to the competent authorities. On the other hand, employers are liable for withholding their own employees' social security contributions. Both withholdings and contributions are collected and paid monthly on the basis of the gross remuneration.

5.1.Retirement Contributions

The employee's withholding for retirement funds equals to 2.87%, calculated on the employee's

wage. Employers whose main activity is to hire or provide services must also contribute to the social security system for retirement funds in an amount equivalent to 7.10% of the monthly wage paid to the employee.

The maximum wage applicable would be the equivalent of 20 minimum wages.

5.2. Health Contributions

The employee must be affiliated to a Family Health Insurance ("FHI"). Contributions to the FHI administering entity must be equal to 10.13% of the employee's wage, 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 paying the Treasury of the Social Security 100% of the monthly health contribution.

The maximum wage applicable shall be the equivalent of 10 minimum wages.

5.3 Workers Compensation Insurance System

This insurance is financed with an average contribution of one point twenty percent (1.20%) of the wages, covered totally by the employer. The total contribution from the employer will have two (2) components:

i. A fixed base rate of one percent (1%) to be applied evenly to all employers; and

ii. A variable rate of up to zero point six percent (0.6%) 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 wages.

The maximum contribution in this insurance is of four (4) wages.

5.4 Technical Professional Training Institute

All companies are subject to the payment of a monthly contribution to INFOTEP (the governmental Institute of Technical Professional Training). This contribution is equivalent to 1% of the wage of the employee.

The employee must pay 0.50% of the annual bonuses received from the employer if the bonuses apply.

5.5. Payroll Taxes and Contributions

Payroll taxes and contributions in the Dominican Republic shall be made in accordance to the following chart:

Payroll Taxes

Annual Wages	Rate
Income until RD$399,923.00	Exempted
Income from RD$399,923.01 to RD$599,884.00	15% of the surplus of RD$399,923.01
Income from RD$599,884.01 to RD$833,171.00	RD$29,994.00 plus 20% of the surplus of RD$599,884.01.
Income from RD$833,171.01 and beyond	RD$76,652.00 plus 25% of the surplus of RD$833,171.01

Starting in the year 2016, the established scale is set to be adjusted annually for cumulative inflation for the previous year, according to the figures published by the Central Bank of the Dominican Republic.

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 applicable)	1.00%
Social Security (Labor Risk)		1.20%
Subtotal nowadays	6.41%	16.39%
Christmas Salary		8.33%
Vacations		6 %
Profit Sharing Bonus (when applicable)		18 %
Sub-total:	6.41%	48.72%
Severance		8%
Prior notice		10%
TOTAL:	6.41%	66.72%

6. MISCELLANEOUS

6.1. Simplified Tax Procedure (PST)

The Simplified Tax Procedure (PST) is a method that facilitates the tax compliance of medium and small taxpayers, be those legal entities –eligible if their purchases do not surpass RD$32MM– or individuals –eligible if their income does not surpass RD$8.5MM–.

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 PST 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 six (6) months of the year; no need to send the information of tax identifiers on their purchases and sales from the previous year.

6.2. Special Formal Duties

6.2.1. Tax Identifiers ("Comprobantes Fiscales")

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.

6.3. Special Withholding Agents

In the taxation of VAT (ITBIS) and Selective Consumption 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.

ECUADOR CHAPTER
LAWNETWORKER S. A. ASESORES LEGALES

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LAWNETWORKER S. A. ASESORES LEGALES
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NATIONAL LEVEL TAX RATES

Corporate Income Tax:	22% (12% on profits reinvested) (*)
Capital Gains Tax:	Added to the taxpayer´s taxable income and taxed at the regular rates
Branch Profits Tax:	22% (12% on profits reinvested) (*)

(*) Dividends Tax: 0% Distribution of dividends and profits to Tax Haven Jurisdictions are subject to a 13% withholding tax

Withholding Taxes on:

(*) Interest: 22%, 35% if remitted to Tax Haven Jurisdictions
(*) Royalties: 22%, 35% if remitted to Tax Haven Jurisdictions
(*)Technical assistance: 22%, 35% if remitted to Tax Haven Jurisdictions
(*)Technical Services: 22%, 35% if remitted to Tax Haven Jurisdictions
(*) Other Services: 22%, 35% if remitted to Tax Haven Jurisdictions
(*) The tax reform enacted on December 2014 established that the corporate tax rate will be of 25% *(versus 22%)* for local companies, branches and permanent establishments that have shareholders participation of 50% or more, located, established or domiciled in Tax Haven Jurisdictions
(*) The tax reform enacted on 23 December 2009 decreed that dividends distributed to individual shareholders are no longer exempt and now will add to their global taxable income, thus subject to the general tax rates. Dividends distributed to Corporations will remain exempt, provided they are not located in Tax Haven Jurisdictions, otherwise a 13% withholding tax will apply

Tax losses carry forward term: [5] years
Tax losses carry back term: Not permitted
Transfer Pricing Rules: [yes-OECD like]
Tax-free Reorganizations: mergers, spin-offs, etc.

VAT on Sales: [12]%
VAT on Services: [12]%
VAT on Imports: [12]%
Custom Duties: from [5]% to [20]%
Net-worth (Assets) Tax: [0.15]%
Stamp (Documentary) Tax: See Municipal Taxes
Bank Debits (Transfers) Tax Rate: [2]% (*)

(*) In November 2011, The Government increased the capital Flight Tax, (tax on all transfers of funds, remitted abroad regardless their nature), up to a rate of 5% of the amount transferred or remitted. *(Former rate was 2%)*

Local Level Tax Rates:

Tax on Industrial Activities: See municipal Taxes
Tax on Commercial 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
Document Registration Tax: See municipal Taxes
Excise Taxes: Tax on Special consumptions From 5,15% to 300% depending on item

TREATY TAXATION:

Items of Income

Countries	Interest	Dividends	Royalties	Tech.Services	Tech.Assistance
Brazil	15%	0%	15%		
France	10-15%	0%	15%		
Germany	10-15%	0%	15%		
Italy	10%	0%	5%		
Mexico	10-15%	0%	10%		
Romania	10%	0%	10%		
Spain	10%	0%	10%		
Switzerland	10%	0%	10%		
Uruguay	10%	0%	5-10%		
Canada	15%	0%	15%		
Chile	15%	0%	10-15%		
Belgium	10%	0%	10%		
China	10%	0%	10%		
Korea	12%	0%	5-12%		
Singapore	Pending Approval of the National Assembly				
Andean Pact Countries	0%	0%	0%		
Non Treaty Countries	22%	0%	22%	22%	22%
Tax Haven Non Treaty Countries	35%	13%	35%	35%	35%

OVERVIEW

1. INCOME TAX

TAX BRACKETS FOR INDIVIDUALS FOR 2015

Taxable income exceeding	Taxable income not exceeding	Tax on lower amount	% Rate on excess
0	10,800	0	0%
10,800	13,770	0	5%
13,770	17,210	149	10%
17,210	20,670	493	12%
26,670	41,330	908	15%
41,330	61,980	4,007	20%
61,980	82,660	8,137	25%
82,660	110,190	13,307	30%
110,190	And on	21,566	35%

TAX BRACKETS FOR INHERITANCES, LEGACIES AND DONATIONS FOR 2015

Taxable Income Exceeding	Taxable Income Not Exceeding	Tax on Lower Amount	% Rate on Excess
0	68,880	0	0%
68,880	137,750	0	5%
137,750	275,500	3,444	10%
275.500	413,270	17,2129	15%
413,270	551,030	37,884	20%
551,030	688,780	65,436	25%
688,780	826,530	99,874	30%
826,530	And on	141,199	35%

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 2015 is 22%.However, a 25% CIT will apply for those companies that have a 50%, or more, shareholders participation located in Tax Haven Jurisdictions.

Companies that reinvest their profits in Ecuador are entitled to a reduction of 10% in the corporate income tax rate on the reinvested amount (which means, the reinvested profits are taxed at 12%) if they retain the reinvested profits until 31 December of the tax year following the tax year in which the profits are earned.

1.4. Capital Gains.

The Tax Reform enacted on December 2014, decreed that capital gains derived from sales of shares are no longer exempt. The gain will now add to the taxable base of taxpayer and will be taxed according to the general rates.

1.5. 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:

a. Dividends and profits calculated after the payment of income tax, distributed, paid or credited by domestic companies to other local and foreign companies, branches of foreign companies and nonresident individuals

b. Exempt income consecrated in international treaties;

c. Income received by non-profit private organizations and by political parties;

d. Interest received by individuals for their savings accounts and deposits, paid by financial institutions of Ecuador;

e. Income received by Government colleges and Universities;

f. Income arising out of non-monetary investments made by entities that maintain oil & gas contracts with the Government;

g. Income earned from the occasional sale of real estate.

h. Income derived from capital gains, profits, benefits or financial yields distributed by investment funds, welfare funds, pension funds and merchant trust funds to their beneficiaries, provided said funds have complied with their obligations as taxpayers;

i. Indemnities received from insurance policies,

j. Thirteen and fourteen salaries,

k. Severance indemnities received by workers and employees, etc.

1.6. 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 22% and 35% if sent to Tax Haven Jurisdictions. (For 2015)

With respect to payments remitted abroad on account of interest on foreign loans contracted by the private sector, the withholding tax rate for 2015 is 22% (35% if payments are remitted to Tax Haven Jurisdictions

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, 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.
- Payments on account of international lease of capital goods
- 96% 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:

- Interest on foreign loans, to the extent the interest rate exceeds limits established by the central Bank Board, and interest on foreign loans not registered at the Central Bank of Ecuador; and
- Losses on sales of assets to related parties.

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 taxed at a rate of 22% (for 2015) (35% 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 2015 is 22% (35% if payments are remitted to Tax Haven Jurisdictions

1.7. 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, expenditures to acquire property and other assets that produce revenue must be amortized over 5 years, using a straight-line depreciation rate of 20%.
Intangibles must be amortized over either the term of the relevant contract or a 20-year period.
The tax authorities may approve other methods and annual rates for depreciation and amortization.
Organizational costs may be amortized over a 10-year period. Research and development expenses are generally written off over five years.
Depreciation of fixed assets in excess of their original cost is permitted if business assets are revalued as a result of inflation or increased replacement costs.

1.8. 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
- Residual analysis Profit Split method
- Transactional Profit method or Transactional net margin method

The Transfer Pricing Annex and Integral Report. Taxpayers have the obligation to file with the IRS a Transfer Pricing Annex when their transactions with related parties above in a fiscal year exceed USD 1,000,000.oo 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 USD 5,000,000.oo. The IRS 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:

a. The income tax liability exceeds 3% of their taxable income,

b. Do not carry out transactions with parties domiciled in Tax Haven Jurisdictions

c. Do not maintain contracts for the exploration or exploitation of non renewable resources with the Government

1.9. 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.

1.10. 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.

1.11. Payment and Filing of Income Tax

Filing the Withholdings at Source Returns
Withholding at Source Monthly Tax Returns will be effected in the corresponding forms and other means, in the form and conditions established by the IRS. 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 IRS 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 IRS.

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 IRS.

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 Income Tax and "Anticipated Payment of Income Tax"

Taxpayers must pay their income tax, in accordance with the following rules:

1. The balance due on account of income tax corresponding to the preceding fiscal year must be paid by depositing said balance with the financial institutions legally authorized to collect levies on behalf of the Government.

2. Individuals and inheritance trusts, not obliged to keep accounting books, and the enterprise that maintain contracts for the exploration and exploitation of oil & gas in any modality and public enterprises subject to payment of income tax will pay as anticipated payment of income tax, a sum equal to 50% of the tax liability determined in the preceding year, minus the amounts withheld on account of income tax performed in the same preceding tax year;

3. Individuals and inheritance trusts, obliged to keep accounting books and corporations, will pay "anticipated payment of income tax", according to the following rules:

An amount equivalent to the mathematical sum of the following items:
0.2% of the total equity,
0.2% of the total deductible costs and expenses for income tax purposes,
0.4% of the total assets,
0.4% of the total taxable income for income tax purposes

4. Companies undergoing processes of liquidation that have not generated taxable income in the preceding tax year, shall not be obliged to pay any sum in advance in the fiscal year in which the liquidation process begun. Companies undergoing processes of dissolution that are later reactivated, will have the obligation to pay advanced payment of income tax, since the date the reactivation was accorded.

5. Should taxpayer fail in self determining the amount of advanced income tax to be paid during the current fiscal year, the IRS will proceed on determining it and will then issue the corresponding tax assessment and warrant for collection, including the applicable interest and penalties.

6. Taxpayers shall be entitled to request the IRS a reduction or the exemption of advanced payment of income tax when proven that the taxable income for the current fiscal year will be inferior than the prior year's taxable income or that the amounts of taxes withheld to them will suffice to cover the amount of income tax due for the same fiscal year.

7. Corporations and individuals obliged to keep accounting records will be granted the right to file the corresponding claim for undue payment or payment in excess. The IRS will order the refund to the taxpayer of amounts undue paid or the amounts paid in excess, through the issuance of a credit note, cheque or other mean of payment.

The IRS may order the refund of the amount paid on account of anticipated payment of income tax, of any given year, elapsed in a three year period, when due to causes of force majeure or acts of God, the economic activity of taxpayer has been severely affected in any given current year.

The amount paid on account of advanced payment of income tax, in case it is not credited to the income tax due, or in case the authorization for reimbursement is denied, shall be regarded as definitive payment of income tax, and the right to use it as a tax credit forfeited.

Installments and Terms for the payment of the anticipated Income Tax. The amount self determined by taxpayer on account of anticipated income tax, shall be paid in two equal installments, one in July and one in September.

1.12. 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.

1.13. Withholding Taxes

Withholdings at Source. All juridical persons, public or private, corporations, enterprises, or individuals 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 IRS periodically will 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. In the event that taxpayer chooses the second option, he must inform this decision to the tax authorities in a timely fashion.

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 does not tax distribution of dividends to domestic companies or branches of foreign corporations, nor dividends remitted abroad to foreign companies or foreign shareholders non residents of Ecuador, provided income tax has been paid by the company at the corporate Level. Profits remitted abroad to Head office of a Branch of foreign company established in Ecuador are not taxed either, provided the corporate Tax has been paid by the Branch in Ecuador. However, dividends and profits remitted to what Ecuador considers Tax Haven Jurisdictions will be subject to taxation at the additional rate of 13%.

Royalties. Royalties paid or remitted abroad to non-treaty countries are taxed at the flat final rate of 22% and 35% 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 22% and 35% 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 22% and 35% if sent to Tax Haven Jurisdictions

Interest and Leasing Payments. Lease payments remitted abroad are taxed at the flat final rate of 22%. and 35% if sent to Tax Haven Jurisdictions

Effective 1 January 2012, payment of interest on account of foreign loans, are subject to a 22% and 35% if sent to Tax Haven Jurisdictions

Equity Reimbursements. Equity reimbursements are not taxed in Ecuador.

ORGANIC CODE OF PRODUCTION COMMERCE AND INVESTMENTS. Enacted on December 2010

CONTAINS THE FOLLOWING TAX INCENTIVES
Tax Incentives are of three kinds:

1. **General: For all investments made in any location of the national territory. These are:**

a. Reduction of income tax from 25% to 22%
b. For investments made in special development economic zones
c. Additional deductions for the calculation of income tax, as a mechanism to improve productivity,
d. Benefits arising out of the opening of the capital stock of the company on behalf of its employees,
e. Ease of payments on taxes on the external trade,
f. Exemption of the 5% Capital Flight Tax for foreign financing operations,
g. Exemption of the Anticipated Payment of Income Tax during five years for all new investments,
h. The reform for the calculation of the Anticipated Payment of Income Tax

2. Sectorial and for the fair regional development
For those sectors that contribute to the change, strategic substitution of imports, improvement of exports, as well as for the rural development all around the country,

3. For depressed zones
In addition to the fact that these investments will be benefited by the general and regional incentives, as aforementioned, new investments in these zones will prioritized, granting them an additional tax benefit, for 5 years, consisting in the deduction of 100% of the hiring cost for contracting new employees.

INVESTMENT AGREEMENTS
By initiative of investor, it will be permitted to enter with the Government into INVESTMENT

AGREEMENTS, whereby the treatment to the investment will be clearly detailed. INVESTMENT AGREEMENTS will grant stability on the tax treatment and tax incentives during the term of the Agreement. They will detail the supervision mechanisms for the fulfillment of the parameters of investment agreed upon by the parties. They will have a term of 15 years, renewable for the same term just once.

SETTLEMENT OF DISPUTES

Controversies between an investor and the Government that have been exhausted in the administrative stage, will attempt to be resolved amicably , through direct dialogues, for a term of 60 days. In the event that no solution has been reached, the next step is a mediation process within 3 months after the formal commencement of direct negotiations.

Should the case be that after this mediation term, the conflict still exists, it can be brought to national or international arbitration, in accordance with the international treaties of which Ecuador is a party. Rulings of this Arbitration Tribunal shall be "in right", applicable legislation will the Ecuadorian legislation and the rulings will be definitive and mandatory for the parties.

If after the term of 6 months of being terminated the administrative stage, parties have not reached an amicably solution, nor subdued to the arbitration jurisdiction for the settlement of the dispute, controversy will be resolved by the Ecuadorian justice. Tax matter will not abide by arbitration.

TAX EXEMPTION FOR THE DEVELOPMENT OF NEW AND PRODUCTIVE INVESTMENTS

Companies incorporated after the enactment of the PCIC, as well as new companies incorporated by existing companies, aimed at making new and productive investments, will be granted an exemption of the corporate income tax during the first five years, after the date in which they begin to generate taxable income attributable directly and exclusively to the new investment. But only if the investment is made in any of the following areas:

a. Manufacturing of fresh food, frozen or industrialized,
b. Forest and Agroforestry and their products,
c. Metal Mechanic,
d. Petrochemistry
e. Pharmaceutical,
f. Tourism,
g. Renewable energy,
h. External Trade logistic services,
i. Biotechnology
j. Sector of substitution of imports and development of exports

TRANSFER OF STOCK TO WORKERS/EMPLOYEES OF THE COMPANY

The company that transfers (sells) no less than a 5% of its paid-in capital on behalf of at least 20% of its workers/employees, will be enabled to defer the payment of its corporate income tax for a term of up to five fiscal years (interest bearing however). This benefit will apply while the transferred stock remains in the ownership of workers/employees.

DEFERRAL OF THE PAYMENT OF THE "ANTICIPATED PAYMENT OF INCOME TAX"

Newly incorporated companies, new investments, individuals obliged to keep accounting records and inheritances obliged to keep accounting records, that initiate entrepreneurial activities, will be subject to the payment of the *"Anticipated Payment of Income Tax"* after the fifth year of effective

operation, being understood as such, the commencement of the industrial and commercial process. This term can be extended, prior authorization of the IRS.

PAYMENT OF THE 15% PROFIT-SHARING TO WORKERS AND EMPLOYEES WITH STOCK OF THE COMPANY
Prior agreement between Employer and Employees/Workers the 15% Profit-Sharing can be paid with stock of the Company, provided the Company is duly registered in the Ecuadorian Stock Market.

ORGANIC LAW FOR INCENTIVES TO PRODUCTION AND PREVENTION OF TAX FRAUD. Enacted on December 2014

REFORMS TO THE TAX CODE
The facilities for payment of taxes are changed, broadening the term for the facility from 6 to 24 months and from 2 to 4 years.

REFORMS TO THE INTERNAL REVENUE SYSTEM LAW (THE TAX LAW)
TAX RESIDENCE: New provisions to consider an individual or a corporation as tax residents in Ecuador are enacted.

EXONERATIONS AND ELIMINATION OF EXEMPTIONS
It shall be considered as of Ecuadorian source, income arising out of direct or indirect sale of stock or quotas representative of capital that allow the exploration, exploitation, concession or similar of corporations or permanent establishments domiciled in Ecuador.

It will be regarded as Ecuadorian source income the unjustified equity increase.

Exemption to income tax on gains from occasional sale of shares or quotas is eliminated.

In the case of new and productive investments in the economic sectors considered as basic, the IT exemption will stretch out for 10 more years effective from the first year in which income is generated, attributable to the new investment.

DEDUCTIBILITY OF EXPENSES
In the case of revaluated assets the expense for depreciation of the revaluated assets shall not be deductible.

The definitive write-off of the uncollectible receivables shall be done through coverage charged to this provision and to the results of the fiscal period in the portion not covered by the provision, when the requirements set forth in the Regulation have been met.

Expenses on account of promotion and advertising of food and products for human consumption regarded as harmful for health (junk food) cannot be deducted.

Deductibility of expenses on account of royalties, technical, administrative and consulting services effected between related parties cannot exceed 20% of the taxable income plus such costs and expenses

RATE FOR CORPORATE INCOME TAX (CIT)
Taxable income obtained by corporations, branches and permanent establishments, will pay CIT at the general rate of 22% on their taxable income. But this rate will increase to 25% on the portion

of taxable income that corresponds to the direct or indirect participation of partners, shareholders, quota holders and beneficiaries that are resident or are settled in Tax Havens. If said participation exceeds 50%, the tax rate of 25% shall apply to ALL the taxable base.

Likewise, the 25% tax rate shall also apply to the taxable income of the company that does not comply with its obligation to inform regarding its corporate composition, its shareholders, partners and other beneficiaries.

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.

NON RESIDENTS INCOME. Non Resident´s Taxable Income, paid or credited into account, will pay the general rate applicable to corporations on said taxable income. If the taxable income is received by individuals resident in Tax Havens, the applicable rate will be of 25%

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.

PENALTIES FOR NON DECLARATION OF SHAREHOLDERS CORPORATE STRUCTURE.
When the Company that distributes dividends or profits fails to comply with its duty to inform regarding its shareholders corporate structure, it shall be presumed that the effective beneficiary of the income is an Ecuadorian resident individual, and thus the withholding at source of income tax on those dividends will proceed.

REFUND OF VAT (IVA) TO SENIOR CITIZENS.- The devolution will apply only on VAT paid in the purchase of goods and services of first necessity, of personal use and consumption.

REFORMS TO THE ORGANIC CODE FOR PRODUCTION, COMMERCE AND INVESTMENT

TAX STABILITY INCENTIVES IN INVESTMENT AGREEMENTS.
Exploitation of metallic mining activities on a great scale shall be granted tax stability for a determined period of time.

Such stability can be extended to other sectors, provided that the amount of the investments exceeds USD 100 million dollars

BASIC INDUSTRIES FOR PURPOSES OF SPECIAL BENEFITS

A. Copper and aluminum Smelting and refining,
B. Siderurgic smelting for the production of plain steel,
C. Refinement of hydrocarbons,
D. Petrochemical Industry,
E. Cellulose Industry,
F. Construction and repair of vessels

These activities will be entitled to an additional 100% deduction of the annual depreciation cost or expenses, generated by said investments during 5 years effective from the date of the start of the productive use.

REFORMS TO THE TAX FAIRNESS LAW OF ECUADOR
EXEMPTIONS TO THE CAPITAL FLIGHT TAX (ISD)
It will be exempted from the Capital Flight Tax the following payments: Payments remitted abroad, sourced from financial yields, capital gains, and capital of said investments made abroad, in securities issued by juridical persons domiciled in Ecuador, that have entered into Ecuador, and remained here at least a year, intended to the financing of housing of micro credit nature. This exemption does not apply when the payment is made directly or indirectly to individuals or corporations residents or domiciled in Ecuador, or in Tax Havens or between related parties.

2. VALUE ADDED TAX (IVA)

2.1. Value-Added Tax (IVA)

IVA is levied on the transfer of goods, imports and services provided. The general rate is 12%, but there are transfers, imports and services levied with "0" rate.

The following transactions are exempt from IVA:

- Contributions in kind to corporations
- Awards arising from inheritances and liquidation of companies
- Sale of businesses in which the assets and liabilities are transferred
- Merges, spin-offs and transformation of corporations
- Donations to public entities and charities
- Transfer of shares, participations and other securities

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, trouts, 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:

Fluvial, maritime and Terrestrial passengers and cargo transportation as well as international aerial cargo transportation,

1. Health Services,
2. Lease and rent of real estate destined exclusively for
3. housing,
4. Public Services of electricity, potable water, sewer and trash collection,
5. Education Services,
6. Kindergarten, child care and elderly care homes services, 7. Religious services,
7. Book printing services,
8. Funeral services, 10. - Some administrative services provided by the Government,
9. Public shows and spectacles,
10. Exchange, Stock market and Financial Services provided by the entities duly authorized by the law and the Government, 13. - Transfer of securities,
11. Services for export, including inland tourism,
12. Services provided by Professionals up to an amount of US$ 800.oo for each case,
13. Toll for the use of roads and highways,
14. Lottery conducted by Junta de Beneficencia and Fe y Alegria (charity entities),
15. Aerial fumigation
16. Services rendered by artisans,
17. Refrigeration and freezing services for maintenance of food,
18. Services provided to Government entities that receive tax exempt income.
19. Life insurance and reinsurance, medical assistance and personal accidents Services

According to the tax reform of 23 December 2009, importation of services is now levied with 12%IVA and it must be calculated and paid in the monthly IVA tax return made by taxpayer.

The acquirer of the service provided from abroad must withhold and pay 100% of the IVA 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 IVA 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

IVA taxable base on imports is the result of adding to the CIF value the taxes, custom duties, sur-

charges, fees and other expenses as declared in the import permit and other relevant documents.

2.6. Rate

The general rate for IVA is 12%

2.7. IVA Tax Credit

As a mandatory general rule, IVA tax credit will be granted on IVA 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 12% rate.

There will be no IVA tax 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. IVA Refund on Export Activities

Individuals and corporations that have paid IVA 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.

3. TAX ON SPECIAL CONSUMPTIONS (ICE)

3.1. Object of ICE

ICE 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 ICE locally manufactured, shall be determined adding the "exfactory" price, costs and commercialization margins, minus IVA and the own ICE. The rates established in the law shall be applied to this taxable base.
For imports subject to ICE, the taxable base will be established increasing to the "Ex-Custom Price" an additional 25% on account of costs and expected commercialization margins.

3.3. Rates of ICE

Ice is levied on the following products
el primero de enero del año siguiente.

GROUP I RATES

1. Cigarettes 150%
2. Beer 30%

3. Soft Drinks 10%
4. Perfumes 20%
5. Video games 35%
6. Fire guns, sports guns and ammunition 300%
7. Incandescent bulbs 100

According to the 23 December 2009 Tax Reform, alcohol destined to the pharmaceutical industry, alcohol destined to the production of perfumes and similar products; alcohol, syrups, essences or concentrates to be used in the production of alcoholic drinks or beverages, alcohol, remains and other sub products resulting from the industrial or artisan process of rectification and distillation of alcohol are now exempt from ICE (Tax on Special Consumption or Excise Tax)

GROUP II

Ground transportation motor vehicles up to 3.5 tons cargo capacity, according to the following scale:

RATES

- Pick up and Vans which price to the public is up to USD 30,000.oo 5%
- Other motor vehicles which price to the Public is up to USD 20,000.oo 5%
- Motor vehicles, excepting Pick Up and Vans, which price to the public ranges between USD 20,000.oo and 30,000.oo 15%
- Motor vehicles, excepting Pick Up and Vans, which price to the public ranges between USD 30,000.oo and 40,000.oo 25%
- Motor vehicles, excepting Pick Up and Vans, which price to the pubic exceeds 40,000.oo 25%

GROUP III

Planes, small planes and helicopters, excepting Those for commercial passengers transportation, motorcycles, tricars, yatches and leisure boats 15%

GROUP IV

Paid TV cable 15%
Casinos and other gambling businesses 35%

GROUP V

Clubs memberships, dues and other charges, Provided they exceed USD 1,500.oo a year 35%

4. CAPITAL FLIGHT TAX (ISD)

Tax Rate: 5% (Increased from 2% to 5% on November 2011) 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:

a. Ecuadorians and foreign individuals residents of Ecuador
b. Undivided inheritances

c. 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
d. 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 CAE (custom authority) can accurately identify the transaction and collect the tax whenever applicable.

According to the December 2009 Tax Reform, Ecuadorian and Foreign citizens abandoning the country carrying in cash an amount equivalent of up to the exempt portion of the personal income tax (USD 10,800.oo for 2015), shall be exempt from this tax. In the excess will be subject to the tax.

Transfers remitted abroad of up to USD 1,000.oo will equally be exempt from the ISD, and the tax will be levied on the excess. This exemption will not apply in the consumptions and purchases made outside Ecuador with Credit Cards.

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 ISD 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.

5. TAX ON ASSETS AND INVESTMENTS MAINTAINED ABROAD

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.

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 byadding the monthly average balances obtained by each one.

Rate: The rate of the tax on assets maintained abroad is of 0.084% monthly, applied on the consolidated taxable base

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.

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 (Plusvalue 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%

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 COMPANIES 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 shall not exceed 0.10% of the real assets of a company. For years 2008 and 2009 the rate has been set in 0.10%.

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.

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 20% (ceiling)

10.2. Value Added Tax (IVA)

The rate is 12% 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 DUI (Unique Document of Importation)

11. EXCISE TAX (ICE) ON HYBRID AND ELECTRIC VEHICLES

Hybrid vehicles were exempt from ICE before the reform. Now they will be levied with this excise tax, as well as electric vehicles. The rates are the following: Ground transportation hybrid or electric motor vehicles of up to 3.5 load tons, according to the following detail

Rate
Hybrid or electric vehicles with a sale Price to the public of up to USD 35,000 0%
Hybrid or electric vehicles whose sale Price to the public ranges from USD 35,001 to 40,000 8%
Hybrid or electric vehicles whose sale Price to the public ranges from USD 40,001 to 50,000
Hybrid or electric vehicles whose sale Price to the public ranges from USD 50,001 to 60,000 20%
Hybrid or electric vehicles whose sale Price to the public ranges from USD 60,001 to 70,000 26%
Hybrid or electric vehicles whose sale Price to the public exceeds 70,000 32%

12. REDEEM ABLE 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 IRS 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.

13. TAX ON VEHICULAR ENVIRONMENTAL CONTAMINATION (IACV)

IACV is levied on the contamination (pollution) of the environment for the use of ground transportation motor vehicles. The tax incidence is born from the environmental contamination produced by ground transportation motor vehicles. Taxpayers of IACV are individuals, undivided inheritances and national or foreign corporations, proprietors of ground transportation motor vehicles. There are several vehicles exempt from this tax, among them, Government vehicles, public transportation of passengers, school buses, taxis, those vehicles directly related to the productive activity of taxpayer,

ambulances, moving hospitals, vehicles regarded as "classical", electric vehicles, and those destined for the use and transportation of handicapped persons.

14. TEMPORARY IMPORT REGIME

14.1. 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.

14.2. 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.

14.3. 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.

15. PAYROLL TAXES AND PROFIT-SHARING

15.1. 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.

15.2. Profit-Sharing

Ecuador imposes a pre-tax 15% Profit-Sharing to employers. The beneficiaries of this tax are the employees.

16. MISCELLANEOUS MATTERS

16.1. 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.

16.2. 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.

16.3. 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.
16.4 Declaration of Personal Equity
The Government on 30 December 2008, enacted a law whereby all individuals, nationals or foreigners, residents of Ecuador that own assets in excess of USD 200,000.oo at January 1st. each year, must file their Declaration of Personal Equity listing all the assets they own. In the case of matrimonies, they must declare jointly (husband and wife) if their common assets included in their matrimonial Property Regime exceed USD 400,000.oo. If husband or wife own assets out of the matrimonial Property Regimen (i.e. a Pre-nuptial agreement) the declaration must be individual if the assets owned in the Matrimonial Property Regime and the assets not included therein, exceed USD 200,000.oo 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 IRS 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.

16.5 Special Zones for Economic Development (ZEDE)

The December 2010 Tax Reform created the establishment of Special Zones for Economic Development (ZEDE) as a custom destination , in specific locations of the national territory, for the settlement of new investments granting them several tax incentives, provided the specific objectives set forth in the tax reform are met.

16.6 New Tax Havens

The IRS incorporated to its list of Tax Havens or Lesser Taxation Jurisdictions to the States of DELAWARE, FLORIDA, NEVADA and WYOMING in the United States of America.

EL SALVADOR CHAPTER
ROMERO PINEDA & ASOCIADOS

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HIGHLIGHTS

National Level Tax Rates:	30% on net income, and 25% if taxable income is less than $125,000 per year.
Corporate Income Tax:	Not applicable.
Capital Gains Tax:	30% if transaction occurs during the same year, and 10% if the transaction occurs after the first year.
Branch Profits Tax:	30% on net income, and 25% if taxable income is less than $125,000 per year.
Dividend Tax:	5%

Withholding Taxes on payments to non-domiciled:

Interest:	20%
Royalties:	20%
Technical or Administrative Advice:	Withholding is
Technical and professional services:	25% if payment
Other Services: (No specific rate):	is made to tax
note:	heaven territory
Imports:	5-20%
Labour services:	Income Tax
Tax losses carry-forward term:	Non Applicable
Tax losses carry-back term:	Non Applicable
Transfer Pricing Rules:	Applicable
Tax-free Reorganisations:	Non Applicable
VAT on Sales:	13%
VAT on Services:	13%
VAT on Imports:	13%
Custom Duties:	from 5% to 20% Except for those countries with Free Trade Agreements.
Net-worth (Assets) Tax:	Municipal tax varies with local jurisdiction.

Stamp (Documentary) Tax: Non Applicable
Bank Debits (Transfers) Tax Rate: Non Applicable

Local Level Tax Rates: Varies according to the municipality.
Tax on Industrial Activities: Non Applicable
Tax on Commercial Activities: Varies in each municipality
Tax on Service Activities: Non Applicable
Real Estate Tax: Varies according to the value of the transfer, up to US$ 28,571 no taxation, over US$ 28, 571 it is 3%, but only applies when transfer occurs, and it is caused by the transfer, owning real state itself is not taxed
Taxes on Other Property: Non applicable
Document Registration Tax: Schedule rates applicable at National Registrar Office
Excise Taxes: Non Applicable

TREATY TAXATION:

Only tax treaty in force with Spain, and with The United States and Mexico with regards to income of airlines.

OVERVIEW

I. INCOME TAX

1.1. General Aspects

1.1.1. Income Tax Rate

The general statutory corporate income tax rate for Salvadoran entities including Salvadoran bran¬ches of foreign companies is 30% on net income, and 25% if taxable income is less than $125,000 in the tax year.

In the case of individuals, the law determines the tax brackets as follows:

	Taxable income				
	From	To	% Applicable	On excess of	Plus a fixed amount of
I TRTMO	$ 0.01	$ 4,064.00		EXEMPT	
II TRTMO	$4,064.01	$ 9,142.86	10%	$4,064.00	$212.12
III TRMO	$ 9,142.87	$ 22,857.14	20%	$9,142.86	$ 720.00
IVTRTMO	$ 22,857.15	EN TDELTNTE	30%	$ 22,857.14	$ 3,462.86

Income Tax is collected through withholdings of salaries by applying the following charts:

a. Remunerations paid monthly

	From	To	% Applicable	On excess of	Plus a fixed amount of
ISECTION	$0.01	$487.60	No Withholding	No Withholding	No Withholding
II SECTION	$ 487.61	$ 642.85	10%	$487.60	$17.48
III SECTION	$642.86	$915.81	10%	$642.85	$32.70
IV SECTION	$ 915.82	$ 2,058.67	20%	$915.81	$32.70
V SECTION	$ 2,058.68	En adelante	30%	$ 2,058.67	$ 288.57

b. Remunerations paid every 15 days

From	To	% Applicable	On excess of	Plus fixed amount of:
I SECTION	$0.01	$ 243.80	No Withholding	
II SECTION	$243.81	$321.42	10%	$8.74
III SECTION	$321.43	$457.90	10%	$16.35
IV SECTION	$457.91	$1,029.33	20%	$30.00
V SECTION	$1,029.34	En adelante	30%	$144.28

c. Remunerations paid weekly

From	To	% Applicable	On Excess Of	Plus Fixed	Amount Of:
I SECTION	$0.01	$121.90	No Withholding		
II SECTION	$121.91	$160.71	10%	$1 21.90	$ 4.37
III SECTION	$160.72	$228.95	10%	$160.71	$8.17
IV SECTION	$ 228.96	$ 514.67	20%	$ 228.95	$15.00
V SECTION	$ 514.67	En adelante	30%	$ 514.66	$ 72.14

1.1.2. Taxable Base

All revenues are subject to income tax unless otherwise excluded by law from the taxable base.

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, the apportionment must be properly detailed and calculated in order to prevent from having 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.

1.1.4. Depreciation

Tangible fixed assets' depreciation is deductible. Depreciation term varies depending on the nature of the asset. The accepted method of depreciation is straight-line method, any other method must be duly authorized by the proper authorities.

1.1.5. Transfer Pricing

Salvadoran legislation does include regulations on transfer pricing rules for purposes of Income Tax; nevertheless, a general rule that require market price on transactions in general exists, and specific regulations include OECD guidelines on transfer pricing since mid 2014. Also an annual report on operations with related entities is required.

1.1.6. Inflation Adjustments

El Salvador does not have inflation adjustment mechanisms.

1.1.7. Tax Losses Carry-forward I Carry-back

Each financial period is independent of any other; therefore Tax Losses Carry-forward and Carry-back are not applicable in El Salvador, except for capital gain losses against future capital gain earnings.

1.1.8. Financial Leasing Tax Treatment

Income from financial leasing is taxable with income tax, and it can be deducted as a cost for the lessee.

1.2. Payment and Filing.

Income tax must be paid through a Sworn Declaration that must be elaborated on a form legally es-tablished by the General Direction of Internal Taxes and which must be filed during the four mon-ths following the end of the fiscal year.

1.3. Interest and Penalties on Unpaid Tax or Tax Paid Belatedly.

Not filing a tax return form before the proper authorities, the late filing, incomplete filing and other requirements established by law causes penalties and fines.

Ordinary Tax Year covers a period between January 1st and December 31st. All taxpayers must ob-ser¬ve a filing deadline of four months after the closing of the corresponding Tax Year.

Penalties vary according to infraction and are established by our Tributary Code.

1.4. Dividends Tax / Branch Profits Tax Tax and Branch profits tax is 5%

1.5. Cross-Border Payments

There is no specific taxation on cross-border payments, except when it is regarding services provided locally or from abroad and the benefit is for the local company. The charges are 20% withholding on income paid to non domiciled entities, but this is not really a tax on cross-border payments exactly, it is a withholding applicable to income tax.

1.5.1. Withholding Taxes

Generally 20% as Income tax, and 13% as VAT. If payment is made to an entity located at a tax heaven territory, withholding is 25%

1.5.1.1. Dividends 5%.

1.5.1.2. Royalties

20 % withholding as income tax payment, and 25% if entity is located in tax heaven territory.

1.5.1.3. Technical, Administrative or other Advisory Services.

If rendered in El Salvador by a domiciled individual 10% withholding as income tax applies. If ren-de-red by non-domiciled entities 20%, and 25% if paid to an entity located at a tax heaven territory for income tax, and 13% VAT, applies. Withholding applies for services rendered abroad and used in El Salvador.

1.5.1.4. Interest and Leasing Payments

Interest payments are subject to a 20 % withholding tax rate, for non-domiciled entities unless some exemptions apply, such as loans with a non-domiciled financial entity Registered before the Central Bank in which case withholding is 10%. Leasing payments are subject to a 20% withholding tax rate, and 13% VAT.

1.5.1.5. Equity Reimbursements

Equity reimbursements are non taxable.

1.5.1.6. Tax Havens

Salvadoran Law has its own list of tax heavens derived from international lists.

1.5.2. Tax Treaties

Only general tax treaty in effect is with Spain, other tax treaties with Mexico and USA refer only to income earned by Airlines.

2. VALUE ADDED TAX (VAT)

2.1. General aspects

2.1.1. Tax Rates

VAT's general rate is 13%, a zero tax rate is applicable for exports of goods and services. There is also some VAT exemptions for specific foreign entities and certain citizens under reciprocity treatment agreements.

2.1.2. Taxable Transactions

Any transfer of goods or services rendered is taxable, also real estate transactions, but this is an specific tax.

2.1.3. Taxable Base

As a general rule, the taxable base is the price or value of the consideration paid for the goods or services, the tax rate is of 13%.

2.1.4. 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, provided that they constitute a cost or expense of the taxpayer's income producing activity.

2.2. Selected VT Incentives.

The VAT law does not include selective Incentives.

2.3. Payment and Filing

VT has a 1 -month taxable period. Therefore, the tax must be paid and a VAT return filed monthly. The VAT return must be filed and paid in full on the filing date, 10 working days after the closing of the monthly period.

3.OTHER TAXES

3.1. Property Taxes Non applicable.

3.2. Industry

No industry tax

Commerce and Service Tax

No commerce and service tax other than 13% VAT at the national level. Municipalities have various commerce and service taxes. There is a scale according to the amount of assets.

3.3. Stamp Tax Non applicable.

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.

3.5Bank Transfer Tax.

DECRETO 764 LEY DE IMPUESTO A LAS OPERACIONES FINANCIERAS.

En este impuesto, en realidad hay dos impuestos distintos, pero complementarios with a 0.25% rate.

a. El Impuesto al Cheque y a las Transferencias Electrónicas, y;

b. Retención de Impuesto para el Control de Liquidez

El impuesto al cheque y a las transferencias electrónicas

El nuevo impuesto aplica a cualquier entidad que realiza operaciones bancarias, es decir paga con cheques, y hace transferencias electrónicas en sus cuentas, en relación al supuesto a); pero también mantiene montos acumulados en dichas cuentas y realiza en ciertos casos depósitos, retiros o pagos en efectivo, le aplicarán ambos impuestos.

El primero de ellos aplica a operaciones singulares, si cualquier operación financiera excede de un mil Dólares, el titular de la cuenta de donde se paga, debe tener en la misma, suficiente saldo para pagar el cheque o la transferencia más el impuesto. El que paga el impuesto es el titular de la cuenta que paga.

Por esa razón el impuesto se causará en cualquier cheque emitido de las cuentas de la empresa, o cualquier transferencia que la empresa haga de dichas cuentas. Lo anterior, debido a la territorialidad del impuesto, significa que las transferencias o cheques de cuentas del exterior no estarán gravadas.

Por el otro lado, cuando la empresa en disposición de dichos fondos los transfiera, o emita cheques a favor de los beneficiadores o terceros asociados, por regla general tales operaciones, siempre que

excedan de un mil Dólares, estarán gravadas, y será la empresa quien deberá pagar el impuesto.

Existen 2 puntos fundamentales en los que este impuesto al cheque y la transferencia se diferencia de la siguiente figura que analizaremos, es decir el control de liquidez; a saber:

a. El impuesto al cheque y la transferencia únicamente aplica a, como su nombre lo dice, transacciones en la forma de cheques o transferencias bancarias; mientras que en la figura de control de liquidez sólo se tomarán en cuenta a las transacciones en efectivo que afecten a dicha cuenta en el mes que esté en consideración.

b. Otro punto en el que se diferencian estos impuestos, reside en el hecho que sólo el impuesto al cheque y las transferencias es un verdadero impuesto, ya que no puede acreditarse contra ninguna otra obligación tributaria; mientras que el impuesto de control de liquidez, si puede acreditarse por lo que es más un anticipo que un pago verdadero de impuesto.

Merece particular consideración lo previsto en el Art.4, literal f)...que dispone como exención..."El pago de remuneraciones a trabajadores, inclusive indemnizaciones, mediante transferencia o emisión de cheques.- La exoneración establecida en el presente literal procederá únicamente cuando el pago de las sumas se realice mediante transferencia de fondos desde una cuenta especial de depósito del empleador o mediante cheques en los que se identifique a la cuenta especial del empleador y al titular de la cuenta de depósito. En el pago mediante cheque, se identificará el nombre del empleador, su cuenta especial y el Documento único de Identidad del empleado". Esto significa que Integres, S.A. deberá ponerse en contacto con su banco, a efectos de que el banco le indique como abrir estas cuentas.

Otras características de este Impuesto son:

Todo pago con cheques o transferencia electrónica que sea superior a $1.000.00 estará sujeto a este impuesto, siendo la sociedad contribuyente el sujeto pasivo por afectar. Con la aclaración de que estas operaciones o transacciones son de aquellas que se realicen dentro del territorio nacional., incluyendo las transferencias electrónicas y a favor de terceros, cuando se hagan al exterior.

El momento para causar el impuesto es cuando se efectúe todo pago, transferencia o desembolso.

En lo que respecta a los préstamos otorgados por entidades financieras, cuando se verifique el pago por los clientes, estará exento de impuesto, salvo que esos pagos se efectúen al exterior por créditos originados o provenientes del exterior.

La manera como se detraerá el impuesto es por medio de retenciones que corresponden principalmente a las entidades financieras, y en caso de que la transferencia no tenga respaldo en cuenta alguna, se deberá pagar por el contribuyente de manera directa.

Retención de impuesto para el control de liquidez

Este "impuesto" aplica a todos las transacciones que se registren como depósitos, retiros y pagos en cuentas bancarias. Esta figura, al contrario de la anterior, aplica únicamente por el exceso en que la suma de la totalidad de este tipo de transacciones exceda de US$ 5,000 en un mes. Es decir que si el total acumulado de transacciones en efectivo en un mes es de US$ 6,000, entonces el impuesto se aplicará únicamente a los US$ 1,000 que hay en exceso. Por el contrario, el impuesto al cheque y la transferencia aplica por la totalidad de cada transacción que exceda de US$ 1,000.

Tal como se dijo anteriormente, un punto importante de esta figura es que puede ser acreditada contra cualquier otro pago que haga de impuestos al Ministerio de Hacienda, por lo que en realidad es más un anticipo, que un impuesto. En este sentido se recomienda que se hagan las deducciones guardando el orden cronológico, las más antiguas primero.

Debemos hacer notar, que según las comunicaciones que hemos tenido con autoridades del Ministerio de Hacienda, el caso de un cheque emitido por el titular de la cuenta, a su propio nombre, será considerado como un retiro en efectivo de la cuenta corriente, sin embargo, esté punto aún no se ha aclarado en la normativa, por lo que les recomendamos que consulten de antemano cual es la posición de su banco en relación a este punto, para evitar sorpresas posteriores.

Por último, es de destacar que en esta retención, que lleva el propósito de asegurar el pago del impuesto, en su monto, será acreditable o compensable en lo que respecta a la cantidad efectivamente enterada contra cualquier impuesto de los que administre la Administración Tributaria, pero deberá hacerse dentro de los dos años contados a partir de la fecha de la retención. Si transcurrido el plazo no se hubiere acreditado o compensado con otro tributo, se perderá el derecho a disponer de dicha cantidad, sea en efectivo, o mediante acreditaciones o compensaciones futuras.

4.CUSTOMS REGIME

General Aspects

4.1. Custom Duties.

Most Customs Duties go from 0% to 20%, with exemptions for countries with which El Salvador has Free trade agreements such as USA, All of Central America, Mexico, Dominican Republic and Chile.

4.2. Taxable Base

Value of the merchandise, plus insurance and freight.

4.3. Filing and Payment

form to be filled when importing goods and paid before customs releases the goods. Imports to Free Zones are customs tax-free.

4.4. Selected Custom Duties Regimes available

There are special custom duties regimes applicable to local production for exports, by the Internatio¬nal Services Law and the Free Zones Law.

4.4.1 Ordinary Importation Regime

Regulated by Central American Customs Union and C1\UC1\ treaty.

4.4.2 Temporary Importation Regime

Applies for some types of machinery such as construction machinery.

4.4.3 active Improvement Regime Non applicable.

4.4.4 Passive Improvement Regime Non applicable.

4.4.5 Duty Drawback Regime

6% applies on the exportation of non-traditional goods out of the Central American Region.

4.4.6 Free Trade Zone Regime

Exemption of All taxes for Free Zone. It includes Income Tax, VAT, customs, real state transference and municipal taxes.

5. PAYROLL TAXES/ WELFARE CONTRIBUTIONS

5.1. Social Security System

The Instituto Salvadoreño del Seguro Social manages and operates the Social Security System and the National Health System. These systems provide services and benefits related to illness treatment (Health Care), disability, maternity, and death insurance. Social Security taxes are applicable to em-ployer and employees. The taxes are based on the monthly salaries with a 7.5 % rate for the employer and 3 % for the employee, with a maximum payment of USD 20.57.

5.2. Retirement Contributions

In Salvadoran law the contributions on this matter are divided as follows: 6.75% for the Employer (the ceiling is established on a salary of US $ 5274.52) and 6.25% for the employee (in which case there is no ceiling established or a temporal limit) this applies for the whole employment term. Contributions are deposited in a Labor Capitalization Account under employee's name to form the individual's Mandatory Complementary Retirement and savings fund.

5.3. Labour Risks Insurance

This mandatory insurance is covered by health services provided by the Instituto Salvadoreño del Seguro Social and covers all the labour force in the nation. The employer has to pay the insurance according to a schedule of payments 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 conditio-ned to the accurate application of Income Tax on Salaries, Social Security and Pension Fund contri-butions.

GUATEMALA CHAPTER

MAYORA & MAYORA, S.C.

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MAYORA & MAYORA, S.C.

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HIGHLIGHTS

NATIONAL LEVEL TAX RATES

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)
Whitholding Taxes on:	
Interests	10 %
Royalties	15%
Technical, scientific, administrative Services	15%
Imports	0%
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
Tax on Service Activities:	Not applicable
Real Estate Tax:	Q2 to Q9 per Q1,000
Taxes on Other Property:	Not applicable
Document Registration	Rates applicable at several Registrar Offices

TREATY TAXATION:

No Tax Treaties are in force yet. Nevertheless according to Tax Authorities several Double Taxation Treaties are being negotiated and it's expected that by the end of this year, 10 to 15 treaties should be approved by the Guatemalan Government.

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OVERVIEW

1. INCOME TAX

1.1. General Aspects

1.1.1. Income Tax Rate.

In general terms Guatemalan Income Tax is territorial, objective and schedular tax. Therefore, all incomes generated in Guatemala are taxable according to their origin. The Guatemalan income tax has an applicable poll to each kind of rent.

The general statutory corporate income tax rate is a 25% on net income. Alternatively, there is a flat rate of 7% or 5% on gross income minus exempt income. The applicable tax rate will depend on the amount of the taxable income.

1.1.2. Taxable Base

Refer to 1.1.1 above

1.1.3. Deductions

There are no deductions applicable to the 5%-% or 7 % Regime; for the 25% Regime, as a general rule, all costs and expenses related and necessary to the income producing activity, are considered deductible expenses. Every cost and expense must be evidenced by the 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, unrecoverable debts.

In regards 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 net asset value multiplied by three.

1.1.4. Depreciations

For the 25% Regime, tangible and intangible fixed assets´ depreciation is deductible. Depreciation term varies depending on the nature of the assets.

1.1.5. 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. Price supporting documentation must be ready at the moment of delivering tax return.

The system follows with sufficient approximation the OECD rules on transfer pricing, including valuation methodology, reporting requirements and criteria on company groups.

Different methods to apply the arm´s length principle, as well as definitions of related parties are contemplated. Income tax also contains rules regarding advance pricing agreements.

Following article five from OECD Model Tax Convention on Income and on Capital, the Guatemalan income tax does not provides a close definition on permanent establishment preferring to highlight situations and partial aspects which try to elaborated this proposed definition.

1.1.6. Inflation Adjustments

Guatemala does not have inflation adjustments mechanisms; however, the revaluation of tangible or intangible assets is permitted.

1.2. Payment and Filing

For tax payers under the 25% Regime, ordinary tax year covers the period from January 1st to December 31st, with an annual filing deadline three months after the closing of the corresponding Tax Year. Tax payers 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 Belated

Unpaid taxes are subject to an interest charge that shall be assessed at the legal rate, 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 multi-plying 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 as a taxable income for income tax purposes. A 5% withholding tax is levied on the dividends paid to both residents and nonresident shareholders, as well as on the remittances made to Parent Corporation of local branches.

1.5. Cross-Border Payments

1.5.1. Withholding Taxes

Because the income tax has adopted a close definition of resident for tax purposes, the poll of non-residents has adopted 2 different regimes: a) non-residents with permanent establishment; and b) non-residents without permanent establishment.

When Guatemalan sourced income is remitted abroad to a beneficiary that is a non- non-resident without permanent establishment, payment is subject to a withholding tax. In the other hand, if the alien has a permanent establishment in Guatemala, the poll of non-residents with permanent establishment, sets that taxes have to be paid as a resident.

1.5.1.1. Royalties

Royalty payments 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 Economical Services.

Payments made to non-resident without permanent establishment for technical, administrative, scientific, financial or economical Services are subject to a 15% withholding tax.

1.5.1.4. Other

Cross-border payments.

Other payments not specifically characterized, to non-resident with 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 next ten working days of withholding.

1.5.2. Interest payments.

Interest payments are subject to a 10% withholding tax rate.

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 Havens provisions.

2. VALUE ADDED TAX (VAT)

2.1. General Aspects

2.1.1.

VAT´s general rate is 12%. There is as reduced rate for minor tax payers (roughly under US$19,000.00 yearly income) of 5%. There are also some VAT exemptions for specific entities.

2.1.2. Taxable Transactions

The taxable transactions are the sale of movable assets and the first sale of real estate property; imports; leasing of movable assets or real estate property; donations; inventory's consumption, losses or destruction, and services rendered in Guatemala.

2.1.3. Taxable Base

As a general rule, the taxable base is the price or value of the consideration paid for the goods or services. There are cases where certain items must be either included or excluded.

On imports, the tax is computed by applying the rate to the CIF value of the imported goods plus import duties and related expenses.

In other cases, the tax is the difference between the liability originating from chargeable transactions ("crédito fiscal" – fiscal credit) and creditable taxes (débito fiscal – fiscal debit).

A fiscal credit is the amount of the tax charged to the taxpayer on imports and on the purchase of local goods and services directly related to their production, distribution and sale process.

On the other hand, a fiscal debit is the amount of the tax charged by the taxpayer on taxable operations made during the same period.

The tax liability is the difference between the total fiscal debits and the total fiscal credits generated.

2.1.4. Creditable VAT

As a general rule the VAT taxpayer is entitled to credit to the VAT payable all such VAT paid to its suppliers for tangible movable assets brought 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 VAT account.

2.2. 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 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 Q2 to Q9 per Q1,000 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 payments 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 consi-

deration agreed in the document. The general exemption for this tax is that all transactions subject to VAT, are not levied with the Stamp Tax.

These taxes are levied exclusively on documents representing transactions and contracts and, therefore, the non-existence of the document brings about the non-existence of the tax liability.

The second sale (and subsequent) of real estate property is subject to stamp tax.

3.3. Excise Taxes

In Guatemala, there are several excise taxes that apply to the consumption of national or imported goods such as cigarettes, alcoholic beverages and soft drinks. Tax rates range from 8% to 100%.

3.4. Custom Duties

In addition to import 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.

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.

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, and maternity, death insurance. Social Security contributions are applicable to employer and employees. The contributions are based on the monthly salaries with a 12.67% for the employer and a 4.83% for 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 all the 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 above the equivalent to US$ 37,975.00 are taxed at 7%, those making that amount or less of taxable income, are taxed at 5%. It should be noted, however, that the only deductions allowed include: a) cost of living allowance at about US$ 6,076.00 per year; b) social security contributions and contributions to pension funds; and c) life insurance premiums (that do not provide for

rescue value). 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.

MEXICO CHAPTER
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HIGHLIGHTS

NATIONAL LEVEL TAX RATES

Corporate Income Tax:	30%
Capital Gains Tax:	30%
Branch Profits Tax:	30%
Dividends Tax:	0%[1,2]

Tax Withholding[3] on:	
Interest:	From 4.9% to 35%
Royalties:	5%, 25% or 35%
Technical Assistance:	25%
Technical Services:	25%
Other Services:	From 0% to 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:	16%
VAT on Services:	16%

1 If the dividend does not derive from profits that have already paid income tax at the corporate level, a 30% tax rate will apply on the distributed dividend, grossed-up by a 1.4286 ratio

2 Starting year 2014, and additional 10% income tax withholding will be triggered in case of dividend distributions made by corporations to Mexican individuals and foreign residents, notwithstanding if they proceed or not from the CUFIN account of the corporation distributing the dividend. The 10% withholding will not apply for dividends proceeding from the balance of the CUFIN account as of December 2013.

3 Final tax applicable to nonresidents.

VAT on Imports: 16%

TREATY TAXATION:

Items of Income

Contracting State(1)	Dividends	Interest(3)	Patent and know-how Royalties(4)	Tech. Services (7)	Tech. Assistance(7)
Australia	0/15%	10/15%	10%	0%	0%
Austria	5/10%	10%	10%	0%	0%
Bahrain	0%	4.9/10%	10%	0%	0%
Barbados	5/10%	10%	10%	0%	0%
Belgium	5/15%	10/15%	10%	0%	0%
Brazil	10/15% (2)	10/15% (2)	10/15% (2)	0/15% (2)	0/15% (2)
Canada	5/15%	10%	10%	0%	0%
Chile	5/10%	15% (2)	15% (2)	0%	0%
China	5%	10%	10%	0%	0%
Colombia	0%	5/10%	10%(2)	0/ 10%(2)	0/ 10%(2)
Czech Republic	10%	10%	10%	0%	0%
Denmark	0/15%	5/15%	10%	0%	0%
Ecuador	5%	10/15%	10%	0%	0%
Estonia	0%	4.9/10%	10%	0%	0%
Finland	0%	10/15%	10%	0%	0%
France	0/5/15%	5/10/15% (2)	10/15% (2)	0%	0%
Germany	5/15%	5/10%	10%	0%	0%
Greece	10%	10%	10%	0%	0%
Hong Kong	0%	4.9/10%	10%	0%	0%
Hungary	5/15%	10%	10%	0%	0%
Iceland	5/15%	10%	10%	0%	0%
India	10%	10%	10%	10%	10%
Indonesia	10%	10%	10%	0%	0%
Ireland	5/10%	5/10%	10%	0%	0%
Israel	5/10%	10%	10%	0%	0%
Italy	15%	10/15% (2)	15%	0%	0%
Japan	0/5/15%	10/15%	10%	0%	0%
Korea	0/15%	5/15%	10%	0%	0%
Kuwait	0%	4.9/10%	10%	0%	0%
Latvia	5/10%	5/10%	10%	0%	0%
Lithuania	0/15%	10%	10%	0%	0%
Luxembourg (5)(9)	5/8/15%	10%	10%	0%	0%
Netherlands (6)	0/5/15%	5/10%	10%	0%	0%
New Zealand	15% (2)	10%	10%	0%	0/10%

Norway	0/15%	10/15%	10%	0%	0%
Panama	5/7.5%	5/10%	10%	0%	0%
Poland	5/15%	10/15%	10%	0%	0%
Portugal	10%	10%	10%	0%	0%
Qatar	0%	5/10%	10%	0%	0%
Romania	10%	15%	15%	0%	0%
Russia	10%	10%	10%	0%	0%
Singapore(9)	0%	5/15%	10%	0%	0%
Slovakia	0%	10%	10%	0%	0%
South Africa	5/10%	10%	10%	0%	0%
Spain	5/15%	5/10/15% (2)	10% (2)	0%	0%
Sweden	0/5/15%	10/15%	10%	0%	0%
Switzerland	0/15%	5/10% (2)	10% (2)	0%	0%
Ukraine	5/15%	10%	10%	0%	0%
United Kingdom	0/15% (8)	5/10/15%	10%	0%	0%
United States	0/5/10% (2)	4.9/10/15%	10%	0%	0%
Uruguay	5%	10%	10%	0%	0%

(1) Tax Treaty network in effect as of January, 2014.

(2) These treaties have the most favorable nation clause (MFN). Under the MFN the withholding may be reduced in certain circumstances.

(3) In some cases, interest may only be taxed in the Contracting State in which the beneficial owner is a resident (i.e. if the beneficial owner is a Contracting State, a political subdivision or local authority, etc.).

(4) In some cases, royalties may only be taxed in the Contracting State in which the beneficial owner is a resident (i.e. copyright royalties).

(5) In order to benefit from the provisions, a resident of one of the Contracting States shall be required to produce to the tax authorities of the other Contracting State a certificate counter signed by the tax authorities of the first mentioned State, specifying the income obtained and certifying that this income will be liable to direct taxation in the resident's country.

(6) The benefits provided in the Tax Treaty are not applicable to the entities or other persons that are total or partially exempt of taxes by a special regime according to legislation of the administrative practices of any of the States. A special regime only will be considered as such, when the authorities in the matter of both States have decided by mutual agreement, that such is the case.

(7) In general terms, technical services and technical assistance are not subject to withholding in the Country of source. However this should be analyzed on a case by case basis, in accordance with the specific Tax Treaty and its Protocol. The commentaries of the Model Income Tax Convention adopted by the OECD should also be considered.

(8) Dividends paid by a resident of a Contracting State to a resident of the other Contracting State, are taxable in the country of destination and exempt in the country of origin, except in those cases in which the beneficiary is a pension fund.

(9) A contracting state may request information to the other contracting state, and this one must provide it even if is not relevant for its own tax purposes, except in those cases when the information provider may infringe its local legislation.

OVERVIEW

1. INCOME TAX

1.1 General Aspects

The Income Tax Law in force as of December 31, 2013 is repealed, thus, a new Mexican Income Tax Law is in force as of January 1st, 2014.

1.1.1. Income Tax Rate.

Mexican resident corporations are subject to a federal corporate income tax at a rate of 30%.

1.1.2. Taxable Basis.

Corporations resident in Mexico are subject to income tax on their worldwide income. Corporations are deemed to be Mexican residents for tax purposes if their actual management site is located in Mexican territory.

The taxable basis shall be determined by reducing the deductible expenses from the worldwide income obtained by the corporation.

Non-residents carrying out business activities in Mexico through a permanent establishment (i.e., office branches, agencies, etc.) are subject to income tax on income attributable to such permanent establishment and, in general terms, they shall comply with the same obligations applicable to Mexican corporations.

1.1.3. Deductions.

As a general rule, all costs and expenses are deductible provided that they are related and strictly necessary for purposes of carrying out the business activity of the taxpayer. Expenses will be non-deductible in the same proportion that the tax exempt income obtained by the taxpayer represents from its total income. Some costs and expenses are limited, depending on the facts and circumstances of each case (i.e., related party charges, travel expenses, tax losses derived from the alienation of shares, leasing of automobiles, among others).

Effective 2014, several amendments are made to the Mexican Income Tax Law in order to limit (or increase the previously established limit) the deduction of certain expenses, such as tax exempt wages and benefits paid to employees, contributions made to pension and retirement funds, donations made to governmental institutions, expenses in restaurants, leasing of automobiles, among others.

Likewise, as of year 2014 several additional expenses are considered as non deductible items for income tax purposes, such as leasing of airplanes, payments made to related parties which are also considered as a deductible item for such related parties, as well as interest, technical assistance and royalty payments made to related parties, if such related parties do not pay income tax over the income received.

Since 2005 the cost of goods sold shall be considered as a deductible item, instead of deducting the purchase of such goods. Transitory provisions are contemplated to deal with inventory existing as of

December 31, 2004.

Mexican tax legislation establishes thin capitalization rules, providing that the deduction of interest derived from accounts payable to foreign related parties will be limited when such accounts exceed a 3:1 ratio regarding the total equity of the Mexican entities.

Because of inflation adjustments, the total amount of interest may not be fully deductible for tax purposes.

1.1.4. Employee Profit Sharing (EPS).

EPS is allowed as a deduction from the taxable income (gross income minus tax deductions). Although it results in a lower taxable income, technically the EPS is not a deduction. Taxable loss resulting in a fiscal year will be increased by the EPS paid in the same year.

As a consequence of the tax reform bill approved for year 2014, from now on the EPS must be determined over the same base used to calculate the income tax and not through certain specific procedure established in the Mexican Income Tax Law.

1.1.5. Depreciation.

The method used to depreciate tangible fixed assets and to amortize intangible assets is the straight line method. Depreciation is calculated considering the maximum annual percentages established by the Mexican Income Tax Law. Taxpayers may elect to use lower depreciation percentages.

Depreciation of new assets acquired during the fiscal year is calculated on a proportional basis according to the number of months it was used during such fiscal year.

Depreciation is computed considering the original cost of fixed assets as a basis, indexed for inflation.

1.1.6. Transfer Pricing.

The Mexican Income Tax Law provides as traditional transaction methods: the Comparable Uncontrolled Price Method (CUP Method), the Resale Price Method (RPM) and the Cost Plus Method (Cost Plus Method). And as transactional profit based methods: the Profit Split Method (PSM), the Residual Profit Split Method (RPSM) and the Transactional Operating Profit Margin Method (TOPMM).

As a member of the Organization for Economic Co-operation and Development (OECD), Mexico has enacted transfer pricing laws that are generally consistent with OECD guidelines for Multinational Enterprises and the Tax Administrations. Mexico's best method rule favors traditional methodologies, starting with the CUP method, over profit-based methods. Given the Mexican tax authorities' aggressive enforcements of transfer pricing rules, careful compliance with filing requirements and transfer pricing reports is strongly advisable.

1.1.7. Inflation Adjustment.

Mexico has an annual inflation adjustment, which consists in determining the monetary gain or loss, derived from the effect of the inflation on debts and credits.

For such purposes, taxpayers shall compare the average balance of their debts with that of their credits; in case the balance of the debts is higher, an inflationary gain will be obtained which shall be considered as a taxable income; otherwise, an inflationary loss will be obtained, which may be con-

sidered as a deductible item for income tax purposes. The referred inflationary gain or loss is determined by applying to the annual average of debts or credits an annual inflation ratio.

1.1.8. Net Operating Tax Losses (NOL's) Carry-Forward.

NOL's can be carried forward for a maximum term of 10 fiscal years adjusted for inflation. There is no carry-back possibility.

Certain limitations apply to the NOL's (i.e. mergers, in the case where partners or shareholders holding 50% of the voting shares of a company change).

1.1.9. Tax Free Reorganizations.

Mergers and spin-offs are considered tax free reorganizations, provided that certain requirements established in the Federal Tax Code are met.

Also, the stock-for-stock reorganizations are tax free, provided that certain requirements are fulfilled and that an approval from the Mexican tax authorities is obtained.

In the case of stock-for-stock reorganizations involving non-residents, the income tax derived from the transfer of shares by the non-resident may be deferred, provided that certain requirements are met and that the corresponding authorization from the Mexican tax authorities is obtained. The deferred income tax shall be paid when such shares are sold out to an entity not related to the Group.

1.1.10. Integration Regime.

Effective 2014, the optional tax consolidation regime for corporate groups is repealed and substituted by a new optional integration regime, which in general terms, comprises less tax benefits for taxpayers (concepts allowed for tax deferral purposes and maximum tax deferment period) if compared with the repealed regime.

Under the new regime, the integrating company (owner of 80% or more of the shares issued by an integrated company) will determine an integrated tax result, in which the tax losses incurred by the integrating and integrated companies may be offset.

In case the above mentioned procedure gives rise to an income tax deferral, the benefited companies shall pay the corresponding tax after a period of three years with its correspondent inflation adjustments. Obtaining authorization of tax authorities is mandatory in order to apply this optional regime.

Special rules are incorporated in order for taxpayers continue to pay the deferred income tax of previous years under the repealed tax consolidation regime.

1.2. Payment and Filing

The annual income tax return must be filed within the three months following the end of the corresponding fiscal year. Monthly income tax payments must be filed during the fiscal year, within the seventeen days following the end of each month. Such payments can be credited against the annual income tax.

1.3. Penalties on Unpaid Tax or Tax Paid Belatedly

Unpaid taxes are subject to surcharges which shall be computed on a monthly basis. In addition, such unpaid taxes must be restated by inflation occurred from the date in which they should have been paid to the date of actual payment.

If the omission of the tax payment is discovered by the Mexican tax authorities, a penalty may be imposed to the taxpayer.

1.4. Dividends

Mexican resident corporations receiving dividends from Mexican resident corporations are not subject to the payment of income tax in Mexico on the dividends received; however, the Mexican corporation distributing the dividend shall pay the corresponding income tax on the distributed dividend. In case the dividend proceeds from the "Net Tax Profit Account" (Spanish acronym CUFIN) generated by the corporation distributing such dividend, no income tax would be triggered, due that the CUFIN account is comprised by the tax profits that have already been subject to income tax at the corporate level at a 30% rate.

In case the dividend does not proceed from the CUFIN account of the corporation distributing such dividend, the corporate income tax applicable shall be determined by applying the 30% rate to the distributed dividend, grossed-up by the 1.4286 ratio. Income tax paid on distributed dividends may be credited by the Mexican resident corporation in the year the dividend is distributed or in the following two years.

The above tax treatment is applicable also to remittances made abroad by branches of foreign corporations which are treated as permanent establishments in Mexico.

Starting year 2014, and additional 10% income tax withholding will be triggered in case of dividend distributions made by corporations to Mexican individuals and foreign residents, notwithstanding if they proceed or not from the CUFIN account of the corporation distributing the dividend. The 10% withholding is not applicable to dividends that proceed from the CUFIN account as of December 31, 2013.

1.5. Cross-Border Payments

1.5.1. Tax Withholding.

Non-resident individuals or entities receiving Mexican sourced income are subject to income tax withholding in Mexico. This is a final tax applicable to foreign residents.

1.5.2. Dividends.

Non-residents receiving dividends from Mexican corporations are not subject to withholding income tax in Mexico from dividends received. However, as mentioned in section 1.4. above, if the dividend proceeds from the CUFIN account, no income tax would be triggered. Otherwise the income tax shall be determined by applying the 30% rate to the distributed dividend, grossed-up by the 1.4286 ratio.

As it was also mentioned in Section 1.4 above, starting year 2014 and additional 10% income tax withholding will be triggered in case of dividend distributions made by corporations to foreign residents, notwithstanding if they proceed or not from the CUFIN account of the corporation distributing the dividend. The 10% withholding will not apply for dividends proceeding from the balance of the CUFIN account as of December 2013.

The application of the Tax Treaties entered by and between Mexico and other countries is allowed in order to reduce the tax withholding in question.

1.5.3. Royalties.

Royalty payments to non-residents are deemed to be from source of wealth in Mexico, when the benefit of the assets or rights for which the royalties are paid is taken in Mexico, or when such royalties are paid by a Mexican resident or a non-resident with a permanent establishment in Mexico.

Royalty payments derived from the grant of temporary use or enjoyment of railroad cars are subject to a 5% income tax withholding with no deductions allowed. Royalty payments different from that mentioned before, are subject to a withholding income tax rate that may vary from 25% to 35% of the income received, with no deductions whatsoever.

1.5.4. Technical Services, Technical Assistance and Consulting Services.

Non-residents are subject to income tax withholding in Mexico on income received from the rendering of technical assistance services, when benefit of the assets or rights for which the technical assistance is paid is taken in Mexico, or when such technical assistance is paid by a Mexican resident or a non-resident with a permanent establishment in Mexico. The applicable withholding tax rate is 25% on the income received, with no deductions allowed.

In general terms, non-residents receiving income derived from technical and consulting services, are subject to withholding tax in Mexico, when such services are rendered in Mexico, in which case the 25% withholding tax rate will be applicable, with no deductions allowed.

Notwithstanding the above, in terms of most of the Tax Treaties entered by Mexico and other countries, a 0% withholding tax rate is applicable on payments for technical and consulting services, provided that the person rendering such services does not have a permanent establishment in Mexico.

1.5.5. Other Services.

Income received from the rendering of services in Mexico, even if they are performed in the country partially, are deemed to be from source of wealth in Mexico. The 25% withholding tax rate will apply, with no deductions allowed.

1.5.6. Interest and Leasing Payments.

The withholding income tax rate on interest paid to non-residents may vary from 4.9% to 35%, depending on the beneficial owner of the interest and the type of interest. In general terms, the following withholding tax rates shall apply:

a) 4.9% to foreign banks resident in a country with which Mexico has a Tax Treaty in force; to interest paid to non-residents derived from negotiable instruments placed within public investors, among others.

b) 10% to financial entities property of foreign states, to entities placing or investing in Mexico capital proceeding from negotiable instruments issued by them and placed within the investing public; to foreign residents when proceeding from negotiable instruments placed through banks or a brokerage firm in a country that does not have a Tax Treaty with Mexico, provided that certain requirements are met, among others.

   The registration obligation with the Mexican tax authorities of foreign banks and financial entities is repealed, thus, starting year 2014 the application of the above mentioned income tax withholding rates is allowed without the fulfillment of this formal requisite.

c) 15% to reinsurance companies.

d) 21% to foreign credit institutions different from those mentioned above; to foreign suppliers or financial entities derived from the alienation/financing of machinery and equipment, provided that certain requirements are met.

e) 35% to interest different from those mentioned above.

1.5.7. Grant of temporary use or enjoy of goods.

In the case of payments for the grant of temporary use or enjoyment of goods, non-residents shall be subject to income tax withholding in Mexico when such goods are used in Mexico. The applicable withholding tax rate is 25%, with no deductions allowed. In the case of containers, airplanes or vessels with Federal Government concession or permit, the withholding tax rate is 5%.

In case of payments for the grant of temporary use or enjoyment of airplanes with Federal Government concession, a Presidential Decree in force allows under certain circumstances the application of an 80% tax credit on the applicable withholding tax rate (1% effective tax rate).

1.5.8. Transfer of shares.

In the case of non residents receiving income from Mexican residents, derived from the sale of shares, such income shall be subject to income tax withholding in Mexico when they are issued by Mexican entities or more than 50% of the book value proceeds, directly or indirectly, from properties located in Mexico. The applicable withholding tax rate is 25%, on income obtained, with no deductions allowed.

It is worth mentioning that under the domestic law, there is an alternative to determine the withholding income tax payable on the sale of shares taking into account the tax profit or loss obtained , provided that certain requirements are met (such as filing a CPA report with the Mexican tax authorities, designate a legal representative in Mexico, among others).

A 35% tax rate is applied to the tax profit generated in the transfer of shares, in case a tax loss is obtained no income tax would be payable.

Starting year 2014, Mexican brokerage firms are obliged to carry out a 10% income tax withholding on the amount of the gains obtained by foreign residents (per transaction) derived from the alienation of shares issued by a Mexican company (or any other kind of titles representing such shares) through the Mexican Stock Market or the Mexican Derivatives Exchange.

The tax withholding previously referred will not be applicable in case the foreign resident evidences to the Mexican brokerage firm, its residency in a country with which Mexico has in force a Tax Treaty and provided that the requirements for the application of such Tax Treaty are met.

1.5.9. Preferential Tax Regime.

Any payments made to an individual or entity subject to a preferential tax regime which is deemed to be from source of wealth in Mexico will be subject to a withholding tax rate of 40% with no deductions allowed; certain exceptions apply to dividend or profit distributions and interest payments. However, this rule is only applicable to payments made to related parties resident in a country that does not have entered into a Comprehensive Exchange of Information Agreement with Mexico.

Mexican residents are required to pay income tax on foreign source income subject to a preferential tax regime either generated directly or through foreign entities or legal figures in which they participa-

te directly or indirectly.

Foreign source income would be subject to a preferential tax regime if effectively taxed abroad at a rate lower than 75% of the income tax payable in Mexico, regardless of whether such a reduced tax rate is applicable due to a legal, regulatory or administrative provision, an authorization, refund, credit or any other procedure. In order to determine if income is subject to a preferential tax regime, each one of the transactions from which they arise must be considered.

Income obtained through foreign entities or vehicles considered as pass-through entities for foreign tax purposes will be considered as proceeding from a preferential tax regime, regardless of the fact that such income is not subject to a preferential tax regime. Certain exceptions apply.

The recognition of income will be on accrual basis, regardless of whether or not the income, dividend or profit has not been distributed to the Mexican resident. Moreover, tax payers subject to these provisions are also required to file, during the month of February of each year, an informative return. Special cases are also applicable to comply with this obligation regardless of the fact that such income is not subject to preferential tax regime.

In the case of foreign entities or vehicles carrying out business activities, it will be considered that income obtained from such activities is subject to a preferential tax regime if their passive income amounts over 20% of their total income.

Taxpayers may not consider as income subject to a preferential tax regime, those obtained by foreign entities or vehicles paid for the use or concession of patents or industrial secrets, provided that certain requirements are met. Other exceptions apply.

Likewise, in case of international corporate restructures in which shares are sold within a group of entities and consequently are subject to a preferential tax regime, may not apply the provisions applicable to preferential tax regimes provided that certain requirements are met.

2. FLAT RATE BUSINESS TAX

The Flat Rate Business Tax Law is repealed starting year 2014. The obligations and rights originated before the abrogation of this law must still be complied by taxpayers.

2.1. Asset Tax Paid in Previous Years

According to the Asset Tax Law in force until December 31, 2007, taxpayers were entitled to request the refund of the asset tax paid in the previous 10 tax years, as long as certain requirements were met.

Due to the revocation of the Asset Tax Law, a transitory provision of the Flat Rate Business Tax Law establishes the rules in order for taxpayers to recover any outstanding asset tax subject to refund.

Notwithstanding the abrogation of the Flat Rate Business Tax Law, taxpayers would be entitled to continue applying the transitory provision previously referred, in order to recover any outstanding asset tax subject to refund.

3.VALUE ADDED TAX (VAT)

3.1. General Aspects

3.1.1. Taxable Transactions.

Alienation of goods, rendering of independent services, granting the temporary use of goods, and import of goods and services are subject to VAT, provided that such activities are carried out within the national territory. Each one of these activities has its own exemptions and definitions according to the VAT Law.

3.1.2. Tax Rates Effective.

The VAT rate is 16%. There are certain exempt activities for VAT purposes. Some other activities are taxed at 0%, among which are the export of goods and certain services.

Starting year 2014, the 11% VAT rate for border regions is repealed, thus, activities carried out in these regions will be from now on subject to the 16% VAT rate.

3.1.3. Taxable Base.

As a general rule, the taxable base is the price or value of the consideration agreed. Total price or value, include tax costs, interest, penalties and any other fees charged.

The VAT is triggered on a cash flow basis, which means that it is only triggered at the time the payment is actually collected when received in cash, in kind, in services or when the interest of a creditor is satisfied through any of the legal forms of which the debtor fulfills or extinguish any obligation. Consequently taxpayers may only credit the VAT effectively paid.

In the case of import of services and intangible assets, the VAT triggered is virtual (no cash flow) considering specific rules.

3.1.4. Creditable VAT.

As a general rule, taxpayers have the right to credit against its payable VAT all VAT paid on the acquisition of goods, services, leasing, and imports. In order to credit the VAT paid, there are certain requirements that shall be met. In general terms taxpayers may credit 100% of the VAT paid that is identified with taxable activities, otherwise, they may only credit the portion that is identified with such activities. VAT paid that is identified with non-taxable activities may not be credited.

3.1.5. Temporary Import of Goods.

By means of the tax reform approved for year 2014, the VAT tax exemption provided for the import of goods into Mexico under different kind of temporary importation regimes allowed under the Mexican Customs Law (manufacturing, transformation or repairing in maquiladora and exportation programs, tax warehouse for assembly and fabrication of vehicles and manufacturing, transformation or repairing in a fiscal precinct or strategic fiscal precinct) is repealed.

With the elimination of this tax benefit, taxpayers who import goods into Mexico by means of any of the aforementioned temporary importation customs regimes will be obliged to pay the corresponding VAT.

The VAT paid by virtue of a temporary importation may be credited by taxpayers through the application of certain rules that are incorporated for such purposes. Final importation of goods which have already been subject to the payment of VAT when destined to a temporary importation regime will no longer be subject to the payment of this tax.

With the intention of reducing the financial cost that this reform will have, the possibility of applying a tax credit of an amount equal to 100% of the VAT payable derived from the temporary importation is incorporated, which may only be applied by taxpayers which obtain a certification issued by the Mexican tax authorities. Besides this certification, other tax relief procedure is also established.

Considering the rules for obtaining the certification in question have still not been issued, the enactment of this reform will be after one year has elapsed after the date the certification rules are published by the Mexican tax authorities.

3.2. Payment and Filing

Taxpayers must file monthly final VAT returns at the latest the 17th day of every month. In these returns the difference between the payable VAT and the creditable VAT paid to suppliers of goods, services, leasing, etc., must be paid. In case the creditable VAT is greater than the payable VAT, taxpayers can credit the difference against the payable VAT of future periods or request for its refund, or else, offset it against other federal taxes.

4. OTHER TAXES

4.1. Tax on Cash Deposits

The Tax on Cash Deposits Law is repealed starting year 2014. The obligations and rights originated before the abrogation of this law must still be complied by taxpayers.

4.1.1. Tax credit.

The tax on cash deposits effectively paid during the period such tax was in force and that as of December 31, 2013 is still pending to be credited against the income tax, may still be credited, compensated or requested in refund before the Mexican tax authorities.

4.1.2. Filing obligations.

Considering that this tax was collected by financial system institutions, such institutions are required to file before the Mexican tax authorities no later than February 15, 2014, the information related to the tax collected, as well as the tax pending to be collected for fiscal year 2013. In case of any outstanding balance pending to be collected, Mexican tax authorities are entitled to determine the corresponding tax credit to taxpayers.

Notwithstanding the Tax Cash Deposit Law is repealed, the financial institutions are still obliged to submit an annual report containing the information related to the cash deposit made on bank accounts of taxpayers exceeding 15,000 MXN in one month, as well as, cashier checks acquired.

4.2. Excise Tax

This tax levies on the sales of certain products, import of goods and rendering of certain services within the National Territory (Spanish acronym IEPS) such as alcohol, tobacco, gas, diesel, energy drinks, telecommunication services, etc. The tax rate may vary according to the product or service provided.

Effective 2014, the sale within the National Territory or the importation into Mexico of the following products is levied by IEPS:

a) Sugar flavored beverages. The tax is levied on the sale or import of sugar flavored beverages, as well as concentrates, powders, syrups, essences or flavor extracts, which when diluted produce sugar flavored beverages.

   The tax is determined at a fixed fee of $1.00 MXN per liter and regarding concentrates powders, syrups, essences or flavor extracts, the tax shall be determined taking into account the number of liters of sugar flavored beverages which according to the manufacturer can be obtained.

b) Caloric food. A new 8% tax is established on the sale or import of non basic food which has a caloric density of 275 kilocalories or higher per each 100 grams, such as snacks, confectionery products, chocolates and other coca-derived products, flans, puddings, fruit and vegetable candies, peanut butter and hazelnut cream, milk sweets, cereal based food, ice-creams, sherbets and ice popsicles.

c) Fossil fuels. The tax is levied at a fixed fee per liter or ton that ranges from $5.91 MXN and up to $39.80 MXN, depending of the carbon content of each fossil fuel. The fuels subject to this new tax are, among others, propane, butane, gasoline and jet fuel, turbosene and other kerosenes, diesel, petroleum coke, carbon coke and mineral coke.

d) Pesticides. The tax is levied at a fixed rate that ranges from 0% to 9%, depending on the level of toxicity of the pesticide. By virtue of a transitory provision during year 2014 the fixed rates previously mentioned will be reduced (0% to 4.5%).

Taxpayers may credit the tax paid for the acquisitions of goods and services against the payable IEPS, provided that certain requirements are met.

IEPS is also triggered under a cash flow basis, therefore it is only generated when it is effectively collected, and taxpayers may only credit the IEPS effectively paid.

4.2.1. Temporary import of goods.

By means of the tax reform approved for year 2014, the IEPS exemption provided for the import of goods into Mexico under different kind of temporary importation regimes allowed under the Mexican Customs Law (manufacturing, transformation or repairing in maquiladora and exportation programs, tax warehouse for assembly and fabrication of vehicles and manufacturing, transformation or repairing in a fiscal precinct or strategic fiscal precinct) is repealed.

With the elimination of this tax benefit, taxpayers who import goods into Mexico by means of any of the aforementioned temporary importation customs regimes will be obliged to pay the corresponding IEPS.

The IEPS paid by virtue of a temporary importation of goods may be requested in refund before the Mexican tax authorities in the moment the imported goods are exported, provided that such IEPS has not been previously credited by taxpayers. Final importation of goods which have already been subject to the payment of IEPS when destined to a temporary importation regime will no longer be subject to the payment of such tax.

With the intention of reducing the financial cost that this reform will have, the possibility of applying a tax credit of an amount equal to 100% of the IEPS payable derived from the temporary importation is incorporated, which may only be applied by taxpayers which obtain a certification issued by the Mexican tax authorities.

Considering the rules for obtaining the certification in question have still not been issued, the enactment of this reform will be after one year has elapsed after the date the certification rules are published by the Mexican tax authorities. Besides this certification, other tax relief procedure is also established.

4.3. Local Taxes

There are municipal (local territorial level) or state taxes on the alienation and acquisition of real estate, on the payment of salaries, among others. The rate for these taxes may vary depending on the state or local territory.

5. FEDERAL TAX CODE

5.1. Invoices

As of year 2011, tax invoices shall be issued digitally provided certain regulations are met. Thus, simplifying and unifying the system.

The obligation to issue tax invoices in digital format was not applicable to tax payers with an annual income equal or below $4million MXN.

Starting year 2014, this tax privilege is eliminated and all taxpayers are incorporated to the digital invoicing system.

5.2. CPA report

With the intention of simplifying the administrative workload of taxpayers, the obligation of filing a CPA report for tax purposes is repealed. By virtue of this significant change, the obligation of filing a tax situation informative return is incorporated in case of certain taxpayers.

Alternatively, taxpayers that comply with certain requisites (depending on the level of income, assets and number of employees) may still opt to audit their financial statements for tax purposes.

5.3. Tax e-mail box

As a consequence of significant achievements made by tax authorities in order to migrate to the utilization of electronic systems for purposes of controlling the filing of tax returns, starting year 2014 a tax e-mail box will be incorporated in order to accelerate communications between the tax authority and taxpayers.

In general terms, it is provided that communications held by means of such tax e-mail box will have the same legal effect as if given through a formal written notice.

The use of the tax e-mail box will be effective as of June 30, 2014 for legal entities and as of January 1st, 2015 for individuals.

6. TAX INCENTIVES

6.1. Risk Capital

On 2006, a new tax incentive was approved with the purpose of encouraging the investment and growth of the small and medium companies resident in Mexico, which is implemented through the creation of pass-through investment vehicles.

In general terms, the incentive consists in allowing Mexican residents or foreign residents to invest capital or grant financial support to Mexican companies that are not quoted in stock markets, through a trust that will be considered as a pass-through entity for tax purposes, in which the investors will be subject to income tax as if they had made the investment or granted financial support directly to the Mexican company.

6.2. Real Estate Investment Trusts

This incentive is applied for income tax purposes to those trusts created for the purpose of the acquisition or the construction of real estate intended for lease or for the acquisition of the right to obtain revenues proceeding from the lease of such assets and also for the grant of financing for said purposes, subject to compliance of the requirements expressly established in the Income Tax Law.

The incentive seeks to grant transparency to the trust for investors who participate in them, allowing them to maintain the tax regime that they ought to have as if they have made the investment in real estate directly. Such is the case of foreign pension and retirement funds who may continue to maintain its tax exemption scheme, or any other resident abroad to claim for any available tax benefits that it may be eligible.

Effective 2014, the obligation of registering real estate investment trusts in the new Registry of Trusts Dedicated to the Acquisition or Construction of Immovable Property is incorporated.

Other significant change made by means of the 2014 tax reform is the elimination of Real Estate Investment Entities (SIBRAS per its acronym in Spanish). Specific regime rules are incorporated for purposes of determining the taxable income of taxpayers that invested in this kind of vehicles.

6.3. Immediate Asset Deduction for Fixed Assets

Starting year 2014, the tax incentive which allowed the accelerated depreciation and tax deduction of new fixed assets is repealed. As a consequence of this change, taxpayers would only be allowed to deduct investments made in fixed assets by applying the procedure described in Section 1.1.5. above.

6.4. Culture and arts

Investments in theatrical performances or cinematographic productions, including human, financial and material resources needed to accomplish them, will be granted a tax incentive that grants a tax credit against the income tax, for the amount of the investment, provided that such credit shall not exceed 10% of the income tax payable in the previous year.

Specific requirements shall be met in order to apply this tax credit.

6.5. International Manufacture and Export Services

The Mexican Government has established a program intended to grant certain incentives and (or) facilities to those multinational enterprises that manufacture and (or) offer export services in the country, as subsidiaries of a Multi National Enterprise.

This benefit grants the possibility to import, on a temporarily basis, materials and machinery used during the industrial process; in consequence, these imports shall not be subject to VAT. In order to apply this option, beneficiaries must count with authorization issued by the Mexican Authorities and they must accomplish several requirements.

As mentioned in Section 3.1.5. of this document, by means of the tax reform bill approved for year 2014, the temporary import of goods is not longer considered as a tax exempt activity for VAT purposes, thus, multinational enterprises that manufacture (or) offer export services in Mexico will be required to obtain certain certification in order to be able to apply a tax credit against the VAT triggered on the temporary imports made derived from their business activities. Besides this certification, other tax relief procedure is also established.

For income tax purposes, it will be considered that a foreign entity does not have a permanent establishment in Mexico, derived from relations with companies engaging in "maquila transactions" using assets directly or indirectly provided by the latter or a related party, to the extent that certain requirements are met.

Among such requirements, a Tax Treaty has to be in force between Mexico and the country of residence of the foreign entity, in addition to the requirements established therein shall be complied with, and transfer pricing regulations regarding "maquila" transactions shall be met.

6.6. Foreign pension and retirement funds

Foreign pension and retirement funds, shall not be subject to income tax in Mexico on interests, capital gains and temporary use or enjoyment of land and constructions income, generated in the country, provided that certain requirements are met, such as: they shall be the effective beneficiaries of such income, they shall be considered as tax exempt in their country of residence, among others.

The registration obligation with the Mexican tax authorities for pension and retirement funds is repealed, thus, starting year 2014 the fulfillment of this formal requisite is not required for applying the tax benefits previously described.

By means of the 2014 tax reform, the period for which pension and retirement funds are obliged to lease immovable property before alienating such property with a tax exemption is increased from one to four years.

NICARAGUA CHAPTER

ALVARADO Y ASOCIADOS

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OVERVIEW

A new law (Law Nº 891) came into force starting December 18th. 2014 with amendments, additions and repeals for Law Nº 822, Tax Concertation Law. We will describe the most important changes in each section below.

INCOME TAX

1.1. General Aspects

Law No. 822 is in force since January 1, 2013 and establishes new conceptualization of income tax which includes:
1. Labor income / Personal Taxes;
2. Income from economic activities, and;
3. Capital income, capital gains and capital losses.

The Law considers the Capital Income/rent any income perceived originating from the exploitation of assets that belong to the company.

There are two kind of capital income considered by the Law:

i. the immovable capital income/rent (renta de capital inmobiliario) and
ii. the movable capital income/rent (renta de capital mobiliario).

Now Law 891 establishes that all income perceived by the tax payer that cannot be classified or justified as income, or extraordinary gains, capital contributions, loans etc.., without documentation to prove the origin of that money it will be considered income subject to taxation.

1.1.1. Income Tax Rate.

The general statutory corporate income tax rate is a flat rate of 30% on net income. This is equally applicable to local branches of foreign corporations. Payment of Income Tax (Spanish acronym IR) is

subject to an "Anticipated Payment of Income Tax" (Spanish acronym PMD). The rate of the Income Tax Definitive Minimum Payment (Pago Mínimo Definitivo del Impuesto sobre la Renta), is 1% calculated on the gross income. Such payment takes place through in-advance monthly payments of 1% of the gross income of the company. In the case of taxable income based on commissions, such percentage is calculated on the sales commission or commercialization margin as long as the provider complies with the corresponding prior in-advance monthly payment. Annual income tax will be determined at the higher of the net taxable income (i.e. after deduction of expenses) or 1% of gross income.

Tax Concertation Law, Law No. 822 (Ley de Concertación Tributaria) established that the tax rate would decrease yearly by 1% starting on 2016 until it reached a flat 25% tax rate in year 2020, for the statutory corporate Income Tax (Spanish acronym IR), however, with Law No. 891, this benefit was repealed and there is no longer a yearly decreasing of the tax rate, so it will be indefinitely fixed at 30%.

Although the income tax in Nicaragua will remain on a territorial basis of taxation (with some elements of global taxation), the new income tax law includes regulations related with permanent establishment, transfer price rules or even a concept of resident for taxable purposes.

1.1.2 Deductions

As a general rule, all costs and expenses related and necessary to the income producing activity, are considered deductible expense but the lack of appropriate legal support on the expenses could lead to a proportional rejection on overall deductible costs and expenses.

There are four necessary conditions for the expenses to be deductible which are:

A. The spending must be caused or paid.
B. The spending should be caused in the fiscal year
C. Must be properly supported
D. Must be used to generate income.

1.1.2 Depreciations

Tangible and intangible fixed assets' depreciation is deductible. Depreciation term varies depending on the nature of the assets.

Law No. 891 removed the benefit to depreciate the reevaluations of assets.

1.2. Transfer Pricing

Considering the legislative model recommended by the OECD, nowadays, with the entry into force of Law No. 822 "Ley de Concertación Tributaria", Nicaragua has a regulatory framework in the field of transfer pricing in effect starting 2016. Different methods to apply the arm´s length principle, as well as definitions of related parties are contemplated by the Law. Our legislation is based in the established or suggested principles by the OCDE, in which we will enhance 3 elements.• Improvements in the supplying systems and mechanisms and information exchange.• Creation of the Specialized Unit of Transfer Pricing.• Principles and methods of calculation.

1.3. Inflation Adjustment

Nicaragua has an annual inflation adjustment, which consists in determining the monetary gain

or loss, derived from the effect of the inflation on debts and credits acquired in a foreign currency. For such purposes, taxpayers shall compare the average balance of their debts acquired in a foreign monetary with that of their credits acquired in a foreign currency; in case the balance of the debts is higher, an inflationary gain originated by the exchange differential which shall be considered as a taxable income; otherwise, an inflationary loss will be obtained, which may be considered as a deductible item for income tax purposes. The referred inflationary gain or loss is determined by applying the national exchange rate established by the Central between Cordobas (National currency) and US Dollar.

1.4. Net Operating Tax Losses (NO L's) Carry-Forward

NOL's can be carried forward for a maximum term of 3 fiscal years. There is no carry-back possibility contemplated by law.

1.5. Reorganizations

The transfer of assets originate by a reorganization of corporations, mergers and Spin-offs could be subject to tax in Nicaragua as a capital gain.

1.6. Payment and Filing of Income Tax

Ordinary tax year covers the period from January 1st. to December 31. The annual income tax return must be filed and payed within the three months following the end of the corresponding fiscal year. Monthly income tax payments must be filed during the fiscal year. Withholding at Source Monthly Tax Returns will be effected in the corresponding forms and other means, in the form and conditions established by the Tax Concertation Law. 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.

1.7. Interest and Penalties on Unpaid Tax or Tax Paid Belatedly

Unpaid taxes are subject to lateness interest that should be assessed at the official rate fixed by the Tax Administration, and penalties vary according to infraction are established by our Tax Code Law No. 562. It is important to notice, that Nicaraguan legislation establishes that if a contributor omits to file the Declaration Formulary and does not pay the corresponding income tax, such contributor can be responsible under the crime of forgery in civil and criminal matter.

1.8. Dividends

Dividends to be paid to companies' shareholders are considered to be Capital Income and are subject to a withholding tax of 10% if the shareholder is a resident, and 15% if the shareholder is a nonresident; however, the Tax Concertation Law establishes that the movable capital income si subject to a single deduction of the 50% on the raw income paid.

According to the Nicaraguan Securities Law, stock Certificates are considered to be movable objects because of the value they represent, that being said, Dividends, as movable capital income could be subject to the above mentioned deduction, making the effective withholding tax to a 5% when paid to residents, and 7.5% when paid to nonresidents.

1.9. Cross-Border Payments

1.9.1. Tax Withholding

Non-resident individuals or entities receiving Nicaraguan sourced income are subject to income tax withholding in Nicaragua. This is a final tax applicable to foreign residents. In some cases deductions may apply.

All payments (for services or other economic activities) made to nonresident legal entities are subject to a 15% withholding tax

1.9.2.Royalties

Movable capital income/rent is considered as the income derived by a resident or non-resident from the lease, sublease, alienation, use, assign of rights, License of any immovable or intangible properties or assets related to Intellectual Property.

The withholding tax rates applicable to capital income for resident or non-resident used to be 10% over the total income, however, after the amendments in Law 891 came into force, the tax rate for nonresidents increased to 15%.

1.9.3. Interest payments.

Interest payments are subject to a 10% withholding tax rate if paid to residents, and 15% if paid to nonresidents.

1.9.4. Equity Reimbursements

Although tax liabilities may arise within this context, they would not be subject to withholding obligations, under the logic that reimbursements are not payments per se.

1.9.5. Tax Havens

Operations with companies incorporated/established in a country consider as a “Tax Heaven”, are subject to a withholding tax of 17%.

The governments is supposed to publish an official list of countries considered as tax heavens but it has not done it until this date.

2. VALUE ADDED TAX (VAT)

2.1. General Aspects

VAT´s general rate is 15%. There are also some VAT exemptions for specific entities.

2.2. Taxable Transactions

The Nicaraguan Value Added Tax (IVA) of 15% applies to all imports and sales of goods and rendering of services and importations as well as leases, with significant exceptions, mostly for basic goods and services.

2.3. Taxable Base

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

2.4. Creditable VAT

As a general rule the VAT taxpayer has the right to credit all VAT charged to clients (VAT Debit) against payable VAT (VAT Credit) and VAT paid on imports. . The credit is a personal right and it is not transferrable.

2.5. Payment and Filing

VAT returns must be filed under a monthly basis on the next 15 days of the following month

3. OTHER TAXES

3.1. Property Taxes

Please see Municipal taxes.

3.2. Stamp Tax

This is a documentary tax applicable to some documents. The Stamp Tax has fixed rates for some specific documents and agreements.

3.3. Excise Taxes

In Nicaragua, there are three excise taxes:

1. The Selective Consumption Tax (Spanish acronym ISC) apply to the consumption of national or imported go ods such as cigarettes, alcoholic beverages and soft drinks.
2. Excise Tax on Fuel (Spanish acronym IECC), apply on the sale or importation of oil/petroleum goods.
3. Special Tax to Finance the Road Maintenance Fund (Spanish acronym IEFOMAV) which apply to the sale, import of oil/petroleum goods.

3.4. Custom Duties

In addition to import VAT (15%), Nicaragua imposes ad valorem import duties (DAI) on a good's c.i.f. (cost, insurance and freight) value. The range is between 0% and 15%. Also, some goods are levied with the Selective Consumption Tax depending on which good.

4. PAYROLL TAXES /WELFARE CONTRIBUTIONS

4.1. Social Security System

According to Nicaraguan social security legislation employer must submit their employees to the social security system. The social security comprises two special schemes: compulsory and optional. The first establishes the requirement of membership to any person who is under a labor relationship. The second, or optional scheme, it is a voluntary recruitment of independent professionals. This scheme is completely optional and there is no legal basis to oblige any service provider to this scheme. Up until December 31st 2013 the top monthly salary or wage subject to contribution was C$ 37,518.00 córdobas however on December 20th 2013 there was an amendment to the regulations of

the Social Security Law which states that starting January 1st 2014 the top monthly salary or wage subject to contribution will be C$ 54,964.00 up until December 31st 2014, and starting January 1st 2015 the top salary subject to contribution will be C$ 72,410.00.

The employer must pay 17% (it was 16 until December 31st 2013) of total payroll, the employee contributes 6.25% of their salary as part of the quote, and the State accounts for 0.25%. The billing is made by applying the percentage established over the monthly remuneration of the insured person. The thirteenth month is free of social security deductions or withhold. In the thirteenth month payment the employer does not contributes with 17% of gross pay.

4.2. Labor Risks Insurance

This mandatory insurance is covered under the Nicaraguan Social Security Institute, and covers all the labor force

4.3. Other Tax/obligation

Also, all the employers are required to pay a monthly contribution of 2% for the National Technological Institute (INATEC) on the gross amount of the payroll. The collection of this contribution must be done through the infrastructure of social insurance fund. Since the 2% is payable on the gross amount of the monthly payroll, in the month that an employer pay vacations the payroll increase as well the 2%. The thirteenth month is free of INATEC contributions. In the thirteenth month payment the employer does not contributes with 2% of gross payroll. INATEC offers training in various disciplines at low prices. By law, the percentage of salary is withheld and given to INATEC to be applied to the cost of courses offered or to be used in training seminars or courses offered by the institute

5. MUNICIPAL TAXES

5.1. Property Taxes

The Real State Tax (Impuestos de Bienes Inmuebles) is paid to the local municipality. The amount is 1% of the assessed value given to the property by the Cadastral Office. (The taxable base is 80% of the assessed value) The assessed value of the property is set each year and will be amended following any improvements made. Taxes are paid in arrears each year by March 31. If paid before March 31 certain discounts may apply.

All contributors have to:

a. Register and obtain a Municipal Registration in the place where the services was rendered and if the company or person has a physical establishment in that place. All natural or legal persons who carried out, industrial, commercial and services activities, must register annually from December 1st to January 31st. The fee registration is established according to its constitution capital. After the first year to revenue the register the tax rates apply is 2% on the average gross income obtained in the last three months of the previous year. In the case of opening a new business, as tuition will be paid 1% of individual social capital. The Municipal Registration must be paid on each and every municipality where the taxpayer has business establishments.

b. Pay a Municipal Tax over the gross sale (1%) for all industrial commercial and services activities carried out in the territory of each municipality. The Mayor can appoint a contributor as a municipal tax withholder. The tax rate is paid on a monthly basis

c. Trash Recollection Tax, over sales.

PANAMA CHAPTER
RIVERA, BOLÍVAR Y CASTAÑEDAS

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RIVERA, BOLÍVAR Y CASTAÑEDAS

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HIGHLIGHTS

NATIONAL LEVEL TAX RATES

Corporate Income Tax: 25%

Corporations engaged in:
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 the services involved in the activities mentioned above.

The Income Tax (ISR) of the companies describe above will pay the following rate:

Rate Tax Periods	RATE
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%.

Capital Gains Tax:	10%
Capital Gains Tax in real estate	10%
Or the higher between the total value of the transaction 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 foreign source or export operations.	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
Tax-free Reorganizations: "fusion")	YES

Local Level Tax Rates:

Real Estate Tax: **(at national level)** Progressive tariff Real Estate transaction within the ordinary course of business of the taxpayer	1.75 % to 2.1%

OVERVIEW

1. INCOME TAX

1.1. Corporation Income Tax

Companies will pay the Income Tax at a rate of **25% (year 2011).**

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, what 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).
CAIR (Alternative Calculation on Income Tax) has been eliminated, however, remains an estimate calculation for corporations whose taxable income exceeded US$ 1.5 million annual.

These corporations will pay the higher amount between:

1. The taxable net income calculated by the traditional method, and
2. 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 form 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.

1.3. 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 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.

As a consequence, individual and corporations in Panama who benefits 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, performs activities outside Panama that are required with the purpose to get income in Panama, will not be subject to withholding taxes.

1.4. Payment

Income tax is set up through a annual tax return to be filed out before March 15.(individuals).. Together with the annual tax return, taxpayer must present an estimated income tax ,The estimated income must be paid on June 30, September 30, and December 31, respectively (individuals).

When referring to corporations, annual tax return must be presented within three months after the closing of the fiscal year (12 months).

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 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 is not dividends, or the distribution is under 40% of the fiscal income, corporation must pay a special tax (Impuesto Complementario), 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 received an equal tax treatment that applies to deductible interests. Also the amount distributed as dividend will be exempt from income tax rates.

For this purpose the nominative preferred shares must observe the following conditions:

1. That their maturity is not more than five (5) years
2. It must not be part of the capital, according to the International Financial Reporting Standards (IFRS)
3. Belonging to common stockholders of the issuer.
4. That performance earned no more than 6%.
5. Not Transferable.
6. The issuance of such preferred shares do 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.

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. The rate is 7% applied on the amount of goods transferred and services performed within Panama, including goods imported.

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, taxpayer will determine the tax by 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 (month or quarterly).

b. Tax credit will be composed by:

    1. The amount of taxes including in the invoices of purchase made in the internal market of goods and services corresponding to the same period, whenever they fulfill the exigen cies anticipated in Paragraph 13 in the matter of documentation.

2. 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. The Jewelry, the guns and the cars also pay ISC at a variable rate depending on the value and type of the consumer goods.

2.3. Property Tax (national level).

Tax applied annually on the total value (land and improvements) of each immovable property, through a progressive tariff between 1.75% and 2.1%.

The combined progressive rate of this tax is as follows:

a. 1.75% on the taxable rate that exceed thirty thousand dollars (B/.30, 000.00) up to fifty thousand dollars (B/.50, 000.00).
b. 1.95% on the taxable surplus of fifty thousand dollars (B/.50, 000.00) to seventy-five thousand dollars (B/.75, 000.00).
c. 2.10% on the taxable rate that exceed seventy five thousand dollars (B/.75, 000.00).

Tax base is defined as the sum of the value of land and constructing improvements if any.

Condominium Property.

The existing tax exemption for the first thirty thousand dollars shall not apply to the land of the estate subject to the condominium property regime during the period that is legally exempt the value of improvements, in those cases apply a rate of one percent (1%).

When the period of exemption of improvements expires, apply the regular rate that covers the numerals of this article.

For the land of buildings subject to condominium property regime, implement the following rate:

1. 1.40% of the tax base up to US$.20,000.00
2. 1.75% on taxable rate over US$20,000.00 to US$50,000.00
3. 1.95% on the taxable surplus of US$50,000.00 up to U.S. $ 75,000.00
4. 2.10% tax on the surplus of U.S. $ 75,000.00.

The properties for social housing are excepted form the application of this rule.

Alternative Rate

1). 0.75% on properties whose value of land and improvements does not exceed one hundred thousand dollars (B/.100, 000.00).

2). 1% on properties whose value of land and improvements exceed a hundred thousand dollars (B/.100, 000.00).

The property whose value of land and improvements does not exceed the sum of thirty thousand dollars (B/.30, 000.00) is exempt from this tax.

The alternative rate of this tax is not progressive.

2.4. Transfer of Property Tax.

This tax applies on the transfer of real property. The tax rate is 2%.

2.5. Operation Announcement Tax (Aviso de Operación)

Annual tax applied with a rate of 2% on the Net Wealth of individuals and corporations engaged in commercial activities. The maximum tax is B/60,000.00 (American dollars).

Exceptions:

a. Individuals and corporations with invested capital lower than B/10,000.00(American dollars).

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 required to obtain an "Aviso de Operación". Nevertheless these companies are obliged to pay 1% (annually) on the capital of the company, with a minimum of B/ 100.00 (American dollars) and a maximum of B/.50,000.00 (American dollars).

PARAGUAY CHAPTER
FERRERE ABOGADOS

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HIGHLIGHTS

NATIONAL LEVEL TAX RATES

Corporate Income Tax:	10%
Capital Gains Tax:	N/A
Dividends Tax:	5%
Withholding Taxes on:	
Dividends:	15%
Royalties:	Income Tax 15%, 30%; VAT 10%
Technical Assistance:	Income Tax 15%, VAT 10%
Interest:	Income Tax 30%, 15%, 6%; VAT 10%
Other Services:	Income Tax 15%, VAT 10%
Tax losses carry-forward term:	N/A
Transfer Pricing Rules:	N/A
Tax-free Reorganizations:	0%
VAT on sales:	5%, 10%
VAT on Services.	5%, 10%
VAT on Imports:	5%, 10%
Custom Duties:	0-40%
Net-worth (Assets) Tax:	N/A
Stamp (Documentary) Tax:	N/A

LOCAL LEVEL TAX RATES

Tax on Industrial Activities	National Level
Tax on Commercial Activities	National Level
Tax on Service Activities	National Level

Real Estate Tax: 0,5 - 1%

TREATY TAXATION:

Items of Income			
Country	**Interest**	**Dividends**	**Royalties**
Chile	30%, 15%, 6%, VAT 5%	15%	15%, 30%, VAT 10%

OVERVIEW

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 rate for entities incorporated in Paraguay including branches or permanent establishments of foreign companies is 10%

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 or service activities.

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 general 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:

1. Any taxes and social security contributions applicable to the business activity, assets and goods involved in the generation of income, except Income Tax;
2. Organization expenses;
3. Personnel compensations provided that contributions were made to the Social Welfare Institute (Instituto de Prevision Social – IPS). Also deductible shall be any compensation paid to owners, partners or directors and to relatives and spouses, as limited by regulatory decree.
4. Expenditures on interest and rents;
5. Extraordinary losses not covered by insurance;
6. Bad debts under certain conditions;
7. Depreciation;
8. The amortization of intangible property such as trademarks and patents;
9. Expenses and payments made overseas whenever necessary to produce taxable income from export and import operations;
10. Travel expenses, per diem, and other similar payments in cash or kind;
11. Donations to the Stateor to entities dedicated to social welfare or education;
12. Expenses and contributions paid to staff for health care, education, cultural development, or training;

The following items, amongst others, are expressly not allowed as deductions:

1. Penalties imposed because of fiscal infringements;
2. Earnings in any fiscal period retained in the business as capital increases or reserve accounts;
3. Goodwill amortization;
4. Personal expenses of the owner, partners or shareholders;
5. Expenses for obtaining tax exempt income;
6. Value Added Tax (VAT), except when it is affected directly or indirectly by untaxed transactions (not applicable for exportation) as well as the 5% tax credit surplus occurred at the end of the year.

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.
The depreciation of each of the assets will start from the month after, or 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:

a. Fixed Assets
b. Movable property: 4 or 10 years.
c. Ground transport: 4, 5 or 10 years
d. Air transport: 5 or 10 years.
e. Maritime and fluvial transport: 5 or 20 years.
f. Real State: 10, 25 or 40 years

2. Intangible Property
Intangible assets, such a trademarks, patents and copyrights are amortizable up to 4 years.

1.1.5. Transfer Pricing.

Paraguay has not developed any transfer pricing rules. As a basic premise, alltransactions carried out through by related parties should be carried out as if they were deemed to be independent parties.

1.1.6. Tax Loss Carry-3forward.

The carry-forward and carry-back of losses is not permitted in Paraguay.

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 will 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 leasingis 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 the rates published by the tax authority.

1.3 Payment and Filing of Tax Returns.

The fiscalyear generally coincides with the calendar year, but certain industries are required to use specific fiscal years.

A company must make 4 advance payments based on the previous tax year's liability. A return sheetmust 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% Corporate Tax, the dividends distributed among the shareholder, either local o foreign, are subject to a 5% surcharge on the net amount thus credited or paid. Dividend remitted, credited or paid to foreign shareholders will be subject to an additional 15% withholding on the net amount remitted.

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.

1.6.1.2. Royalties.

Royalty payments are subject to a 30 % withholding tax imposed on 50 % of the payment, resulting in an effective rate of 15 %.

Royalties paid to the parent company or its shareholders are subjected to a 30% withholding tax imposed on 100% (i.e., an effective 30% rate).

In both cases the applicable VAT rate is 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% 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 Income Tax 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 30% tax is leviedon 100% of interest payments (i.e., an effective 30% rate),plus a 10% VAT.

When a loan is granted by a foreign third party, the 30% tax is levied on50% of the interest payment (i.e. an effective 15% rate), plus a 10% VAT.

When the loan is granted by a well known financial institution, a 30% tax is levied on 20% of the interest payment (i.e. an effective 6% rate), plus a 10% VAT.

1.6.1.5 Payments to non-residents:

A payment made to a nonresident that provided services in Paraguay is subject to withholding tax at an effective rate of 15% (30% of 50%) on the gross amount. These services are also subject to 10% VAT. The local company will be required to operate as a VAT withholding agent.

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 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;

- 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. 5,000,000;
- 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 Value Added Tax (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 in to 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:

a. Individuals on personal services.
b. Sole proprietorships.
c. Companies, with or without legal personality, and private entities in general
d. Autonomous entities, government corporations that engage in commercial, industrial or service activities.
e. Importers of goods to Paraguay.

2.1.3. Taxable Transactions:

The taxable event occurs with the earlier of delivery of the goods, issuance of the invoice or any equivalent act. In services, the obligation is specific to the first occurrence of any of the following acts:

a. Issuance of invoices.
b. Payment of the total or partial payment of the service provided.
c. Upon expiration of the deadline for payment.
d. With the conclusion of the service.

e. In the case of imports, the tax liability occurs at the moment of numeration of the customs declaration of goods at the Customs.

2.1.4. TaxableBase:

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:
- Taxincluded in thepurchase bill's of goodsor servicesduring 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 include in an invoice that verify the concept of uncollectibility.
- 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 eventof closureor 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.

2.2. Selected VAT Benefits:

Amongst others, the following transactions are VAT exempted:

Sale of goods:

a. Foreign currency and public and private values.
b. Assets of an estate in favor of heirs of specific devise or legacy, or heirs of general legacy or devise, excluding cessionaries
c. Credits cession.
d. Educational, cultural, and scientific interestmagazines, books and journals.
e. 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:

a. Interests of public and private values.
b. Deposits tobanks and financialinstitutionsregulated by LawNo. 861/96, as well as in Cooperatives, entities of savings and housing loans, and public financial entities.
c. Those provided by permanent staff or employed by embassies, Consulates and international organizations accredited by the national government.

Imports of:

a. Goods whose sales are VAT exempted.

b. Traveler's luggage.
c. 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.
d. 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, except in cases of cessation of activities, closure or permanent closure of business.

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 others 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

Law Nº 4673/2012 on Personal Income Tax (hereinafter "IRP" for its Spanish acronym) was passed on July 23, 2012 and is in force as of August 1, 2012.

3.1.1. This tax applies to the following:

- Individuals residing in Paraguay;
- Professional corporations: those which do not have features from other entities regulated by the Paraguayan Civil Code or special laws, and whose purpose does not involve a commercial or agricultural activity.

IRP applies, during the first period, to taxpayers whose income exceeds 10 monthly legal minimum wages[1] or 120 annual legal minimum wages, the latter equals to approximately USD 46.972[2]. This threshold will decrease annually in 12 monthly legal minimum wages up to 36 monthly legal minimum wages per annum.

3.1.3. Base of calculation

Deductive expenses admitted by law and duly documented are subtracted from the total gross income from the activities performed. The result of the latter is net income. IRP's rate applies to the total net income.

1 Legal minimum wage established in February 2014 is Gs. 1.824.055 (USD 46.972 approximately)

2 Exchange rate USD 1 = Gs. 4.660

3.1.3. Taxable Income

- Taxable income will be Paraguayan-source income derived from:
- 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.
- Fifty (50%) percent of the dividends, utilities, or surpluses, obtained by shareholders or partners of entities engaged in activities subject to Income tax on commercial, industrial and service activities (IRACIS for its Spanish acronym) and or Farm Income Tax (IMAGRO for its Spanish acronym), distributed or credited, including activities from cooperatives.
- Capital gains arising from the occasional sale of immovable assets and from rights, shares or quotas of capital from corporations assigned.
- Interests, commissions and savings income.
- Any other income exceeding 30 legal minimum wages[3], approximately USD 11.743.[4]

3.1.4 Rates

IRP's rate is 10% of the net income of the relevant fiscal year when income exceeds 120 annual legal minimum wages (approximately USD 45.600), and 8% of the net income of the relevant fiscal year when income are equal or lower than 120 annual legal minimum wages (approximately USD 45.600). Non-residents who occasionally receive Paraguayan source income are subject to income tax at a twenty (20) tax rate over the 50% of the gross income received.

4. AGRICULTURAL ACTIVITIES INCOME TAX (IRAGRO)

4.1.General Aspects

On October 7th 2013, Paraguay enacted Law No. 5061/2013 ("Law") which modifies the Income Tax on Agricultural Activities ("IMAGRO") established by Law No. 125/91 and provides a new tax regime denominated Agricultural Income Tax ("IRAGRO").On December 27 2013, Paraguay enacted Decree No. 1031/2013 ("Decree") which regalement the Law.

The IMAGRO taxed incomes obtained from agricultural activities performed in Paraguayan territory.

For tax purposes, the IMAGRO considers agricultural activities to those performed with the purpose of obtaining commodities, vegetable or animal, through the use land, capital and labor.

While IRAGRO maintains this definition and most of the provisions of the IMAGRO it also implementsmodifications mainly extending the application of Value Added Tax ("VAT") to the agricultural industryas well as adopting other tax measures designed to achieve price controls on export operations.

In sum, the main changes implemented by the Law are:

4.1.1. New taxable events

One of the innovations of the Law is the inclusion of new taxable events that were previouslyexempted such as breeding of new animal species and certain business activities related thereof. Italso taxes the income generated by the fixed assets involved in agricultural activities.

3 Legal minimum wage established in February 2014 is Gs. 1.824.055

4 Exchange rate USD 1 = Gs. 4.660

4.1.3. Unified tax rate

Under the previous regime, the income earned by the owners of real estate properties that weredeemed to be “medium” or “undeveloped” were subject to a tax rate of 2.5%. With the enactmentof the Law, such distinction between medium or undeveloped real estate properties disappears andtax rates are unified. Accordingly, income of taxpayers is subject to VAT at a rate of 10%, regardlessof the size of their real estate properties.

In addition, taxpayers with an income of less than 36 times the minimum wage throughout theperiod of a year are exempted from IRAGRO.

4.1.3. New liquidation regime

Under the IMAGRO, income of owners of medium real estate properties and undeveloped propertiesearned in a rational manner were calculated on a presumptive basis taking into account the size, location and characteristics of the land as parameters. IRAGRO eliminated the presumptive methodof taxation. Instead, income is always calculated on an actual income basis.

Taking into account this modification, the simple possession of undeveloped property is no longertaxed by the IRAGRO as it previously was by the IMAGRO presumptive taxation regime.

4.1.4. Application of VAT is extended to the sale of agricultural products

The domestic sale of “unprocessed” or “natural” agricultural products is now taxed at a rate of 5%over the sale price. The Law also provides that the tax authority -in accordance with its regulatorypowers- is entitled to increase this percentage to a rate of up to 10%.

4.1.5. 50% of recoverable VAT on exports instead of 100% refund provided by the IMAGRO

Under the IMAGRO, taxpayers were entitled to recover 100% of their VAT tax credits obtained inlocal procurement of goods and services affected to their export operations at the time them exported the agricultural products.

The IRAGRO provides that the VAT refund is reduced to 50% regardless if exports are related toagricultural products in their natural state or if they are undergoing basic industrialization processes.

4.1.6. New price assessment system for export operations

For the purposes of determining the Income Tax of Commercial, Industrial and Services Activities (“IRACIS”), the Law empowers the tax authorities to adjust the agreed prices of export operations ofcommodities

4.2. Tax Rates

The standard rate is 10% applied to agricultural activities performed in Paraguayan territory and the income from agricultural activities as a pig farm, cuniculture, flower farming, sericulture, aviculture, apiculture, and silviculture, when this activities are carried out by the producer and the income from these activities do not exceed 30% of the total revenue of the establishment.

The activities that involve manipulation, processes or treatments are under the IRAGRO, except when the activities are performed by the producer for the conservation of those goods.

4.3. Taxpayer of the IRAGRO

IRAGRO taxpayers are:

a. Sole proprietorship;
b. Companies with or without legal personality;
c. Corporations, private entities in general;
d. Publicly owned corporation, independent entities, decentralized entities and a mixes economy society;
e. Individuals or entities incorporated or domiciled abroad and their agencies or establishes in Paraguay.
f. The foreign headquarter will pay the taxes for their taxable activities obtained from their independent activities.

4.4. Taxable Base

This tax is paid on an annual basis on profits that taxpayers were accrued in the year before. The tax liability is set on June 30 of every year.

When the taxpayer of the IRAGRO is also a taxpayer of IRACIS, IRPC or IRP, the closing year of the fiscal year shall be on December 31 of every year.

4.5. Tax Regime Liquidation

The taxpayers of the IRAGRO settled tax basis of the following regimens settlement:

a. Liquidation regime of countable result:this is mandatory for companies ingeneral. To the sole proprietorship, when their income earned in the previous calendar year are more than Gs. 1.000.000.000 (USD. 214.593 approximately[5])
b. Liquidation regime of medium rural taxpayer: this regime is for the sole proprietorship, when their incomes earned in the previous calendar year are equal to or more than Gs. 500.000.000 (USD. 107.296 approximately), and not more than Gs. 1.000.000.000 (USD. 214.593 approximately).
c. Liquidation regime of small rural taxpayer: this is for the sole proprietorship when their total incomes earned in the previous calendar year are lower than Gs. 500.000.000 (USD. 107.296 approximately).
d. To computing the total income amounts mentioned above, will be added the income from activities as a pig farm, cuniculture, flower farming, sericulture, aviculture, apiculture, and silviculture, when these activities do not exceed 30% of the total revenue of the rural establishment.
e. The amounts of the income mentioned above is calculated without taking into account the VAT included in the corresponding sales receipts.

5. 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.

5 Exchange rate USD 1 = Gs. 4.660

Tax payers are the owners, any of the co-owners in case of shared ownership, or usufructuaries of the land.

5.1. 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	13%
Tobacco	13%
Soft drinks or drinks with up to 2% alcohol	5%
Beer	9%
Ciders, wine and liquor products	11%
Whisky	11%
Champagne and equivalents	13%
Alcohols in different forms	10%
Fuel oil	50 %
Perfumes, eau de toilette and makeup preparations	5%
Natural pearls and precious stones in general	5%
Luxury watches	5%
Air conditioning equipment	1%
Appliances	1%
Arms and ammunition	5%
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.

6. CUSTOMS REGIME – GENERAL ASPECTS

6.1 Custom 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	0-30%
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	18%	Average applied to the affected goods on the cus toms value determined prior to the withdrawal of goods from the customs area.
Advance income tax	0,6%	On the value determined by Customs
National Indigenous Institute Tax	7%	On the cost of consular fees
Fiscal Patent	2%	On vehicles whose value exceeds USD 30.000

6.2 Taxable Base.

The customs tax base is the value CIF or CIP of the goods.

6.3 Filing and Payment.

Acustom declaration must be filed and the pertinent tax must be paid in cash.

Selected Custom Duties Regimes Available.

6.4. 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 filingof the custom declaration.

6.4.1. 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.

6.4.3. Drawback regime.

The Drawback regime is not applicable in Paraguay.

6.4.4. 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 “Tax Free 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.

7. PAYROLL TAXES/WELFARE CONTRIBUTIONS

7.1 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.

7.2. 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.

7.3. Family Bonus.

Workers are entitled to collect a supplement equivalent to 5% of the minimum monthly legal wage (approximately USD. 371,85[6]) 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.

7.4. 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.

c. Vacations can be accumulated at the worker's request for two years if it is not detrimental to the interests of the company.

6 Exchange rate USD 1 = Gs. 4.660

PERU CHAPTER
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HIGHLIGHTS

NATIONAL LEVEL TAX RATES

Corporate Income Tax:	28 %
Dividends Tax:	6.8%
Withholding Taxes (Non Resident) on:	
-Interest:	4.99% or 30%
-Royalties:	30%
-Technical Assistance:	15% or 30%
-Independent personal services:	24%
Employment:	30%
-Imports:	N/A
-Capital Gains - sale of shares	
- 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:	Merge and Spin offs
VAT on Sales:	18%
VAT on 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 1MM
Stamp (Documentary) Tax:	N/A
Financial Transactions Tax:	0.005%

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

TREATY TAXATION:

			Item of Income		
Countries	**Interest**	**Dividends**	**Royalties**	**General Services**	**Technical Assistance**
COLOMBIA		Unlimited source taxation only(*)			
BOLIVIA		Unlimited source taxation only(*)			
ECUADOR		Unlimited source taxation only(*)			
CHILE	No more than 15%	10% or15%	No more than 15%	Residence taxation, unless a Permanent Establishment in the Source State.	
CANADA	No more than 15%	10% or15%	No more than 15%	Residence taxation, unless a Permanent Establishment in the Source State.	
BRASIL	No more than 15%	10% or 15%	No more than 15%	Residence taxation, unless a Permanent Establishment in the Source State. In case of Technical Assistance services, no more than 15%	
SOUTH KOREA	No more than 15%	10%	No more than 15%	Residence taxation, unless a Permanent Establishment in the Source State. In case of Technical Assistance services, no more than 10%	
PORTUGAL	No more than 15%	10% or 15%	No more than 15%	Residence taxation, unless a Permanent Establishment in the Source State.	
MEXICO	No more than 15%	10% or 15%	No more than 15%	Residence taxation, unless a Permanent Establishment in the Source State.	
SWITZERLAND	No more than 15%	10% or 15%	No more than 15%	Residence taxation, unless a Permanent Establishment in the Source State. In case of Technical Assistance services,, no more than 10%	

(*) Under Andean Community Decision to avoid international double taxation.[1]

OVERVIEW[2]

1.INCOME TAX

1.1. General Aspects.

Companies and legal entities resident in Peru are subject to tax on their worldwide taxable income. This includes business profits and capital gains obtained during a fiscal year (i.e. calendar year) calculated on an accrual basis.

1 Andean Pact Commission, Multilateral Act No. 578 - 2004.

2 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.

Companies and legal entities non residents 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.

1.1.1. Income Tax Rate.

28% rate applicable to resident companies including Peruvian branches, agencies and other permanent establishments of non-resident companies. Dividends and profit distribution are subject to a 6.8% withholding (not applicable to resident companies).

For permanent establishments, branches and agencies of foreign companies, a distribution of profits is deemed to occur on the deadline for filing their annual corporate income tax return (generally, at the end of March of the following year).

The tax on dividends is basically applied through a withholding mechanism. The withheld amount is considered a final payment. Nevertheless, for dividends related to expenses not subject to further tax control, the 6.8% dividend tax is paid directly by the resident corporation, branch or permanent establishments (i.e., as a surcharge).

1.1.2. Taxable Base.

Income derived from commercial or business activities are deemed taxable income. This includes income from sale of goods, rendering services, capital gains and results of transactions entered into with third parties. All revenues are subject to income tax unless otherwise excluded by law.

For local corporate purposes, income is recognized on an accruals basis.

1.1.3. 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 is 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, expenses derived from transaction with companies resident in tax havens).

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.

The amortization period runs from the year when production starts. Once the amortization period is fixed by the taxpayer, it can only be varied with the prior authorization of the tax authorities. The new term comes into effect in the year following the date that the authorization was requested, without exceeding the overall 10-year limit.

It is necessary to use certain means of payment for the deduction of expenses in excess of approximately PEN 3,000 or US$1,000. The permitted means of payment include deposits in bank accounts, fund transfers, payment orders, debit and credit cards issued in Peru, non-negotiable (or equivalent)

checks issued under Peruvian legislation and other means of payment commercially permitted in international trading with non-resident entities (e.g., transfers, banking checks, simple or documentary payment orders, simple or documentary remittances, simple or documentary credit cards).

1.1.4. Depreciation.

Tangible fixed assets depreciation is deductible, provided that it does not exceed the maximum rates and it is registered in the accounting books. Depreciation term varies depending on the nature of the asset. The maximum annual depreciation rates are 20% for vehicles, 25% for cattle and fishery nets, 25% for hardware, 20% for machinery and equipment used in the mining, oil, construction industries, 10% for other machinery and equipment acquired since 1991, and 10% for other fixed assets. Buildings are subject to a fixed 5% depreciation rate. Intangibles amortization is also deductible only if the intangible asset is deemed as limited useful life intangible, such as software, patents and author copyrights. The amortization rate is 100% in the first year or 10% during 10 years.

1.1.5. Transfer Pricing.

Peruvian transfer pricing rules are based on the OECD Arm´s Length principle and are applicable to local transactions between related parties, or transactions that take place from, to or through tax heavens.

- For Income Tax purposes, the Peruvian tax authority is allowed to adjust prices of transactions between controlled parties when they are not consistent to the transfer pricing rules and whenever the value agreed for the transaction causes in Peru a minor Income Tax compared to the one that would have been determined in application of the transfer pricing dispositions.

There are three formal requirements that related parties subject to transfer pricing rules must to follow: (i) to have a Technical Transfer Pricing Study; (ii) to keep all the information and documentation that supports the study mentioned before; and, (iii) to file an annual tax transfer pricing return. Under certain circumstances, contributors can be exempted from accomplishing of certain formal requirements.

Only those Peruvian resident entities that accomplished the following requirements must file the informative annual tax transfer pricing return, when in the fiscal period that corresponds to the tax return:

- Have performed transactions exceeding S/. 200,000 (two hundred thousand Peruvian Nuevos Soles) with its related parties or have performed transactions that take place to, from or through tax heavens.
- Have sold goods to their related parties or have performed those transactions from, to or through tax heavens, using as a market value one below the products' acquisition or production cost.

1.1.6. Thin capitalization.

Interest derived from loans entered into between related parties will not be regarded as deductible expenses for tax purposes whenever the loan exceeds three times the net equity of the borrower (debt-equity ratio 3:1). Thin-cap rules are also applied in the context of local financing among related parties that are resident or established in Peru.

1.1.7. Tax Losses Carry-forward / Carry-back.

Carry-back losses are not allowed under Peruvian tax legislation, but only carry forwards. There are two systems: (a) carry forward for four consecutive years, beginning with the following year from the one the loss has arose; or, (b) indefinitely carry forward, but with an annual limit of such loss equivalent to the 50% of the taxable income in each tax year.

1.1.8. Tax-Free Reorganizations.

Taxpayers may choose among three options: (i) revaluate the assets to be transfer with tax effects, taxing the gain that arises for the difference between the new value and the cost of acquisition; (ii) revaluate the assets to be transfer without tax effects, but in this case distribution of dividends and depreciation is restricted; and, (iii) transfer the assets without revaluating at the same book's value, without any tax effect.

Transferor's tax losses could not be attributed to the acquirer under a corporate reorganization (i.e. mergers, demergers, spin-offs). The acquirer's tax losses could be imputed against the taxable income derived afterwards the reorganization as long as the tax losses do not exceed 100% of acquirer's fixed assets calculated before the reorganization takes place.

1.1.9. Leasing Tax Treatment.

The tax treatment of finance lease does not defer from the accounting one (i.e. IAS No. 17). In addition, if some requirements are met, the lessee can benefit from an accelerated depreciation considering the term of the leasing contract as the term of the useful life of the assets which is leased. The contract's term shall not be lesser than 2 years for machinery or equipment and not lesser than 5 years for Real Estate property.

1.2.Payment and Filing

1.2.1. Monthly Advance Payments on net income.

1.5% on every month net income of start- up companies and companies with tax losses in the last year. For the other cases, tax contributors should determine the advance payments with a ratio (annual income tax over annual net income) and said resulting amount should be compared to the one resulting from the use of aforementioned percentage. The companies should choose the higher amount as the payable advance payment.

1.2.2. Annual Tax return and payment.

During the first three months of each next calendar year.

1.3.Penalties.

Monthly lateness interest rate is of 1.2 %, and penalties may range from 5% up to 100% of the corresponding tax liability.

1.4.Dividends Tax.

Dividends and other profits distribution to nonresident companies or individuals (resident or not) are subject to a 6.8 % withholding tax. However, dividends distributed by a resident company to another resident company are regarded not taxable income.

1.5.Cross-border Transactions

1.5.1. Withholding Taxes.

Peruvian companies that pay or accrued Peruvian sourced income to nonresident individuals or enti-

ties must withhold the respective Income Tax, which rate depends on the type of income.

Income	Company	Individual
Interest Loans	4.99 %	N/A
Preferential Interest (up to Libor + 7)	4.99 %	30%
Non Preferential Interest	4.99 %	30%
Dividends and other profits distribution	6.8%	6.8 %
Gains of Transfer of Real State	30%	30%
Capital Gains - sale of shares		
- Lima Stock Market:	5%	5%
- Others:	30%	30%
Royalties	30%	30%
Technical Assistance within or abroad Peru	30 %	24%
-If certain requirements are met[3]	15 %	N/A
Digital Services within or abroad Peru	30 %	30%
General services within Peru	30%	30%
Independent / professional services	N/A	24%
Employment	N/A	30%
Live Shows performed by Artists	15%	15%
Others	30%	30%

1.5.2. Tax Treaties.

See a brief in the highlights section.

1.5.2.1. Regime within the Andean Community.

Decision No. 578 determines the regime to avoid double taxation among Member Countries of Andean Community (Bolivia, Colombia, Peru and Ecuador). This regime is based on the State-of-source taxation principle. Therefore, income which is taxed in one Member Country will be regarded as non-taxable income in the other Member Country.

1.5.2.2. Treaties with other countries.

Peru has signed Tax Treaties with the following nations:
- Canada
- Republic of Chile,
- Federative Republic of Brazil
- Republic of Korea
- Swiss Confederation
- Portuguese Republic
- United Mexican States

Tax treaties executed with all the countries listed above has been negotiated on the basis of the OECD Model Tax Convention on Capital and Income. However, there are some deviations in order to include certain features of the UUNN Model, especially the provisions referred to Permanent Establishment and Royalties.

1.5.2.3. Stability Agreements.

Companies and Investors may enter into Tax and Legal stability agreements with the Government

3. The Peruvian recipient of the service shall have a report issued by an auditors' company of international prestige certifyingthat "technical assistance" has been effectively provided, in case the retribution of the service is above 140 UIT.

provided they comply with minimum requirements. The stability regime guarantees for at least a 10 years period the following conditions: (i) application of the Income Tax Regime in force at the time the agreement is settled; (ii) no exchange controls; (iii) non discrimination; (iv) application of custom duties in force at the time the agreement is settled; and, (v) setting disputes in national and international arbitration tribunals.

1.5.3. Tax on Indirect Transfer of Shares.

If a nonresident holding company (HOLCO) owns (i) directly or (ii) indirectly (through any other nonresident company) shares of a Peruvian Company (PERUCO), the gain on the disposal of such securities will be deemed as Peruvian source income subject to income tax in two cases:
If the market value of PERUCO shares owned (direct or indirect) by HOLCO is equivalent to 50% of the total value of HOLCO shares, in any twelve months period before the transaction is taken; or,

HOLCO is a resident of a tax heaven jurisdiction according to PITL rules unless it proves that it is not in the scenario, mentioned in the above bullet.

Law No. 29757, clarified that the transaction described in the preceding paragraph will only be taxable where shares or participation interests representing 10% or more of the non-resident holding company`s equity capital are transferred within the 12-month period. This means that transfers of shares (or participations) representing less than 10% of the non-resident holding company`s equity capital are not subject to taxation in Peru even when 50% or more of the fair market value of those shares is derived from the shares (or participations) representing the equity capital of one or more Peruvian subsidiaries at any time within the 12 months preceding the dispositions.

The obligation of paying this resulting tax lies on the non-resident seller. However, the Peruvian company that issued the shares or participation interest has joint and several responsibility, except for the case in which the company acquiring the shares or participation interests is Peruvian. In such cases, the acquiring Peruvian company will be responsible for the payment of the corresponding tax under the title of withholding agent, as expressly stated by law.

1.5.4. CFC Rules (Controlled Foreign Company):

Peruvian Income Tax Law has incorporated this regimen to be in forced as from January 2013, which main purpose would be avoiding the indefinite deferral of the imposition in Peru of passive income obtained abroad by non resident entities controlled by local entities.

According to this Regimen, the resident entities, that solely or together with related local entities, participate directly or indirectly in no less than 50% of the results of non resident entities, shall consider, according to their participation percentage, the net passive income of said entities if the aforementioned income is not subjected to tax burden in the country where it is obtained or if said income is burdened with a tax rate not higher than 75% of the tax rate applicable in Peru for the same income. Said net passive income would be attributable at the end of the fiscal tax year.

1.6. Related Taxes

1.6.1. Temporal Net Assets Tax (TNAT):

A 0.4% tax applies of the net assets set forth in the company balance sheet as of December 31 of the prior year, provided it exceeds S/. 1 000 000.00 (one million Peruvian Nuevos Soles), or approximately US$ 325 000 (three hundred twenty five thousand dollars). It is to be noted that the tax works as a Minimum Income Tax, because the amount paid by the company is creditable to offset its Income Tax and the excess may be reimbursed by the Tax Administration. Companies at a pre-ope-

rative stage are no subject to TNAT.

1.6.2. Financial Transactions Tax.

A 0.005% tax applies to the value of most of financial transactions such as: bank accounts credits or debits, certified checks, bank certificates, travel checks, wire transfers, payment orders, credit cards, etc. Payments over S/. 3,500 or US$ 1 000 shall be made through financial transactions, in order to be deductable for Income Tax purposes.

2. VALUE ADDED TAX (VAT)

2.1.General Aspects

2.2.1. Tax Rates. The General Sale Tax (known as IGV) is a value added tax. The 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; (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.

2.2.Early Recovery System.

Companies on a preoperative 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$ 5MM; and, (ii) must have not less than two years of preoperative stage.

3.OTHER TAXES

3.1.Real Estate Property Tax.

Local Authorities require owners to pay a tax up to 1% on their real estate property within their jurisdiction. Rates depend on the property value: 0.2%, 0.6% and 1%.

3.2.Motor Vehicular Property Tax.

Motor vehicles are subject to a tax of 1% on the value of the vehicle. This tax will be imposed only for the first three years after the registration of the vehicle into the National Public Registry.

3.3.Real Estate Transfer Tax.

Sale of real estate is known as Alcabala Tax and it is subject to a tax of 3%. The taxable base is the transfer value, which cannot be less than the taxable value (autovalúo) of the property. The first 10 tax units are exempted. For the year 2015, the Tax Unit is S/. 3,850.00 (three thousand eight hundred and fifty Peruvian Nuevos Soles) The Alcabala tax must be paid by the purchaser within the calendar month following the month in which the transference takes place.

4.NEW PERUVIAN TAXES & ROYALTIES ON MINING

The main features of the mentioned royalty and taxes are as follows:

4.1. Special Mining Burden (GEM).

It is applicable to mining companies subject to stabilization agreements which voluntarily decide to subscribe an agreement with the Peruvian Government. Quarterly payments applied on operating margin. It is deductible as an expense for corporate income tax purposes. Funds are considered federal government revenue.

4.2. Special Mining Tax (IEM).

It is applicable to mining companies not subject to stabilization agreements. It is supplementary to the royalty regime. Quarterly tax applied on operating profit based on a sliding scale with rates ranging from 2% to 8.4% depending on the company`s operating margin. It is deductible as an expense for corporate income tax purposes. Funds are considered federal government revenue.

4.3. Modified Royalty.

It replaces existing royalty and is applicable on operating profit, rather than sales. It must be paid quarterly according to a sliding scale with rates ranging from 1% to 12%, depending on operating margin. There is a minimum royalty equal to 1% of sales and is deductible for corporate income tax purposes. Funds are considered regional government as in the existing royalty.

5.CUSTOMS REGIME –GENERAL ASPECTS

5.1.Custom Duties.

Ad Valorem Custom Duties are levied on the customs value of the imported goods with rates of 0% (i.e. capital goods), 6% (i.e. mobile phones, agriculture, fishery goods, raw materials, chemicals etc.)

and 11% (i.e. fabrics, footwear, fruits, dairy products etc.). Some products such as sugar, milk and corn are subject to a plus value fix by the Government.

5.2.Customs Valuation.

For customs duties the value of imported goods is determined according to WTO´s Customs Valuation Agreement methods, and other regulations approved by the Customs Administration for such purpose.

5.3.Temporary Importation Regimes.

Peruvian regulations allow the entrance of goods duty free for a limited period of time for: (i) the production of exportation goods; (ii) warehouse; or, (iii) use of machinery in industry, mining or other activities.

5.4.Drawback.

A drawback regime applies to producer/exporter companies to recover the import duties paid for the importation of materials to produce the exported goods. The restitution tax applicable is 4%.

5.5. Stability agreements:

See section 1.5.2.3.

6. PAYROLL TAXES / WELFARE CONTRIBUTIONS

6.1. 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 13.22% 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.

6.2. 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 private system as a credit against the contribution, but not in excess of the 25% of it.

6.3. 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.

6.4.Other legal benefits.

During the employment relation, employees are entitled to the following benefits:

- Salary: A minimum monthly payment of approximately US$ 250 (PEN 750).

- Legal Bonuses: Legal bonuses to be paid in July and December, each one equal to one monthly salary.
- Compensation for Time of Services: 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.
- Family Allowance: To be paid monthly to employees with children under 18 years old, it is equal to approximately US$ 28 (10% of the minimum legal salary).
- 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.
- 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.

6.5. 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.

6.6. Labor Stability.

Dismissals in Peru can only be due 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 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.

PUERTO RICO CHAPTER
ADSUAR MUÑIZ GOYCO SEDA & PÉREZ-OCHOA, P.S.C.

This chapter does not reflect the amendments made to the Puerto Rico Icome Tax Act of 2011, asamended, by Act 72 of May 29, 2015.

PUERTO RICO
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HIGHLIGHTS

NATIONAL LEVEL TAX RATES

National Level Tax Rates:

Corporate Income Tax:	20% - 39%, plus additional tax on gross of at least $3 million ranging from 0.35% to 1%
Corporate Capital Gains Tax:	20%
Branch Profits Tax:	10%
Dividend Tax:	10%

Partnership
Partnerships are pass-through entities. Thus, the partnership is not subject to income tax and the partners are subject to income tax on their share of the partnership net taxable income.

Limited Liability Companies
Limited liability companies are treated as corporations for income tax purposes, unless they elect to be treated as a pass-through partnership. However, limited liability companies that are treated as pass-through entities or disregarded for United States federal income tax purposes or under the laws of any other jurisdiction are treated as pass-through entities and may not elect to be treated as corporations.

Withholding Taxes on payments to nonresidents

Interest:
None, except that a 29% withholding tax is applicable if interest is paid to a related person.

Royalties:
29% withholding tax, except that a withholding tax ranging between 2% and 12% is applicable in the case of royalties paid by grantees of tax exemption under the Puerto

Rico tax or economic incentives acts.

Technical Assistance:
No withholding to the extent services are rendered outside of Puerto Rico. If services are rendered in Puerto Rico, the 29% withholding tax is applicable.

Technical Services
No withholding, to the extent services are rendered outside of Puerto Rico. If services are rendered in Puerto Rico, the 29% withholding tax is applicable.

Other Services:
No withholding, to the extent services are rendered outside of Puerto Rico. If services are rendered in Puerto Rico, the 29% withholding tax is applicable.

Tax losses carryforward term:
Generally, 10 years. However, the net operating loss deduction is the lower of the net operating loss or 90% of the net taxable income without taking into account the net operating loss.

Tax losses carryback term:
None

Transfer Pricing Rules:
Yes, based on rules similar to those of the United States Internal Revenue Code of 1986, as amended ("US-IRC"). Additionally, generally 51% of the expenses incurred or paid to a related person not engaged in trade or business in Puerto Rico, or a home office outside of Puerto Rico, are disallowed, if the related person is not subject to Puerto Rico income tax on such payments by way of withholding or otherwise.

Tax-free Reorganizations:
Mergers, stock for stock, stock for substantially all assets, divisive reorganizations, rein-corporations, recapitalizations. Rules are similar to the rules of the US-IRC.

VAT on Sales:	None
VAT on Services	None
VAT on Imports:	None.

Sales and Use Tax on Sales:
7%, subject to certain statutory exceptions.

Sales and Use Tax on Services
7%, subject to certain statutory exceptions.
Use Tax on Imports:
7%, subject to certain statutory exceptions.

Custom Duties: United States custom duties are applicable in Puerto Rico.

Stamps and registration fees for transfers of real property:
Approximately 0.5% of the purchase price of the real property.

Excise Taxes:
Vehicles, gasoline, and other products imported to, or manufactured in, Puerto Rico are subject to excise taxes. The excise tax rate varies depending on the product.

Local Level Tax Rates:

Municipal License Taxes:
Generally, 0.5% of gross income. Financial services are subject to a 1.5% tax rate.

Personal Property Taxes:
Tax rate varies depending on municipality where property is located.

Real Property Taxes:
Tax rate varies depending on municipality where real property is located. Tax is assessed upon assessed value of real property, which is substantially lower than market value.

TREATY TAXATION:

Puerto Rico is a territory of the United States that is not empowered to enter into tax treaties with other countries. The tax treaties of the United States generally do not include Puerto Rico taxes.

OVERVIEW

1. INCOME TAX.

1.1.1.Income Tax Rate.

The corporate income tax is the higher of a (i) regular tax ranging between 20% and 39% of net income and the additional tax on gross income (the "ATGI") and (ii) the alternative minimum tax.

The AMT is the higher of (i) 30% of alternative minimum net income (i.e., essentially net income adjusted to reflect the seller's economic net income); or (ii) the sum of (A) generally, 20% of the expenses incurred or paid to a related person that are not subject to PR income tax by way of withholding or otherwise, and/or the amount of costs or expenses allocated from a home office located outside PR to a PR branch if such amount was not subject to PR income taxes; and (B) generally, 2% of the purchases of personal property from a related person.

1.1.2. Depreciation.

A reasonable amount may be deducted from gross income for exhaustion, wear and tear and normal obsolescence of property used in the corporation's or partnership's trade or business or held for the production of income. Generally, depreciation is allowable only for tangible or intangible property that has a limited useful life of more than one year.

The straight line method (i.e., cost or other basis of property less estimated salvage value divided by estimated useful life) or any other recognized trade practice may be used to compute the depreciation deduction.

Generally, assets may also be depreciated under the accelerated cost recovery method. Under this method assets may be depreciated during period ranging from 5 to 35 years. Assets that qualify as

3, 5 or 10 year property may be depreciated using a 200% declining balance method, and assets that qualify as 15, 20, 30 or 35 year property may be depreciated using a 150% declining balance method.

A flexible depreciation method that allows the taxpayer to determine (subject to certain limitations) the amount, if any, of the basis of certain property that will be deducted in computing gross income, is also available for certain property used in certain types of businesses.

1.1.3. Transfer Pricing.

Generally, Puerto Rico transfer pricing rules are based on the rules of section 482 of the United States Internal Revenue Code of 1986, as amended (the "US-Code"). In general, the Puerto Rico Treasury Department may adjust the transfer price for goods or services among related parties (i.e, parties that, directly or indirectly, control, are controlled by or are under common control with the other party by way of stock ownership, contractual provisions or otherwise), if it is not fixed on an arm's length basis (e.g., the price that an unrelated party would charge in similar circumstances).

1.1.4. Tax Losses Carryforward/Carryback.

Generally, net operating losses may be carried forward until exhausted to the succeeding ten (10) taxable years. No carryback of net operating losses is allowed.

Generally, the net operating loss may only be used by the corporation that incurred the loss. A corporation that acquires all or substantially all of the assets of the corporation that incurred the losses in certain corporate reorganizations may also use the net operating losses, but only against the net income derived by the business activities of the transferor that incurred the losses.

If, there is a change in the stock ownership of the corporation that incurred the losses of at least 50% of the value of the issued and outstanding shares of stock, the use of the net operating losses is restricted to the income derived from the business activities that incurred the loss.

1.1.5. Corporate Reorganizations.

No gain or loss is recognized upon the transfer of assets or shares of stock in certain corporate reorganizations. Generally, the following transactions qualify as reorganizations in which no gain or loss is recognized:

a. statutory mergers or consolidations of corporations organized under the laws of Puerto Rico;
b. acquisition of at least 80% of issued and outstanding shares of stock of a corporation, respectively, or substantially all of its assets, in exchange for voting stock of the acquiror (or its parent company);
c. transfer by a corporation of all or a portion of its assets to a corporation, if immediately after the transfer the transferor or its shareholders, or a combination of both are, in control of the transferee;
d. reincorporations; and
e. recapitalizations.

1.2. Payment and Filing Date.

Corporations must file their income tax returns on or before the 15th day of the fourth month after the close of the taxable year. Estimated tax payments must be made on or before certain dates during the taxable year and any amount due must be paid with the filing of the income tax return.

1.3. Dividends and Branch Profits.

Generally, dividends distributed by corporations organized in Puerto Rico are subject to a 10% withholding tax.

Repatriation of corporate earnings by corporations organized outside of Puerto Rico are subject either to a 10% withholding tax or a 10% branch profits tax, to the extent that the dividend or the amount equivalent to a dividend, respectively, is from sources within Puerto Rico or consists of earnings and profits effectively connected with the corporation's Puerto Rico trade or business.

1.4.Cross-border Payments.

1.4.1.Dividends.

A 10% withholding tax is generally withheld from distributions of dividends from sources within Puerto Rico.

1.4.1.2.Royalties:

Royalty payments from sources within Puerto Rico are subject to a 29% withholding tax. However, royalties paid by corporations that are grantees of tax exemption under the Puerto Rico tax incentives acts are generally subject to a withholding tax rate ranging between 2% and 12%.

1.4.1.3.Services:

Payments for services rendered outside of Puerto Rico are not subject to withholding tax. If the services are rendered in Puerto Rico, the 29% withholding tax is generally is applicable.

1.4.1.4.Interest:

Interest payments are not subject to withholding taxes. However, if the interest is paid to a related person (as defined in the Internal Revenue Code of 2011) the interest is subject to a 29% withholding tax.

2.SALES AND USE TAX:

A 7% sales and use tax is generally applicable to the sale, use, storage and consumption of tangible personal property, taxable services, rights of admission and combined transactions (collectively, the "Taxable Items").

Unprepared food ingredients, medicines acquired with medical prescription; certain articles used in the treatment or prevention of sickness or illness; machinery and equipment and raw materials for use in a manufacturing process are among the personal property exempted from the sales and use tax. Real estate transactions are also exempt from the sales and use tax.

Among the services exempt from the sales and use tax are certain business to business services, designated professional services, education and health services, insurance services, and services provided by the government of Puerto Rico.

Any and all persons (individuals or entities) engaged in the sale, use or storage of Taxable Items must register in the Registry of Merchants of the Puerto Rico Treasury Department. Manufactures and resellers of Taxable Items must obtain a Certificate of Exemption from the Puerto Rico Treasury Department in order to claim their respective exemptions.

3. OTHER TAXES:

3.1.1.Real and Personal Property Taxes.

Generally, real and personal property taxes are assessed annually upon the real property located in Puerto Rico and the personal property used in a trade or business in Puerto Rico.

Real property taxes are assessed upon the appraised value of real property pursuant to certain guidelines established for the appraisal of real property conducted in Puerto Rico in the late 1950's. As a result, the appraised value for real property tax purposes is generally significantly lower than the prevailing market value of the real property.

Personal property taxes are assessed upon the market value of the personal property. Book value is used as the basis for the assessment, unless it does not reflect the market value of the personal property.

Real and personal property tax rates fluctuate depending on the municipality where the property is located.

Generally, real and personal property taxes are assessed as of January 1st of each year. However, the personal property tax upon inventory is assessed based on the annual average of inventory of the preceding year.

3.1.2.Excise Taxes.

Vehicles, petroleum products, and other articles imported to, or manufactured in, Puerto Rico are subject to excise taxes. In the case of articles imported to Puerto Rico, the taxpayer is the consignee. In the case of locally manufactured articles, the taxpayer is the manufacturer. The excise tax rate varies depending on the type of product.

3.1.3.Municipal Taxes.

a. Municipal License Taxes. The Municipal License Tax Act, as amended (the "MLTA"), empowers each municipality of Puerto Rico to impose a municipal license tax upon the "volume of business" of generally all persons engaged in business within its territorial limits.

The MLTA defines "volume of business" as essentially the gross income from sources within and without Puerto Rico attributable to the operations conducted in the municipality, including without limitation, interest and dividend income.

Interest from obligations of the government of Puerto Rico or the United States is among the items of income exempt from the municipal license tax.

The tax rate is a maximum of 0.5%. However, financial businesses are subject to a maximum tax rate of 1.5%.

b. Municipal Construction Tax. The municipalities also impose a tax on the value of any construction within their territorial limits. The rates vary depending on the municipality where the construction is located.

4.CUSTOM DUTIES.

Articles imported to Puerto Rico from foreign countries are subject to the custom duties imposed by the United States upon articles imported into the United States.

5.TAX INCENTIVES PROGRAMS.

5.1.1.Economic Incentives Act for the Development of Puerto Rico (the "EID").

Manufacturing, assembly, certain designated products, leasing real or personal property to a manufacturing operation that enjoys exemption under the EID, certain services rendered within Puerto Rico to nonresidents and certain recycling activities qualify for tax incentives under the EID. The tax incentives include a 4% maximum income tax rate, full exemption on dividends or distributions of profits, 90% property tax exemption, 60% municipal license tax exemption and full municipal construction tax exemption. Special tax credits and deductions are also available. The period of exemption is 15 years.

5.2.1.Tourism Development Act of 2010.

Generally, hotels, condo-hotels, inns, and other tourist facilities qualify for 90% income, property and municipal license tax exemptions and full exemption from excise on certain products.

Tax exempt financing of eligible tourism facilities is available. Special tax credits are also available to investors in tourism projects. The period of exemption is 10 years and may be extended for 10 additional years.

5.2.3.Agricultural Tax Incentives Act of 1995.

Generally, farming, animal breeding, agro-industrial operations and other agriculture related operations are eligible for 90% income tax exemption and full exemption from property, excise and municipal taxes under the Agricultural Tax Incentives Act of 1995, as amended.

5.2.4.International Banking Center Regulatory Act.

Companies engaged in banking, lending, currency transactions, underwriting, distribution and trading of securities, insurance or other financing transactions with person located outside of Puerto Rico, may qualify for income, property and municipal license exemption under the International Banking Center Regulatory Act.

Dividends, partnership profits, interest and finance charges paid to nonresidents of Puerto Rico also qualify for income tax exemption.

5.2.5.Act to Promote the Transfer of Investors to Puerto Rico.

Individuals that have not been domiciled in Puerto Rico at any time during the 15 year period ended on January 17, 2012, and become bona-fide residents of Puerto Rico after such date, qualify for a grant of tax exemption pursuant to which interest, dividends and certain capital gains from the sale of securities are exempt Puerto Rico income taxes until December 31, 2035.

5.2.6.Other Exemptions.

Other tax exemptions are available for the film industry, the production of energy from renewable sources, certain services rendered to nonresidents of Puerto Rico, air carriers, hospitals, venture capital funds, maritime freight transportation, the construction or improvement of real property in certain designated areas and certain historical zones, and businesses established in certain areas.

URUGUAY CHAPTER

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HIGHLIGHTS

NATIONAL LEVEL TAX RATES

Corporate Income Tax:	25%
Capital Gains Tax:	25%
Branch Profits Tax:	25%
Dividends Tax:	0
Withholding Taxes on:	
- Dividends	7%
- Interest:	12%
- Royalties:	12%
- Technical Assistance:	12%
- Technical Services:	12%
- Other Services:	12%
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%
Local Level Tax Rates:	
Tax on Industrial Activities:	National Tax Level
Tax on Commercial Activities:	National Tax Level
Tax on Service Activities:	National Tax Level

1. Please refer to 1.1.9.

Real Estate Tax:	Enforced by the Municipal Government
Taxes on Other Property:	N/A
Document Registration Tax:	N/A
Excise Taxes:	Depending on the goods

TREATY TAXATION:

Items of Income				
Countries	**Interest**	**Dividends**	**Royalties**	**Tech.Services**
Germany	Shall not exceed 15%	Shall not exceed 15%	Shall not exceed 15%	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% No withholding if ownership percentage exceeds 75%.	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
Malta	Shall not exceed 15%	Shall not exceed 10%	Shall not exceed 10%	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 5% or 10% depending on the ownership percentage	Shall not exceed 10%	No withholding

OVERVIEW

1.INCOME TAX

1.1. General Aspects.

Uruguay collects taxes following the principle source: investments located and activities performed outside Uruguayan territory are not subject to taxation. However, since 1st January 2011 there is an extension of the principle source and some investments located outside Uruguayan territory from Uruguayan fiscal residents are subject to taxation.

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

1.1.3. Minimum Taxable Income.

Income obtained by tax payers 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 for the purpose of determining 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:

a. Professional land cargo carriers
b. Those whose income arises from agricultural activities.
c. Those who have decided to be levied by the Economic Activities Income Tax.
d. 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 gross 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.

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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.

- 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.
- 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, as long as 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, ii) transactions with third parties located in tax havens. The Executive Branch, per Decree Nº 56/2009 has issued the list of jurisdiction considered tax havens for the purpose of applying transfer pricing rules.

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:

1. The comparable uncontrolled price method.
2. The resale price method.
3. The cost-plus method.
4. The profit-split method.
5. 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.

1.1.7. Inflation Adjustments.

This is used as a fiscal adjustment in the computation of the taxable base. It is calculated on the basis of 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:

The value of the assets adjusted for tax purposes less the assets affected for obtaining non-taxable income, fixed assets and livestock.
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.

If the variations in the wholesale prices index are not higher than 10% in a fiscal year, the Executive Branch shall state that this adjustment will not apply.

The taxpayers may choose to apply the variation prices index. Should this option be performed shall be maintained for 3 years.

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 in order 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. 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.

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 Nº 16,906.

This law grants two types of tax benefits:

General benefits for investments.

In order to obtain these benefits there is no need to file any investment project, since they apply generally and automatically. They are applicable to all payers of Economic Activities Income Tax (IRAE) which 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:

a. Machines and premises for commercial, industrial and services activities (excluding financial activities and leasing of real properties).
b. Farming Machines.
c. Fixed improvements in farming sector.
d. Utility vehicles.
e. Personal property used for equipping and re-equipping hotels, motels and tourist restaurants.
f. Capital assets for improving the services rendered to tourists.

g. Equipment for electronic data processing and communications.
h. Machines, premises and equipment for the productive innovation and specialization.
i. Phosphate fertilizers (only for livestock producers).

The exemption provided above comprises exclusively taxpayers whose incomes within the previous year of the investment execution, 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.

- Reimbursement of the Value Added Tax included in the acquisition of services exclusively used in construction works.

- Projects of great economic significance (investments of over US$ 850,000.000 approximately) will receive a special treatment.

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 in the course of 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 on May).

The filing schedule is issued yearly by the tax authorities, in the schedule the paying and filling 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 on a monthly basis 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 or inaccurate or out of term filing; these penalties are not calculated depending on the amount on the taxes to be paid; but, it is a fixed amount established by the tax authorities, this amount is around US$ 15 (fifteen United Stated Dollars, amount fixed for 2014)

Tax liabilities related to any financial year prescribe five calendar years after 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.

Withholding Taxes (Non residents 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.

Non-residents are individuals sojourning less than 183 days in Uruguay during the course of the year and foreign companies operating in Uruguay without a permanent establishment.

1.5.1.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.

1.5.2. Royalties.

Royalty payments are subject to a 12% withholding tax.

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.

1.5.3. Leases / Equity Growth.

This income includes leases, subleases, or assignment of the right to use or possess real properties located in Uruguay. The applicable rate is 12%.

Income arisen from equity growths are those resulting from transferring, promises to transfer, assignment of promises to transfer, assignment of inheritance rights of tangible and intangible assets. This income is levied at a 12% rate.

1.5.4. Services and Technical Assistance.

Payments of fees related to industrial and mechanical processes are subject to a 12% withholding tax.

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%, which shall be withheld by the individuals subject to the Economic Activities Income Tax who pay for the services and technical assistance rendered by non-resident individuals.

1.5.5. 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).

1.5.6. 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 rates depending on the investments will be as follows:

Concept	Rate
Interests corresponding to local currency deposits and deposits in pegged units for long-term with financial institutions.	3%
Interests from liabilities and other debt documents, issued for terms longer than three years by means of public subscription and quoting at the Stock Exchange.	3%
Interests corresponding to a one-year term or less constituted in local currency without the adjustment clause.	5%
The other rates	12%

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.

The delivery of goods and the rendering of services performed within Uruguayan territory and the introduction of goods regardless of the place where the contract was entered into or the parties' domiciles will be taxed.

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 returned 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.
- 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).

Law No. 18,083 reduced between 2 and 4 points of VAT applicable to purchases of goods and services to final clients provided such goods or services are paid through credit or debit cards, or other similar instruments.

2.3. Individuals and legal entities subject to VAT.

All business entities that are Income tax payers are also VAT payers. VAT also applies to professio-

nals, self-employed individuals or associations of individuals rendering professional services. Legal entities that carry out taxable activities will be also included, although they do not have permanent establishments.

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 have to 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 fueloil and gasoil).
- Milk and goods to be used on agricultural production and its row 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 General Tax Office administrates the VAT. Tax returns are filed monthly (semiannually for smaller business) 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. The applicable rate for liabilities and debentures, saving documents and any other similar bearer documents will be of 3.5%.

Individuals will also be taxpayers of this tax (please, see item 3.5 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, 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. Tax on Off Shore Companies.

Financial Investment Companies, usually referred to as SAFI's, are usually set up to conduct offshore type activities and are not allowed to conduct business operations within the Uruguayan territory. After the enactment of the Tax Reform Act, no new SAFIs can be incorporated and the existing ones will be governed by the general regime as of January 1st 2011.

However, off-shore transactions may be carried out by commercial companies, since Law 18,083 especially determines that those companies may have an interest in the capital of one or more companies, and further, they may perform any activity included in the corporate object. In this case, since the commercial companies will perform activities outside the Uruguayan territory, and pursuant to

the territorial principle, the income arisen from such activities will be deemed as foreign source, and therefore, they will not be taxed, except for the companies that perform mediation activities (refer to 3.3).

3.3. 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 soak-up type 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

Intermediation in the rendering of services provided these are rendered and economically used outside Uruguay.

3.4. Corporations Control Tax (ICOSA).

This tax is mandatory for all Uruguayan domestic corporations, and is levied on the minimum capital established by the Government to incorporate a domestic company.

ICOSA is applied:

i. upon incorporation of the corporation, at a rate of 1.5% on a base established by law (the tax is approximately US$ 1,000), and
ii. at the close of each corporate year at a rate of 0.75% on a base established by law (the tax is approximately US$ 500).

Corporations can deduct the amount paid for the Corporate Oversight Tax when computing their Net Worth Tax.

This tax is not levied on free zone corporations, pension fund administrators, offshore investment corporations (SAFIs), or foreign entity branches.

3.5. 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 and deposits in pegged units for more than one year.	3%
Interests from liabilities and other debt documents, issued for terms longer than three years by means of public subscription and quoting at the Stock Exchange.	3%
Income of participation certificates issued by financial trusts by public subscription and quoted in a stock exchange on national entities, for terms over three years	3%
Interests corresponding to a one-year term or less constituted in local currency without the adjustment clause	5%
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 Tax payers 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 30%, 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. Consequently, in order to determine the total amount of the deductions, the taxpayer shall apply to the total deductible amount a determined range of rates.

There is also a net-worth tax levied on assets of individuals, family units and undivided estates that is applied on assets located in the country less certain liabilities and also on nominated bank accounts. Only assets located, placed or economically used in Uruguay are subject to tax.

The rate applicable to IP is annual and progressive from 0.7% to 1.6% according to a scale.

3.6. 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 and open and there are no restrictions on imports and exports, therefore, there is freedom to import all kind of goods[5].

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.

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 having 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.

5 Notwithstanding regulatory requirements.

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

Selected Custom Duties Regimes Available

4.3.1 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.

4.3.2. 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:

1. The product to be imported does not exist in the local market
2. The product to be imported exists in the local market but the price is significantly expensive to produce the final product.
3. 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.

4.3.3. 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 or in the same state.

4.3.4. 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 non tributary 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.

4.3.5. 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.

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 and to abroad.
- Rendering of telephonic or informatics' services from the free trade zones to the non-free zone of the Uruguayan territory.

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 are allowed to employ is usually limited to 25% of their total number of employees.

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 Fee 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$ 4,300 .

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:

1. Retirement: 7.5%
2. Health: 5%
3. Labor Reconversion Fund: 0.125%

Employee:

1. Retirement: 15%
2. Health: Between 3% and 8%
3. Labor Reconversion fund: 0.125%

The ceiling of US$ 4,300 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 on a monthly basis.

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. Other contributions.

There is an additional contribution that finances the reproach of the unemployed segment of the population. The Spanish acronym for this contribution is FRL "Fondo de Reconversión Laboral". Employers and employees must make payments of 0.125% of the gross salary.

5.4. 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 on a monthly basis.

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.

5.5. Child and Family Protection Services.

These contributions are made by the State; and they are financed with the retirement contributions.

5.6. Unemployment Insurance.

After the working relationship is finished the State covers for a period of 6 months a variable percentage 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.

5.7. Benefits

The most important benefits are:

- 13th month salary – It is also called complementary annual salary, equivalent to 1/12 of the remuneration in cash that the employee receives at a particular period of time. Payments are divided into two, as follows:
  - 1/12 of the payments received between December 1 in a given year to May 31 of the subsequent year. This installment must be paid in June.
  - 1/12 of the payments receivers between June1 and November 30 of a given year. This installment must be paid in December.
- Paid annual vacation - workers have the right to 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 CHAPTER
TORRES, PLAZ & ARAUJO

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HIGHLIGHTS

NATIONAL LEVEL TAX RATES

Corporate Income Tax:	Bracket #2 – 15% to 34%
	Upstream Oil Activities at 50%
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):

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	1%

Tax losses carry-over term:	3 years (1 year for API losses)
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 to partnership (see-through), and contributions to equity at cost.

VAT on Sales:	12% (WHT applies)
VAT on Services:	12% (WHT applies)
VAT on Imports:	(reverse charge) 12%

Custom Duties:	from 0% up to 20% (reductions provided under MERCOSUR and Cooperation treaties)
Net-worth (Assets) Tax:	Repealed in 2004
Financial Transactions Tax (corporate)	Repealed in 2008
Special Petroleum Windfalls Taxes	20% / Excess of Avg. price Ven basket over budget price 80% / Price Venezuelan basket btwn 80 and 100 USD 90% / Price Venezuelan basket btwn 100 and 110 USD 95% / Price Venezuelan basket for USD 110 and in excess

Excise Taxes:

Spirits & Alcohol	(on retail sale price) 8.5 - 10%
Spirits & Alcohol	0.0006 – 0.102 T.U.[1]/liter
Tobacco (Cigarettes & Tobacco Products)	(on retail sale price) 30 - 45%

Science & Technology Contribution (on Large Ventures)

Alcohol, Tobacco & Gambling	(on turnover) 2%
Oil, Gas & Mining by private parties	(on turnover) 1%
Oil, Gas & Mining by State owned & General activities	(on turnover) 0.5%

Anti Drug Enforcement Contribution

In General	(on net earnings) 1%
Alcohol & Tobacco Companies	(on net earnings) 2%
Sports Law Contribution	(on net earnings) 1%

Local Level Tax Rates:

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 5% of turnover (proceeds)
Tax on Real State property (currently only urban property)	Established by each Municipality, commonly 0.01% to 0.2% on assessed value

1 T.U. stands for Tax Unit, which is adjusted on a yearly basis to reflect inflation on nominal tax amounts, currently 1 T.U. is equivalent to VEB 90, which is equivalent to USD 20.93.

Motor Vehicles Tax:	1-4 Tax Units (T.U.) p/a
Legal Gaming & Gambling:	5-10% p/a
Commercial Advertisement Tax:	1 T.U. per Square Meter
Tax on Public Shows and Performances:	10%
Duties:	Vary for each service

Treaty Taxation (Income & Capital):

Items of Income

Countries	Interest[1]	Dividends[2]	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	4.95-15%	5%	10%	0-10%	10%
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%
Bielorussia	5%	5-15%	5-10%	5-10%	0-10%
Vietnam	10%	5-10%	10%	10%	10%

(*) Colored countries are treaties already ratified but where no exchange of notes have taken place.

(1) Interest: 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.

(2) Dividends: Lower cap is commonly applied in parent/subsidiary context. The test for affiliation (e.g. equity holding) varies among the different treaties.

OVERVIEW

I. INCOME TAX

1.1. General Aspects

1.1.1. World Wide Income.

Since 2001 Venezuela adopted world wide 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 x 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.

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%.

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. In addition the result of the application of the Adjustment per Inflation System may result in income or losses to be added to or subtracted from the taxable base. The result of applying bracket # 2 is the Resulting Income Tax from which applicable Tax Credits are subtracted to find the 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. 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. Some costs and expenses are limited or disallowed, depending on the facts and circumstances of each case, e.g., related party charges, commissions, among others. All Other Taxes and Contributions, Customs Tariffs and Duties and Payroll Taxes and Welfare Contributions (see § 3, 4 and 5, below) are deductible for income tax purposes.

1.1.6. Tax holidays.

The Venezuelan Income Tax Law was amended by the end of 2014 (Official Gazette of the Bolivarian Republic of Venezuela Number 6.152 (Extraordinary) of November 18, 2014). One of the amendments corresponds to the repeal of long standing tax holidays (exemption from tax), as applicable tonon-profit institutions devoted to religious, artistic, scientific, environmental conservation, fostering of technology, culture, education (including Universities and schools) or sports activities. The now repealed holiday conditioned the benefit so that said institutions acted for noprofit, and the income obtained to be a means of achieving their purposes, while the same could notmake any distributions.

1.1.7. 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; 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 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.

1.1.8. 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 were amended in 2010). Transfer pricing provisions do not apply to transactions between two parties who are Venezuelan resident taxpayers. Under the Venezuelan transfer pricing rules, the Venezuelan party must keep and file supporting documentation with the tax authorities, 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.

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 allows since 2001 for the execution of Advance Pricing Agreements (APA) with the Tax Authority; to the best of our knowledge not a single APA has been executed to date.

1.1.9. ThinCap.

The transfer pricing section includes a single provision regarding thin capitalization rules, under which interest with related parties may only be deducted up to the amount corresponding to a debt to equity ratio of the taxpayer 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 reject deduction if debt with related parties is not entered into at "market conditions" (presumably arm's length), for which the Tax Authority shall use as proxy: (i) magnitude 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.

1.1.10. Inflation Adjustments.

Venezuela has since 1991 an inflation adjustment system applicable to all non-monetary assets and liabilities[2] 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).

2 Assets other than cash, deposits and accounts receivable, which are monetary assets. Up until 2001all 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 a disposition ahs not taken place during said fiscal year). The treatment is somehow different from said amendment, as explained below.

Effective for fiscal years beginning on March 2007 onwards, the API system is to recognize adjustments in value (i.e. exchange gain 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-.

Under the amendment to the Venezuelan Income Tax Law of 2014, taxpayers dedicated to banking, financial, insurance and reinsurance activities are excluded from the API system.

1.1.11. Tax Losses Carryover.

A Venezuelan taxpayer can carryover her tax losses for a maximum term of 3 taxable years. There is no carry-back possibility.

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).

In addition to the 3 taxable years term limitation, an additional limitation was included under the amendment of November 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 accrued for the taxpayer. The carryover term is not refreshed by the occurrence of a tax-free reorganization, e.g. statutory merger.

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, the commonly applicable criteria by the Venezuelan Tax Authority is that the taxpayer is not allowed to take the tax loss deduction, but there is a trend of Tax Court decisions allowing for setting off losses from exempted activities against other income of the taxpayer.

Venezuelan tax law and regulations provide for other limits (or conditions) for the assessment and deduction of tax losses other than those generated by the net operating losses, 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, which terminated the same, with effects on fiscal years taking place after the entry into force of said amendment).

Keep in mind that in all cases, inflation adjustments are applicable to update the tax loss amounts and that the deduction is computed on the adjusted amounts (the 1 year carryover limitation has been construed to apply only if an otherwise income position –prior to API- would result in a loss product of the API system).

1.1.12. 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.

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 2010 of a taxpayer closing on December 31st, 2010, could take place up until the last day of March, 2011, or the first half of April for Special Taxpayers).

There are special filing and payment schedules issued by the tax authorities for corporations and individuals classified as Special Taxpayers ("Contribuyentes 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 is pressing hard for all taxpayers to file their return and pay their taxes electronically; at this date all Special Taxpayers and public employees are obliged to file their income tax returns electronically.

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 timesthe banking rate posted by the government, currently somewhere between 20% to 25%.

Under the amendment of the Master Tax Code of November 2014 (Official Gazette of the Bolivarian Republic of Venezuela Number 6.152 (Extraordinary) of November 18, 2014), there is an increase in penalties applicable for non-filing or inaccurate filing, which may range from 100% up to 300% of the corresponding tax liability (which amount is adjusted per inflation on the basis of Tax Units (T.U.), depending on the facts and circumstances in each case.

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 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.

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 start up 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 applieson 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 "Black list" 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 tothirtyincomeand 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:

a. 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, Spain, Sweden, Switzerland, Trinidad and Tobago, United Arab Emirates, United Kingdom, United States of America and Vietnam.

b. Tax treaties ratified (pending exchange of diplomatic notes or beginning of following fiscal year): None.

c. Tax treaties finalized (initialed and pending from ratification): Netherlands Antilles.

d. 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. VALUE ADDED TAX (VAT)

2.1. General Aspects

2.1.1. Tax Rates.

VAT's general rate is 12%.A surtax of 15% applies to luxury consumption goods and services as defined under the VAT law, which last reformtook place on November 2014. Under said amendment, and in line with an amendment to the Master tax Code ("Código Orgánico Tributario") of the same date, the law vests the National Executive with powers to amend said rates. In the case of the VAT rate, between 8% and 16.5%, and in the case of the luxury consumption goods and services between 15% and 20%.

There is a reduced 8% rate regime applicable to certain imports and local sales of cattle, meats and breeding fare, as well as professional services rendered to Government instrumentalities, as well as domestic air travel services.

In Venezuela there are exempted and exonerated goods. 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 28 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.

2.1.2. Taxable Transactions.

These are: sale and importation of movable tangible property; and 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.

2.1.3.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.

2.1.4. 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 in a new VAT Law passed on November 2014 (Official Gazette of the Bolivarian Republic of Venezuela Number 6.152 (Extraordinary) of November 18, 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; (c) must not relate to consumables (beverages, food and shows).

2.2. Payment and Filing

VAT has a monthly taxable period. Therefore, the tax must be computed and a VAT return filed monthly. The VAT return must be filed and paid in full on the filing dates scheduled by the tax authorities for these purposes, which are usually within the first 2 weeks following the corresponding monthly period's end. In the case of Special Taxpayers the filing and payment dates are scheduled by the Tax Authority depending on the last digit of the taxpayer's TIN.

2.3. 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 70% 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 monthly term may be transferred for their recovery in later periods (months), with no limitation in time; alternatively, any excess VAT withholding not credited during the following three monthly 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.

3. OTHER TAXES & CONTRIBUTIONS

3.1.Real Property Taxes

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.

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.

3.3. Local Activities Tax

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 turn over (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 5 per cent. 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%).

Incentives in these taxes are ruled by the ordinance 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.

3.4. 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 1% over the registered capital of a company on its incorporation or subsequently when the same is expanded with further contributions.

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.

3.6. 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 1% 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.

3.7. Science & Technology Contribution

The contribution on science and technology provided by the "Ley Orgánica de Ciencia y Tecnología" (2010), is confirmed in the last amendment of the aforementioned law published in the Official Gazette of the Bolivarian Republic of Venezuela Number 6.151 (Extraordinary) of November 18, 2014, which applies to entities defined in the law as Large Ventures "Grandes Empresas" (those companies with a turnover of T.U. 100,000 or more).

The contribution is a 2% on turnover (gross proceeds) 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 mining activities, 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.

3.8. 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 that 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).

3.9. 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.

3.10. 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.

4. CUSTOMS REGIME –GENERAL ASPECTS

4.1. 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.

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 the status of an invited member to MERCOSUR, and hence, Venezuela avails preferential customs treatments corresponding to MERCOSUR under ACE 59, as per accession protocol entered among Venezuela and MERCOSUR for ruling the parties relations while Venezuela becomes a full member in 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 during 2011.

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 custom duties.

4.3. 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 eventhough Venezuela is not a party to the Andean Community. These rules are substantially similar to the first mentioned rules.

4.4. 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.

4.5. 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 duties 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.

4.5.1. 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 the Customs MasterLaw ("Ley Orgánica de Aduanas"), which was amended on November, 2014 (Official Gazette # 6.155 (Extraordinary) of November 19th, 2014) the value of imported goods shall be determined in accordance with the methodology applied by World Trade Organization ("Organización Mundial del Comercio"), its general rulings, and any international treaties dealing with the same (e.g. MERCOSUR).

4.5.2. Short-term Temporary Imports.

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.

4.5.3. Short-term Temporary Importsfor 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.

4.5.4. 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.

4.5.5. 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. This 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.

4.6. Custom Returns.

According the Article 41 of theamendedCustomsMaster Law, in order to assessthe regime applicableto goods, a filing of a "Customs Return" by the importer or consignee through the Automatized Customs System ("Sistema Aduanero Automarizado") is provided.

In addition, under the new provisions an "AdvancedCustomsReturn" must be filed by the importer or consigneethrough the Automatized Custom System ("Sistema Aduanero Automarizado")prior to the introduction of the goods into Venezuela.

The "Advanced Customs Return" shall be submitted according the following schedule:

a. For goods arriving into Venezuela by air or ground transportation, the "Advanced Customs Return" shall be submitted within a term of one (1) to fifteen (15) calendar days prior to arrival.

For goods arriving into Venezuela by air or ground transportation, the "Advanced Customs Return" shall be submitted within a term of two (2) to fifteen (15) calendar days prior to arrival.
The law provides for certain exceptions to the submission of the "Advanced Customs Return" (i.e. imports made by diplomatic officials or international organizations)

5. PAYROLL TAXES / WELFARE CONTRIBUTIONS

5.1. 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.

5.2. 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) tothe National Institute of Cooperative Education (INCE). Workers contribute 0.5% of their annual profit sharing, which employers must withhold.

5.3. 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.

5.4. 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 Empleois 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.

5.6. 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.

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