

THE POWER OF BEING UNDERSTOOD

AUDIT | TAX | CONSULTING

DOING BUSINESS PERU

About Peru

General information of Peru



Population
32.17 million inhabitant



Annual Inflation¹
2.19%



Country Risk²
1.87



Primary language
Spanish



Currency
Sol (PEN)



Exchange rate
1 USD = 3.37 PEN³



Extension
1,285 million Km²



Religion
Freedom of worship.
Mainly Catholic.



International Time
UTC/GMT - 5 Hours



Natural Resources
Mineral resources,
forestry, farming and fishery,
among others.

Source: INEI

International Agreements signed by Peru

Andean Community of Nations - CAN



Member of Latin American Integration Association - ALADI

Mercosur



Free Trades Agreements



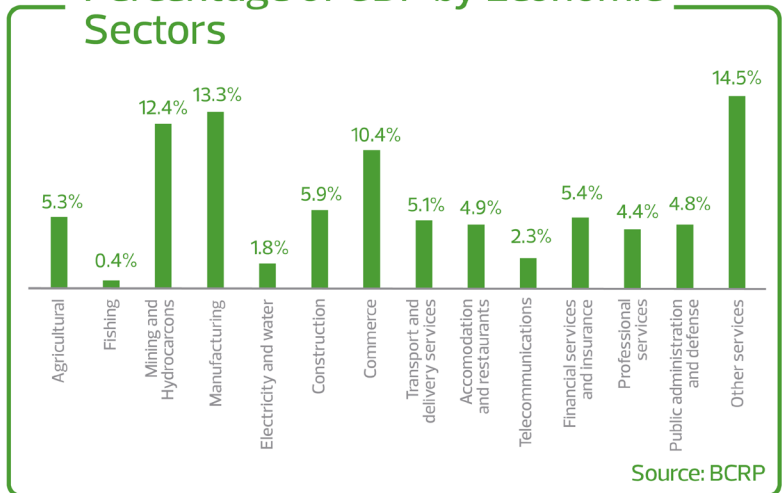
¹ December 31, 2018.

² One of the lowest in Latin America. Source: Damodaran.

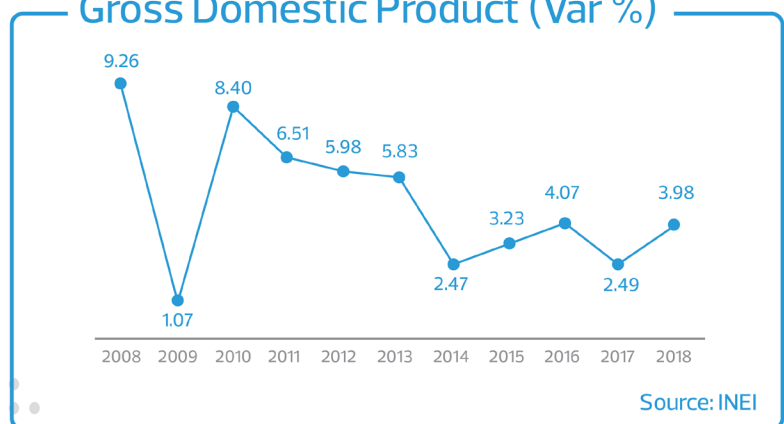
³ Exchange Rate as of July 31, 2018. Source: Superintendence of Banking and Insurance (SBS).

GDP Growth

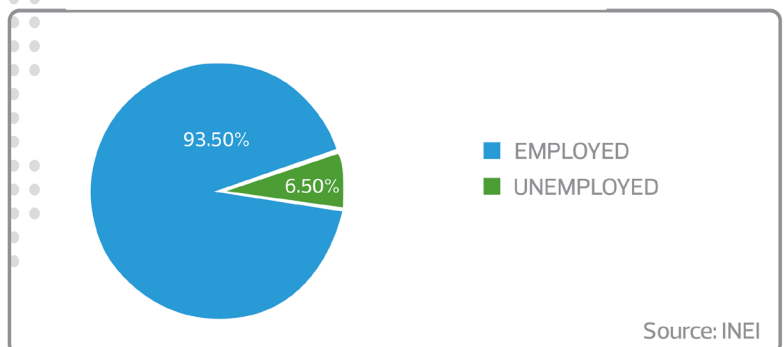
Percentage of GDP by Economic Sectors



Gross Domestic Product (Var %)



Peruvian Workforce – 2018



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This document has summarized information for general reference guide purposes and to facilitate information regarding prospective business within Peru. This document is not meant to replace professional advisory. Additional assessment must be required for conducting a business in Peru. In this regard, we do not assume any responsibility for the decisions taken using this document. Likewise, due to the constant changes in the markets and its regulation the information provided may be updated. We strongly recommend that for any business entrepreneurship or investment an appropriate advice be requested according to the particular situation since this document does not constitute or replace professional advice. Information updated until April 2019.

TAX

Peruvian Tax Regime

1.1

MAIN TAXES

Income Tax (IT)

Value Added Tax (VAT)

Excise Tax

Temporary Tax on Net Assets (ITAN)

Financial Transaction Tax (ITF)

Custom Duties

Municipal Taxes (Property Tax, Transfer Tax, amongst others)

Other taxes and contribution

Contributions to regulatory government agencies

1.2

INCOME TAX (IT)

+ Enforcement of the IT

Income generated by the taxpayers during the fiscal year are taxed. The fiscal year goes from January 1st to December 31st.

Entities

Non Resident in Peru

For corporate incomes the tax rate is 30% on the Peruvian source incomes.

The following are considered Peruvian source incomes, amongst others:

- (i) Incomes generated due to real estate located within Peru;

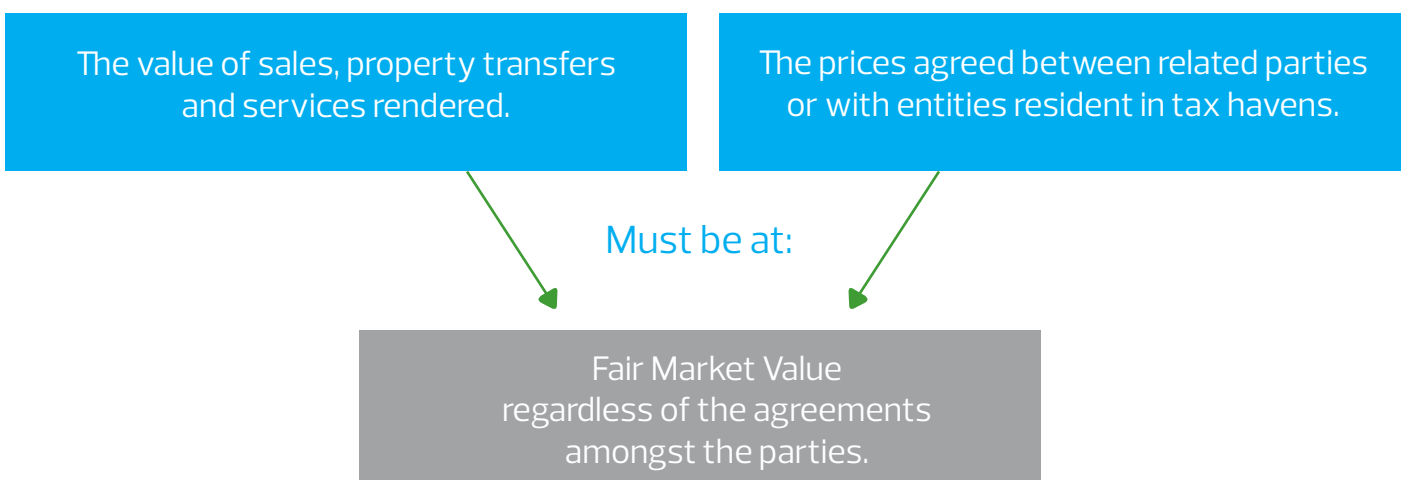
Resident in Peru

For corporate incomes the tax rate is 29,5% on the Worldwide source incomes (this is the ones generated within the Peruvian territory and any other generated abroad Peru).

Additions for prohibited expenses and deductions accepted expenses are allowed before the tax rate is applied.

<p>(ii) Provided that are economically used within the Peruvian territory: loans, capital investments, technical assistance, digital services and royalties.</p> <p>(iii) Goods located or economically used within the Peruvian territory; and/or,</p> <p>(iv) Corporate activities or any other activity performed within the Peruvian territory.</p>	<p>In case of a branch of a non resident entity in Peru, the branch would be only taxed for their Peruvian source incomes.</p>
<p>In transactions with Peruvian resident entities a withholding tax would be applicable.</p>	<p>In transactions with non resident entities in Peru a withholding tax would be applicable.</p>
<p>The tax rate applicable to dividends are 5% on the amount paid.</p> <p>The tax obligations for the dividends would be applicable only with the shareholders agreement to pay the dividends. The entity that pays the dividends would make the withholding.</p>	<p>The tax rate applicable to dividends are 5% on the amount paid. Dividends paid to entities resident in Peru are not taxed.</p> <p>The tax obligations for the dividends would be applicable only with the shareholders agreement to pay the dividends. The entity that pays the dividends would make the withholding.</p> <p>In the case of branch of a non resident entity in Peru, it is considered mandatory that the branch pays dividends annually provided that profits are generated.</p>
<p>(-)</p>	<p>Advanced payments of the IT are collected monthly by the Tax Authority on a gross incomes basis.</p>
<p>(-)</p>	<p>Tax losses are allowed from one fiscal period to the following.</p>

+ Transactions value for tax purposes



+ Sale of shares

Direct

- The income generated would be taxed.
- It is the direct sale of the share by the shareholder.

Indirect

- The income generated would be taxed.
- It is the sale of shares of a non-resident company in Peru that has, directly or indirectly, shares of a legal entity resident in Peru.

+ Tax Treaties to avoid Double Taxation

Peru has entered into Tax Treaties to avoid Double Taxation with the following countries:

Bolivia, Colombia and Ecuador (Member Countries of the Andean Community of Nations) through the Decision No. 578 of the Andean Community of Nations

South Korea	Brazil	Canadá	Mexico
Chile	Portugal	Switzerland	

1.3

VALUE ADDED TAX (VAT)

The VAT taxes:

Sale of goods

Rendering or use of services within Peru

Execution of construction contracts in Peru

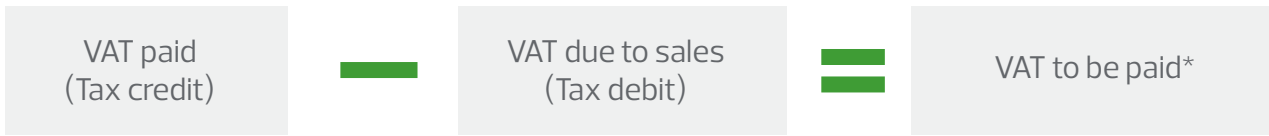
First sale of real estate made by the builder

Importing goods

VAT rate: 18%

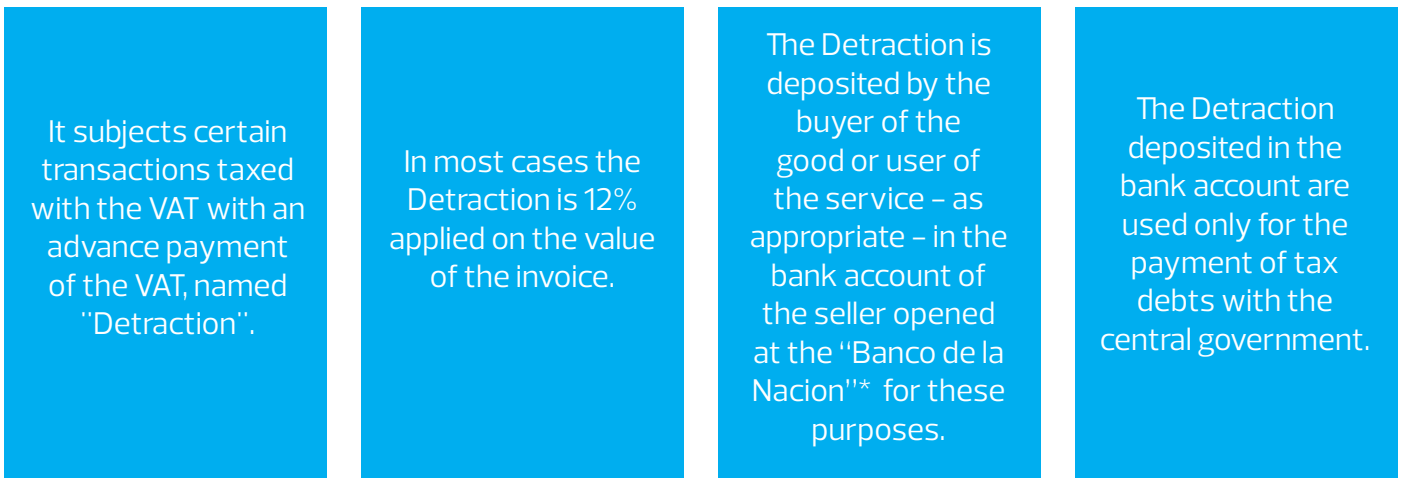
The VAT paid for the export of goods and some services that qualify as exports can be recovered, provided that certain requirements are met.

+ The VAT paid can be offset against the VAT that taxes sales



*If VAT paid is greater than VAT due to sales a tax credit is generated that can be used in the following periods.

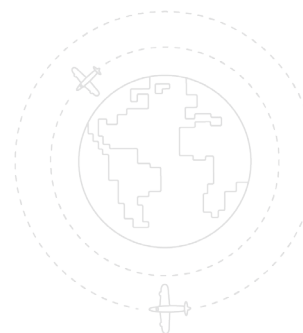
+ System of Payment of Tax Obligations with the Central Government (SPOT)



*"Banco de la Nacion" is a bank own by the Peruvian Government.

1.4 EXCISE TAX

Excise Tax levies			
Sale in Peru at producer level of certain goods.	Import of certain goods.	Gambling and betting (lotteries, bingo, raffles and equestrian events, except games of casino and slot machines).	Sale by the importer of certain goods (gasoline, liquors, new and used vehicles, soft drinks and cigarettes).



Excise Tax calculation systems is according to type of good

Value System

Specific System

System to Value according to Price of Sale to the Public

1.5

TEMPORARY TAX ON NET ASSESTS (ITAN)

ITAN

It taxes wealth

Taxes the value in the accounting records of the Net Assets at December 31st of the year prior to the payment

It is paid in a single payment or 9 equal monthly installments (from March to November)

It can be used as credit against IT

Rate

Value of the Net Assets at December 31st

0%

Up to PEN 1,000,000

0.4%

For more than PEN 1,000,000

1.6

FINANCIAL TRANSACTION TAX (ITF)

ITF

Taxes certain banking operations carried out in Peru, whether they are in national or foreign currency.

The rate is 0.005% on the amount of the operation performed.

+ Property Tax

It is paid annually

Taxes the value of urban and rustic properties

It is paid by subjects who, as per January 1st of each year, are owners of taxed properties

Rate	Section
0.2%	Up to 15 Tax Units(*)
0.6%	Following 15 Tax Units up to 60 Tax Units
1.0%	For more than 60 Tax Units

(*) In Peru: Tax Units ("UIT" for their Spanish acronym) is a value updated annually. The Tax Unit of the year corresponding to the filing of the Informative Tax Return must be considered

+ Tax on Automobile Property

It is paid annually

Taxes the ownership of automobiles for 3 first years counted from the year following its registration in the Public Registry Office.

The rate is 1% of the original value of purchase, importation or entry into equity, which shall not be less than the reference value approved by the Ministry of Economy and Finance.

It is paid by subjects who, as per January 1st of each year, are owners of taxed automobiles.

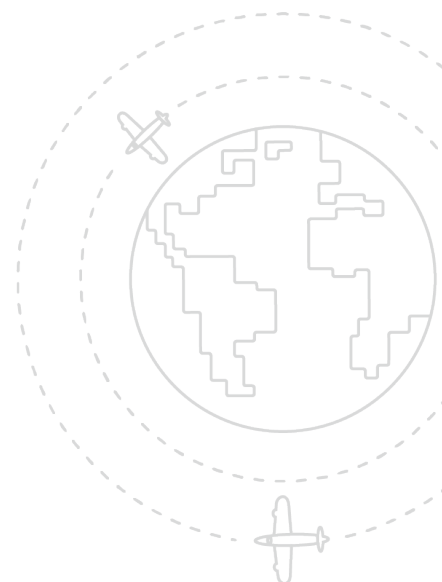
+ Transfer Tax

The purchaser of the property would have to pay the tax.

Taxes the transfers of property of urban or rural real estate, whether it is a free transaction or not, and in any mode of the transferring.

Rate	Section
Not taxed	For the first 10 Tax Units(*)
3%	Above the first 10 Tax Units

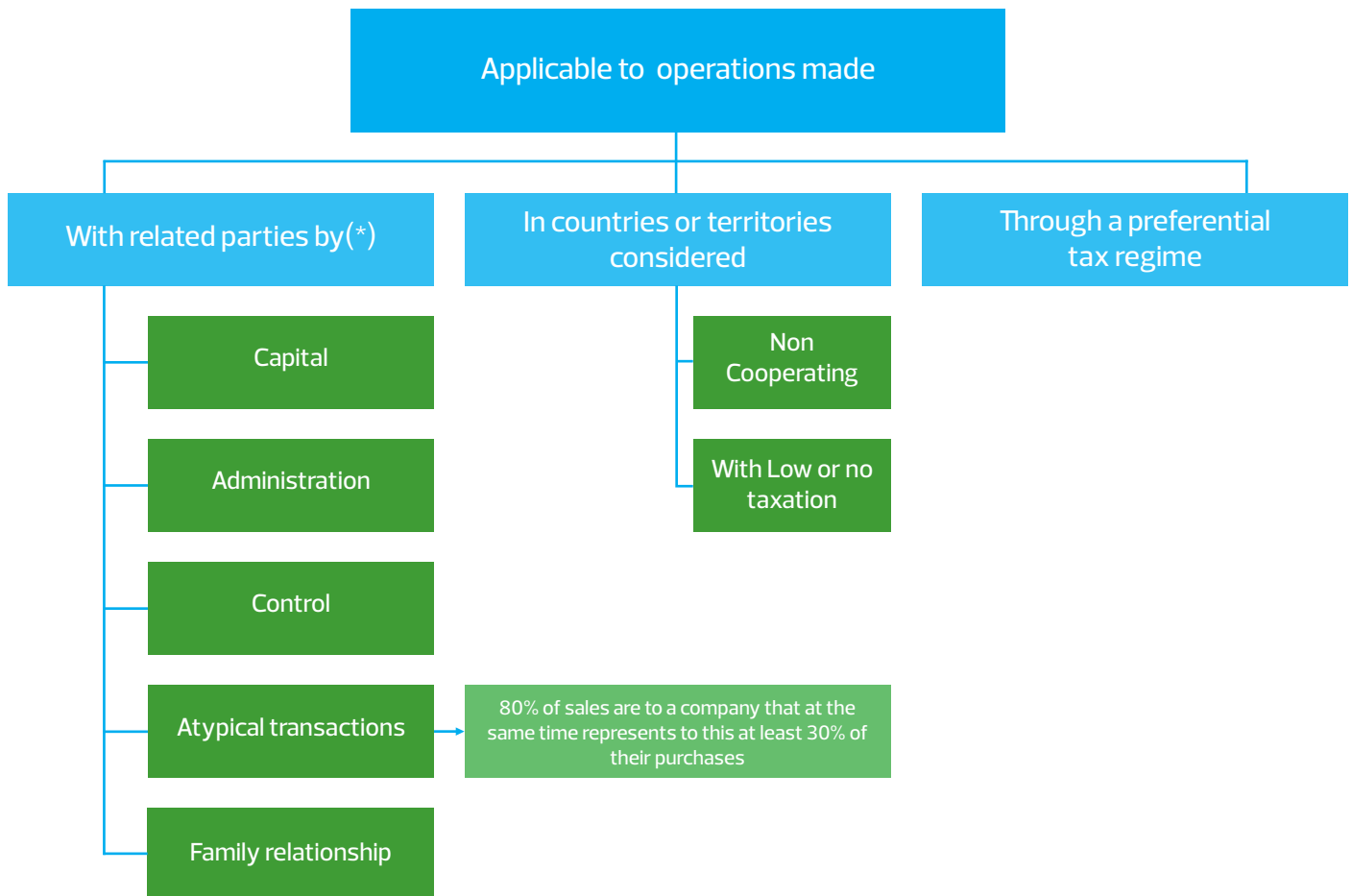
(*) In Peru: Tax Units ("UIT" for their Spanish acronym) is a value updated annually. The Tax Unit of the year corresponding to the filing of the Informative Tax Return must be considered



TRANSFER PRICING

2.1

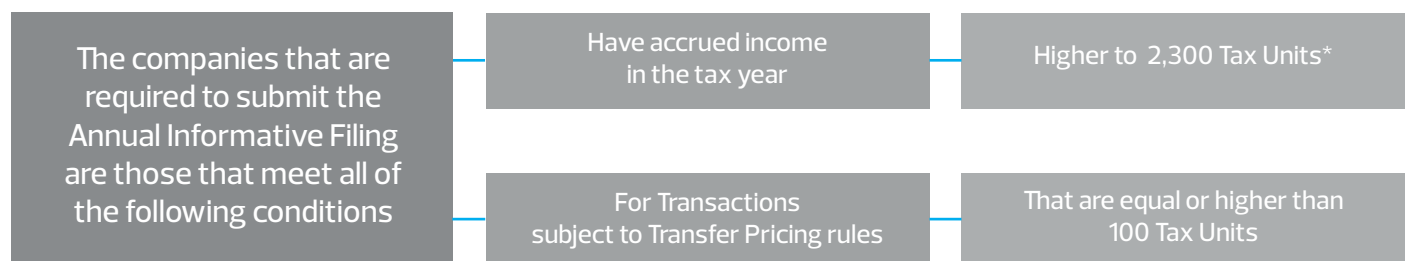
TRANSFER PRICING RULES



(*) According to article N° 24th of the Income Tax Regulation

2.2

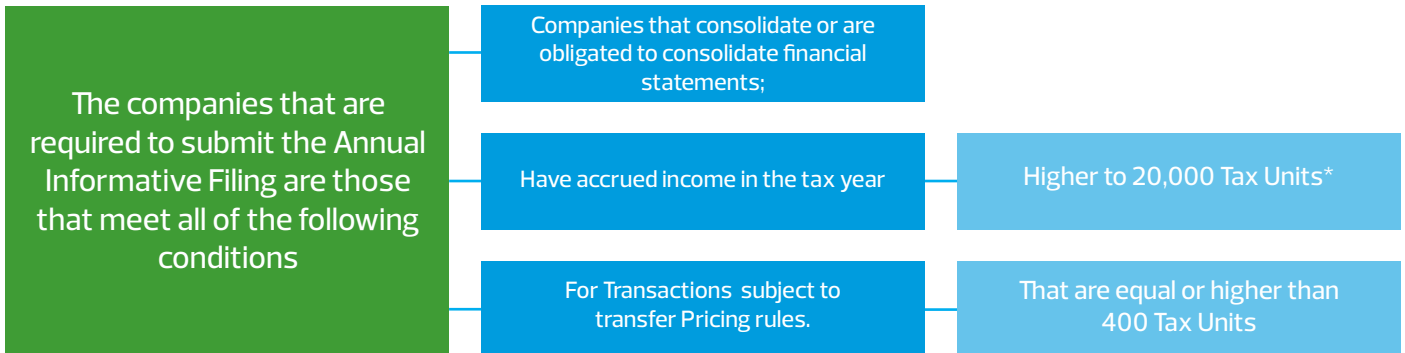
LOCAL REPORT



(*) In Peru: Tax Units ("UIT" for their Spanish acronym) is a value updated annually. The Tax Unit of the year corresponding to the filing of the Informative Tax Return must be considered

2.3

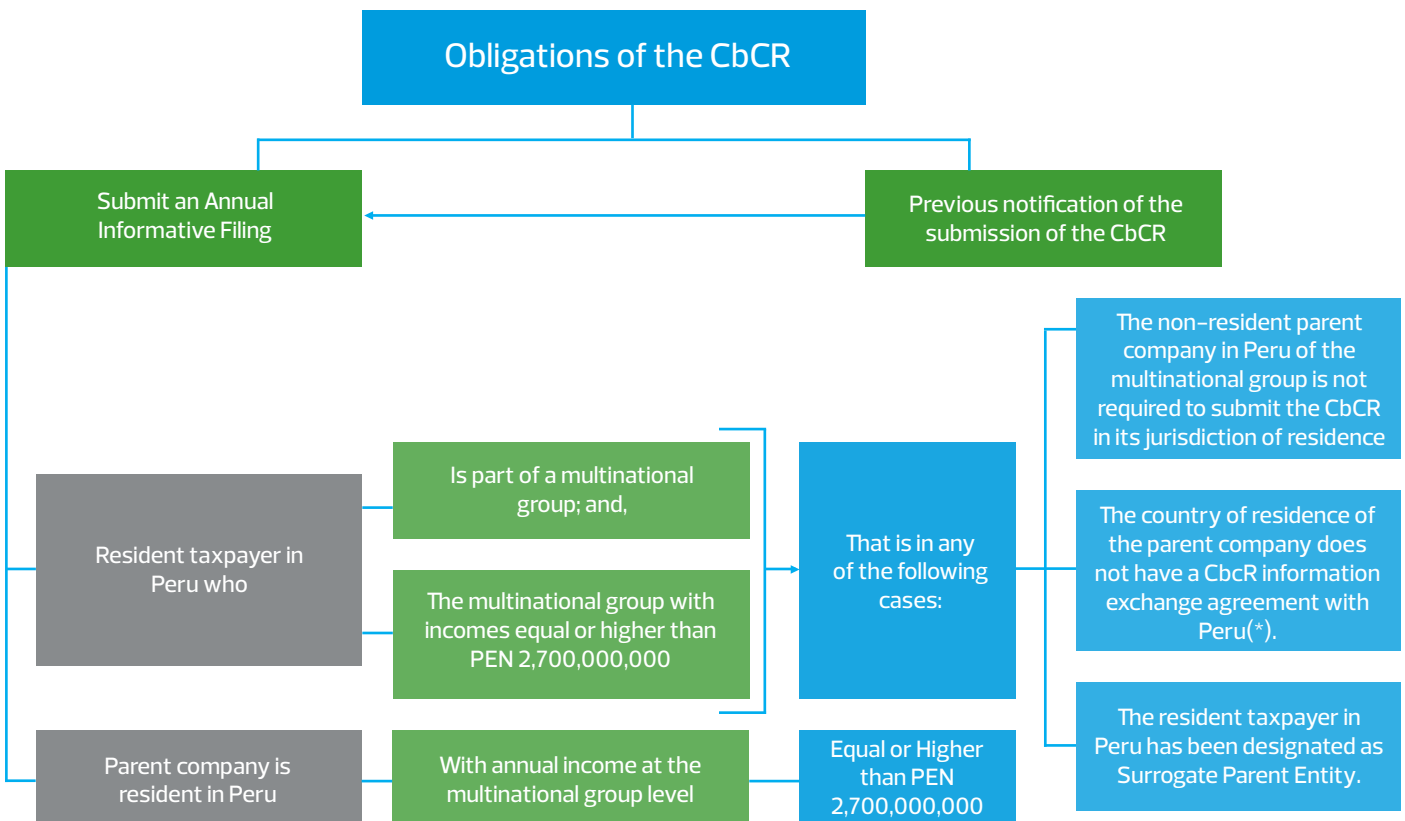
MASTER REPORT



(*) In Peru: Tax Units ("UIT" for their Spanish acronym) is a value updated annually. The Tax Unit of the year corresponding to the filing of the Informative Tax Return must be considered

2.4

Country by Country Report (CbCR)



(*) Peru has an CbCR exchange agreement with more than forty countries

2.5

TRANSFER PRICING PENALTIES

1. For not submitting the annual informative filing of the Report

2. Not displaying or not to submitting the documentation and information, translated to Spanish, that support the annual informative filing of the Report

Penalty fee

0.6% Annual Net Income
(up to a maximum of 25
Tax Units*)

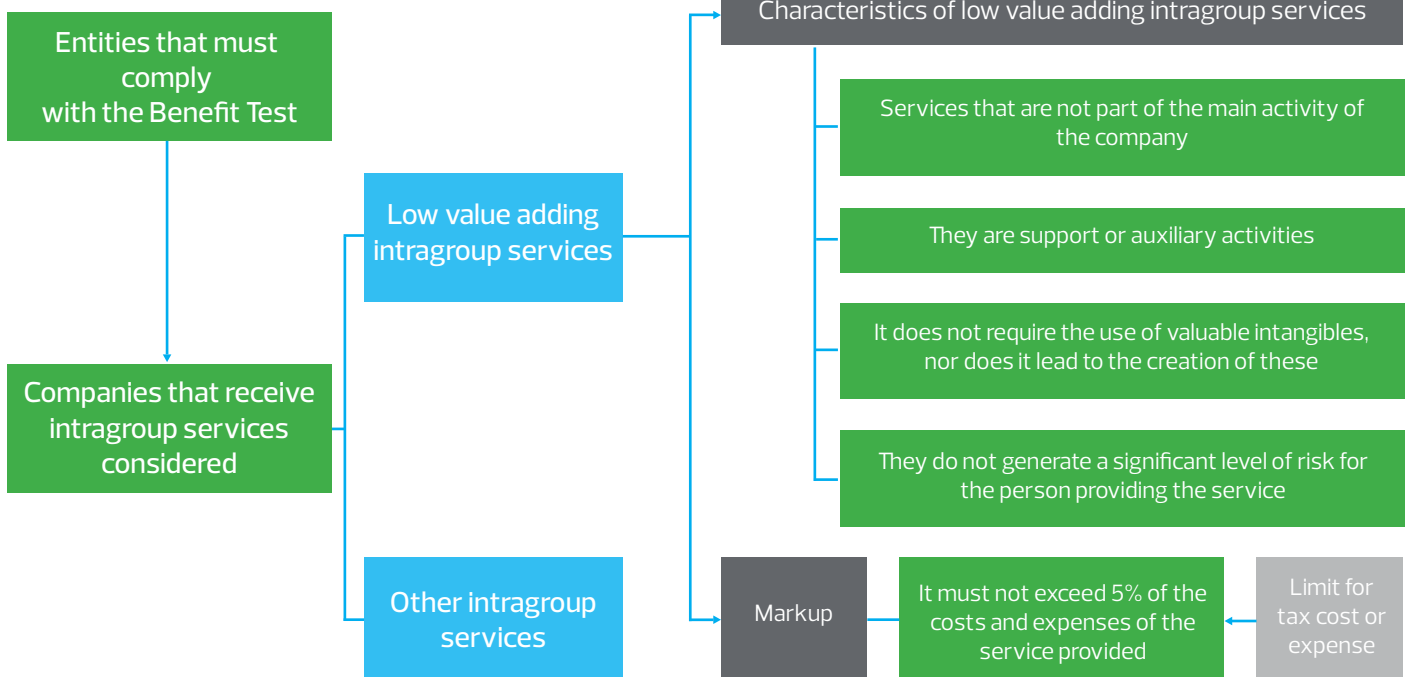
(*) In Peru: Tax Units ("UIT" for their Spanish acronym) is a value updated annually. The Tax Unit to be considered should from the tax year in which the penalty was committed

2.6

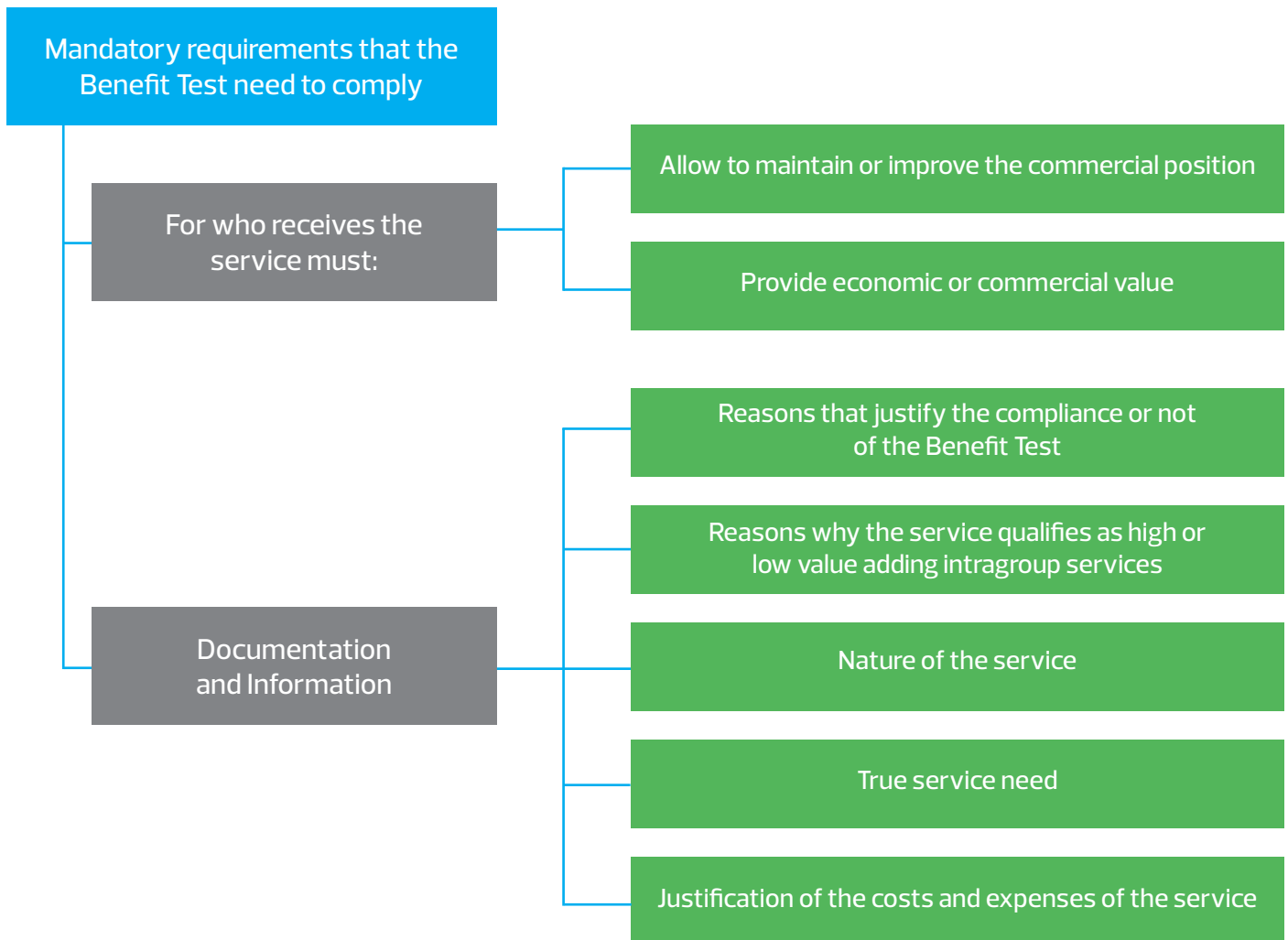
BENEFIT TEST

Need to comply with the
Benefit Test

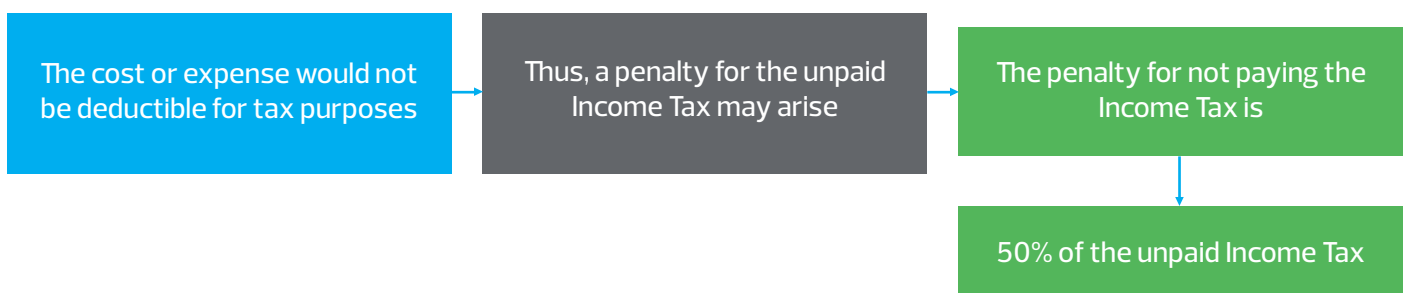
It is mandatory for the tax deduction of the cost
or expense of services



+ Requirements of the Benefit Test



+ Consequences of not complying with the Benefit Test



CORPORATE

3.1

SETTING UP AN ENTITY

Main types of legal entities in the Peruvian Corporates Law:

Corporation

Public Limited Corporation

Closed Corporation

Limited Liability Company

Partnership

Limited Liability Partnership

3.2

MOST USED CORPORATE TYPES IN PERU

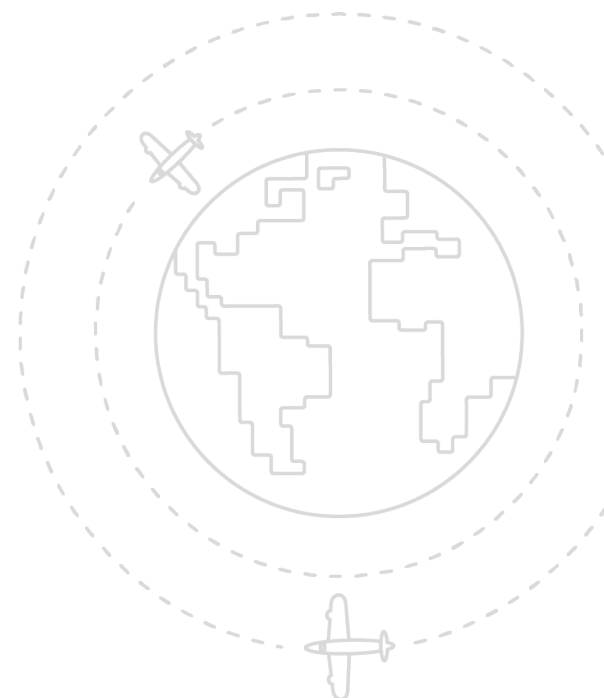
Denomination in Spanish	Sociedad Anónima Abierta (S.A.A.)	Sociedad Anónima (S.A.)	Sociedad Anónima Cerrada (S.A.C.)	Sociedad Comercial de Responsabilidad Limitada (SRL)
Denomination in English	Corporation (Corp.)	Public Limited Corporation (plc)	Closed Corporation	Limited Liability Company (LLC)
Characteristics	<p>Has more than 750 shareholders;</p> <p>35% of the shares belong to 175 different shareholders or more; and/or,</p> <p>Execute a primary bid of shares or liabilities convertible to shares.</p>	<p>At least 2 shareholders and up to 750</p> <p>(more than 750 shareholders would automatically transform it to a plc)</p>	<p>2 to 20 shareholders</p>	<p>2 to 20 quota holders</p>

Capital stock	Shares		Quotas
Transfer of shares	They are registered in the Securities Market Registry and the free transferability of shares cannot be limited	It is mandatory the recording in the Corporate Record Book, which is a private book.	Public Deed and its registration on the Public Registry is needed.
Bodies	Management Board of Directors Shareholders' Board	Management Board of Directors (optional) Shareholders' Board	Management Quota holders' Board
Duration	Limited or Unlimited time		

3.3

BRANCH

- It is any secondary location through which a company develops, in a place other than its address, certain activities included within its corporate purpose.
- The branch it is not considered a separate legal entity by itself but as part of a company from which it depends.
- It has permanent legal representation and management autonomy regarding the scope of activities assigned by the company from which it depends, according to the authority given to the branch proxy.
- The company assumes the liabilities of the branch.



LABOR

4.1

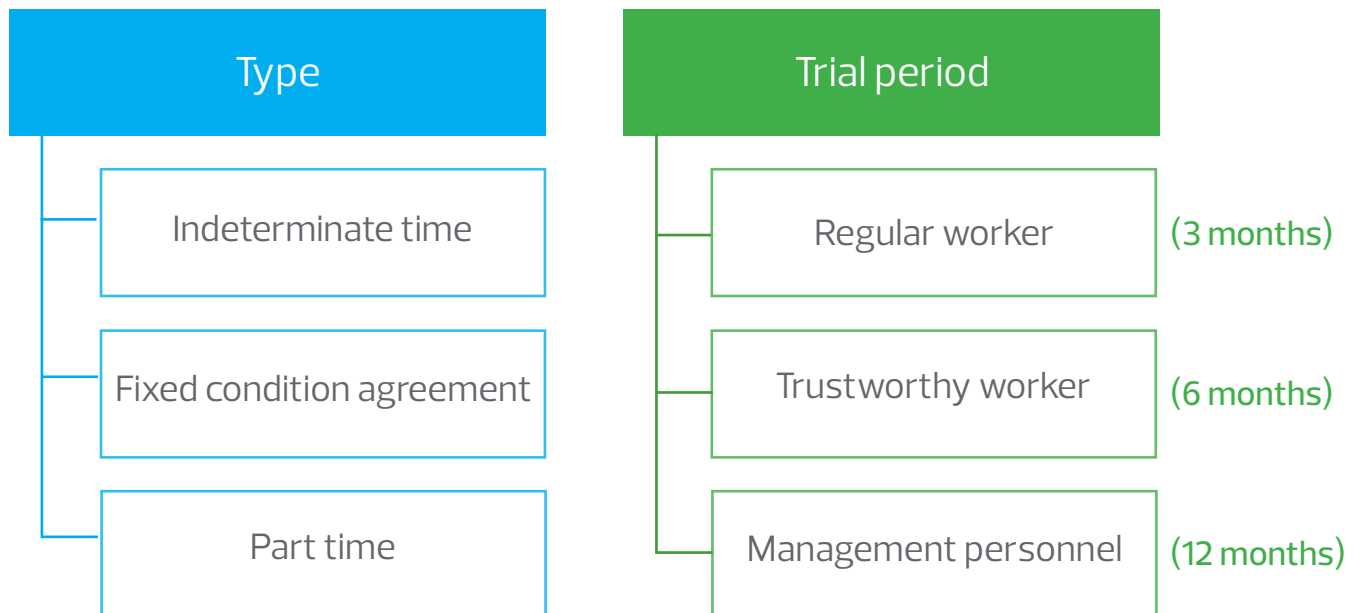
WORK AUTHORITIES

MINISTRY FOR WORK AND PROMOTION OF EMPLOYMENT

NATIONAL AGENCY OF WORK INSPECTIONS

4.2

HIRING EMPLOYEES



Outsourcing of services

This when the main company assigns to an outsourcing company to carry out, independently, an activity of its productive chain.

The outsourcing company must meet the following requirements:

- Provide specialized activities or works at their own risk;
- Have their own financial, technical or material resources;
- Accept the liability for the results of their activities; and,
- Keep their outsourcing company workers under exclusive subordination.

Indirect hiring: Work intermediation

Unlike outsourcing of services, labor intermediation involves the simple provision of personnel in specific positions from one company to another.

Direct hiring

The general rule in the hiring of paid and subordinated workers is that they are hired for an indefinite period. They can be hired by a verbal agreement or by a written agreement.

Exceptionally, fixed-term agreements or agreements subject to certain conditions may be executed. However, it is mandatory that they are recorded in writing, provided there is an objective reason according to the law.

Full working day

8 daily hours; or,

48 weekly hours

Exceptions to full working day¹

Management personnel

Trustworthy worker with no immediate supervision on the working day

Worker not subject to immediate control

Workers performing sporadic services

Overtime hours²

It is the hour worked outside the regular daily or weekly hours.

The extra salary for the first 2 hours is 25%.

After the first 2 hours the extra salary is 35% per hour worked.

¹ They are not entitled to the payment of an extra salary for working overtime, nor are subject to control of assistance to the company.

² As an alternative mechanism, prior written agreement, the compensation with physical rest for the hours worked outside the regular working day.

Main rights and benefits of workers

1. Salary

3. Profit sharing

5. Weekly and holiday rest

7. Household allowances

2. Compensation for Length of Services (CTS for its Spanish acronym)

4. Legal bonus in July and December

6. Vacations

8. Life insurance

1. Salary:

It is everything the worker receives for his services, either in money or in kind, whatever the form or denomination it may have, provided that it is freely available for the worker.

The workers must receive at least a monthly salary equivalent to PEN 930.00 (Minimum salary) provided they complete the regular working day.

Likewise, when their monthly salary is 2 Tax Units (UIT for its Spanish acronym) or greater, the salary and the applicable social benefits may be consolidated in a single remuneration named Integral Annual Remuneration (RIA for its Spanish acronym).¹

2. Compensation for Length of Service (CTS):

The CTS payment purpose is to prevent contingencies caused when a worker is fired and is free of any tax.

The deposit is made in May and November of each year according to the number of months worked in the semester. When the worker has only worked part of a month the CTS is calculated on twelves and thirties basis.

3. Profits sharing:

Companies with more than 20 workers must distribute a percentage of their annual income before taxes.

The percentage to be distributed varies between 5% and 10% according to the economic activity of the company.

El importe recibido por los trabajadores dependerá de las remuneraciones percibidas y de los días laborados en el año.

The maximum limit is 18 monthly salaries.

4. Legal bonus in July and December:

The workers have the right to 2 legal bonus during the year.

Each legal bonus would be a monthly salary, paid in July and December.

5. Weekly and holiday rest:

The worker is entitled to a minimum of 24 hours of mandatory weekly rest, which is remunerated and is preferably granted on Sunday.²

Likewise, workers have the right to rest on holidays designated by law. No discounts from the workers salary should be made for these holidays.

6. Vacations:

The worker is entitled to 30 calendar days of paid physical rest for each full year of services or for a period in proportion to the actual time worked.

7. Household allowance:

At least an amount equivalent to 10% of the Minimum Salary is granted to all workers who have children under 18 years of age. The amount will not change when the worker has more children. However, it can be extended until the child reaches the age of 24 when the children follow studies to get a degree or goes to the university.

8. Life insurance:

It is mandatory for companies to hire a life insurance for workers working for more than 4 years. The insurance total payment is paid by the employer, including the applicable premiums.

¹ In Peru, Tax Units ("UIT" for their Spanish acronym) is a value updated annually.

² The following are mandatory holidays: New year (January 1st), Holy Thursday and Holy Friday (varies per year), Labor Day (May 1st), Saint Peter and Saint Paul Day (June 29th) National Holidays (July 28th and 29th), Saint Rose of Lima (August 30th), Battle of Angamos (October 8th), Day of all Saints (November 1st), Immaculate Conception (December 8th) y Christmas (December 25th).



Monthly tax obligations of the employment relationship collected by the employer			
Obligation	Description	Rate	
Contributions to Health Social Security (ESSALUD for it is Spanish acronym) ³	Allows workers to access healthcare provided by Government health facilities.	9% of the workers salary	
Withholding of the contributions to the Retirement System	Contributions are either to the public or private system.	13% of the workers salary	
Income Tax withholding of the working incomes	Obligation to withhold the Income Tax from the total income receive by dependent workers.	Cumulative progressive scale for resident persons in Peru	
		Section in Tax Units⁴	Applicable on net income from work and foreign source income
		First 7 Tax Units	0%
		Following 5 Tax Units	8%
		From 5 Tax Units up to 20 Tax Units	14%
		From 20 Tax Units up to 35 Tax Units	17%
		From 35 Tax Units up to 45 Tax Units	20%
		More than 45 Tax Units	30%
		Non resident persons in Peru	
		30% on the gross income	

³ Another option for the employer is to hire a private insurance for his workers. The monthly payment of this private insurance applies as a credit to Social Security contributions.

⁴ In Peru, Tax Units ("UIT" for their Spanish acronym) is a value updated annually.

Cause of the employment termination

Absolute permanent disability
of the worker

Dismissal⁷

Death of the worker

Worker's resignation

Mutual agreement by the employer
and worker

Retirement

Termination by
objective cause

Compliance with the
resolutive condition

⁷ The dismissal can only take place for legal reasons that may arise and which should be mandatorily proven for the dismissal to proceed.

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