

DOING BUSINESS IN PERU





FOREWORD

This guide has been prepared with the purpose of providing basic information to people interested in investing and doing business in Peru. It does not cover in detail all the requirements and subjects to be considered, but instead it is intended to provide an overall idea of the benefits of doing business in Peru and the basic taxation requirements.

The guide is intended to be used for informational purposes only and therefore, you should consult a professional tax and business advisor to acquire more information.

The material contained in this guide is based on information and regulations in effect as of May 2020.



ABOUT H&CO

Since 1992, H&CO has been providing international tax and business advisory services to multinational companies, global families and local companies that seek to invest or expand their operations in multiple jurisdictions in Latin America.

By working together with our affiliates in the region, we offer integrated solutions to help companies with all of their cross-border requirements and reporting obligations, from opening a new company abroad, and manage your operations, to helping you create an international tax strategy and repatriation plan.

With 3 offices throughout South Florida and partner firms in more than 15 countries in South and Central America, H&CO's primary goal is to be the most trusted service provider of accounting, tax and consulting services for the global community.



COUNTRY ESSENTIALS

Capital City	Lima
Area and population	1,285,216 sq km and a population of 31,914,989 people (July 2020 est.)
Language	Spanish, Quechua
Currency	Peruvian Nuevo Sol (PEN)
International calling code	+51
Life expectancy at birth	75.2 years (2018 est.)
GDP	USD \$227 billion (2018) USD \$302 billion (2022)
Labor force	17.4 million (2018 est.)
GDP per capita	USD \$6,947 (2018)
Reserves of foreign Exchange	Approximately 32% GDP
Population below poverty line	55,6% (2005), 30,8% (2010), 20,5% (2018)
Living wage	S/. 930 (US\$ 277 approx.)
Trade in goods (US millions)	93,481 (2018). 124,108 (2022 projected)
Trade in services (US millions)	17,275 (2018). 23,314 (2022 projected)
Inflation rate	2.2% (2018)
Evolution of Credit rating on long term foreign currency	Moody's: Ba3 (2005) - A3 (July 2019)
Concessions for private investment projects (2017- 2019)	Awarded: USD \$3,655 million To be awarded: USD \$3,383 million
Government structure	Peru is a Constitutional Republic comprising of 24 Departments and 1 Constitutional Province (Callao). Peru's political system consists of three government branches: The Executive branch, the Legislative branch, and the Judiciary branch, each branch is autonomous and independent. The president acts as Head of State and Head of Government.

WHY YOU SHOULD DO BUSINESS IN PERU





STRATEGIC GEOGRAPHIC LOCATION

Peru has a strategic location in the South Pacific. Located on the western central coast of South America, the country shares borders with Chile to the south, Bolivia and Brazil to the east, Colombia and Ecuador to the north, and the Pacific Ocean to the west. As the third largest country in South America, Peru is considered a regional hub in the Pacific area, which consolidates the country as an effective bridge between the markets of South America, Asia and the United States, and as a potential maritime and air hub with Callao's Port and Airport.

SUSTAINED ECONOMIC GROWTH

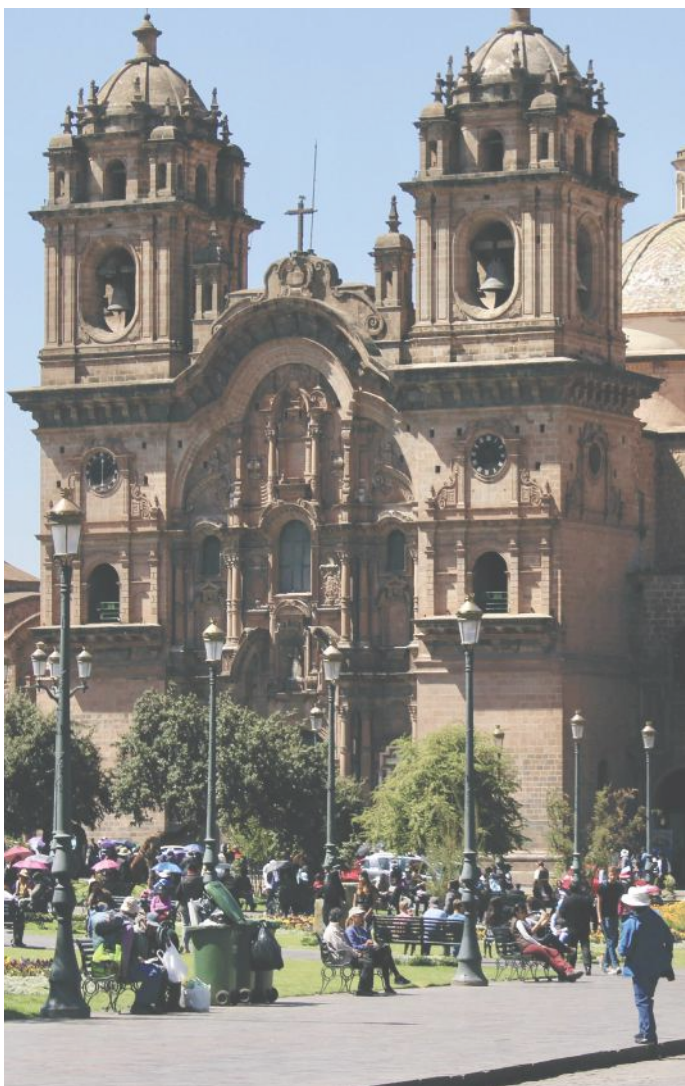
The economic policy that has been implemented in the country since the 1990s, has enable Peru to become a rapidly expanding economy with solid macroeconomic indicators, sustained economic growth, low inflation and low pressure on public debt, and stable exchange rates. In addition, the responsible management of public finances and moderate monetary politics has allowed the country to reduce its poverty rate and maintain an active trade promotion policy with several bilateral and multilateral Free Trade Agreements.

Furthermore, and thanks to the boost of public investment and domestic demand, as well as the growth of the mining, agricultural, construction, manufacturing and service sectors, the country would maintain and project an average annual growth of 4.4% of its GDP between 2019-2023.

LEGAL STABILITY FOR FOREIGN INVESTORS

In order to promote private investment, Peru has established a stable and attractive legal framework for foreign investors and a consistent investment policy that eliminates any barriers that they may face. The country has also created regulations to protect the economic stability of investors from sudden changes in legal provisions and to reduce the interference of government in economic activities. Foreign investors can benefit from:

- Freedom of trade and industry, and freedom to export and import goods and services.
- Free remittance of profits or dividends abroad after payment of corresponding taxes.
- Free possession and disposition of foreign currency.
- Access to the most favorable exchange rate in the market.
- Free capital transfer.
- Unrestricted access to internal or external credit.
- Free contracting of technology and remittance of royalties.
- Equal treatment with national capital.



STABLE CURRENCY

Compared to regional currencies, Peru's Nuevo Sol has been one of the least volatile currencies in Latin America in the past few years. This has been in part a result of the influx of foreign currency that has helped the country maintain a stable exchange rate and recapitalize its banking industry.

In addition, the Central Reserve Bank of Peru has put into practice fiscal stimulus and liquidity control measures, and has eliminated restrictions on the remittance of funds abroad or the amount of bank accounts in foreign currency that an individual or entity may have.

STRONG TRADE LINKS

Peru maintains active commercial integration policies with the world and has gained access to larger and more important markets. Currently, the country has international trade agreements with the Andean Community-CAN, Mercosur, the Pacific Alliance, and the European Free Trade Association-EFTA. Peru is also a founding member of the World Trade Organization (WTO), and a full member of the Asia-Pacific Economic Cooperation Forum (APEC). In addition, Peru has signed Free Trade Agreements with UE-Colombia-Peru-Ecuador, Canada, Chile, China, Costa Rica, Honduras, Japan, Mexico, Panama, Singapore, South Korea, Thailand and the United States.

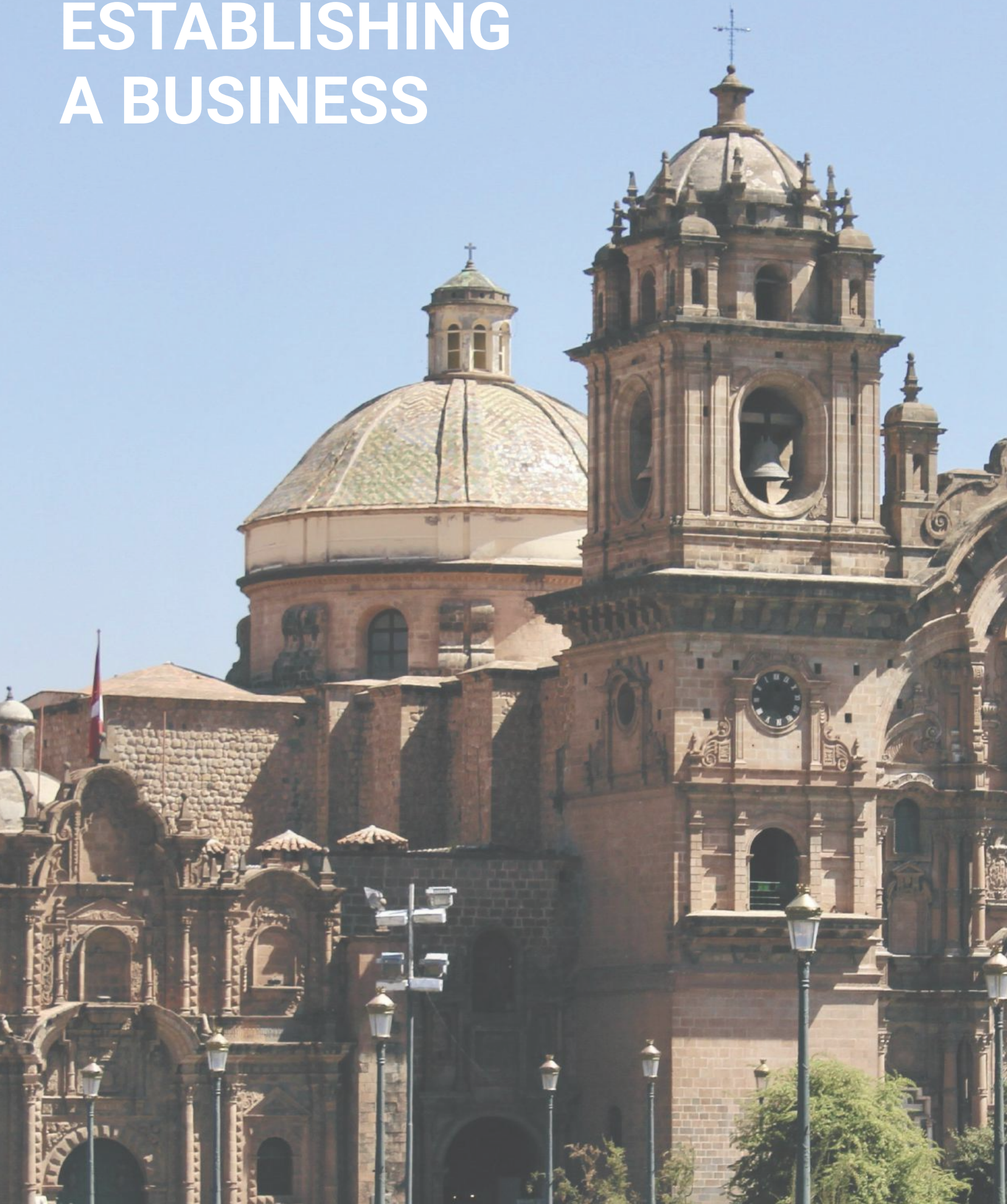
In addition to access to new markets, most commercial trade agreements include supplementary trade regulatory matters oriented towards guaranteeing a stable and predictable environment for foreign investments.

WIDE RANGE OF INVESTMENT OPPORTUNITIES

Peru is considered a megadiverse country, with 84 of the 117 existing "life zones". It provides a wide range of investment opportunities in potential sectors like mining, agriculture, energy, construction, tourism and hydrocarbons.

Peru has rich deposits of copper, silver, gold, lead, zinc, natural gas, petroleum, urea and lithium, and a legal framework that promotes private investment, making it one of the most attractive destinations for mining investment.

ESTABLISHING A BUSINESS



PROCESS TO INCORPORATE A COMPANY

An investor aiming to establishing a business entity in Peru requires 8 procedures over an average of 26 days, a shorter time span than the average of 30 days in Latin America and the Caribbean.

PROCEDURES	TIME TO COMPLETE
Check the uniqueness of the proposed company name and reserve it online	Less than 1 day (online procedure)
Prepare the incorporation documents online with a notar	Less than 1 day (online procedure)
Sign the incorporation documents before a notary public; file them online with the Public Register of Commerce	8 days
Obtain Certificate of Registration and obtain taxpayer identification number (RUC)	1 day
Authenticate accounting book and minutes book	Less than 1 day (online procedure)
* Register company employees for Social Security	Less than 1 day (online procedure)
* Determine the risk level of the company in the municipal Civil Defense Division	1 day
Obtain municipal license from the City Council	14 days
Total number of days	26 days

REQUIREMENTS TO INCORPORATE A COMPANY

The *Sociedad Anónima Cerrada* (S.A.C.), similar to a Limited Liability Company, is the most common form of incorporation in Peru. Shareholders in a S.A. are liable only to the value of their shareholding. Shares may not be publicly traded.

• COMPANY NAME

Peruvian regulations require company names to be unique and approved by the Peruvian Registry of Companies. Certain company names are prohibited, such as names suggesting the patronage of any government or country.

• REGISTERED OFFICE

Under Peruvian regulations, all companies are required to have a registered office in Peru where documents can be legally served.

• DIRECTORS

A Limited Liability Company registered in Peru must have a minimum of three directors. There are no restrictions on the nationality or residency of the directors, but a legal representative must be appointed in Peru.

• SHAREHOLDERS

A Limited Liability Company registered in Peru must have at least two shareholders, but no more than 20. There are no restrictions on the nationality or residency of the shareholders.

TAXATION





CORPORATE TAXES

Peruvian corporations are taxed on their worldwide income at a rate of 29.5%.

Dividends or any form of profit distribution received by companies domiciled in Peru are not subject to income tax.

Foreign-domiciled companies, as well as resident and non-resident individuals are subject to withholding tax on dividends received.

TAXES ON CAPITAL GAINS AND DIVIDENDS

Generally, corporate capital gains are taxed as ordinary income at the standard corporate tax rate. Capital gains obtained by individuals, undivided successions and conjugal societies domiciled in the country, are taxed at a rate of 6.25% on Net Income.

Income from the sale of transferable securities within the country is taxed at a rate of 5%. Other capital gains for non-domiciled companies are taxed at a rate of 30%.

Dividends or any form of distribution of profits received by companies domiciled in the country, are not subject to income tax. Instead, companies domiciled abroad and natural residents or non-residents, are subject to withholding of an additional tax on the dividends received.

Dividends distributed by companies domiciled in Peru, received by natural persons, are taxed at the rate of 5% in addition to dividends received.

TARIFF STRUCTURE		
Advalorem level		
	Number	Proportion (%)
0	4,224	55.9%
6%	2,538	33.6%
11%	792	10.5%
Total	7,554	100%
Average nominal tariff %		3.2
Effective tariff %		1.1

Source: MEF



EMPLOYMENT TAXES

In Peru, employers must pay the following taxes and contributions:

Taxes / Contributions	Rates
Social Security – ESSALUD	9%
Retirement Fund	13% (National system) 12.89% (National system)
Life insurance required by law	According to the type of policy
Supplemental insurance for high-risk jobs	According to the type of policy

Employment benefits

Workers in Peru are entitled to the following labor benefits whose cost is the responsibility of the employer:

Benefits	Amount / % Applicable
Vacations	30 paid days off
Legal benefits	2 remunerations per year
Compensation for time of service	1.16 remunerations per year
Profit Sharing	Between 5% and 10% of income before taxes
Household allowance	S / .75 monthly (10% of the minimum living wage)

SALES TAXES (VAT)

VAT is assessed at a general rate of 18% on the sales of goods, the supply and use of services, construction contracts and the import of goods.

The export of goods and certain services are not subject to VAT.

VAT returns are required to be filled monthly.



ESTATE AND GIFT TAXES

In Peru, inheritances are not subject to income tax.

Donations received by natural persons are not subject to tax. However, donations received by legal entities are considered income and taxed at the normal corporate rate.

PERSONAL TAXES

Peruvian residents are taxed on their worldwide income, while non-residents are only taxed on their Peruvian-source income.

For tax purposes, an individual is considered a resident if he/she spends more than 183 calendar days in the country during a 12-month period. Resident status is determined at the beginning of each tax year.

Personal income tax is determined by applying a cumulative progressive rate on the sum of income from employment, income from independent personal services and/or capital income. The progressive rates apply according to the following table:

From:	But no more than:	Tax Rate:
–	5 UIT	8%
More than 5 UIT	20 UIT	14%
More than 20 UIT	35 UIT	17%
More than 35 UIT	45 UIT	20%
More than 45 UIT	Over	30%

Income tax rates are based on Tax Units (UIT). For 2020, the value of the UIT is S/. 4,300

Additionally, there is a non-taxable minimum of 7 UIT on income from employment and a 20% deduction on income from independent work.

MARKET OPPORTUNITIES AND COMMERCIAL SECTORS





AGRICULTURE

The coast of Peru has a tropical climate and generous soil that allows to harvest a great variety of products throughout the year. Peruvian food products are present in more than 150 markets around the world. In addition, it should be noted that more than 270 thousand hectares of agricultural land will be incorporated for agro-export activities. Peru has labor and tax incentives to boost the development of business opportunities.

Over USD\$5,000 millions of fresh and processed products are exported to more than 150 countries. The United States, the Netherlands, Germany, Spain, and the United Kingdom are some of the most important exporting partners. The main products exported are grapes, coffee, asparagus, avocados, mangoes and cocoa. It is expected that the 100,000 hectares currently destined for agro-export will double due to important recent agricultural irrigation and expansion projects.



TOURISM

Peru is an important cultural destination due to its impressive archaeological sites of the Incas and its distinguished gastronomy. Notably, the country has eleven attractions that are classified by UNESCO as cultural and natural heritage of humanity.

The tourism sector in Peru has taken advantage of a growing investment in hotel chains of international prestige to provide the highest quality, comfort and satisfaction to its visitors. In addition to the Latin American tourists who take advantage of the proximity of the destination, an increasing number of North American and European tourists are showing interest in visiting Peru. In 2019, Peru had an estimated 4.37 million foreign visitors according to the Ministry of Foreign Trade and Tourism of Peru (MINCETUR).

Peru has great potential for investment in hotel chains, national and international air transport services and complementary services in various tourist destinations such as Amazonas - Kuelap, Puno - Lake Titicaca, Nazca - Paracas, Cusco - Machu Picchu, Choquequirao.



ENERGY

The high availability and wealth of water resources and natural gas in Peru, allows it to meet the high-energy demand and reinforce the constant growth of the sector. In the same way, the country has the hydroelectric, wind, geothermal and solar potential to generate more than 90 thousand MW in renewable energies.

Peru offers excellent investment opportunities in power generation projects, including new power plant constructions projects to improve and expand existing power plants, and electrical coverage in rural areas.



MINING

Peru is a polymetallic country and is one of the leading producers of tin, zinc, silver, copper, and molybdenum worldwide, and the first Latin American producer of metals such as gold, tin, zinc, and lead. It also has a high level of reserves, a legal framework that promotes private investment and the provision of cadastral and geological information.

Currently, about 1% of Peru's territory is being used for mining exploration and mining, and only 13% has mining concessions. In addition, there are numerous opportunities for exploitation of non-metallic minerals (travertine, diatomite, bentonite and borate).





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