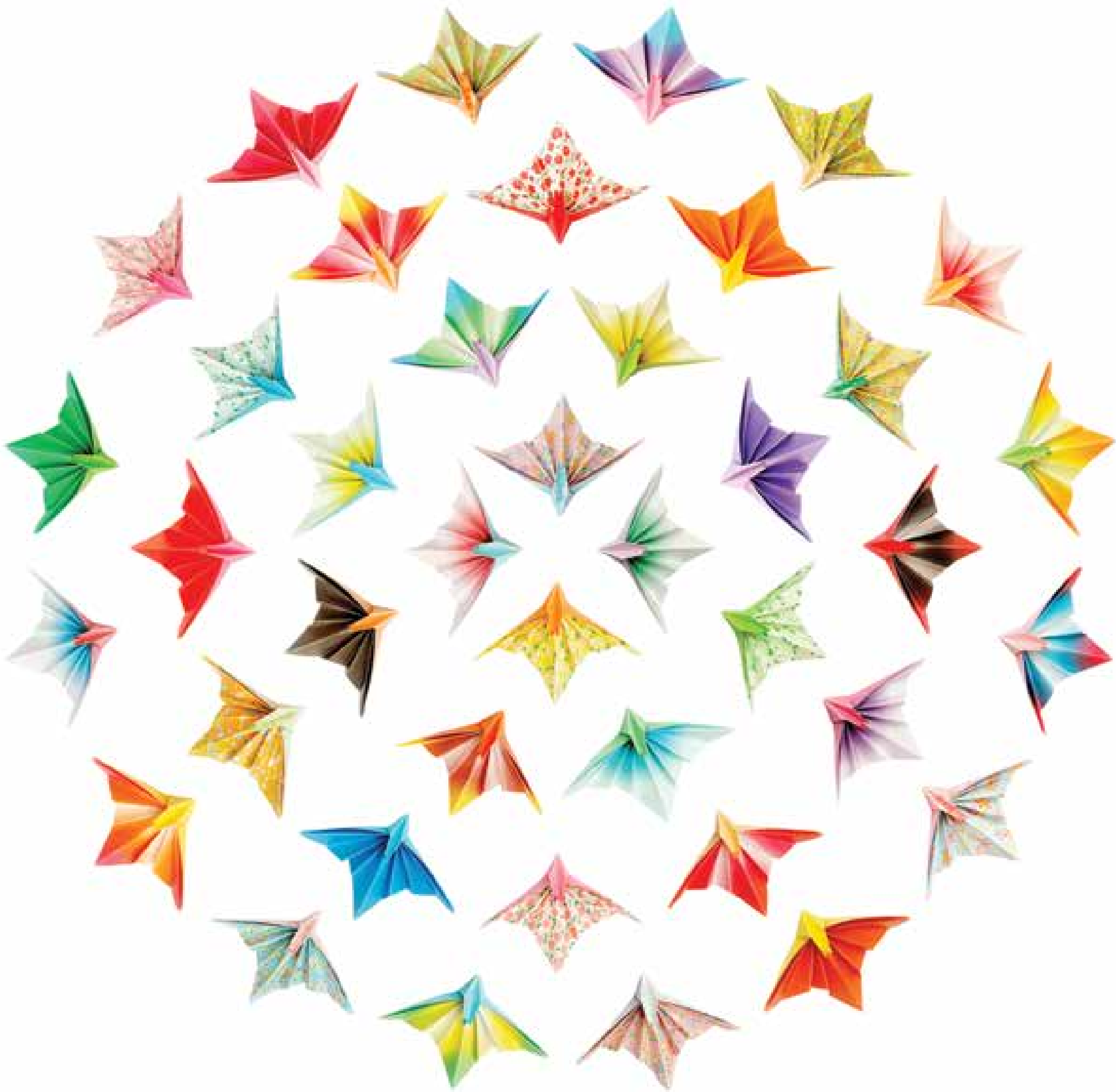
Deloitte.



M&A Tax Guide
Latin America
April 2017

Introduction

Latin America's rising economic profile continues to attract significant investment into and within the region. Merger and acquisition (M&A) activity in Latin America will continue to grow and investors in the region will begin to look progressively outward for investment opportunities.

While M&A transactions can offer tremendous opportunities for growth, such transactions often give rise to tax and other complexities that need to be carefully addressed if investor returns are not to be negatively impacted. The tax complexities, in particular, are compounded by the rapid pace with which legislation and practices are evolving. Deloitte stands ready to assist companies in managing their responses to the challenges that M&A transactions can present.

The M&A Tax Guide was developed as a practical, easy-to-follow general overview of tax and structuring considerations for those looking to invest in Latin America. Please contact our local M&A tax teams if you require further information on the countries covered in the guide.

Ricardo González Orta
Latin America Business Tax Leader
Mexico Country Tax Leader

Summary of tax and structuring considerations for Latin America

Deal structure

		Argentina
1.	Do the tax rules favor asset or equity deals?	Equity
2.	Do the tax rules favor onshore or offshore holding structures?	Either
3.	Are there significant restrictions on foreign investment?	No
4.	Are tax deductions typically available for acquisition financing costs or other acquisition costs?	Limited
5.	Can PIK (payment in kind) debt be structured?	Yes
6.	Is goodwill deductible for income tax purposes?	No
7.	Can the value of the assets be stepped up for income tax purposes?	Only in asset deals
8.	Do thin capitalization rules apply?	Yes
9.	Are there minimum capital requirements?	Yes
10.	Is it possible to increase/decrease capital?	Yes
11.	Is there successor liability on an asset or equity deal?	Yes, in both

Post-deal tax management

1.	What is the corporate income tax rate?	35%
2.	Can cash be remitted overseas?	Yes
3.	What is the domestic withholding tax rate – On dividends paid to nonresident entities? – On interest payments made to nonresident entities? – On royalty payments made to nonresident entities?	 0%-35% 15.05%/35% 21%/28%/31.5%
4.	Is tax levied on the receipt of foreign-source dividends?	Yes
5.	Is tax consolidation available?	No
6.	Is there a limitation on the use of net operating losses (NOLs) by a successor?	No, under share deals

Exit strategy

1.	Is tax levied on capital gains at the level of a domestic seller?	Yes
2.	Are there specific tax rules governing the exit strategy of an investment through an offshore vehicle?	No
3.	Are substantial sales/turnover taxes levied on exit?	No, under share deals. Under an asset deal, the main indirect taxes (VAT, turnover tax) will affect the transaction. The applicable rates and certain exclusions from the tax base depend on the assets involved.

	Brazil	Chile	Colombia	Mexico	Peru	Venezuela
1.	Equity	Neither	Neither	Neither	Neither	Neither
2.	Onshore	Neither	Onshore	Neither	Neither	Offshore
3.	No	No	No	No	No	Yes
4.	Available	Available	Available	Available	Available	Available
5.	Yes	No	Yes	Yes	Yes	Yes
6.	Yes	No	Limited	No	No	Yes
7.	Yes	Yes	Yes	No	Yes	Yes
8.	Yes	Yes	Yes	Yes	Yes	Yes
9.	No	No	No	No	No	Yes
10.	Yes	Yes	Yes	Yes	No	No
11.	Both	Equity	Neither	Both	Both	Equity

1.	34%	25% or 25.5%	25%	30%	29.5%	34%
2.	Yes	Yes	Yes	Yes	Yes	No
3.	0% 15%/25% 15%/25%	35% 35%/4% 30%/15%	33% 14%/33% 33%/26.4%	0%/10% 4.9%/40% 5%/40%	5% 4.99%/30% 30%	0%/34% 4.95%/30.6% 30.6%
4.	Yes	Yes	No	Yes**	Yes	Yes
5.	No	No	No	Yes	No	No
6.	Yes	Yes	No	Yes	Yes	Yes

1.	Yes	Yes	Yes	Yes	Yes	Yes
2.	Yes	Yes	Yes	Yes	Yes	No
3.	No	No	No	No	No	No

** Tax consolidation was abolished in 2014 and replaced with a three-year group tax deferral mechanism.

Argentina

Contact

Ricardo Ferreyra	Daniel Caracciolo	Maria Ines Del Gener
Partner	Partner	Partner
+54 11 4321 3017	+54 11 4320 2700	+54 11 4320 2700
rferreyra@deloitte.com	dcaracciolo@deloitte.com	mdelgener@deloitte.com

Key facts

GDP current prices 2015	US$607.8B	**Major industries**	Agricultural exports and diversified industries (oil, mining, automotive, services)
YoY real GDP growth	2.1%	**2015 reported M&A volume**	US$1.6B

Question	Response

Deal structure

Do the tax rules favor asset or equity deals?	Argentine legislation does not favor one type of deal structure over the other, although share deals generally are preferred because they are easier and usually result in a lower tax burden. Share deals are affected by income tax and potentially stamp taxes; asset deals also may be subject to indirect taxation (e.g. VAT, gross revenue taxes). Although tax-free reorganizations are possible, legal requirements may render them unsuitable in most cases.
Do the tax rules favor onshore or offshore holding structures?	The sale of shares or other equity interests in an Argentine entity by a foreign holding company is subject to a 15% income tax rate as opposed to a 35% rate if the shares held and sold by a resident holding company.
Are there significant restrictions on foreign investment?	Domestic and foreign investors generally are treated the same in Argentina, although restrictions apply to foreign investment in certain areas (e.g. rural land).
Are tax deductions typically available for acquisition financing costs or other acquisition costs?	There generally are no restrictions on the deduction of financing and acquisition expenses in an asset deal; however, the tax authorities typically disallow the deduction of such expenses in a share deal.
Can PIK (payment in kind) debt be structured?	The structuring of PIK debt/bonds is unusual in Argentina. Interest generally is deductible on an accrual basis unless it is paid to a foreign related party (cash basis instead). Withholding tax applies on interest payments even if the interest is fully paid in kind. The applicability of transfer pricing, thin capitalization rules and foreign exchange rules should be taken into account.
Do thin capitalization rules apply?	The thin capitalization rules apply to debt owed to foreign controlling entities. The rules operate to disallow an interest deduction on debt owed to a foreign controlling entity or to a controlled entity resident in a tax treaty country. The excess interest is recharacterized as a dividend, and thus is not deductible.
Are there minimum capital requirements?	The minimum capital varies depending on the business activities and legal structure of the company.
Is it possible to increase/decrease capital?	Capital increases are straightforward, but capital decreases involve a complex legal process that may take several months.

Post-deal tax management

What is the corporate income tax rate?	35%	
Can cash be remitted overseas?	Argentina operates a foreign exchange control regime. Transfers of funds into and out of the country must be made according to Central Bank regulations. Following the lifting of many of the stringent rules in FY2015, the payment of dividends, the repatriation of capital and payments for intercompany services have been released from most of the exchange control restrictions (as of the date of writing). Potentially affected companies should seek professional advice on the status of the rules.	
What is the domestic withholding tax rate?	On dividends paid to nonresident entities?	Dividends and profit distributions made to resident companies are not subject to tax. In-kind distributions in the form of shares or membership interests are not taxable. Dividends and other profit distributions by Argentine companies or local branches of foreign companies are subject to a 35% equalization tax on amounts paid in excess of their accumulated taxable income after certain adjustments.

Question	Response	
What is the domestic withholding tax rate?	On dividends paid to nonresident entities?	Argentine companies or Argentine branches of foreign companies are subject to the equalization tax only if the dividends exceed the taxpayer's accumulated taxable income with certain adjustments. If applicable, the withholding tax is 35%.
	On interest payments made to nonresident entities?	A 35% rate generally applies, although a reduced rate of 15.05% applies to interest on loans granted by certain foreign financial institutions (in general, "non-offshore" institutions) and interest on loans granted to finance the acquisition of movable property. The rates may be reduced under an applicable tax treaty.
	On royalty payments made to nonresident entities?	The rates are 21%, 28% or 31.5%, depending on the type of royalty and whether certain requirements are met. The rates may be reduced under an applicable tax treaty.
Is tax levied on the receipt of foreign-source dividends?	Dividends received from foreign entities are subject to the standard 35% corporate income tax rate, with a foreign tax credit granted for income taxes paid overseas.	
Is there a limitation on the use of net operating losses (NOLs) by the successor?	Generally, under a share deal, there are no restrictions on the use of NOLs after the acquisition; however, in an asset deal, it is not possible to transfer NOLs to the successor entity. Tax-free reorganizations in the form of mergers and spinoffs may allow the passing of NOLs only if certain requirements are met, e.g. a two-year ownership period before and after the reorganization, etc.	

Exit strategy

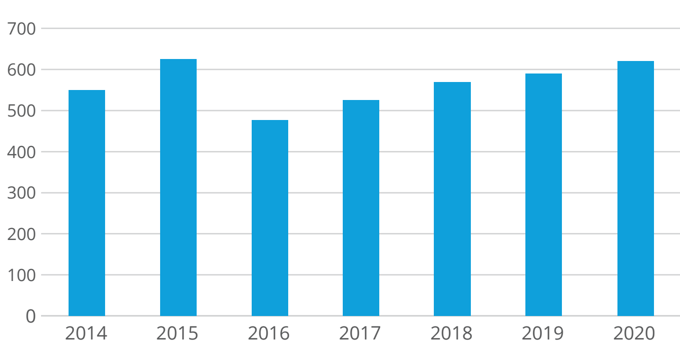
Is tax levied on capital gains at the level of a domestic seller?	Gains derived from the sale of shares by an Argentine company are subject to the 35% corporate income tax rate.
Is withholding tax levied on the sale or disposition of a company?	Gains derived by a nonresident corporation on the sale of shares or other equity interest in an Argentine entity are taxed at a rate of 15% applicable on a net profit presumed to be 90% of the sale price (resulting in an effective rate of 13.5%), or 15% on the actual net profit, at the option of the seller. Gains derived by a nonresident individual are subject to an effective 13.5% tax on the sale price.
Are there specific tax rules governing the exit strategy for investment through an offshore vehicle?	In principle, no income tax is triggered on the indirect transfer of shares resulting from the sale of an offshore vehicle; however, substance-over-form provisions should be closely monitored. Stringent corporate law requirements may apply on investments made through offshore vehicles.
Are there substantial sales/turnover taxes on exit?	VAT, turnover tax and stamp duties may apply to an asset deal. Stamp duties may apply on the SPA in a share deal.

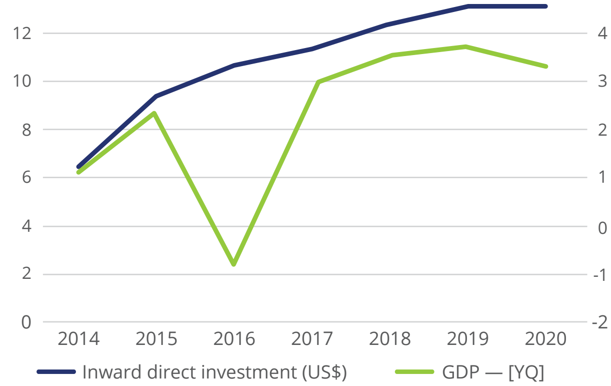
Summary

A resurgence of M&A activity is expected to take place due to market-oriented, business-friendly policies implemented by the government authorities at the end of 2015. Although many foreign-exchange constraints have been lifted, this matter should be carefully addressed in any M&A transactions.

	2014	2015	2016	2017	2018	2019	2020
GDP (current prices 2015)	548.1	607.8	471.1	525.8	568.1	593.5	622.0
GDP (% real change)	0.5	2.1	-0.8	3.0	3.6	3.7	3.3
Inward direct investment (US$)	6.1	9.4	10.8	11.6	12.4	13.6	13.6

GDP (current prices 2015)





Brazil

Contact

Marcelo Natale	Daniel Yamamoto	Antenor Minto
Cross-Border Leader	Cross-Border Partner	Cross-Border Director
+55 11 5186 1003	+55 11 5186 1563	+55 11 5186 6521
mnatale@deloitte.com	danielyamamoto@deloitte.com	aminto@deloitte.com

Key facts

GDP current prices 2015	US$1,772.3B	**Major industries**	Manufacturing, consumer business, oil and gas, mining, technology, media and telecommunications
YoY real GDP growth	-3.8%	**2015 reported M&A volume**	US$36.7B

Question	Response

Deal structure

Question	Response
Do the tax rules favor asset or equity deals?	Neither asset nor equity deals are favored, although share deals typically are preferred because of the possibility to amortize goodwill of the shares acquired (if structured properly). According to rules that apply as from 2015 (Law 12,973), the allocation of the premium in an acquisition of shares is broken down into two categories as follows: (1) identifiable assets acquired and liabilities assumed at fair value; and (2) future profitability (goodwill) or negative goodwill. A premium would not be recognized if the transaction is carried out between related parties.
Do the tax rules favor onshore or offshore holding structures?	The acquisition vehicle typically is located onshore to allow the amortization of goodwill. The triggering event for amortization occurs after a domestic merger takes place since there are no tax consolidation rules.
Are there significant restrictions on foreign investment?	Only in certain regulated industries.
Are tax deductions typically available for acquisition financing costs or other acquisition costs?	Interest paid to foreign shareholders is deductible, subject to the thin capitalization and transfer pricing rules.
Can PIK (payment in kind) debt be structured?	The use of PIK debt may trigger complex tax and Brazilian central bank issues that need to be addressed.
Do thin capitalization rules apply?	Interest paid to a related party that is not located in a tax haven jurisdiction or that does not benefit from a preferential tax regime may be deducted on an accruals basis for corporate income tax purposes provided (i) the expenses are necessary for the company's activities; and (ii) both of the following thresholds are met: (a) the related party debt-to-equity ratio does not exceed 2:1 calculated on the proportion of related party debt to direct equity investment made by related parties; and (b) the overall debt-to-equity ratio does not exceed 2:1 based on the proportion of total debt to the total direct equity investment made by related parties. Interest paid to an entity or individual located in a tax haven or that benefits from a preferential tax regime (regardless of whether the parties are related) may be deducted only if the expenses (i) are necessary for the company's activities; and (ii) both of the following thresholds are met: (a) the amount of the Brazilian entity's indebtedness to the tax haven resident does not exceed 30% of the Brazilian entity's net equity; and (b) the Brazilian entity's total indebtedness to all entities located in a tax haven jurisdiction or benefiting from a preferential tax regime does not exceed 30% of its net equity.
Are there minimum capital requirements?	Generally no, but there are exceptions.
Is it possible to increase/decrease capital?	An increase or decrease of capital generally can be undertaken in Brazil. A capital decrease should be implemented according to the rules in the Civil Code. A grace period will be required if there is any opposition by third-party creditors.

Post-deal tax management

What is the corporate income tax rate?	34%	
Can cash be remitted overseas?	Yes. Brazil has exchange controls but pre-approval is not required.	
What is the domestic withholding tax rate?	On dividends paid to nonresident entities?	No withholding tax is imposed on dividend distributions made to a nonresident that are paid out of profits earned as from January 1, 1996.
	On interest payments made to nonresident entities?	15%. The rate may be reduced under an applicable tax treaty. However, the rate is 25% on payments made to entities located in a tax haven jurisdiction.
	On royalty payments made to nonresident entities?	15%. The rate may be reduced under an applicable tax treaty. However, the rate is 25% on payments made to entities located in a tax haven jurisdiction.

Question	Response
Is tax levied on the receipt of foreign-source dividends?	Foreign-source dividends received by a Brazilian entity are nontaxable in Brazil to the extent profits were already taxed on a year-end basis. Profits earned by CFCs and certain foreign affiliates (noncontrolled subsidiaries) of Brazilian entities are included in the base for calculating the corporate income tax (IRPJ) and social contribution on net profits (CSLL) liability of the Brazilian controlling or parent company. Law 12,973/2014 introduced major changes to the CFC rules under which Brazilian taxpayers have the option to make an irrevocable election (on a calendar year basis) to consolidate the profits and losses of CFCs until 2017 provided certain requirements are met. The taxation of the profits of noncontrolled entities generally should take place at the time the profits are distributed to the Brazilian entity if the requirements in Law 12,973 are met; otherwise, the profits of such entities will be taxed when computed on 31 December of each year. A tax credit is available for foreign tax paid.
Is there a limitation on the use of net operating losses (NOLs) by the successor?	Tax losses may be carried forward indefinitely, but they may be offset only up to 30% of future taxable income. Losses are forfeited in a merger where the loss-making entity is liquidated, and there are restrictions on the use of losses where there has been a change in ownership.

Exit strategy

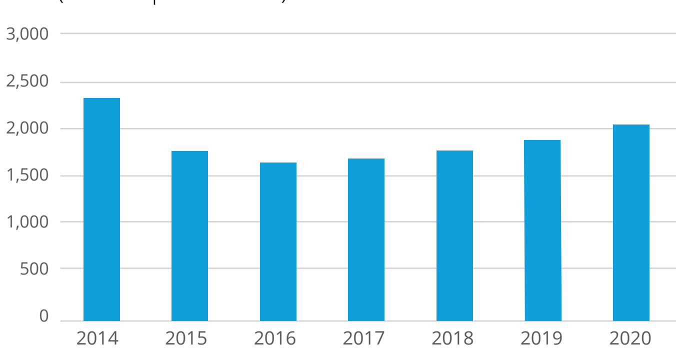
Is tax levied on capital gains at the level of a domestic seller?	Capital gains are taxed as ordinary income.
Is withholding tax levied on the sale or disposition of a company?	Brazilian-source capital gains derived by a nonresident entity are subject to withholding tax in Brazil.
Are there specific tax rules governing the exit strategy for investment through an offshore vehicle?	The transfer of shares of a Brazilian company by a nonresident is subject to nonresident capital gains tax.
Are there substantial sales/turnover taxes on exit?	No

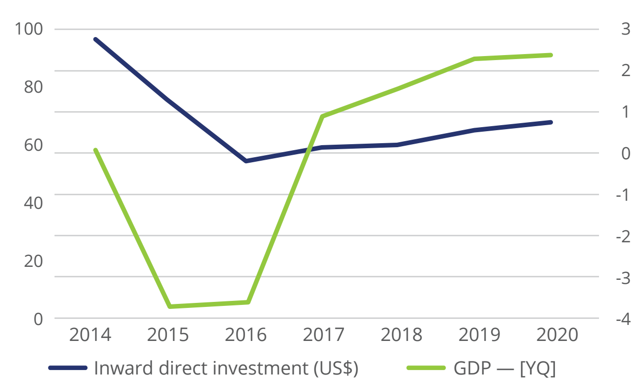
Summary

The structuring of deals should be analyzed carefully because of the complexity of Brazil's tax rules and the changes to corporate and tax rules with the introduction of IFRS. The enactment of Law 12,973/2014 clarified the rules regarding the tax amortization of goodwill and the law provided relief for many taxpayers because of the uncertainties relating to the ability to recognize a deductible premium on the acquisition of shares. Nevertheless, a detailed assessment should be made to determine the amount of the tax deductible premium and to ensure compliance with Law 12,973/2014.

	2014	2015	2016	2017	2018	2019	2020
GDP (current prices 2015)	2,416.5	1,772.3	1,622.0	1,670.0	1,781.0	1,881.0	2004.0
GDP (% real change)	0.1	-3.8	-3.7	0.9	1.6	2.3	2.4
Inward direct investment (US$)	96.9	75.1	58.0	60.3	62.7	65.2	67.9

GDP (current prices 2015)





Chile

Contact

Joseph Courand
Partner
+56 22 729 8309
jcourand@deloitte.com

Paula Orsorio
Partner
+56 22 729 8311
posorio@deloitte.com

Key facts

GDP current prices 2015	US$240.2B	**Major industries**	Mining, chemicals, fishing, agro-industries, wine
YoY real GDP growth	2.1%	**2015 reported M&A volume**	US$5.2B

Question	Response
Deal structure	
Do the tax rules favor asset or equity deals?	Chile's tax rules generally do not favor an asset deal over an equity deal, or vice versa. The following tax issues arise in both types of deals: (1) In an asset deal, goodwill is not amortizable for tax purposes. In an equity deal, goodwill is not amortizable for tax purposes until the disposition of the shares or rights acquired in the Chilean subsidiary. (2) In an equity deal, the acquiring company inherits the historical tax liabilities and contingencies of the target entity. In an asset deal, the acquiring company potentially may inherit all of the seller's tax liabilities and contingencies. (3) As from 2017, Chile has a dual tax regime applicable to taxpayers subject to the First Category Income Tax ("FCIT")/also known as "corporate tax": (i) Fully integrated regime and (ii) Partially integrated regime. (4) In an asset deal, gains derived by a seller(which determines the FCIT pursuant to its effective income) are levied depending of the taxation regime: (i) *Fully integrated regime:* Gains are subject to a 25% FCIT, plus a 35% Additional Withholding Tax (AWIT), regardless of whether the profits are distributed. However, FCIT may be offset as a credit against the AWIT, resulting in a total tax burden of 35%. (ii) *Partially integrated regime:* Gains are subject to a 25.5% FCIT (increasing to 28% in 2018). Once the profits are distributed abroad, a 35% AWIT will be triggered and 65% of the FCIT paid will be available as a credit against the AWIT. Thus, the final burden is 43.925% in 2017 (and 44.45% as from 2018). Notwithstanding the above, if the recipient of the distribution is a shareholder resident in a country that has concluded a tax treaty with Chile, the full FCIT paid is creditable against the AWIT, so the total tax burden will be 35% instead of 44.45%. If the seller is a nonresident that is not a FCIT taxpayer (e.g. a person that does not obtain income from the exploitation of an asset or from the development of activities subject to Chilean FCIT), a 35% AWIT will apply on gains derived from an asset deal. (5) In an equity deal, the tax treatment of gains derived by the seller will depend on the tax regime, with tax applying as described above for gains derived from an asset deal. If the seller is a non-Chilean resident that is not a FCIT taxpayer (e.g. a foreign shareholder that does not engage in activities subject to FCIT in Chile), a 35% AWIT will apply on gains derived from an equity deal. (6) VAT generally applies in an asset deal, depending on the seller, the type of asset and the period on which the alienation is made. There is no VAT in an equity deal.
Do the tax rules favor onshore or offshore holding structures?	Both structures are used for the acquisition of Chilean assets, depending on the circumstances. As mentioned above, Chile now operates a dual tax regime. Under the partially integrated regime, shareholders located in tax treaty countries may benefit from a lower tax overall burden on dividends than shareholders in non-treaty countries. A temporary measure that applies until 31 December 2019 allows shareholders in countries that have signed a tax treaty with Chile, but the treaty is not yet in force also will be able to benefit from the above benefit.
Are there significant restrictions on foreign investment?	No
Are tax deductions typically available for acquisition financing costs or other acquisition costs?	Financing and other acquisition costs may be deducted if the expense deductibility requirements are met.
Can PIK (payment in kind) debt be structured?	Interest on loans generally is paid in cash.
Do thin capitalization rules apply?	There are no general thin capitalization rules, but a 35% tax applies to interest and certain other payments that are subject to withholding tax at a rate of less than 35% under domestic law (e.g. 4%) or under a tax treaty (e.g. 15%), and the taxpayer is in an excess debt position. A 3:1 debt-to-equity ratio applies if (i) the parties are related; (ii) the loan is secured by third parties other than unrelated third parties receiving market compensation for providing the guarantee; or (iii) the lender is resident in a tax haven or preferential tax regime jurisdiction.
Are there minimum capital requirements?	No
Is it possible to increase/decrease capital?	Although certain legal and administrative requirements must be met, an increase or decrease of the share capital of a Chilean entity is straightforward.

Post-deal tax management

What is the corporate income tax rate?	The corporate income tax rate depends on which tax regime applies. Under the fully integrated regime, FCIT is imposed at a rate of 25% as from 2017, and under the partially integrated regime, the rate is 25.5% for 2017 and 27% as from 2018.	
Can cash be remitted overseas?	Yes	
What is the domestic withholding tax rate?	On dividends paid to nonresident entities?	35%. The FCIT is creditable against the 35% withholding tax, provided the dividends are paid out of profits that were subject to corporate tax. The FCIT always will be fully creditable for entities subject to the fully integrated regime and will be creditable under the partially integrated regime where dividends are distributed to shareholders resident in a tax treaty country.

Question	Response	
What is the domestic withholding tax rate?	On interest payments made to nonresident entities?	4%/35%. The 4% rate applies to interest paid on loans granted by a foreign bank or financial institution, provided the lender and borrower are unrelated or, if related, if the 3:1 debt-to-equity ratio is met. The rate is 35% in all other cases. The rates may be reduced under an applicable tax treaty.
	On royalty payments made to nonresident entities?	0%/15%/30%. The general rate is 30%. Royalty payments for the use of standard software may be exempt if certain requirements are met; a 15% rate applies to royalties paid for copyrights, invention patents, models, utility models, industrial designs and drawings, blueprints or topography of integrated circuits, and new vegetable varieties, as well as payments for the use, enjoyment and exploitation of computer programs. The rate increases to 30% if the beneficiary is resident in a tax haven or country with a preferential tax regime. The rate may be reduced under an applicable tax treaty (10%).
Is tax levied on the receipt of foreign-source dividends?	Dividends are taxed upon receipt, unless the CFC rules are applicable. Offshore dividends are taxable as ordinary income, but a tax credit is available, capped at 32%. The cap is 35% for dividends from treaty countries if the shareholders of the Chilean entity are resident in Chile or in a treaty country.	
Is there a limitation on the use of net operating losses (NOLs) by the successor?	No, unless the transaction falls within the scope of the rules that limit the ability to offset NOLs. Carried forward losses of companies that undergo a change in ownership between unrelated parties may be deducted, except in certain circumstances (e.g. where the actual intent of the acquiring company is to obtain the NOLs). In such cases, the acquiring/surviving entity may not use losses of the acquired company incurred before the change in ownership to offset future income.	

Exit strategy

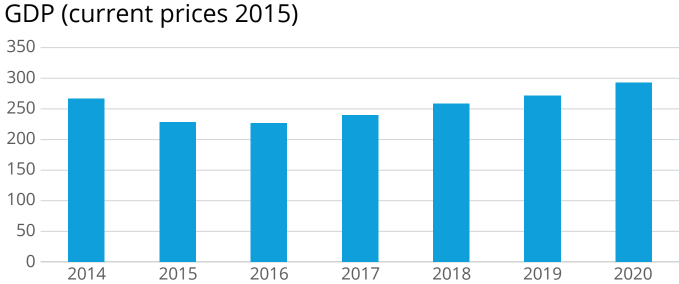
Is tax levied on capital gains at the level of a domestic seller?	Capital gains derived by a seller from the disposal of shares or equity interests in a Chilean entity are levied depending on which tax regime applies: *(i)* ***Fully integrated regime:*** Gains are subject to a 25% FCIT, plus a 35% AWIT, regardless of whether the profits are distributed. However, the FCIT may be credited against the AWIT, resulting in a total tax burden of 35%. *(ii)* ***Partially integrated regime:*** Gains are subject to a 25.5% FCIT (increasing to 27% in 2018). Once the profits are distributed abroad, a 35% AWIT will be triggered and a 65% of the FCIT paid will be available to be credited against the AWIT. Notwithstanding the above, if the recipient of the distributions is a shareholder resident in a country that has concluded a tax treaty with Chile, the full FCIT paid is creditable against the AWIT, resulting in a total tax burden of 35% instead of 44.45%.The rate may be reduced under an applicable tax treaty.
Is withholding tax levied on the sale or disposition of a company?	Gains derived from the disposal of shares or equity interests in a Chilean entity generally are subject to a 24% corporate tax and a 35% AWIT, against which the 24% corporate tax is creditable. However, the 24% corporate tax may apply as a single tax if certain requirements are met. A reduced rate may be available under an applicable tax treaty. A 35% AWIT is levied on gains derived by a nonresident on the disposal of 10% or more of an equity holding in a foreign entity owning qualified Chilean assets, if within the previous 12 months, (i) 20% or more of the fair market value of the holdings disposed of derives from the Chilean assets; (ii) approximately USD 176 million or more of the fair market value derives from the Chilean assets; or (iii) the foreign company is resident in a tax haven and certain disclosures are not made. Relief from these rules is available for disposals resulting from an intragroup reorganization. The indirect disposal of Chilean entities to Chilean residents also is taxable.
Are there specific tax rules governing the exit strategy for investment through an offshore vehicle?	A 35% AWIT is levied on gains derived by a nonresident on the disposal of 10% or more of an equity holding in a foreign entity owning qualified Chilean assets if, within the previous 12 months: (i) 20% or more of the fair market value of the holdings disposed of derives from the Chilean assets; or (ii) approximately USD 176 million or more of the fair market value derives from the Chilean assets; or (iii) the foreign company is resident in a tax haven and certain disclosures are not made. Relief from these rules is available for disposals resulting from an intragroup reorganization. The indirect disposal of Chilean entities to Chilean residents also is taxable.
Are there substantial sales/turnover taxes on exit?	No

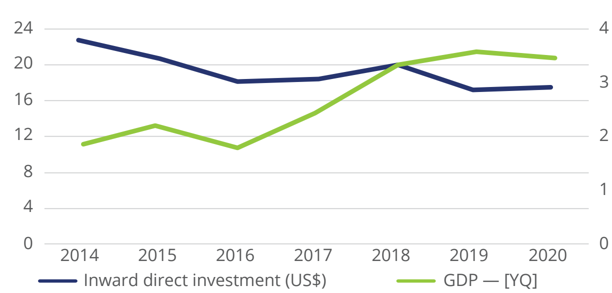
Summary

Chile has an open economy and remains a global leader in economic freedom. A prudent public finance management has allowed Chile to keep its public debt and budget deficits under control. The rule of law is maintained through an independent judicial system, which provides guarantees to foreign investors that they will receive fair and nondiscriminatory treatment.

	2014	2015	2016	2017	2018	2019	2020
GDP (current prices 2015)	258.7	240.2	237.0	244.8	257.3	277.0	295.4
GDP (% real change)	1.9	2.1	1.8	2.3	3.3	3.5	3.4
Inward direct investment (US$)	22.3	20.5	18.0	18.5	20.0	17.0	17.5

GDP (current prices 2015)





Colombia

Contact

Diego Franco
Partner
+57 1 426-2282
dfranco@deloitte.com

Diego Cubillos
Partner
+57 1 426-2285
dcubillos@deloitte.com

Key facts

GDP current prices 2015	US$292.1B	**Major industries**	Mining, pharmaceutical, transportation
YoY real GDP growth	3.1%	**2015 reported M&A volume**	US$1.5B

Question	Response
Deal structure	
Do the tax rules favor asset or equity deals?	Colombia's income tax rules generally do not favor an asset transaction over an equity transaction, or vice versa.
Do the tax rules favor onshore or offshore holding structures?	Both offshore and onshore holding structures are used for acquisitions, but offshore structures are subject to restrictions (e.g. transfer pricing rules). Goodwill can be amortized in an onshore holding structure if certain requirements are met.
Are there significant restrictions on foreign investment?	Foreign investment must be registered with the central bank, but there are no restrictions.
Are tax deductions typically available for acquisition financing costs or other acquisition costs?	Interest deductions are available, subject to various limitations, such as the thin capitalization rules (the debt-to-equity ratio is broadly 3:1) and withholding tax. Deductions often are added to the cost base of the acquired assets or as an expense of the taxable period.
Can PIK (payment in kind) debt be structured?	PIK debt may be structured. Noncash interest generally will be deductible, subject to certain considerations (e.g. thin capitalization, transfer pricing).
Do thin capitalization rules apply?	Thin capitalization rules limit the deduction of interest on debt that, on average, exceeds a 3:1 debt-to-equity ratio (the taxpayer's net equity is determined on December 31 of the immediately preceding fiscal year). Interest exceeding the debt-to-equity ratio is nondeductible. The thin capitalization rules do not apply to interest on loans granted by national entities supervised by the Financial Superintendence of Colombia or foreign entities supervised by the relevant authority in charge of controlling the financial sector. This exception does not apply to loans granted by related parties abroad or by entities located at a non-cooperative jurisdiction.
Are there minimum capital requirements?	No
Is it possible to increase/decrease capital?	An increase or decrease of capital is allowed. The increase of capital triggers a registration tax of 0.7% or 0.3%, depending on how the capital increase is structured. In some cases, a decrease of capital must be authorized by the Superintendence of Corporations.
Post-deal tax management	
What is the corporate income tax rate?	For taxable year 2016: 25%, plus a 9% "income tax for equality" (CREE), plus a CREE surcharge of 6%, for taxpayers whose taxable base is equal to or exceeds USD $266,667 (COP $800 million). The standard corporate income tax rate is 34% for taxable year 2017, reducing to 33% as from 2018. A temporary income tax surcharge is levied for taxable years 2017 and 2018, at a rate of 6% for 2017 and 4% for 2018 on net income exceeding USD $266,667 (COP $800 million). The CREE tax and its surcharge have been abolished.
Can cash be remitted overseas?	Yes, provided there is compliance with the foreign exchange rules.

Question	Response	
What is the domestic withholding tax rate?	On dividends paid to nonresident entities?	As from January 1, 2017, dividends and income from profit participations received by Colombian companies are considered taxable income, regardless of whether they are paid out of profits that have been taxed at the level of the distributing company (previously, dividends paid from previously-taxed profits were exempt). Dividends and income from profit participations received by nonresidents (companies, other entities and individuals) from profits that have not been taxed at the corporate level are subject to a 35% withholding tax, plus a special rate of 5% (i.e. resulting in a total effective tax rate of 40%). If the dividends are paid from profits taxed at the corporate level, they will be subject only to the 5% rate. The rate may be reduced under an applicable tax treaty.
	On interest payments made to nonresident entities?	As from January 1, 2017, interest paid to a nonresident is subject to a withholding tax rate of 15% (previously, the rate was 33% on loans with a term not exceeding 12 months, and generally was 14% otherwise). Interest payments made to a foreign entity on loans granted for the development of infrastructure programs that meet certain requirements are subject to a lower rate of 5%.
	On royalty payments made to nonresident entities?	Royalties paid to a nonresident company generally are subject to a withholding tax rate of 15% as from 1 January 2017 (previously, the rate generally was 33%).
Is tax levied on the receipt of foreign-source dividends?	Yes, but tax liability is not triggered at the time foreign dividends are received. Foreign dividends will be part of the taxable base of the relevant fiscal period applicable to the company. A tax credit will be available for such dividends if certain requirements are met.	
Is there a limitation on the use of net operating losses (NOLs) by the successor?	There are certain requirements, but NOLs generally can be used post-acquisition.	

Exit strategy

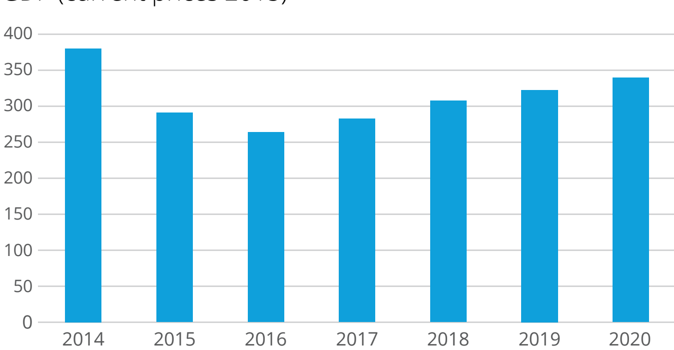
Is tax levied on capital gains at the level of a domestic seller?	Resident companies generally are subject to a 10% capital gains tax if the assets or shares sold have been held for more than two years; otherwise, the gains are subject to the normal corporate income tax rate.
Is withholding tax levied on the sale or disposition of a company?	If the acquirer is Colombian resident, a 14% withholding tax is levied. Filing requirements apply where there is a disposal of a Colombian asset or shares in a Colombian entity.
Are there specific tax rules governing the exit strategy for investment through an offshore vehicle?	The foreign entity must proceed with the cancellation of the foreign investment registered with the central bank. Additionally, an income tax return must be filed even though no tax is payable. If the transaction is between related parties, the transfer pricing rules apply. The indirect sale of assets in Colombia is not subject to taxation in Colombia.
Are there substantial sales/turnover taxes on exit?	No

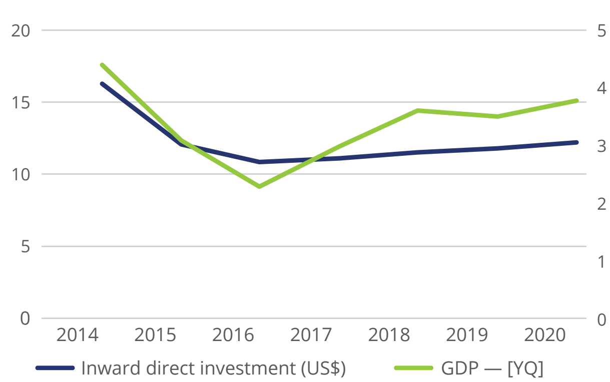
Summary

Colombia is a growing economy, and in recent years, foreign investors have found the country a good place to invest.
However, as a result of recent changes to the tax rules, the structuring of deals should be analyzed carefully to determine the tax effects.

	2014	2015	2016	2017	2018	2019	2020
GDP (current prices 2015)	378.5	292.1	265.1	283.9	305.7	322.5	339.4
GDP (% real change)	4.4	3.1	2.3	3.0	3.6	3.5	3.8
Inward direct investment (US$)	16.3	12.1	10.9	11.2	11.6	11.9	12.3

GDP (current prices 2015)





Mexico

Contact

Miguel Llovera
Partner
+52 55 5080 6535
mllovera@deloittemx.com

Eduardo Vivanco
Partner
+52 55 5080 7013
evivanco@deloittemx.com

Key facts

GDP current prices 2015	US$1,144.1B	**Major industries**	Oil and gas, tourism, manufacturing, mining and food and beverages
YoY real GDP growth	2.6%	**2015 reported M&A volume**	US$17.4B

Question	Response
Deal structure	
Do the tax rules favor asset or equity deals?	Mexican direct tax legislation does not favor one type of deal over the other. However, in asset deals, careful consideration should be given to indirect and local taxes, including VAT and local tax on the transfer of immovable property. It generally is easier to structure share deals from the point of view of the tax consequences for the seller, so Mexican M&A transactions typically involve share rather than asset transfers.
Do the tax rules favor onshore or offshore holding structures?	Mexico's tax legislation does not favor onshore or offshore holding structures.
Are there significant restrictions on foreign investment?	Restrictions apply to foreign investment in specific sectors (e.g. air transport, insurance, etc.). Investment in the power and the oil and gas sector is no longer a restricted activity.
Are tax deductions typically available for acquisition financing costs or other acquisition costs?	Acquisition financing costs (including fees and other commission-related expenses) generally are deductible, subject to compliance with certain formalities in the tax law. Pre-transaction expenses may be invoiced to the local business provided certain requirements are met.
Can PIK (payment in kind) debt be structured?	PIK debt structures can be utilized when investing in Mexico. There are no rules allowing for a tax-free contribution of assets to a new entity.
Do thin capitalization rules apply?	The deduction of interest expense is restricted if a 3:1 debt-to-equity ratio is exceeded. It is important to note that the restriction will affect only interest associated with foreign related parties, even though the debt-to-equity ratio calculation takes all interest-bearing debt of a company into account.
Are there minimum capital requirements?	No
Is it possible to increase/decrease capital?	A capital increase/decrease generally can be implemented from a corporate or tax law perspective. However, specific rules in the tax law prevent the distribution of profits in excess of capital (such profits may be subject to tax, depending on the distributing company's tax attributes).

Post-deal tax management

What is the corporate income tax rate?	30%	
Can cash be remitted overseas?	Whether cash generated in a business can be extracted depends on the particular needs and complexity of an investment. Typically, dividends, interest and capital reductions are the most common forms of cash extractions, and the tax rules applicable to such payments apply. There are no foreign exchange controls in Mexico. Rules that apply as from 2014 restrict deductions for interest, royalty and technical assistance payments made to nonresidents; the rules disallow a deduction for payments made to transparent entities whose owners are not taxed and for expenses that are ignored as an item of taxable income in the hands of the foreign resident.	
What is the domestic withholding tax rate?	On dividends paid to nonresident entities?	A 10% dividend withholding tax applies to dividends paid out of profits generated as from 2014. Dividends paid on the account of profits originating in prior years are not subject to withholding tax.
	On interest payments made to nonresident entities?	Rates range from 4.9% to 40%, depending on the recipient, although they may be reduced under an applicable tax treaty.
	On royalty payments made to nonresident entities?	Withholding tax on royalty payments ranges from 5% to 40%, depending on the type of royalty. The rate may be reduced under an applicable tax treaty.

Question	Response
Is tax levied on the receipt of foreign-source dividends?	Dividends received from abroad are considered taxable income, with a tax credit granted for tax paid abroad. The foreign tax credit calculation is made on a per-country basis.
Is there a limitation on the use of net operating losses (NOLs) by the successor?	In a merger, the tax losses of the merged company disappear. Losses of the surviving corporation may be deducted only from gains derived from the same activity and if additional requirements are met.

Exit strategy

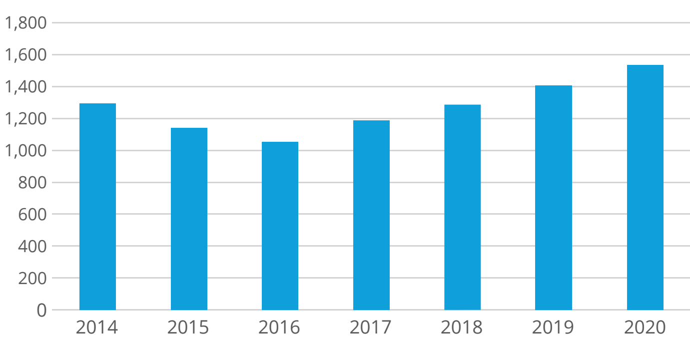
Is tax levied on capital gains at the level of a domestic seller?	No, but any capital gain will be included in its taxable base and will be subject to the normal tax rate.
Is withholding tax levied on the sale or disposition of a company?	Gains derived by a nonresident from the sale of shares of a Mexican company are deemed to be Mexican-source income and are subject to a 25% withholding tax on the gross proceeds. However, if certain requirements are met (e.g. the appointment of a legal representative in Mexico), the nonresident can elect to pay a 35% tax on the net gains. The rates may be reduced under an applicable tax treaty.
Are there specific tax rules governing the exit strategy for investment through an offshore vehicle?	Gains from the sale of shares of a Mexican entity are taxable in Mexico. The most relevant consideration when exiting an investment is the residence of the offshore entity.
Are there substantial sales/turnover taxes on exit?	There are no sales or turnover taxes on exit. Only VAT (and local taxes) may apply in the case of an asset transaction.

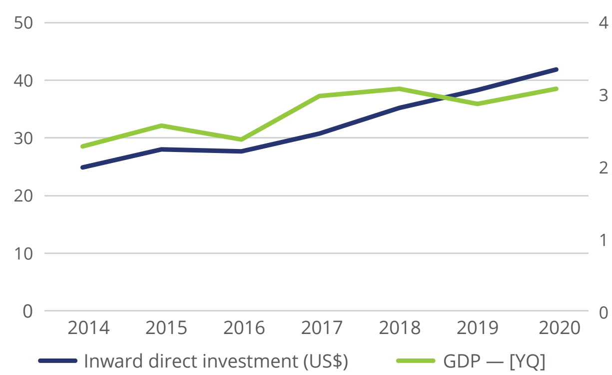
Summary

Mexico has the most extensive tax treaty network in the Latin America region. Mexico's tax revenue historically is relatively low as a percentage of GDP. Tax laws were reformed for 2014 to increase tax revenue. The government has announced a commitment not to change the existing tax law until the end of the current presidential term in 2018.

	2014	2015	2016	2017	2018	2019	2020
GDP (current prices 2015)	1,297.5	1,144.1	1,057.0	1,183.0	1,290.0	1,404.0	1,532.0
GDP (% real change)	2.3	2.6	2.4	3.0	3.1	2.9	3.1
Inward direct investment (US$)	25.1	28.4	27.8	31.0	35.5	38.6	42.1

GDP (current prices 2015)





Peru

Contact

Gustavo Lopez-Ameri
Partner
+511 211 8533
glopezameri@deloitte.com

Rogelio Gutierrez
Partner
+511 211 8531
ragutierrez@deloitte.com

Patricia Perez
Manager
+511 211 8585
patperez@deloitte.com

Key facts

GDP current prices 2015	US$192.1B	**Major industries**	Mining, petrochemical, energy, real state, textiles, clothing
YoY real GDP growth	3.2%	**2015 reported M&A volume**	US$2.3B

Question	Response

Deal structure

Question	Response
Do the tax rules favor asset or equity deals?	Peruvian direct tax legislation does not favor one type of deal over the other. However, in asset deals, careful consideration should be given to indirect and local taxes, including VAT and local tax on the transfer of immovable property.
Do the tax rules favor onshore or offshore holding structures?	No, it would depend on the holding structure. It also should be noted that CFC rules could apply and an indirect transfer of shares could trigger taxable capital gains.
Are there significant restrictions on foreign investment?	Prior authorization is not required for foreign investment. Nonresidents can acquire the shares of a Peruvian company through the stock exchange or in another manner. Foreign investors enjoy the same rights and obligations as Peruvian investors, but nonresidents may not acquire mines, land, forests, water, fuel and energy sources within 50 kilometers of the Peruvian border.
Are tax deductions typically available for acquisition financing costs or other acquisition costs?	Interest is deductible if there is evidence showing that the loan was used in an acquisition that would increase the generation of taxable income or the maintenance of the source of income. Thin capitalization rules apply to related party borrowings, and domestic banks must be used to make the investment.
Can PIK (payment in kind) debt be structured?	Yes
Do thin capitalization rules apply?	Interest paid by a resident taxpayer to an economically related or associated enterprise may not be deducted if a debt-to-equity ratio of 3:1 is exceeded. However, the interest is not recharacterized as a dividend.
Are there minimum capital requirements?	There are no minimum capital requirements for a Peruvian company (except for banks and other financial institutions).
Is it possible to increase/decrease capital?	There are no specific rules restricting the increase or decrease of capital in a Peruvian company. However, under the corporate law, certain conditions must be satisfied to decrease capital; it is possible that a capital decrease may result in a deemed dividend for tax purposes.

Post-deal tax management

Question	Response	
What is the corporate income tax rate?	The rate is 29.5% from January 1, 2017.	
Can cash be remitted overseas?	There are no foreign exchange control regulations. Funds may be remitted freely into and out of the country.	
What is the domestic withholding tax rate?	On dividends paid to nonresident entities?	As from January 1, 2017, the withholding tax rate on dividends is 5%. For the cumulative results corresponding to dividends obtained between January 1, 2015 and December 31, 2016, the rate is 6.8%. However, a 4.1% rate is applicable to dividends corresponding to accumulated results registered as of 2014, regardless of the year in which they actually are distributed.
	On interest payments made to nonresident entities?	4.99%/30%. The 4.99% rate applies to certain cash loans between unrelated parties, and where the interest rate, commissions, costs and bonuses is up to LIBOR+7 for US and European loans. In the case of other sources, the tax authorities will determine the applicable rate based on the documentation, provided by the borrower and the technical information reported by the Peruvian Central Reserve Bank. The 30% rate applies to related party loans. The rates may be reduced under an applicable tax treaty.
	On royalty payments made to nonresident entities?	30%. The rate may be reduced under an applicable tax treaty.

Question	Response
Is tax levied on the receipt of foreign-source dividends?	As from January 1, 2017, foreign dividends received by a Peruvian company are taxed at the 29.5% corporate income tax rate, with a foreign tax credit granted for tax paid overseas.
Is there a limitation on the use of net operating losses (NOLs) by the successor?	The acquirer in a corporate reorganization (merger or spin off) may not use the losses of the transferor.

Exit strategy

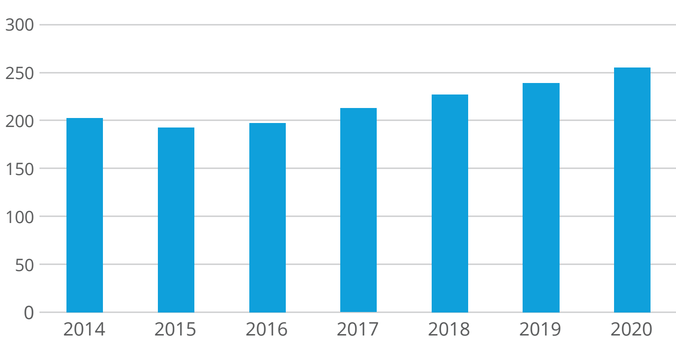
Is tax levied on capital gains at the level of a domestic seller?	Capital gains are taxed as ordinary income.
Is withholding tax levied on the sale or disposition of a company?	Withholding tax is applicable only if the seller is a nonresident company and the acquirer is a resident company or if the sale is made through the Lima stock exchange. The acquirer or CAVALi (Peru's Central Securities Depository) will be responsible for paying the withholding tax.
Are there specific tax rules governing the exit strategy for investment through an offshore vehicle?	Capital gains derived from the direct transfer of shares of a Peruvian corporation are taxable income. Additionally, in certain cases, an indirect transfer of shares or participating interests representing the equity capital of a Peruvian corporation will be considered Peruvian-source income subject to income tax.
Are there substantial sales/turnover taxes on exit?	No

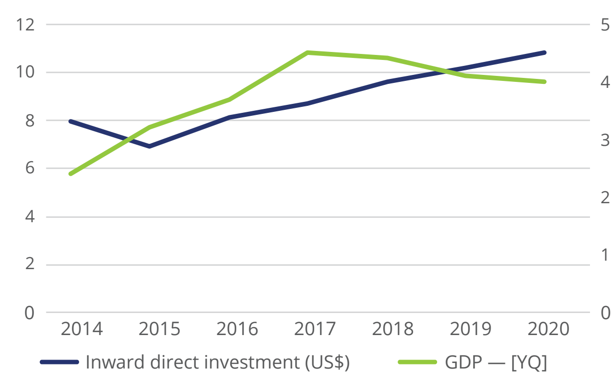
Summary

The European economic crisis and the good performance of the Peruvian economy have led an increasing number of investors to look to Peru for opportunities. As a result, M&A activity in Peru has continued its upward trend, which combined with the government's efforts to strengthen Peru's fiscal system, should remain solid.

	2014	2015	2016	2017	2018	2019	2020
GDP (current prices 2015)	202.9	192.1	196.9	211.7	225.4	239.0	253.8
GDP (% real change)	2.4	3.2	3.7	4.5	4.4	4.1	4.0
Inward direct investment (US$)	7.9	6.9	8.1	8.7	9.6	10.2	10.8

GDP (current prices 2015)





Venezuela

Contact

Alejandro Gómez	Ignacio Rodríguez	Alfredo Muñiz
Partner	Partner	Partner
+58 212 206 8732	+58 212 206 8745	+58 212 206 8737
algomez@deloitte.com	igrodriguez@deloitte.com	amuniz@deloitte.com

Key facts

GDP current prices 2015	US$491.9B	**Major industries**	Oil and gas
YoY real GDP growth	-5.7%	**2015 reported M&A volume**	NA

Question	Response
Deal structure	
Do the tax rules favor asset or equity deals?	The tax rules do not favor asset or equity deals.
Do the tax rules favor onshore or offshore holding structures?	A 34% rate applies on dividends regarding transactions with onshore holdings. For offshore holding structures, benefits under Venezuela's tax treaties and possibly its bilateral investment treaties may be available. If not, the domestic rules on onshore holding structures apply.
Are there significant restrictions on foreign investment?	There are restrictions on the holding of shares in certain industries, such as in the hydrocarbons industry, professional services, and Spanish language television, radio and the press. In addition, the exchange control regime in effect since 2003 can be considered a restriction on the acquisition and use of foreign currency.
Are tax deductions typically available for acquisition financing costs or other acquisition costs?	Loans obtained or debt incurred for the production of taxable income, as well as interest on such debts, are deductible for income tax purposes. In general, all costs or expenditure associated with the production of income may be deducted, although interest on foreign debt may not be deducted.
Can PIK (payment in kind) debt be structured?	Yes, and PIK debt is free from withholding tax that typically is levied on cash debt.
Do thin capitalization rules apply?	Yes.
Are there minimum capital requirements?	Yes, and these rules are subject to the policies of the Commercial Registry.
Is it possible to increase/decrease capital?	There generally are no limits on a capital increase, although formalities under commercial law must be complied with (including having up to date financial statements). Capital reductions are limited by law. They cannot take place if a creditor opposes the reduction and claims that a debt is due. If a capital reduction equals two-thirds of the company's total capital, the company will be considered insolvent.

Post-deal tax management

What is the corporate income tax rate?	34%	
Can cash be remitted overseas?	Under the exchange control regime, cash must be exchanged through the central bank. Exchangeable amounts are limited per entity and individual. The Foreign Investment Law provides that only 80% of dividends may be remitted overseas. Entities dedicated to the export of goods and services may retain 60% of the foreign currency derived from such activities. The remaining 40% must be sold to the Venezuelan central bank.	
What is the domestic withholding tax rate?	On dividends paid to nonresident entities?	0%/34%. Dividends generally are exempt from income tax. However, if the net income exceeds net taxed income, tax is levied at a rate of 34%. The rate may be reduced under an applicable tax treaty.
	On interest payments made to nonresident entities?	4.95%/30.6%. Interest on loans and other credits paid to a nonresident financial institution is subject to a final 4.95% withholding tax. Interest paid to other nonresident legal entities is taxed at the normal corporate income tax rate of 34%, but only on 90% of the gross payment, e.g. 30.6%. The rate may be reduced under an applicable tax treaty.
	On royalty payments made to nonresident entities?	30.6%. Royalties paid to a nonresident company are subject to tax at a maximum rate of 34% applied to 90% of the gross payment, resulting in an effective rate of 30.6%. The rate may be reduced under an applicable tax treaty.

Question	Response
Is tax levied on the receipt of foreign-source dividends?	Foreign-source dividends are taxed at a 34% rate.
Is there a limitation on the use of net operating losses (NOLs) by the successor?	Yes, provided the entity that had the NOLs subsequently derives gains or if the acquiring entity has gains. NOLs may be offset only against gains derived in Venezuela by a resident company. NOLs may be carried forward for three years, but these losses cannot exceed 25% of the income.

Exit strategy

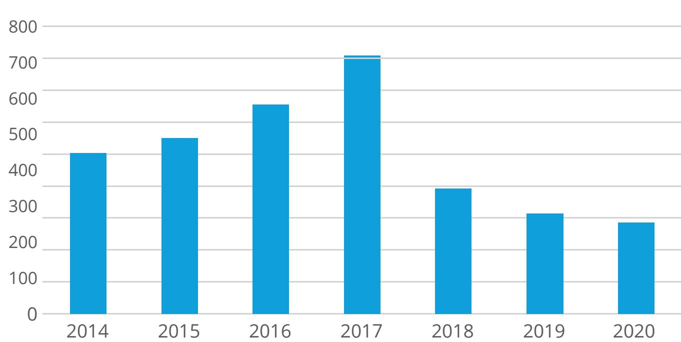
Is tax levied on capital gains at the level of a domestic seller?	Yes 34%, although the rate may be reduced under an applicable tax treaty.
Is withholding tax levied on the sale or disposition of a company?	Yes, 1% for listed companies and 5% for unlisted companies.
Are there specific tax rules governing the exit strategy for investment through an offshore vehicle?	No
Are there substantial sales/turnover taxes on exit?	No

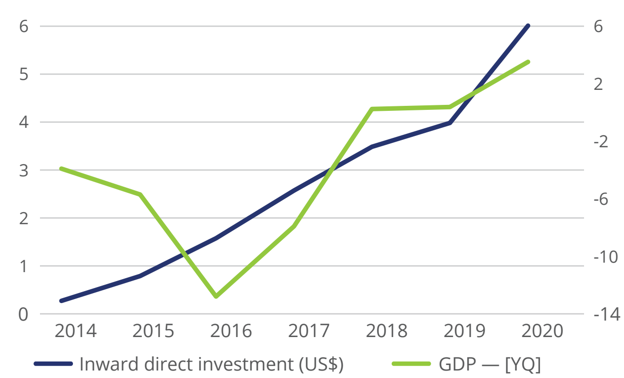
Summary

Assets, equity and gains generally are taxable, but the availability of deductions under domestic law and benefits under Venezuela's tax treaties offer some degree of flexibility. On the other hand, it is important to note that Venezuela's exchange control system must be considered for any structure that involves the movement of capital offshore and onshore.

	2014	2015	2016	2017	2018	2019	2020
GDP (current prices 2015)	446.8	491.9	583.0	720.6	352.9	285.6	254.4
GDP (% real change)	-3.9	-5.7	-12.7	-7.9	0.3	0.4	3.5
Inward direct investment (US$)	0.3	0.8	1.6	2.6	3.5	4.0	6.0

GDP (current prices 2015)





Key contacts

Country			
Argentina	**Ricardo Ferreyra** Partner +54 11 4321 3017 rferreyra@deloitte.com	**Daniel Caracciolo** Partner +54 11 4320 2700 dcaracciolo@deloitte.com	**Maria Ines Del Gener** Partner +54 11 4320 2700 mdelgener@deloitte.com
Brazil	**Marcelo Natale** Cross-Border Leader +55 11 5186 1003 mnatale@deloitte.com	**Daniel Yamamoto** Cross-Border Partner +55 11 5186 1563 danielyamamoto@deloitte.com	**Antenor Minto** Cross-Border Director +55 11 5186 6521 aminto@deloitte.com
Chile	**Joseph Courand** Partner +56 22 729 8309 jcourand@deloitte.com	**Paula Orsorio** Partner +56 22 729 8311 posorio@deloitte.com	
Colombia	**Diego Franco** Partner +57 1 426- 2282 dfranco@deloitte.com	**Diego Cubillos** Partner +57 1 426-2285 dcubillos@deloitte.com	
Mexico	**Miguel Llovera** Partner +52 55 5080 6535 mllovera@deloittemx.com	**Eduardo Vivanco** Partner +52 55 5080 7013 evivanco@deloittemx.com	
Peru	**Gustavo Lopez-Ameri** Partner +511 211 8533 glopezameri@deloitte.com	**Rogelio Gutierrez** Partner +511 211 8531 ragutierrez@deloitte.com	**Patricia Perez** Manager +511 211 8585 Ext. 5085 patperez@deloitte.com
Venezuela	**Alejandro Gómez** Partner +58 212 206 8732 algomez@deloitte.com	**Ignacio Rodríguez** Partner +58 212 206 8745 igrodriguez@deloitte.com	**Alfredo Muñiz** Partner +58 212 206 8737 amuniz@deloitte.com

Additional resources

Taxation and investment guides and country highlights

The increasing number and variety of business transactions undertaken by companies in today's global economy create both challenges and opportunities. Whether a company already operates in multiple jurisdictions or seeks to expand globally, access to accurate and timely information on taxation and other business conditions is critical.

Two tax series are available to assist:

- **Guides —** Providing extensive reviews of the tax systems of major trading jurisdictions
- **Highlights —** Providing high-level overviews covering over 130 countries

Both series can be accessed at **www.dits.deloitte.com**

Deloitte tax@hand

Deloitte tax@hand delivers global tax news and information. Visit **the app store or google play** to download **Deloitte tax@hand**.