

AUXADI

PERU

COUNTRY FILE - 2019





P E R U

With a population of nearly 32 million inhabitants, Peru is one of the most attractive economies in the Latin American region for investors. According to the World Bank, the country ranked 76th on the Ease of Doing Business index and is the 51st economy in the world based on its GDP.

The current economic stability in Peru can be largely attributed to a series of reforms put in place nearly twenty years before. Reforms on trade and financial liberalization, as well as consolidation and other monetary policies were used to encourage fiscal prudence and accumulation of reserves. In fact, the per capita income of Peruvians doubles after thirty years of stagnation and it has gradually increased to reach 5,960 USD per annum.

In the last two decades Peru has become one of Latin America's most developed economies, increasing GDP from 58,148 MUSD in 1997 to 211,389 MUSD in 2017. The Andean country is set to continue its economic expansion with a projected growth rate of 3.8% - 3.7% in 2020 and 2021 respectively. In combination with the relatively high growth, public debt below 25% and a variably forecasted average inflation rate between 2.2% and 2.5%, the Peruvian economy is on track for solid medium-term growth and prospects. Exports are a major contributor to the Peruvian economy. In 2013 Peru entered into a Free Trade Agreement with the European Union which allows most European products to enter into the country with tariffs between 0% and 2%. The country also maintains Free trade agreements with Canada, Chile, China, Andean Community, Korea, Costa Rica, EFTA, United States, Panama, Singapore, Honduras, Cuba, Mexico, Thailand, Japan, Venezuela, and the countries of MERCOSUR (Argentina, Brazil, Paraguay, and Uruguay). In 2017 the country's trade balance was a surplus of approximately 2.14% or about 3,059 million USD.

In addition to the Free Trade Agreements the country shares with nations around the world, Peru is also a member of the Organization for Economic Cooperation and Development (OECD) and the World Trade Organization (WTO). It is also part of the International Monetary Fund (IMF), the World Bank, the Andean Community of Nations (CAN), the Asia-Pacific Economic Cooperation Forum, the Alliance of the Pacific, and the Union of South American Nations (UNASUR).

Peru: country overview



76th

Ranked on the World Bank's Ease of Doing Business Index



M\$ 211,389

GDP



\$ 5,960

INB per capita / year



21%

Public debt



32,200,000

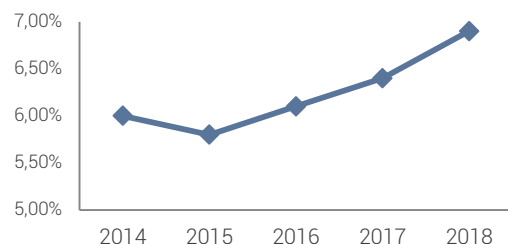
Inhabitants





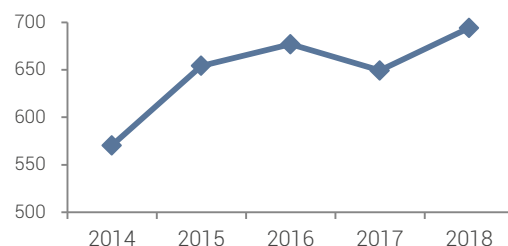
6.9%

Unemployment rate of total workforce



NUEVO SOL

Monetary unit: **S/**
Exchange rate



Main Economic Areas:



Agriculture



Mining



Fishing



**Hydrocarbon
exploitation and
manufactures**



36 days is the average amount of time it takes to incorporate a company in most of Latin America and the Caribbean. In Peru, the process is estimated to range from 11 to 26 days depending on the type of legal entity being established.

**26
days**

The country offers a favorable legal framework for foreign investment with policies addressing free competition, free movement of capital, the guarantee of private property, and equal non-discriminatory treatment towards domestic or foreign investors.



Peruvian companies may not operate with a foreign staff in excess of 20% nor shall their combined total remuneration exceed 30%. In the beginning of 2020, the national monthly minimum wage was set at 277.30 USD. The maximum number of working hours per week is set to 48.

**277.30
\$/month**



The National Superintendence of Tax Administration (SUNAT) is the agency in charge of administering and raising taxes from the National Government (including customs). In Peru, the corporate income tax rate is equivalent to 29.5% of the company's net income. Dividends received from legal entities are taxed at 5%.

**29.5%
Corporate
Income Tax**



The Peruvian regulations in place regarding the preparation and presentation of financial statements follow the standards of Generally Accepted Accounting Principles (GAAP), as well as International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), and their interpretations (SIC).

PCGA



Foreign investment

The Constitution of Peru (1993) includes a series of policies and legal framework with the aim to encourage general private and foreign investment. As such, domestic and foreign investment in Peru are governed by Peru's fundamental principles of equal treatment. In addition to these rights, the following should be noted:

Basic rights of the foreign investor

- Freedom of trade and industry, export and import.
- Freedom to remit profits or dividends abroad, upon payment of the corresponding taxes.
- Free possession and disposition of foreign currency.
- Freedom to use the most favorable exchange rate in the market.
- Free re-export of the invested capital.
- Unlimited access to internal credit.
- Free contracting of technology and remittance of royalties.
- Freedom to acquire shares of domestic investors.

Foreign investment in Peru comes in many different forms. For example, direct investment or contributions to social capital are both common methods. Foreign investment via contractual joint ventures and direct investments in nationally located goods or properties are also permitted. Lastly, foreign investment in intangible goods such as portfolio investment or technological contributions are other legal methods of foreign investment recognized by the Peruvian government.

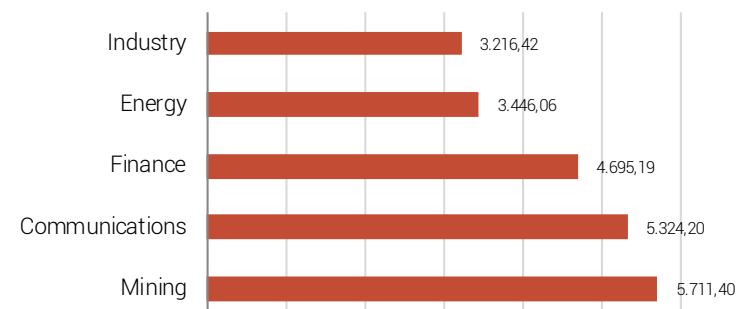
Property rights

The Peruvian Constitution establishes the right of property as inviolable, both for Peruvians and foreigners. This right does not negate the the expropriation of goods when exchanged for compensation. Another exception to this right established by the Peruvian Constitution is that no foreigner can be in possession of or own any mines, land, forests, water, fuel or any energy sources within 50km of the country's border.

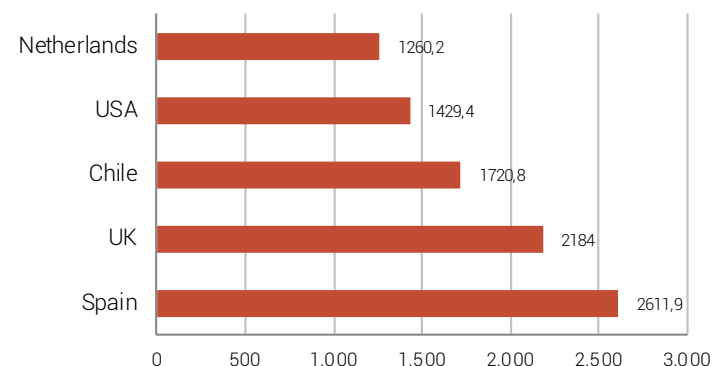
Freedom of organization and development of activities

Every company, foreign or domestic, has the right to free enterprise. These companies may organize and develop their activities largely free of state control. However, all activities must follow comply with relevant industrial hygiene, safety, environmental conservation, health and, or, other legal provisions that are in place.

Foreing Invest by sector in 2018



Foreing Invest by country in 2018



Types of companies



In just 25 days you can have a company incorporated in Peru, compared to 36 days on average in Latin America and the Caribbean. There are nine different legal entities.

	Business Corporation	Closed Corporation	Public Limited Company	Limited Liability Company
NO. PARTNERS	Minimum 2 partners	2 to 20 partners	Over 750 partners	2 to 20 partners with participation
CONSTITUTION	Simultaneous	Simultaneous	By third parties offering	Simultaneous
NAME	Sociedad Anónima o S.A.	Sociedad Anónima Cerrada o S.A.C.	Sociedad Anónima Abierta o S.A.A.	Sociedad Comercial de Responsabilidad Limitada o S.R.L.
ADMINISTRATION	General Shareholders' Meeting, Management, Board of Directors	General Shareholders' Meeting, Management, Optional Board of Directors	General Shareholders' Meeting, Management, Board of Directors	General Meeting and Management
TRANSFER OF SHARES OR GAIN SHARING	Free	Shareholders have the right of preferential acquisition in case of transfer of shares to a third party (unless it is eliminated in the bylaws)	Free. No restrictions or limitations are allowed	The transfer of participations is subject to the prior authorization of the partners

RESPONSIBILITY OF THE PARTNERS UP TO THE VALUE OF THEIR CONTRIBUTIONS

Branches

A branch is a secondary establishment used by a company to carry out activities in a region different from its registered corporate office. It lacks independent legal personality and must have permanent legal representation. A branch does not have independent legal rights and must have permanent legal representation by the main registered corporate office. However, a branch does retain the right to be transformed into a separate company based on the General Law of Companies of Peru.

Partnership agreement:

Profit-sharing association contracts, consortiums and joint venture contracts are established to outline and regulate the participation of stakeholders in a business or company. These contracts do not establish a legal entity on their own nor are they recognized in place of legal registration in Peru, but they must be in writing to be legally recognized.

Single-owner Limited Liability Companies or EIRL (Spanish acronym)

Single-owner or limited liability companies are legal entity constituted by a single person. This type of legal entity is best suited for natural owners or small businesses that want to keep individual fiscal responsibilities separate from the enterprise or other partners. It is most similar a free-lance or legally self-employed individual in Spain.



Labor Aspects

The most common contracts in Peru are for an indefinite term, but they are also allowed to conclude fixed-term and part-time contracts.

Regardless of the type of contract, all workers are subject to a trial period that can range from three to six months. In the case of trusted employees, this trial period can range from a time of six months to one year. During this time, the workers are not entitled to compensation in the case of arbitrary dismissal.

In case of termination, after the trial period, any employee contracted for an indefinite term will be compensated with the salary corresponding to a month and a half for each year of work. Any employee hired for a fixed term is compensated with a remuneration and a half for each month that remained in the contract. In all cases compensation for dismissal shall not exceed 12

monthly payments. Any foreigners wishing to work in Peru must have a work visa from the General Directorate for Migration and Naturalization and a work contract with the approval from the Administrative Labour Authority.

Although **Peruvian companies may not operate with a foreign staff in excess of 20% nor shall their combined total remuneration exceed 30%, in certain cases, Peruvian employers are exempt from this regulation.** If a foreign employee is considered to be highly qualified, has a Peruvian spouse, child, parent or sibling they are considered exempt from this regulation. Additionally, any foreign employee that has a contract of employment reciprocity or dual nationality is also exempt from this ruling. Finally, companies that are in certain sectors like, foreign international transport or multinational services are also exempt from this ruling on foreign employee ratios.



Types of contracts

Indefinite Term Contracts

These are the most common types of work contracts in Peru; there is no expressly defined end date.

Fixed Term Contracts

These types of contracts are generally reserved for work of a temporary nature and are never considered for a term longer than five years. Workers are permitted the same rights and benefits allotted to employees on indefinite contracts for the duration of their employment.

Part-Time Contracts

Employees contracted on a part-time basis are not contracted for less than four hours a day. Part-time employees are also allotted benefits in accordance with the law. There are protections in place for part-time workers in regard to fair compensation, compensation for time of service (CTS), arbitrary dismissal, and 30 days of vacation rest.



Tax Aspects



Peru's main taxes are levied on income, production and consumption, circulation of money and patrimony. There are also contributions to health Social Security and the National Pension System.

Main taxes are considered as the following:

Direct Taxes

Income Tax

There are three groups subject to this tax that are subdivided into five categories of income tax (view below). This is a monthly paid on account, with annual settlement via a sworn statement, also known as DJ by its Spanish acronym.

Temporary Tax on Net Assets (ITAN, by its Spanish acronym)

Temporary tax on net assets is calculated by applying the rate of 0.4% based on the historical value of the company's net assets when the value of said assets exceeds one million nuevos soles (according to the closed balance sheet) as of December 31 of the previous year. It constitutes a credit against the Income Tax, and a return on the surplus balance can be requested.

In order to avoid double taxation, subsidiaries and branches may choose to pay the ITAN against the income tax credit. If there is still a tax surplus in this category, an equal refund can be requested in the country of origin, if there are

Capital income

Gross income is taxed obtained by the lease, sublease and assignment of goods (first category) and other capital income (second category) by 5%.

Dividends distributed by companies incorporated or established in Peru to individuals at a rate of 5%.

First category income

Income obtained by individuals, undivided estates and conjugal societies via:

- Rent or subletting of properties.
- Legislation or temporary assignment of movable or immovable property and their associated rights.
- Value of improvements made to the property by the tenant or sublessee and not reimbursed by the owner.
- Free transfer of land from the owner to third parties.

Second category income

Income obtained by individuals, undivided estates and conjugal companies for royalties, dividends, assignment of rights, placement of capital, sale of real estate or lease.

Third category income

Income obtained by individual and legal entities through business activities. It is determined at the end of the year and is declared according to the schedule defined by the National Superintendence of Tributary Administration (SUNAT, by its Spanish acronym) during the first three months of the following year, monthly payments must be made on account.

Fourth category income

Income earned by independent workers.

Fifth category income

Income obtained by dependent workers.

Companies and businesses

Companies and businesses the tax rate is **29.5%** on net income and dividends received from non-domiciled legal entities. Dividends received from legal persons domiciled are not subject to tax.

Work income

For domiciled individuals, the FOURTH and FIFTH category tax is calculated by applying a cumulative progressive rate **between 8% and 30%**.

For subjects not domiciled in Peru, the tax on dependent income is **30%**.

double taxation agreements in both countries.

Tax on Financial Transactions (ITF, by its Spanish acronym) and Means of Payment:

In Peru a 0.005% rate is applied to all financial transactions on inflows and, or, outflows of funds in the local bank account. Any payment above S/. 3,500 or US\$ 1,000 must be made through any mean of payment authorized for this purpose. These authorized forms of payment include: account deposits, money order, transfers of funds, payment orders, debit or credit cards issued in Peru and "non-negotiable" checks. If a payment is made by any other method, it is assumed that the funds are unavailable. Likewise, no refund for the General Sales Tax may be requested for the purchase of the goods or services that are the object of the transaction.

Indirect Tributes

General Sales Tax (IGV, by its Spanish acronym):

The general sales tax, taxes all phases of the production and distribution cycle. A rate of 16% plus another rate of 2% corresponding to the Municipal Promotion tax is applied. **The payment of this 18% is monthly.**

Selective Tax to Consumption:

Selective tax to consumption is the tax on the consumption of specific goods, tobacco, alcohol and many more.

Municipal Taxes

Predial Tax:

The predial tax, taxes the value of urban or rustic properties (land, buildings and fixed facilities). The rate is annual and ranges between 0.2% and 1%, depending on the value of the property.

Sales Property Tax (Alcabala):

This tax is on any type of transfer of urban or rural property. The rate is 3% and is the responsibility of the buyer. This tax does not apply to the first 10 Tax Units (UIT, by its Spanish acronym) (S/. 42,000).value of the property.



Vehicle Tax:

Vehicle taxes apply to the ownership of automobiles, vans and wagons, manufactured in the country or imported, with an antiquity of up to 3 years. A rate of 1% is applied to the value of the vehicle.

Transfer Prices

Under Peruvian law, if two parties agree to transactions that give rise to a payment of Income Tax in the country, that is lower than the amount that would have corresponded to the application of the market value, the transfer pricing rules should apply.

The taxpayers subject to the scope of application of Transfer Pricing, must submit annually an affidavit (Local Report) of the transactions made with related parties. In some cases this may include any subjects residing in territories or countries with low, or no taxation abiding by the terms and conditions established by SUNAT. In this sense, the taxpayers domiciled in the country that are obliged to present said declaration are those who are in any of the following cases:

1. Accrued income has exceeded two thousand three hundred (2,300) Tax Units (UIT)
2. The transaction was made within the scope of application of the transfer pricing rules, the amount of operations is equal to or greater than one hundred (100) Tax Units (UIT) and less than four hundred (400) Tax Units (UIT)

Legal Basis: Numeral a) of Article 32 ° - A of the Income Tax Law (LIR, by its Spanish acronym).

Double Taxation Agreements

As of 2019, there are double taxation agreements to avoid and resolve tax duplications with the Andean Community (Peru, Colombia, Bolivia, Ecuador), Chile, Canada, Mexico, Korea, Switzerland, Portugal and Brazil. The agreement signed with Spain in 2006 has not been ratified.

Other Agreements

The promotion of some sectors of production and activity in Peru, resulted in the Peruvian government exonerating some taxes and customs duties in certain zones, including the Amazon Rainforest and the Andean Highlands (Free zones established by law).

Peru has signed agreements to avoid double taxation with the Andean Community, Brazil, Chile, Mexico, Korea, Switzerland, Portugal and Canada. It also has Bilateral Investment Agreements with Australia, China, Korea, Malaysia, Singapore, Thailand, Japan, Canada, the United States, Cuba, El Salvador, Argentina, Bolivia, Chile, Colombia, Ecuador, Paraguay, Venezuela, Germany, Belgium and Luxembourg. , Denmark, Spain, Finland, France, Holland, Italy, Norway, Portugal, United Kingdom, Czech Republic, Romania, Sweden, Switzerland.

The Free Trade Agreements signed by Peru are with China, Singapore, Canada, United States, Chile.





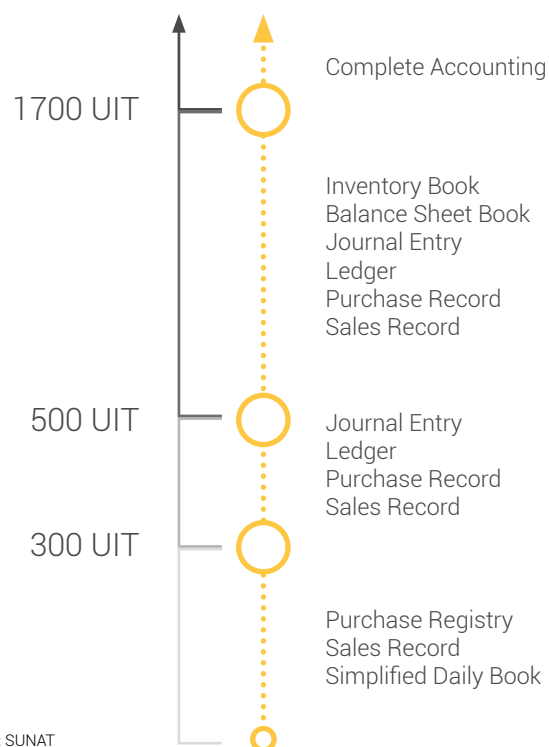
Accounting Aspects

The General Corporation Law establishes that the financial statements of companies incorporated in Peru are governed by the accounting principles generally accepted in the country. These are the International Financial Reporting Standards: IFRS, IFRIC and SIC. The specific provisions certain institutions like banks and insurance companies are also recognized.

Minimal obligations

Books and accounting records

Volume of gross annual income



Source: SUNAT

Annual Report and Financial Statements

- In the annual report, the board of directors' reports to the general meeting the progress and state of the business, the projects developed, main events that took place during the year, the situation of the company, and the results obtained. The Management Report is only mandatory for issuers with securities registered in the Public Registry of the Securities Market (RPMV, by its Spanish acronym).
- Financial Statements.
- Proposed application of gain sharing (if applicable).

Audit Obligations

The companies that are obliged to present audited financial information are issuers with securities registered in the Public Registry of the Stock Market RPMV, risk rating companies and structuring entities. Branches of foreign companies are not subject to this obligation.

Audited financial information must include the previous year for comparative purposes. The quarterly information is not required to be audited. This audit must be carried out in accordance with the provisions of the International Standards on Auditing and Assurance issued by the International Federation of Accountants (IFAC).

Legal basis: rules on preparation and presentation of Financial Statements and Annual Report by entities supervised by the Superintendence of the Securities Market, approved by SMV Resolution No. 016-2015-SMV / 01. (Ministry of Economy and Finance).

Consolidation Obligations

A company has the obligation to consolidate, when it exercises control over another or, when said company owns directly or indirectly through subsidiaries more than 50% of the voting rights of another company.



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- Venezuela
- USA



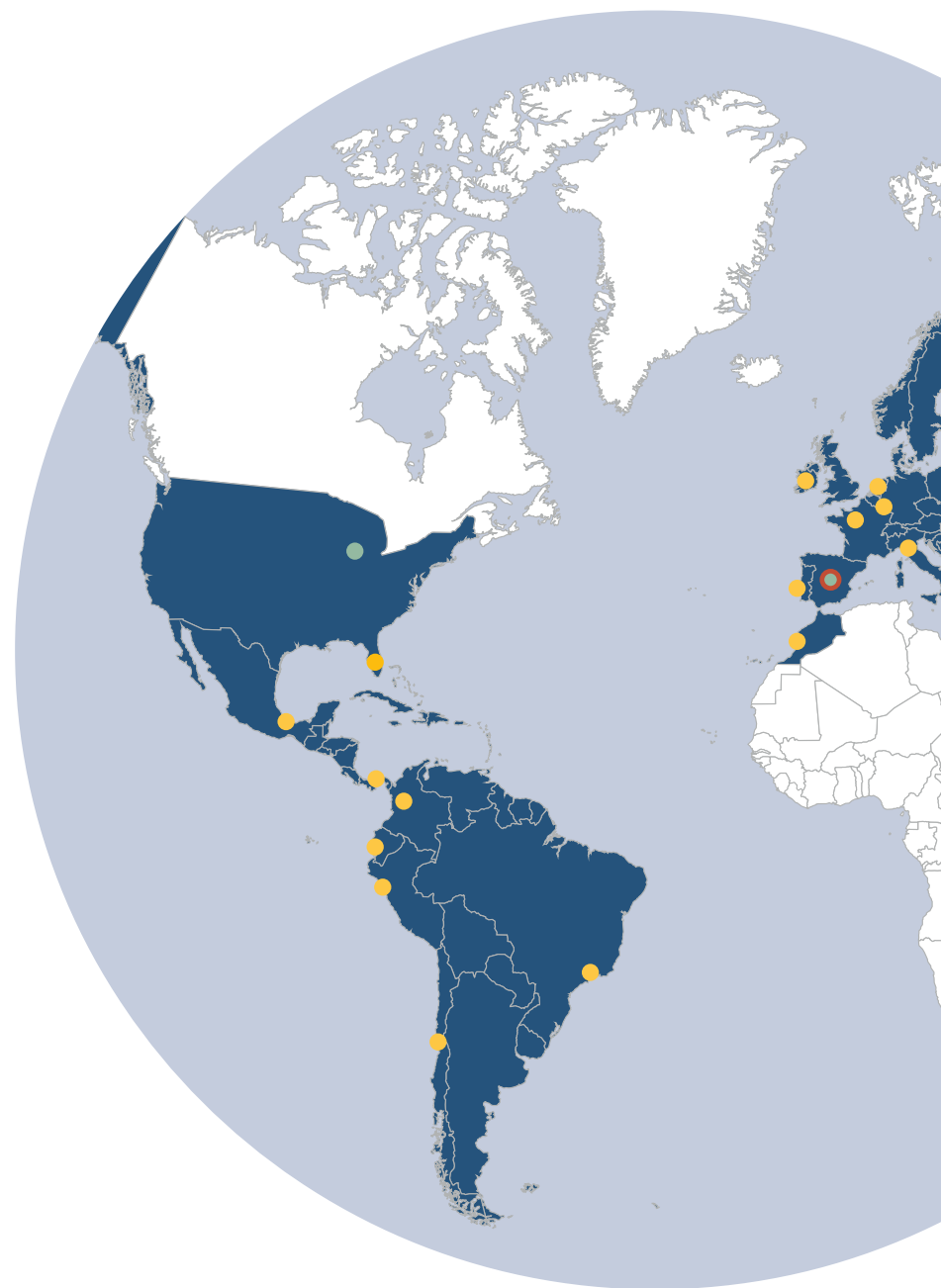
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Fully operating
subsidiaries



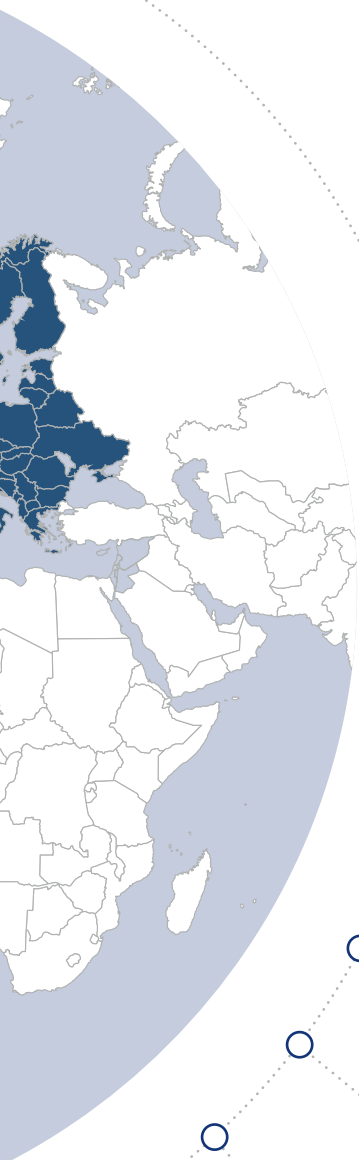
+50

Countries currently
being served



Services

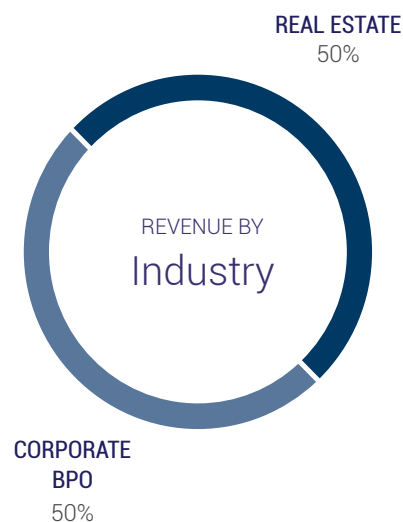
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 - CUSTOMS AND INDIRECT TAXES
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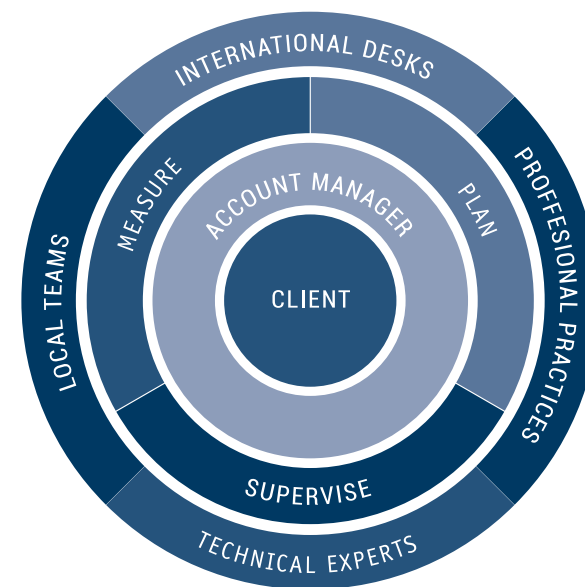
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Service Model



25M USD

Turnover in 2019



+1.000

Clients



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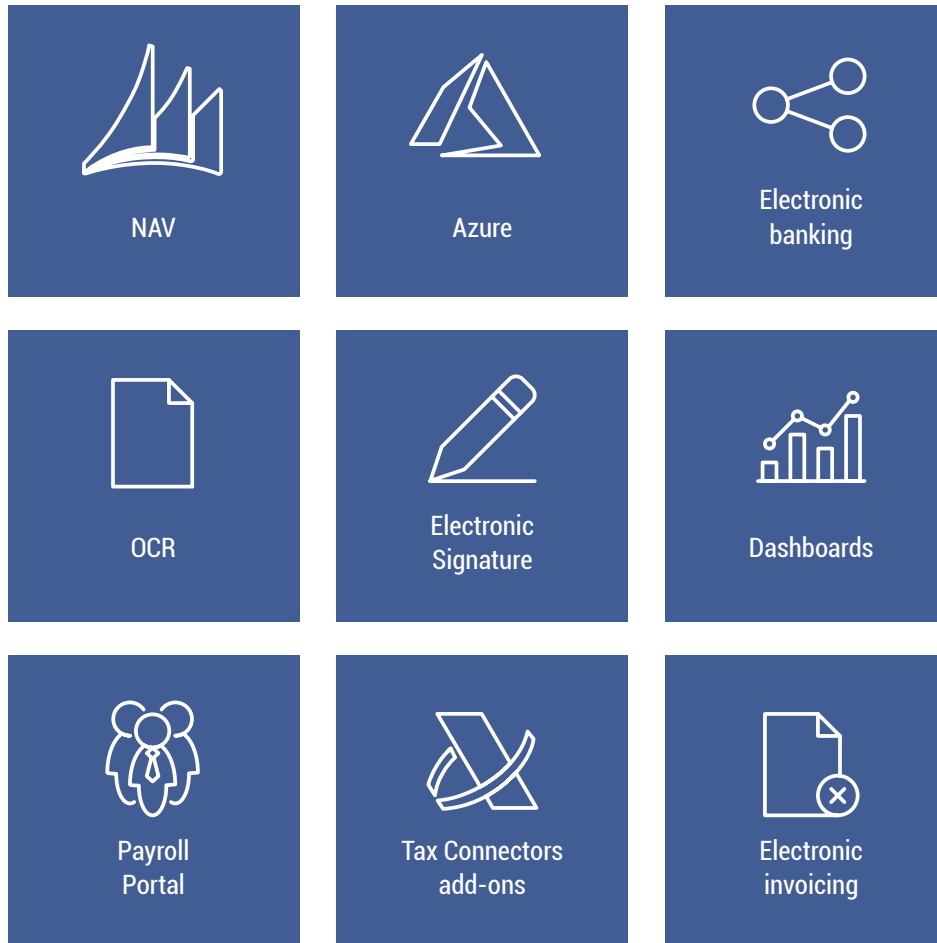
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