Tax Guide

Peru 2014

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Contents

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Investment in Peru

Incorporating a business

There are different kinds of legal entities which investors can set up in order to establish businesses in Peru:

Corporations (S.A.)

It's the common among the foreign investor and requires a minimum of two shareholders. There is no minimum capital required by law except in the case of financial institutions. The capital must be deposited in a local bank. The liability of shareholders is limited to the capital contribution in all types of corporations. The main corporate bodies are the Shareholder's Meetings, Board of Directors and Chief Executive Officer.

Close Corporations (S.A.C.)

This type of corporations must have a minimum of two and a maximum of twenty partners. The shareholders' limited liability is limited to the capital contributions. The major corporate bodies are the Shareholder´s Meetings and Chief Executive Officer. The Board of Directors is optional. The law establishes a right of first refusal to the existing shareholders in case of transfer of share, unless this right is removed by the by-laws.

Limited-liability companies (S.R.L.)

It requires a minimum of two and a maximum of twenty partners. The liability of the partners is limited to the capital contribution. The major internal bodies are the Partner´s Meetings and Chief Executive Officer. The Board of Directors is optional. The law establishes a right of first refusal to the existing partners in case of transfer of participations (which represents the contribution to the capital). Transfer of participations must fulfil formal requirements (Public Deed) and must be registered in the corresponding Public Registry.

Branches (Sucursales)

A parent company decision is required to incorporate a branch in Peru and it must be legalized by the Peruvian Consulate in the country of the home office and certified by the Peruvian Ministry of Foreign Affairs if possible. A certificate of Good Standing from the parent company is also required. The Hague Convention came into effect in Peru on October 1, 2010.

Public Corporations (S.A.A.)

This type of corporations applies to companies with a large number of shareholders (more than 750) or when making a public offering of shares or debts are converted into shares. The shares must be registered and trading in the Lima Stock Exchange. The liability of the shareholders is limited to the capital contribution. The major corporate bodies are the Shareholder´s Meetings, Board of Directors and Chief Executive Officer. This type of corporations is subject to the supervision of the Stock Exchange Superintenden cy (SMV).

Transfer of shares only requires a private agreement in all types of corporations.

Legal framework

Peru has established a secure and attractive legal framework that promotes private, local and foreign investment with the purpose of obtaining financial and technological resources required to develop its vast natural resources and opportunities.

Peruvian legislation provides several guarantees to private sector investment, particularly foreign investment. Some of them are:

- Free private initiative exercised in a market-based social economy.
- Freedom to work and engage in business, trade and industry.
- Free competition and prohibition of restrictive practices and the abuse of dominant or monopolistic positions.
- Freedom to hire workers.
- Power of the State to create guarantees and grant securities by means of contract law.
- Equal treatment to local and foreign investors.
- Right to submit controversies arising from contractual relationships with the government to national or international arbitration.
- Freedom to hold and dispose of foreign currency.
- Inviolability of property and clear definition of the exceptional causes under which expropriation may be possible, specifically, in- advance cash payment of a fair-value; equal treatment on taxation matters; and the express acknowledgement that no tax may have confiscating effects.

The principal rules governing investment in Peru are established in the Peruvian Constitution, the Foreign Investment Promotion Law (Legislative Decree N° 662) and Framework Law for Private Investment Growth (Decree Law N° 757). The legal framework governing foreign investments in Peru is based on equal treatment for all investors, local or foreign. Foreign investments are allowed, without restrictions, in most economic activities.

No prior authorization is required for foreign investments; acquisition of local investor shares is fully allowed through stock exchange or other schemes. As to ownership, foreign individuals or corporate bodies enjoy the same rights and duties as Peruvians. However, foreigners may not acquire mines, land, woods, water, fuels, and energy sources, within fifty kilometers from international borders, except in case of public necessity, expressly declared by Supreme Decree and approved by the Congress.

Foreign investments are welcome in any income-generating activity, under any of the following forms established by Law:

- Direct Foreign Investment, as contribution to capital stock.
- Contributions to the development of contract- based joint ventures.
- Investment in goods and properties located in Peruvian territory.
- Portfolio investments.
- Intangible technological contributions.
- Any other investment manner contributing to the development of the country.

Basic rights of foreign investors

- Right to receive non-discriminatory treatment vis-à-vis local investors.
- Freedom to engage in commercial and industrial activities and in foreign trade.
- Right to repatriate profits or dividends, after payment of the corresponding taxes.
- Right to use the most favorable market exchange rate for exchange transactions.
- Right to repatriate capital investment proceeds, whether stock sale, capital reductions, or total or partial liquidation of investments.
- Unrestricted access to domestic loans, under the same conditions as local investors.
- Free purchase of technology and free remittance of royalties.
- Freedom to buy shares from local investors.
- Right to hire investment insurance.
- Right to enter Legal Stability Agreements with the State for investments in Peru.

Legal stability agreements

The State guarantees legal stability to foreign investors and the enterprises where they invest, through the signing of agreements with law-contract status, and Civil Code general provisions on contracts.

The competent agency for signing the legal stability agreements shall be PROINVERSION, for foreign or local investors investing foreign resources, or local and foreign investors investing in the same company who file a joint application.

These agreements guarantee the following:

To foreign investors

- Equal treatment. Peruvian law does not discriminate against investors because of their condition as foreign nationals.
- Stability of the Income Tax System in force at the time of signing the agreement.
- Stable free access to foreign currency, and freedom to repatriate profits, dividends and royalties.

To companies receiving the investment

- Stability of the systems of labor engagement in force at the time of signing the agreement.
- Stability of the export promotion system applicable when the agreement is signed.
- Stability of the Income Tax System. However, the applicable tax rate to these enterprises will be the tax rate in force plus two additional percentage points. For example, if the Income Tax rate in force is 30%, a company entering into a stability agreement will pay a stabilized 32% tax rate
- To benefit from these agreements, investors and investee companies must fulfill the following requirements:

Investment commitments by foreign investors

The investor shall commit to one of the following:

- To make, in a two-year term, capital contributions for an amount not below US$ 5 million in any economic activity, except mining and hydrocarbons.
- To make, in a two-year term, capital contributions not below US$ 10 million in mining and hydrocarbons.
- To buy more than 50% of stock in an enterprise up for privatization.
- To make capital contributions in a concession contract, fulfilling the investment requirements established in the contract.

Requirements for the receiving enterprise

One of the company’s shareholders must have signed the corresponding Legal Stability Agreement. If tax stability is requested, contributions shall account for 50% increase in relation with the total amount of capital and reserves, and shall be used for expanding production capacity or introducing new technology in the enterprise.

Transfer more than 50% of shares of an enterprise participating in the privatization process. Regarding companies with a concession contract, fulfilling the investment requirements established in the contract.

Term

Legal Stability Agreements run for 10 years. They can be modified only by mutual agreement between the parties. For concessions, the legal stability agreement runs through the life of the franchise.

Settlement of disputes

Legal stability agreements derive settlement of disputes to arbitration tribunals.

Peruvian Tax Regime

The Peruvian Tax Regime comprises:

- Income Tax
- Value Added Tax / Excise Tax
- Temporary Net Assets Tax
- Customs Duties
- Municipal Taxes
- Other taxes: Financial Transaction Tax, Social contributions.

Income tax

Corporate Income Tax

Scope of application

Corporate Income Tax is an annual tax levied nation-wide on all Peruvian-source and foreign-source taxable income obtained by companies and other legal entities resident in Peru. Corporate Income Tax is levied on activities conducted by corporations, limited liability companies, and joint ventures with independent accounting residing in Peru. Foreign company branches and permanent establishments are taxed on their Peruvian-source income only.

Corporations of all kinds, limited liability companies and civil partnerships, established in Peru, among others, are considered as resident legal entities.

The fiscal year runs from January 1st through December 31st, without any exceptions.
The tax returns for the accrued income generated during the fiscal year must be filed during the first three months of the subsequent year.

Tax assessment

Corporate Income Tax of resident juridical entities is computed by applying a 30% rate on their total annual net taxable income. Companies pay an additional 4.1% rate for expenses that imply an indirect disposal of income which cannot be subject to subsequent tax control by the tax authorities. The "net taxable income" is computed as the fiscal period's profits, plus additions (non-deductible expenses) and less deduction (non taxable items) allowed by the Income Tax Law. In general, expenses related to the generation of taxable income and the maintenance of the income source will be tax deductible. Tax deductible expenses include:

- Interest. Interests are deductible as expenses only to the extent that they exceed exempt interests received. Thin capitalization rules have been introduced into Peru's income tax legislation. Under these rules, interests paid by resident taxpayers to economically related or associated enterprises are not equivalent to three times the taxpayer's net equity at the end of the preceding year.

- Directors' remuneration. Deductions for directors' remunerations are restricted to 6% of the year's profits before taxes.

- Taxes. Taxes on assets or activities producing taxable income are deductible. Income Tax itself is not deductible. Value Added Tax qualifying as a tax credit (VAT input) is not deductible.

- Formation and start-up costs. Companies may opt either to deduct formation and start-up costs in full in the first fiscal year in which the operation begins, or to spread them evenly over a period of up to ten (10) years.

- Depreciation. Fixed assets are depreciated by the straight-line method on the basis of their useful lives. Buildings can be depreciated at a 5% rate. For the other goods the following maximum depreciation rates apply: (i) For vehicles, 20%; (ii) for machinery and equipment used in mining, construction and oil industries, 20%; (iii) for other machinery acquired since 1991, 10%; (iv) for data processing hardware and other fixed assets, 25%; (iv) for cattle and fishing tackle, 25%.

- Other expenses. Default interest, fines, and penalties imposed by tax authorities or other governmental authorities are not deductible. Donations to certain institutions may be deductible if some conditions are met. Entertainment expenses are deductible to the extent that, in the aggregate, they do not exceed the lower of 0.5% of gross revenue or forty (40) tax units.

Taxpayers can offset their tax losses against their taxable income using one of the following systems:

- Losses may be carried forward for four consecutive years, beginning in the first year after the losses arise; or

- Losses can be carried forward indefinitely but with an annual limit equivalent to 50% of the taxpayer's taxable income.

Transfer pricing rules

Transfer pricing rules are based on the arm's length principle as interpreted by the OECD. In Peru, however, these rules not only apply to transactions between related parties (both domestic and cross-border) but also to transactions with companies resident in tax havens. Moreover, they must be considered only for income tax purposes, not for Value Added Tax purposes. Taxpayers must carry out an independent transfer pricing study to support the value of their transactions with related parties. Moreover, the taxpayers are obliged to submit a Transfer Pricing Return informing the type of transactions performed with related parties or companies resident in tax havens, as long as one of the following situations are met:

- If the taxpayer has performed transactions with related parties or resident in tax havens for more than S/. 200,000 (approximately USD 72,000) during a fiscal year; or

- If the taxpayer sales goods or inmovable property to a related party or resident in a tax haven considering a value lesser than the cost registered.

Income tax prepayments

Resident taxpayers subject to Corporate Income Tax are required to make monthly prepayments. Monthly prepayments are determined by applying a coefficient or a percentage on the taxpayer (1.5%) monthly taxable revenues. They payment must be made for the greater one. It can only be suspended or reduced since the May payment, according to the procedure.

Non-resident taxation

Non residents are subject to Income Tax on their Peruvian-source income only. Among others, the following revenues qualify as Peruvian source income:

- Royalties resulting from the exploitation of intangible property in the country.
- Revenues produced by the exploitation of goods in the country.
- Interest generated by capital placed or used for economic activities in the country.
- Revenues produced by commercial or working activity performed in the country.
- Dividends generated by Peruvian companies.
- Income produced by technical assistance provided and digital services used for economic activities in Peru, even if these services have been provided abroad.
- Capital gains resulting from the sale of goods located in the country.
- Capital gains resulting from the sale of shares issued by companies incorporated in Peru.
- Capital gains derived from the alienation of shares issued by non-resident companies that own, directly or indirectly, shares of a Peruvian company provided, that either of the following conditions is met:

    1. Within a 12-month period before the sale, the market value of the shares or participating interests in the Peruvian company, owned directly or indirectly by the nonresident entity, equals 50% or more of the market value of all the shares or participating interests representing the equity capital of the nonresident entity before the issuance, and the shares account for 10% or more of the equity capital of the nonresident entity within the relevant 12-month period, or

    2. The nonresident entity is located in a tax haven or a low tax jurisdiction, unless the taxpayer convincingly demonstrates that the situation prescribed in the previous condition does not exist.

Resident taxpayers who pay taxable income to non-resident parties must withhold and pay to the Peruvian tax authorities, the non-resident income tax. Activities that are performed partially in Peru and partially abroad by non-resident companies are subject to withholding tax, on a portion of their gross income, according to the following chart:

Percentage of Peruvian-Source Gross Income / Presumed as Taxable Income

International Activity	Presumed Percentage of Taxable Income
Insurance	7% of gross income
Airplane Leasing	60% of gross income
Vessel chartering	80% of gross income
Communications	5% of gross income
Air transportation	1% of gross income
Sea transportation	2% of gross income
Telecommunication	5% of gross income
International newa activities	10% of gross income
Distribution of films	20% of gross income
Supply of containers	15% of gross income
Overstay of containers	80% of gross income
Television rebroadcasting	20% of gross income

Generally, a 30% withholding rate over their net income is levied on non-residents (including the results of derivative financial instruments). However, some business activities are subject to other tax withholding rates. For example:

- Dividends and other forms of profit distributions are subject to 4.1% withholding tax.
- Branches' available profits are subject to 4.1% withholding tax. In this case, profits are deemed to be distributed on the expiration date for the filling of the annual income tax return.
- Technical assistance provided in Peru for economic activities is subject to a 15% withholding tax, regardless if provided in Peru or not. Local taxpayers must keep a report issued by an audit firm certifying that the technical assistance was actually provided by the non-resident entity only if the total amount of the services provided exceeds 140 tax units (approximately US$ 200,000).
- Interests paid abroad are subject to 4.99% tax, only if the debt meets certain conditions. This rate is not applicable to loans granted between related parties.
- Sale of securities made through a Peruvian stock exchange: 5%.

Permanent establishments

Peruvian income tax considers as permanent establishments in Peru the following:

- Any fixed place of business located in Peru through which the activity of a foreign enterprise is wholly or partly carried on;
- Activities in Peru of a person authorized to sign contracts on behalf of a foreign entity, and who regularly does so in Peruvian territory;
- Keeping stocks of goods or merchandise to be traded in Peru by foreign entities;
- Conducting commercial operations in Peru through a broker, general concession-holder or any other independent representative when their activities on behalf of the foreign entity account for more than eighty percent (80%) of their total operations.

On the contrary, the following situations, among others, are not considered as permanent establishments in Peru:

- Using facilities destined solely to store or display goods or merchandise which belongs to a company, corporation, etc. from abroad;
- Maintaining a place or location destined solely to the purchase of goods or merchandise to supply a foreign entity; Maintaining of a place or location destined solely to the conduction of activities of a preparatory or ancillary nature.

Anti-avoidance rules:

Thin capitalization – Interest paid by resident taxpayers to economically related or associated enterprises may not be deducted if a debt-to-equity ratio of 3:1 is exceeded. However, the interest is not re-characterized as a dividend.

Controlled Foreign Corporation (CFC rules) – Resident taxpayers who own nonresident entities established in tax havens or in countries where the Income Tax rate is equal or less than 75% of the Income Tax rate in Peru will be levied on the passive incomes (interest, royalties, dividends, among others) obtained by their CFC. A resident taxpayer holds a CFC when, individually or jointly with a related party it owns more than the 50% of the capital of the CFC and it complies with some other requirements established by Lay and its Regulations.

Wash Sale Rules - Capital losses derived from the transference of securities will be considered as non-deductible when at the moment, before or after the transference, within a term of 30 calendar days, the transferor acquires similar securities as the ones that were previously or subsequently alienated. The non-deductible capital losses will increase the tax basis (cost) of the similar securities acquired. Capital losses generated through Investment Funds, Mutual Funds of Investment in Securities, Banking Trust Funds and Securitization Trust Funds will not be subject to these rules.

Personal Income Tax

Scope

Income tax is an annual tax levied on the world-wide source income received by individuals considered by law as residents in Peru. The tax year for individuals is the calendar year. For not residents in Peru, this tax is levied on their Peruvian-source taxable income only.

Peruvian citizens and foreign nationals who have resided or stayed in Peru continuously for more than 183 days during a period of 12 months (absences of up to 183 days in each calendar year do not interrupt continuity) are considered as residents.

The quality of a natural person as a resident in Peru or not is determined according to his or her condition since January first of each year. In many cases, changes that take place in one fiscal year make effect the next fiscal year.

The tax on the revenue of a natural person is applied in two independent certificates, one that burdens the capital revenues (transfers of goods and leases, capital, capital gains); and another one on the revenues from work, including revenues from foreign sources. The dividends also are burdened to an independent certificate on capital revenues.

Resident taxation

Income generated by the lease or transfer of movable goods or real estate, as well as other capital revenues (without considering their dividends), is subject to an effective 5% assessment and the tax is realized immediately.

Immovable good sales tax is levied at a 5% tax rate applied only on the first two sales. Starting with the third (habitual) sale transaction, a 30% tax rate applies.

Capital earnings from the transfer of shares and other movable securities are taxed annually.

When determining annually taxable profits, a five tax unit1 (5 UIT) exoneration is granted. After applying the exoneration, other expenses may be deducted up to a total 20% in order to determine the final clear profit. Capital losses for the fiscal year may be applied. The applicable valuation on the clear profit is 6.25%.

Revenues from work

The three-bracket cumulative schedule shown below will only apply to income derived from rendering of either individual or dependent services. It also applies to foreign source income:

Up to 27 tax units	15%
For the excess over 27 and up to 54 tax unites	21%
Any excess	30%

A tax unit currently stands at S/. 3,800 (approximately US$1,400)

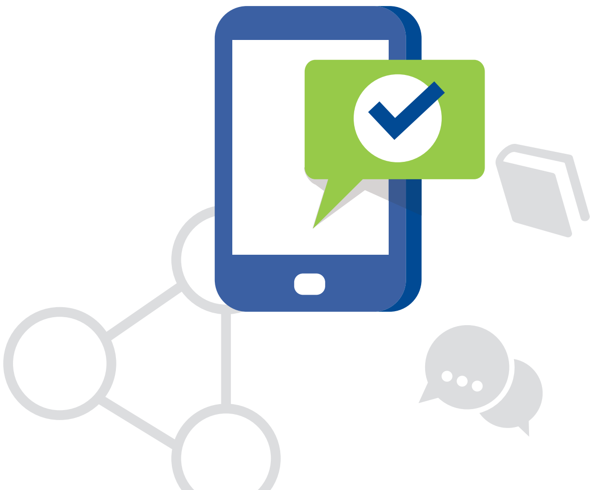
Dividends

Dividends are subject to a 4.1% withholding rate.

Resident legal entities obtaining dividends from other resident legal entities would consider said income as non-taxable for income tax purposes.

Non-resident taxation

Non-resident individuals will determine their tax using the following rates:



Inmovable goods and securities sales made outside Peru:	30%
Sales of securities issued by companies domiciles or incorporated in Peru when the transaction takes place in Peruvian stock exchange:	5%
Other capital income:	5%
Dividends and other profit distribution:	4.1%
Derivative financial instruments: provided sales comply with similar requirements as established for non-resident juridical entities.	6.25%
Pensions or payments for personal services in the country, royalties and other revenue:	30%
Artists or performers income:	15%
Other income:	30%

Tax exemptions

Among others, the following tax exemptions will remain in force until December 31st, 2015:

- Interests earned on loans granted to promote suppliers directly, or through financial intermediaries, or by international organizations or foreign government institutions.

- Income generated by individuals, small and medium companies (MYPES) and cooperatives operating and with tax address of record in geographical areas above 2,500 meters above sea level (masl) and generally companies operating above 3,200 masl.

Value Added Tax (VAT)

Scope of application

VAT (known as IGV in Peru) is levied on the following transactions:

- Sale of goods within Peruvian territory.
- Services performed or used in Peru.
- Construction contracts executed in Peru
- Real property sales made by the constructors.
- Importation of goods into Peru.

Rate

An 18% tax rate applies.

Fiscal credit

VAT levied on the purchase of goods and services (VAT input) may be used as fiscal credit against the VAT generated by the taxpayer's operations (VAT output).
Payable tax is determined monthly by deducting the corresponding fiscal credit from the gross tax corresponding to that period.

Exemptions

The following operations are exempt from VAT:

- Assets transfers made by individuals not habitually engaged in any business activity.
- Assets transfers taking place as a result of a merger or split.
- The sale in the country, or the import, of certain food products of animal or plant origin and of books, as detailed in Appendix I to the VAT Law.
- The rendering of services detailed in Appendix II to the VAT Law, such as freight transport from and to Peru, among others.
- Credit services provided by banks and financial institutions,
- The sale of goods and the rendering of services in the Jungle by companies established in that region.

Exports

Exports are not subject to VAT. Nevertheless, exporters may use the VAT paid on the acquisition of goods and services as fiscal credit to offset VAT generated by other taxable operations. If this is not possible, exporters may use this tax as a credit to offset other taxes. Exporters may also file for a refund of that tax. Service exportation is exempt only for services detailed in Appendix V to the VAT Law. This Appendix includes services such as consulting and technical assistance services, goods leasing, advertising services, data processing services, financing operations, among others.

VAT early recovery regime

The VAT Law includes an Early Recovery Regime of the VAT collected on imports and/or local acquisitions of capital goods made by individuals or juridical entities engaged in Peru in activities generating goods and services intended for export, or goods and services the sale of which is subject to VAT.

The capital goods included in this regime are new machinery and equipment used in the agriculture, the manufacturing and transport industries, recorded as a company's fixed assets pursuant to the Income Tax Law and acquired to be used directly in those activities.

There are special advance recovery rules for companies engaged, among others, in the following activities:

- Exploration, development and/or exploitation of natural resources that require investments lasting longer than four (4) years,
- Mining,
- Investment projects in public works of infrastructure and public services.

Temporary Net Asset Tax (TNAT)

A temporary tax applied on the value of net assets as of 31st December of the previous year. The tax rate shall be determined by applying the following progressive accumulative scale over the tax base:

- Rate: 0% Net Assets: Up to S/.1,000,000.
- Rate: 0.4% Net Assets: Over S/.1,000,000.

The tax paid may be considered as tax credit against installments or regularization payments of income tax.

Companies that have not started their production activities are not subject to the TNAT.

Excise tax (ISC)

Scope

This tax is levied on the acquisition of luxury and other goods such as beer, cigars, cigarettes, liquor, soft drinks, fuel and others. ISC rates fluctuate from 10% to 300% on CIF (imports) or sale value, depending on the goods concerned. Nevertheless, certain goods such as fuels, the ISC are calculated on a specific basis depending on the amount of goods sold or imported.

Custom duties

There are no restrictions on importing goods, excepting for security and public health reasons. The applicable customs duties and taxes are summarized below:

Tax	Rate	Tax Base
Custom duties	0%, 4%, 6%, 11%	Transaction value
VAT (IGV)	18%	Transaction value + custom duties

Customs duties depend on the kind of items imported. Temporary surcharges may apply to the import of certain goods. Certain items may be subject additionally to SCT.

Drawback

As a result of the drawback regime, the Peruvian government refunds exporters 5% of their exportation FOB value. This regime is applicable only for exported products the value of which does not exceed US$20,000,000.

Temporary admission regime

This regime suspends taxes on imports aimed at "active improvement" processes for further re-exporting of goods.

Replacement of raw materials and input

This regime allows duty- and import tax-free replacement, in kind, by importing an equal amount of material identical to that which was imported and used to produce exported goods. The term to enjoy this benefit is one year as from the importation of goods to be replaced.

International trade

The main agreements signed by the Peruvian government in order to gain access to international markets are as follows:

- Andean Trade Promotion and Drug Eradication Act (ATPDEA) - Enables the duty free importation of Bolivian, Colombian, Ecuadorian and Peruvian products into the United States. This Act was in force until December 2009 for approximately 6,000 products.

- Andean Community (CAN) - Peru maintains a duty free zone with Bolivia for most of its products. Peru and the other member countries (Colombia and Ecuador) have agreed to progressively reduce the customs duties levied on the trade of goods among such countries. Also, Peru is a member of other Andean Community agreements on service, transportation, telecommunications market deregulation and several other matters related to international trade.

- Southern Common Market (Mercosur) - Partial agreements executed by the Peruvian government with each of the member countries (Brazil, Argentina, Paraguay and Uruguay) are in effect. By means of the aforementioned agreements, Peru and Mercosur's member countries have reciprocally granted each other preferential customs duty margins. Nevertheless, currently the member countries of the Andean Community are working together in the implementation of a Free Trade Agreement with Mercosur.

- The Peru-United States Free Trade Agreement (FTA or PFTA), also known as the United States-Peru Trade Promotion Agreement (TPA), was enacted on December 4th, 2007 and came into effect on January 1st, 2009. This free trade agreement is important because it has expanded the Peruvian market for goods and services and consequently is crucial to continued economic growth and job creation.

- The Pacific Alliance signed between Colombia, Chile, Mexico and Peru in June 2012, will enable the free circulation of goods, services, capitals and individuals.

- Free Trade Agreements with China, Chile, Mexico, the European Union and others.

Finally, Peru is a founding member of the World Trade Organization (WTO). Therefore, the WTO´s regulations regarding antidumping practices, subsidies and countervailing duties, service market deregulation, among others, apply in Peru. WTO regulations about customs assessments apply to all imports of goods into Peruvian territory.

Tax treaties

Peru has signed a tax treaty to avoid double taxation with Bolivia, Colombia and Ecuador (signatories to the Andean Pact).

Peru has also signed tax treaties with Chile, Brazil, Canada and Mexico which are largely based on the OECD Model Tax Convention on Income and Capital. The treaty signed with Mexico is in force as of February 2014; however, according to the treaty provisions, the benefits will be applicable as of January 1st, 2015.

Tax treaties with Spain, Switzerland, Korea and Portugal are not in force yet.

In these cases, in order to apply the benefits of the tax treaties, non-domiciled persons must prove their residence status through a certificate issued by their respective local tax administration.

Municipal taxes

The principal municipal taxes are the following:

- Property tax
  An annual tax levied on the value of real property, both urban and rural. Real property includes land, buildings and fixed and permanent facilities.
  This tax is paid by the property owner, and computed on a cumulative, progressive schedule, with aliquot parts ranging from 0.2% to 1.0% of the self-appraisal value of the taxpayer's real properties located within the same district jurisdiction.

- Vehicle ownership tax
  Annual tax levied on the ownership of automobiles, vans and station wagons, whether locally manufactured or imported, newer than three (3) years starting on the vehicle's first registration in the Vehicle Registry.

The applicable rate is 1%; however, the amount payable may not be lower than 1.5% of the tax unit (UIT) in force as of 1st January in the year when the tax is to be paid.

Real property transfer tax

Levied on the transfer of real property, both urban and rural, made for a price or for no valuable consideration, in any form or manner. The tax rate is 3%, applicable on the agreed price.

The value of the property amounting to the first 10 tax units (UIT) is not subject to this tax.

Street cleaning, parks and gardens rates

These are monthly rates, charged quarterly, for garbage collection, transport, unloading, transfer and final disposal of the solid urban refuse from real property.

Property owners are subject to these taxes, when they inhabit the property, develop activities there, when the property is not used or when a third party uses the property in whatever manner or form. Also, property possessors or holders are subject to this tax when the owner is unknown.

The tax rate is fixed annually by a municipal ordinance.

Other taxes

Financial transactions tax

It is a temporary tax levied at a 0.005% proportional rate on banking operations in local or foreign currency (both debits and credits)

Social security

The Peruvian Health Social Security Office (ESSALUD) runs the National Health System (RPS). The employer contributes 9% of the total payroll to the RPS. ESSALUD provides employee disability, illness, maternity and death benefits, as well as medical care.

According to the Health Care Law, the National Health System will be supplemented by the health programs and plans that the employers may grant to their employees with through private health care services or authorized private health management organizations (Empresas Prestadoras de Salud – EPS, in Spanish).
The employers may elect the healthcare plan or program for their employees, subject to their prior vote. Alternatively, employees can choose to remain in or join the RPS.

Employers that provide health care through supplementary plans and programs are also required to pay the 9% contribution to the RPS. However, employers may use a portion of the expenses incurred in health care as credit against the 9% contribution.

The Health Care Law and its regulations also require supplementary insurance for risk work. This insurance coverage is provided by the employer.
Besides, employees contribute 13% of their salaries to the National Pensions System (SNP) which is managed by the National Pension Office (Oficina de Normalización Previsional - ONP). Employees affiliated to SNP, at their choice, may switch to the Private Pension System (SPP). This system is operated by private entities (AFPs) authorized to manage pension funds. They provide employees retirement and disability pensions, and funeral costs. Health care and accident insurance coverage expenses are not included in this system.

Employers are responsible for withholding employees' contributions to AFPs from monthly salaries and depositing them with the employee's AFP of choice. The average withholding amount is 11.5% of gross salary.

Profit sharing

Peruvian Labor Laws mandates employers to share a portion of their annual profits with workers as follows:

Special tax regime for mining activities

Special Mining tax

The Special Mining Tax is levied on certain mining activities in Peru and applies only to resident mining companies that have not signed a Legal Stability Agreement with the Government.
The Special Mining Tax ranges between 2% and 8.4% of operating income, depending on the operating margin of the Company.
This tax is computed on a quarterly basis

Fishing companies	10%
Telecommunication companies	10%
Manufacturing companies	10%
Mining companies	8%
Reatil companies	8%
Other activities	5%

This payment is deductible for income tax purposes.

Special Mining Contribution

The Special Mining Contribution is levied on certain mining activities in Peru and applies only to resident mining companies that have signed a Legal Stability Agreement with the Government.

The Special Mining Contribution ranges between 4% and 13.2% of the operating income, depending on the company's operating margin.

This contribution is computed on a quarterly basis.

Royalties

The Mining Royalty is levied on both metallic and non-metallic mineral extraction activities while the Special Mining Tax and the Special Mining Contribution are for just metallic mineral extraction.

The Mining Royalty is also computed based on the company's operating margin. The tax basis is the income from sales less costs and expenses. Previously, the Mining Royalty was computed based on the income from sales by companies without allowance for the cost s and related expenses.

The Mining Royalty rate ranges between 1% and 12% of the operating income but may not be lower than 1% of the company's sales revenues.
The Royalties are computed on a quarterly basis.

Mining stability agreements

Investors engaged in mining activities can enter into special stability agreements known as "Warranty Contract and Measures to Promote Mining Investment". Taxpayers who enter into this kind of agreements stabilize their taxes under the regime in force when they sign the contract. Any subsequent tax regime modifications will not apply to their investment.

The scope of this stability regime is the following:

- The Income Tax rate will be stabilized subject to a 2 percent increase. Therefore, stability agreements entered into under the current tax regime will stabilize at an income tax rate of 32%.
- VAT and Excise Tax stability only allows transferring the financial impact of this tax to third parties.
- The stability includes any special customs regime in force relating to tax refunds, temporary admission of goods, among others.

Stability for tax exceptions, tax incentives and other tax benefits will be subject to expiration dates in force at the time the agreement is signed.

The stability benefit applies specifically to investments in mining activities.

These stability agreements can run for 10 or 15 years term, which may not be extended.

The following conditions must be met to apply for these arrangements:

- 10-year stability agreement.
  New mining activities above 350 MT/day production rate or investment commitments in mining activities worth US$ 2,000,000.

- 15-year stability agreement.
  New activities to produce 5000 MT/day or, for operating companies, expansion of production capacity by 5,000 MT/day or more in one or several mining properties.

Additionally, it is applicable to taxpayers that (i) committed investments worth US$20,000,000 in the case of new companies and (ii) committed investments worth US$50,000,000 in the case of existing companies.

Income Tax - Mining investment special regime

Purchase value of mining concessions. These investments may be amortized as from the fiscal year in which, as mandated by law, the minimum production requirement should be fulfilled, within a period to be then determined by the holder of the mining activity, in view of the probable life of the mining deposit.

For such purposes, the acquisition value of the concessions shall include the price paid, or the petition expenses (if any), as well as the amounts invested in prospecting and exploration up to the date when, according to the law, the minimum production is to be attained. Nevertheless, the titular of which they are incurred.

When the economic exploitable reserves are used up, the mining concession is declared as lapsed before its acquisition value is fully amortized. At the taxpayer's option, the balance may be amortized immediately or continue being amortized annually until completion within the period originally established.

Exploration expenses

Exploration expenses incurred once the concession is running the mandatory minimum production stage may be fully deducted in the fiscal year or amortized as from that fiscal year, based on an annual percentage determined according to the probable life of the mine established at said fiscal years' closing, which will be determined based on the volume of proven and probable reserves and the mandatory minimum production as required by law.

Development and preparation expenses

Development and preparation expenses to exploit the deposit for one fiscal year may be fully deducted in the fiscal year in which they are incurred, or amortized in following fiscal years, up to a maximum of two additional fiscal years.

Investments in infrastructure considered as a public service. Investments in public service infrastructure by mining companies will be deductible from their taxable income, provided the investment was approved by the competent sector authority.

Special depreciation tax rate

Investors who signed mining stability agreements may depreciate their assets at the following maximum annual rates:

- 20% for machinery, industrial equipment, and other assets.

- 5% for buildings and constructions.

VAT early recovery benefit

In the case of mining activities there are two possible special regimes for the VAT Early Recovery.

This regime is applicable to companies that have signed contracts with the Government for the exploration, development and/or exploitation of natural resources and concession contracts for building infrastructure and utilities.

This regime allows refunding of taxes paid on imports and local acquisitions of goods, services, and construction needed to build the project subject matter of the contract. The refund of taxes paid during the prospecting stage is excluded.

Prior government qualification is needed to obtain this benefit. By Ministerial Resolution, the government of Peru will determine which taxpayers meet the requisites for this benefit. Generally, companies developing "megaprojects" qualify.

Regime applicable to holders of mining authorizations during the exploration stage

This regime applies to the holders of mining activity authorization that have signed with the Government a contract for investing in exploration. It does not apply to companies that have already started production operations.

The regime covers the refund of the VAT paid for all imports or local purchases of goods, services, and construction contracts used directly in mineral resources prospecting in Peru during the exploration phase, starting on the date of signing of the corresponding exploration investment contract.

Under this regime, the title holders need not have initiated the development stage to request refunding of paid taxes.

Finally, in order to sign a contract for investing in exploration, the holders of mining concessions must file with the General Mining Bureau (Dirección General de Minería), attaching to their application an investment program for an amount not under US$500,000.

Labor Legislation – Main aspects

Employment contracts

Peruvian labor legislation presumes that in the rendering of personal, subordinated and remunerated services an employment contract with an indefinite duration exists.

Fixed term contracts

The law allows the existence of labor contracts with a particular condition or duration. For example when a specific job is temporary in nature or is the start or launch of a new activity.

Working Hours

Working hours are 8 hours per day or 48 hours weekly maximum, which not include lunch time that should be 45 minutes at least. Overtime is paid with an additional 25% over the employee´s normal working hour remuneration for the first 2 hours and 35% for the remaining hours. Some employees like management personnel are no entitled to overtime.

Vacations

Employees that complete a year of service for the same employer are entitled to a 30-day paid vacation. Vacation period shall not be less than 7 calendar days per year.

Minimum Wage

Currently the minimum wage is S/.750 per month (approximately US$ 290). The minimum wage is subject to adjustment by the Government.

Bonuses

The bonuses consist in two monthly remuneration, one payable during the first half of July and the second payable in the first half of December, provided that the employee works the complete semester. The bonuses are calculated on the basis of the monthly remuneration received by the employee. If the employee does not work the complete semester, the bonus is paid proportionally.

Life insurance

The employer is obligated to pay a life insurance for all employees with more than four years of service.

Profits

Workers in companies developing income generating activities third category and subject to the private activity with 20 or more employees, participate in the profits of the company, according to the percentages set by law.

Compensation for length of time worked

All workers rendering services for more than four hours per day, more than twenty hours per week, are entitled to a full month's pay for every year of service, which is known as compensation for length of time worked. This benefit shall be made effective by half-yearly cash deposit in the appropriate amount of the employer, in the bank chosen by the worker.

Termination of the labor relationship

If there are objective causes that justify the termination of the labor relationship there is no need to pay the indemnity, which consists in one and half (1,5) monthly salary per year of services rendered, up to a maximum of twelve salaries. Due to decisions of the Constitutional Tribunal, employees that are dismissed without any cause may resign to the indemnity and file a claim before courts demanding their reposition.

In case of a fixed term contract such as the contract applicable to foreign personnel, the indemnity consists in one and a half (1,5) monthly salary per each month that lasts up to the termination of the contract with a maximum of twelve salaries.

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