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Shared Services Centers in Latin America

Aligning tax structuring considerations with the business agenda

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"Incorporating a tax perspective into shared services center strategies can unlock new value for the enterprise and help manage risk."

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From lower costs and higher-quality service delivery to better data transparency and tighter risk controls, the benefits of Shared Services Centers (SSCs) are broad, measurable—and very real. By aligning processes and activities to provide services across an enterprise's business units and geographies, SSCs can drive bottom-line savings and create value in line with broader organizational goals. And while organizations around the world are at various stages of maturity in deploying SSCs, the most forward-thinking are continually looking for ways to enhance their delivery operations to achieve even greater impact.

A center's location remains a critical factor in SSC enhancement strategies—with labor (quality, cost, and availability), local environments (political, regulatory, and economic), and physical proximity playing key roles in site selection. Increasingly, Latin American countries are viewed as attractive destinations because of their high labor skill levels, relatively established infrastructures, and geographic and time zone proximity to North America. While these factors, along with economic policy and growth, vary by country as some markets are more established in enabling shared services delivery than others, the overall trend in Latin America is favorable for SSCs.

For enterprises with more advanced approaches to assessing SSC location options, local and regional tax policies are high on the list of considerations. Taking a proactive stance and integrating tax considerations into the business decision can greatly influence an SSC's overall cost and operating efficiency. Indeed, addressing tax incentives, pricing agreements, charge policies, and other such issues as part of the initial SSC location conversation not only reduces the exposure of adverse tax consequences, but should improve cost visibility, cash flow, and performance.

In addition, incorporating a tax perspective throughout the process can help identify practices to manage risk of failure to comply with tax obligations.

The following pages summarize some of the latest SSC trends and highlight specific tax structuring considerations in Latin American markets to help organizations align tax agendas with business agendas in enhancing their SSCs in this growing region.

A changing paradigm on SSCs

With a continual strategic focus on improving shared services across an organization, the goals and objectives of SSCs are expanding and becoming more ambitious. Accordingly, as stakes intensify and economic uncertainty persists, businesses are evolving and adapting their views on SSCs from the traditional approach to a new paradigm, outlined in the chart below.

Traditional view	A new approach
SSCs were focused principally on back-office, non-core finance and IT activities.	SSCs are more likely to be established for strategic, decision-making functions.
SSCs were typically one-off, tactical initiatives undertaken at the functional or business-unit level.	Companies are more likely to launch an SSC in the context of a broader, company-wide sourcing strategy.
Cost reduction was a primary objective to be achieved through process consolidation, headcount reduction, and/or labor cost arbitrage.	Objectives extend well beyond cost savings to other strategic payoffs including enhanced reporting, increased control and transparency, and an improved ability to respond to market changes.
SSCs were considered most suitable to large companies.	SSCs are increasingly attractive to mid-sized companies as well.
Executive sponsorship was siloed with IT reporting to the CIO and Finance to the CFO.	Shared services initiatives are collaborative efforts and executives from across the C-suite help establish the strategic direction.

From financial analytics to operational decision making, the changing paradigm for SSCs culminates in the CFO office's role as the catalyst in creating a high-performance culture for the entity. Today's finance teams have the responsibility and the mandate to amplify organizational value of the SSC and help create competitive business differentiation.

Location, location, location

Any organization assessing its SSC strategy must prioritize location, arguably the most critical dimension, as it largely defines the potential benefits and opportunities to better leverage the center. While scope can be modified, process improvements accelerated or delayed, and overall timing adjusted, the hard and soft costs (including tax implications) associated with location section, associated logistics, and deployment of the requisite talent have much more complex implications. As a result, organizations should perform significant due diligence in evaluating or validating the most appropriate locale(s).

While there are a number of specific and detailed variables to be evaluated to confirm alignment with the overall SSC strategy, location considerations generally fall into six major categories:

Human Resources	Availability and quality of appropriately skilled and trained personnel in the short and long term.
Access/Infrastructure	Transportation accessibility to or within the location and the reliability of the physical infrastructure.
Risk	Stability of the geopolitical and economic environment, including susceptibility to physical danger.
Business Environment	Reliability and predictability of the business and regulatory environment, including availability and presence of competing and complementary entities.
Strategic Considerations	These concerns tend to be specific to an organization's strategy or underlying business drivers, but can include attractiveness of the domestic market, synergies with existing operations, cultural or linguistic similarities, or geographic or time zone proximity.
Economics	Overall economic attractiveness of the location, including labor or infrastructure costs and variety of incentives provided by governmental agencies.

The latest Deloitte Global Shared Services Survey revealed that the biggest drivers in selecting a location are proximity to current operations and labor cost, availability, and quality.

To help manage costs and accommodate growth (the primary reasons for opening, relocating, or enhancing an SSC), many organizations prefer to locate their SSCs in close proximity to their current operations.

From a cost perspective, labor is the single biggest line item within the business case. For any organization to invoke such a transformative change in how it interacts with stakeholders, both external and internal, there must be a considerable financial incentive. Labor arbitrage is a key component in providing that benefit and many countries in the region offer low labor costs when evaluated in hard currency terms.

In addition to cost, the availability and quality of labor are essential considerations for global organizations when selecting locations.

Although the survey results show a relatively low number of respondents weighing the importance of tax implications in the location decision, companies are nevertheless increasingly viewing tax as a important factor in their wider overall business strategies. For example, the evolving global regulatory landscape and emerging significance of Base Erosion and Profit Shifting (BEPS)-related concerns for multinational corporations has intensified tax transparency as both a strategic requirement and driver of corporate social responsibility. This heightened focus on tax as part of strategy is generating more widespread awareness of the impact tax issues can have on end-to-end business operations—including the effectiveness of a company's SSCs.

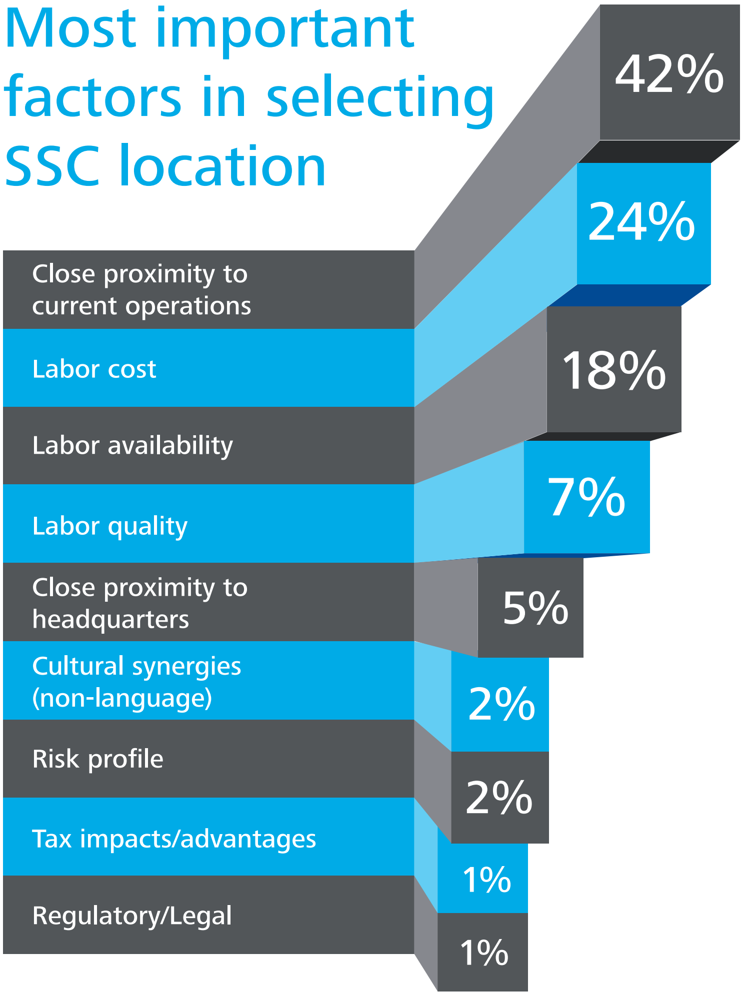
While tax costs can initially seem relatively minor, they tend to grow over time and can become a substantial business expense. Reviewing and understanding local taxes and cross-border dynamics as part of an SSC enhancement strategy can help mitigate the risk of unexpected issues by integrating tax as a well-defined factor in the strategic business plan.

Tax regimes supporting the business agenda in Latin America

Evolving tax reform and increased scrutiny over global income and tax allocations are adding to the complexity of doing business. In response, organizations are seeking to improve compliance accountability, increase transparency, and be more agile in their operations.

Tax has become an increasingly important factor in any SSC initiative or evaluation. Many governments have included special tax regimes for SSC activity to attract the investment to their jurisdictions. Latin American governments in particular have made significant investment in providing tax incentives that could create competitive advantages over other regions for the establishment of SSCs.

Most important factors in selecting SSC location



Source: Deloitte Global Shared Services Survey 2015

> "Upfront planning can help manage the risk of taxes unexpectedly growing into a sizeable cost for an SSC."
>
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Costa Rica, Panama, and Uruguay have issued tax rules that specifically promote the establishment of SSCs. While Argentina, Colombia, Mexico, and Peru do not have specific SSC regimes, they each confer their own specific tax benefits to make their jurisdictions attractive for SSCs. Countries with no special tax regime for SSC types of activities, such as Brazil or Chile, still offer certain tangible and intangible benefits for businesses to consider these locations. The sections below look at Latin American tax regimes in more detail.

Tailored Tax Incentive regimes—Costa Rica, Panama, Uruguay

The attractiveness of a specific tax incentive or regime is generally determined by a company´s needs and tax profile. While some companies can be flexible in the location strategy for their SSC, geographical limitations can be a deal breaker for most. Some companies may be looking for incentives to help reduce their exposure to a certain tax item (e.g., income tax, value-added tax (VAT), withholding taxes, customs) while others may be looking for a regime that provides a broad spectrum of tax efficiency.

In the Latin American region, Costa Rica, Panama, and Uruguay lead the pack in terms of providing tax incentives specifically tailored to the objectives of companies looking to establish offshore SSCs.

Over the past few years, **Costa Rica** has become an attractive location to establish an SSC because of its special tax-free areas scheme (i.e., the Free Trade Zone regime). This scheme offers a series of major tax incentives to eligible service-export companies applying for this regime. The regime includes a full exemption from income tax during an initial eight to twelve year period as well as a 50 percent exemption from the same tax over the following four to six years. This relief also has implications for offshore remittances, including dividends. In addition, the scheme grants exemptions from customs duties, VAT, and general sales tax. The Free Trade Zone regulatory framework allows for the possibility of extending the tax benefits over time if the taxpayer provides an additional investment.

Panama boasts one of the most open and welcoming economies to foreign investment and is developing into an attractive offshore SSC destination. The Multinational Headquarters regime was established as an additional incentive for foreign investment intended to attract multinational companies to move their headquarters to Panama and also provide incentives for the use of the country as a platform for services by multinational corporations. Companies operating under this special regime receive significant tax benefits, including full exemption on corporate income tax, as long as services are provided to subsidiaries or affiliates located outside of Panama. It also provides full exemption on VAT (on exportation of services) and withholding tax on dividend remittances, among others. Additionally, SSC executives are eligible to enjoy an income tax exemption if they meet certain requirements.

Uruguay has established three special tax regimes applicable to activities typically performed by SSCs: a special SSC regime, a special regime applicable to "Distance Attention Centers," and a Free Zones regime. The special SSC regime applies to new SSCs established in Uruguay that provide services to nonresident related parties. The Distance Attention Centers regime applies to services provided through telemarketing phone operators making and receiving phone calls, internet messages, or other communications with the support of software. In addition, a zero percent tax rate is applicable to Free Zone users for corporate income tax rate, domestic withholding taxes on dividends, interests, royalty payments, and VAT.

Benefits of the special tax regimes include important exemptions and/or significant reductions on income. Thus, under the Free Zones regime, there is complete exemption from all national taxes on transactions carried out by Free Zone users, full exemption from import-export taxes on the entrance and exit of goods to and from the Free Zone, and exemption from the applicability of withholding to dividends or profits, technical assistance fees, royalties, and interests paid abroad. An additional benefit is that foreign nationals working in a Free Zone can opt out of the Uruguayan social security system, and—when opting out—may also choose to pay non-resident income tax (IRNR) instead of personal income tax.

Other Tax-Free Zone regimes in Latin America

Argentina, Colombia, and Peru have also established Tax-Free Zone regimes with limited benefits for SSCs. Other countries have not created special rules or regimes to confer benefits to SSCs, or the available regimes remain limited in scope. Nevertheless, through specific provisions of domestic legislation, these countries can lead to a positive treatment of SSCs.

In the case of **Argentina**, even though there is no specific SSC regime, the location of an SSC in the country is based on other drivers. The export of services is not subject to VAT or other provincial indirect taxes—and there is the possibility of recovering VAT incurred on costs. Specific federal regimes were introduced to develop activities including technological innovation, software, biotechnology, or biofuel. Furthermore, the city of Buenos Aires grants indirect tax exemption and/or reductions to the software industry established in the technology district.

Call centers and business support services (e.g., accounting, financial management, and payment services) rendered from **Peru** are some of the few permitted activities comprised in the list of services considered exported by domestic legislation and therefore not subject to VAT. Moreover, there is a ZOFRATACNA regime that, even though limited geographically to the area of Tacna city, offers a positive tax impact on a variety of activities related to manufacturing, assembly, storage, and distribution as well as call centers and software development and services specific to the mining industry. Businesses performing these activities (ZOFRATACNA users) in the Free Zone of Tacna are exempt from income tax, VAT, excise tax, any other current or future taxes.

In **Chile**, back office services are generally not subject to VAT. Other services may be subject to VAT but if rendered to other countries, they may be exempted as service export giving rise to a refund of VAT incurred on providing the services.

Mexico does not have any specific tax incentive regimes for shared services activities, but is often selected as a location in which to establish SSCs for a number of other factors. Mexico does, however, offer reduced indirect taxes and a strong double tax treaty network. Mexico has also created the Service IMMEX regime, which, similar to Costa Rica and Panama, has no geographical limitations although the benefits it confers are limited in scope (i.e., it only covers VAT).

Like Mexico, **Brazil** does not have a special regime to promote the business activities of SSCs, but it is often selected as an SSC location because of other factors. There are certain cities that grant special incentives in order to attract investments and boost the economy by reducing the burden of certain taxes imposed at the municipality level such as the ISS (service tax) and IPTU (property taxes). Furthermore, such cities usually have lower payroll and rental costs, which represent a relevant portion of overall costs. On the other hand, the downsides include the distance from the city centers, availability of qualified labor, and less reliable infastructures. From a tax standpoint, Brazilian transfer pricing rules may play an important role in determining the arm´s length price (Brazil does not follow the OECD guidelines), which would lead to minimum required margins imposed by the local Transfer Pricing rules.

Transfer pricing and withholding taxes in Latin America

Most Latin American countries have introduced transfer pricing rules that follow the OECD guidelines (with a few local twists), which companies should analyze to define the markup that needs to be included in the SSC. Arm's length principle should be followed to enable a deduction of the service charge in the different jurisdictions in which an SSC will be providing service.

Another key tax consideration for SSC cost analysis is the income withholding tax (WHT). Even countries offering a full exemption can have a withholding cost impact, as the country receiving services could apply a WHT on the payment, with no tax to offset the withholding or with restrictions on the offset of foreign tax credits.

The impact of the WHT will not only depend on the SSC's location, but also on the domestic law, which could deem the existence of a payment source related to either the SSC's activities performed for the business in the payer country, or because advisory services were included. This impact could be reduced by the application of double taxation treaties. For that reason, a country with a large treaty network offers a strong incentive for the establishment of an SSC.

Within Latin America, Mexico has a leading position due to the large number of countries that have a treaty in force with it (51 countries). Behind Mexico are Brazil (29 countries), Chile (25 countries), Argentina (17 countries), Panama (16 countries), Uruguay (13 countries), Peru (10 countries), and Colombia (8 countries).

Closing considerations

As the shared service strategies of leading organizations evolve from discrete functional and country-based support centers to integrated, global, cross-functional models, businesses are looking for new ways to enhance delivery and realize increased value from their SSCs. Latin America has gained momentum as a desirable location for SSCs, with a strong balance of talent, infrastructure, and cost efficiencies.

Whether developing a new SSC or reevaluating the performance of existing centers, incorporating a tax perspective into the analysis can unlock new value or help manage tax risk for the enterprise. Aligning the tax and business agendas for an SSC can deliver tangible benefits including: better cost visibility and metrics, improved cash flows, and a unified approach that aligns business objectives with long-term organizational goals.

Tax plays a key role in anticipated savings from SSC location decision

Incorporating tax considerations early in the decision-making process to relocate an SSC often highlights significant tax implications including potential savings—and may be a factor in making the move. In some cases, tax analysis has the opposite effect: all other factors may point to substantial cost reductions in a new location, but the tax considerations show it makes more sense for the SSC to be located in a different jurisdiction or for certain functions to stay put.

Such was the case in a recent Deloitte project with a large multinational corporation looking to migrate its SSC to a location with greatly reduced labor costs. While the decision initially seemed like a good one, the tax analysis told another story. Because the business units receiving 90 percent of the services from the SSC were located in high-tax jurisdictions, the organization's potential labor savings in the center would be reduced by the lower tax deductions available for the recipients. Once the additional costs of the SSC migration were also factored in, the prospective labor savings were effectively whittled away.

After addressing the tax impact up front, the company decided not to make the move—and was grateful for the added insights that a tax analysis brought to the decision.

Argentina

Tax considerations for Shared Services Centers

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Shared Services Center tax considerations

Issue/Question	Response
1. Are there special tax regimes applicable to the activities to be performed by the SSC?	Yes, there is a technology zone with some local tax benefits in Buenos Aires city.
2. Which activities typically qualify for this special tax regime?	Call centers, software and hardware manufacturing, communication, technology, business process outsourcing, knowledge process outsourcing, production.
3. What is the geographical area involved?	The neighborhood of Parque Patricios, south of Buenos Aires City.
4. What are the benefits in scope?	Turnover tax exemption; stamp duty exemption/reduced rates; exemption of certain municipal assessments within the technology zone; bank financing benefits.
5. What are the requirements?	Requirements and authorization to enter the regime should be granted by the Buenos Aires city government. Subject to time frame of 10 years. At least 50% of the profits must be from qualifying activities (see 2. above). At least 25% of the employees must work within the technology zone.
6. Is it easy to remit cash overseas?	Argentina operates a complex foreign exchange control regime. Authorization is required for almost all transactions in order to remit cash overseas, although this may change in the future.
7. Are there enforceable transfer pricing rules?	Yes. Following OECD guidelines.
8. Which countries have a tax treaty in force with Argentina?	Argentina has a relatively large tax treaty network, and most of the treaties follow the OECD model. It has tax treaties in force with: Australia, Belgium, Bolivia, Brazil, Canada, Denmark, Finland, France, Germany, Italy, Netherlands, Norway, Russia, Spain, Sweden, United Kingdom and Switzerland (pending approval from Swiss Parliament). In addition, Argentina has exchange of information agreements with non-treaty countries as part of the G20 initiative.

Tax consequences at the recipient level

Issue/Question	Response
1. What are the requirements to obtain a tax deduction of the fee charged by a foreign SSC?	Expenses should be real, accrued in the current period, certain, and related to the activity of the company. Supporting documentation is also required. Expenses of Argentine source incurred with foreign related parties or tax havens must be paid to be deductible. Transfer pricing analysis is also mandatory.
2. Is there any withholding tax applicable for the services provided by a foreign SSC?	21% for technical assistance, engineering or consulting services which may not be obtained in Argentina 28% for rights, patents, trademarks, and technical assistance, engineering or consulting services which may be obtained in Argentina The underlying contract/agreements have to be registered before the INPI. Otherwise, withholding rate will be 31.5%
3. Is there any indirect tax applicable to SSC related transactions?	Valued-added tax (VAT) at 21% (reverse charge mechanism). Financial transactions tax 0.6% (other rates can apply) per transaction on debits and credits in checking/current accounts.
4. Are there any exchange controls that could impact the payments to a foreign SSC?	Payments for professional services, computing services, royalties, and trademarks, among others, made to foreign related entities (as defined by the central bank), entities located in non-cooperative jurisdictions (as defined by the income tax regulations), or bank accounts opened in tax havens are subject to central bank authorization. Documentation related to the payment must be furnished to the bank making the transfer.

Brazil

Tax considerations for Shared Services Centers

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Shared Services Center tax considerations

Issue/Question	Response
1. Are there special tax regimes applicable to the activities to be performed by the SSC?	There are no special regimes to promote shared services centers' business activities.
2. Is it easy to remit cash overseas?	Yes.
3. Are there enforceable transfer pricing rules?	Yes. Brazilian transfer pricing rules may be an important component in determining the arm's length price (Brazil does not follow the OECD guidelines), which could lead to minimum required margins imposed by the local TP rules.
4. Given that no special tax regimes exist for SSCs in Brazil, what are some other considerations of the overall tax regime?	There are certain cities that grant special incentives in order to attract investments and boost the economy by reducing the burden of certain taxes imposed at the municipality level such as the ISS (service tax) and IPTU (property taxes). Furthermore, such cities usually have lower payroll and rental costs, which represent a relevant portion of overall costs. On the other hand, the downsides include the distance from the city centers, availability of qualified labor, and less reliable infastructures.

Tax consequences at the recipient level

Issue/Question	Response
1. What are the requirements to obtain a tax deduction of the fee charged by a foreign SSC?	All expenses should be shown to be necessary and normal through internal documentation or through documents prepared by third parties, which must prove that the services were provided for the benefit of the Brazilian company. Also, the expense must be necessary to the company's activities and related to income generation. The service must be effectively rendered, based on a formal contract and be normal and usual for the company's activities.
2. Is there any withholding tax applicable for the services provided by a foreign SSC?	Payments made out of Brazil for services are subject to 15%/25% withholding income tax (WHT) and to 2% to 5% municipal tax on services (ISS).
3. Is there any indirect tax applicable to SSC related transactions?	Yes. PIS and COFINS on import at a combined 9.25%, CIDE at 10%, and IOF at 0.38%.
4. Are there any exchange controls that could impact the payments to a foreign SSC?	All cross-border transactions are processed through foreign exchange agreements which are monitored (with no pre-approvals) by the Brazilian Central Bank (Bacen).

Chile

Tax considerations for Shared Services Centers

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Shared Services Center tax considerations

Issue/Question	Response
1. Are there special tax regimes applicable to the activities to be performed by the SSC?	There is no special tax regime. However, Chile has a tax treaty network that allows companies to export services without paying taxes in both countries. In addition, back-office services are generally not subject to VAT. On the other hand, certain services subject to VAT can benefit from a VAT exemption if exported, in which case the exporter will be entitled to a refund of input VAT incurred in the rendering of exported services.
2. Are there enforceable transfer pricing rules?	Yes. Chile has introduced OECD-type transfer pricing regulations.
3. Which countries have a tax treaty in force with Chile?	Double Taxation Treaties are in force with Australia, Belgium, Brazil, Canada, Colombia, Croatia, Denmark, Ecuador, France, Ireland, Malaysia, Mexico, New Zealand, Norway, Paraguay, Peru, Poland, Portugal, Russia, South Korea, Spain, Sweden, Switzerland, Thailand, and United Kingdom.
4. Given that no special tax regimes exist for SSCs in Chile, what are some other considerations of the overall tax regime?	Current and future corporate income tax rates are as follows: 2015–22.5%; 2016–24%; 2017 and after–25%. For the Partially Integrated System only, the rate is 25.5% in 2017 and 27% in 2018 and after. Domestic withholding tax rates: On dividends–35% (corporate income tax is creditable against dividend withholding tax). Starting in 2017, Chile will have a dual tax regime. Corporate income tax would continue to be 100% creditable under the attributed income system, resulting in an overall income tax charge of 35% when profits are accrued. If the taxpayer opts into the partially integrated system, the corporate income tax would not be fully creditable, resulting in a higher overall income tax charge of 44.45%. However, shareholders from treaty countries would be entitled to a full credit, resulting in a 35% overall income tax charge. VAT rate: 19% flat rate on imports, on the recurrent sale of tangible goods, and on certain services. Advisory and consulting services and most back-office services, such as finance, accounting, and certain human resources functions, do not fall within the scope of VAT. Establishing in the SSC bylaws that it can render services only within the group will help to reduce scope of VAT. On the other hand, marketing and advertising and certain call center services are subject to VAT. VAT exemption may be available if services are exported, subject to requirements, in which case a cash refund of input VAT incurred to render the service is available.

Tax consequences at the recipient level

Issue/Question	Response
1. What are the requirements to obtain a tax deduction of the fee charged by a foreign SSC?	Expense is necessary to generate the taxable income in its nature and amount and related to the taxpayer's business line. Expense should be supported by appropriate documentation (service contract, invoices). Must have paid applicable withholding tax to take a deduction.
2. Is there any withholding tax applicable for the services provided by a foreign SSC?	General withholding tax rate on services rendered abroad–35%. Engineering and professional works and professional and technical services–20%. However, most Chilean tax treaties provide an exemption.
3. Is there any indirect tax applicable to SSC related transactions?	Not to services rendered outside Chile.
4. Are there any exchange controls that could impact the payments to a foreign SSC?	No

Colombia

Tax considerations for Shared Services Centers

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Shared Services Center tax considerations

Issue/Question	Response
1. Are there special tax regimes applicable to the activities to be performed by the SSC?	There is no specific special regulation for SSCs. However, a permanent special free trade zone may be applicable if certain investments are made and a number of direct employments are created (value of investments and number of employees are determined by law). Regarding the Permanent Special Free Trade Zone, please note that currently the Colombian government is not giving authorization for this kind of free trade zone unless it is for health care services. Therefore, the most feasible way to structure a SSC operation with a special regime might be to request the qualification as a service user of an already existing Permanent Free Trade Zone.
2. Which activities typically qualify for this special tax regime?	• Industrial, agro-industrial, maquila, and assembly activities. • Storage services, distribution, unpacking, packing, labelling, division, display and classification of goods. • Call center services.
3. What is the geographical area involved?	It can be incorporated in any place in the country, but once established it only covers the activities developed in the geographical area qualified as Permanent Special Free Trade Zone.
4. What are the benefits in scope?	Income tax at a 15% rate. VAT and customs duty benefits.
5. What are the requirements?	Employment and investment requirements must be met in a 3-year time frame. Must file a request to be declared as Permanent Special Free Trade Zone or as user of an existing Permanent Free Trade Zone. Subject to time frame of 10 to 30 years.
6. Is it easy to remit cash overseas?	Yes
7. Are there enforceable transfer pricing rules?	Yes
8. Which countries have a tax treaty in force with Colombia?	Bolivia, Canada, Chile, Ecuador, India, Korea plus the Andean community treaty with Peru, México, Spain, and Switzerland.

Tax consequences at the recipient level

Issue/Question	Response
1. What are the requirements to obtain a tax deduction of the fee charged by a foreign SSC?	Invoices, written agreements and supporting documentation in compliance with local provisions are required to claim an allowable deduction. Administrative services provided by SSC abroad will not be subject to withholding tax in Colombia and therefore the deductibility will be limited to 15% of the net income of the taxpayer, before subtracting expenses associated with such fees.
2. Is there any withholding tax applicable for the services provided by a foreign SSC?	• Technical assistance and technical services–10%. • Royalty–39%/26.4% if the royalty is paid for the use of a software (may be reduced by tax treaties). • If the service is paid by a Colombian entity to another Colombian entity, an 11% withholding rate will be applicable.
3. Is there any indirect tax applicable to SSC related transactions?	As a general rule, not if the service is provided abroad. However, technical assistance, advisory, and audit services are subject to VAT at the general 16% rate, regardless if the services are provided in Colombia or abroad. The VAT accrued must be assumed and paid by the Colombian entity that benefits from the service. Such VAT paid may be used as a creditable VAT if it is associated to VAT taxed activities performed by the beneficiary of the service.
4. Are there any exchange controls that could impact the payments to a foreign SSC?	No. Certain operations must be made through the formal exchange market (i.e., banks, foreign exchange agents, etc.). However, service payments and royalties are not subject to this obligation.

Costa Rica

Tax considerations for Shared Services Centers

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Shared Services Center tax considerations

Issue/Question	Response
1. Are there special tax regimes applicable to the activities to be performed by the SSC?	Yes, the "Zona Franca" or free trade zone regime, when the minimum investment requirements are met.
2. Which activities typically qualify for this special tax regime?	Services in general, most common back-office services.
3. What is the geographical area involved?	No geographical limitations; can be located in almost every city in Costa Rica, most common in San José and Heredia (Central Valley, close to main international airport).

4. What are the benefits in scope?	Depending on the amount of investment (new fixed assets) and location (inside or outside Central Valley), the following tax incentives are available:
	• Corporate income tax exemption:
	  • Option 1 (location inside Central Valley): Full exemption for 8 years and a 50% exemption for the following 4 years.
	  • Option 2 (location outside Central Valley): Full exemption for 12 years and a 50% exemption for the following 6 years.
	• Full exemption from WHT tax (other than dividends), VAT, and consumption tax on purchases of goods and services.
	• Full exemption from WHT tax on dividends for 8 or 12 years and a 50% exemption for the subsequent 4 or 6 years (follows the same criteria as corporate income tax).
	• Full exemption from customs duties and import taxes as long as the company is within the regime.
	• 10-year exemption from municipal taxes (i.e., business license tax and immovable asset tax) and property transfer tax. Note that some municipal governments have recently enacted laws under which the exemption does not apply.

5. What are the requirements?	For service companies, a minimum investment of US$150,000 on new fixed assets is required.
6. Is it easy to remit cash overseas?	Yes
7. Are there enforceable transfer pricing rules?	Yes, Costa Rica has adopted OECD transfer pricing standards.
8. Which countries have a tax treaty in force with Costa Rica?	Only Spain. Currently, treaties with Mexico and Germany have been signed but are waiting to get approved by national Congress.

Tax consequences at the recipient level

Issue/Question	Response
1. What are the requirements to obtain a tax deduction of the fee charged by a foreign SSC?	General rules apply: Expenses related directly to the activity generating the taxable income, documented with invoice and service contract. Payment of withholding tax.
2. Is there any withholding tax applicable for the services provided by a foreign SSC?	Professional services such as back-office services are subject to 15% WHT tax rate; if service qualifies as technical advice, the WHT rate is 25%.
3. Is there any indirect tax applicable to SSC related transactions?	No, import of services is currently exempt from GST.
4. Are there any exchange controls that could impact the payments to a foreign SSC?	No

Mexico

Tax considerations for Shared Services Centers

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Shared Services Center tax considerations

Issue/Question	Response
1. Are there special tax regimes applicable to the activities to be performed by the SSC?	Yes. Services IMMEX.
2. Which activities typically qualify for this special tax regime?	• Outsourcing services including: a) management, finance, accounting, billing, payroll, human resources, legal, production control, and clinical analysis; b) outsourcing of analysis, design, development, administration, maintenance, testing, security, implementation, and support of computer systems and data processing. • Call centers for remote support. • Supply, storage, or distribution of goods. Classification, inspection, testing, or verification of goods. • Design and product engineering. • Software design or engineering. Services based on information technologies.
3. What is the geographical area involved?	Within Mexican territory
4. What are the benefits in scope?	0% VAT rate for the exportation of the services provided in Mexico.
5. What are the requirements?	The entity must derive all of its income from production activities from export services operations. Obtain a certification.
6. Is it easy to remit cash overseas?	Yes
7. Are there enforceable transfer pricing rules?	Yes. As a member of the OECD, Mexico follows the guidelines of this organization.
8. Which countries have a tax treaty in force with Mexico?	Australia, Austria, Belgium, Brazil, Canada, Chile, China, Czech Republic, Denmark, Ecuador, Finland, France, Germany, Greece, Iceland, Indonesia, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Netherlands, New Zealand, Norway, Poland, Portugal, Romania, Russia, Singapore, Slovakia, Spain, Sweden, Switzerland, United Kingdom, United States.

Tax consequences at the recipient level

Issue/Question	Response
1. What are the requirements to obtain a tax deduction of the fee charged by a foreign SSC?	Invoices and supporting documentation in compliance with local provisions is required. In the case of technical assistance the SSC must offer certain technical elements to render this kind of service. Technical assistance will be non-deductible when the recipient is a foreign controlling or controlled entity and the payment is disregarded or not treated as income.
2. Is there any withholding tax applicable for the services provided by a foreign SSC?	On royalty payments–25%, 35%. On technical assistance–25% May be reduced by treaties in force.
3. Is there any indirect tax applicable to SSC related transactions?	No
4. Are there any exchange controls that could impact the payments to a foreign SSC?	No

Panama

Tax considerations for Shared Services Centers

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Shared Services Center tax considerations

Issue/Question	Response
1. Are there special tax regimes applicable to the activities to be performed by the SSC?	Yes, Multinational Companies Headquarters regime (Law 41 of 2007).
2. Which activities typically qualify for this special tax regime?	• Strategic planning, business development, management/training of personnel, control of operations /logistics. Technical assistance to the business group's companies or customers who have purchased a product or service. Financial management, including treasury services, accounting. Creation of plans, electronic processing, including network operations. Advisory services, coordination and monitoring of marketing and advertising guidelines. Operations and research support and development. • Logistics and/or storage of components or parts required for the manufacturing or assembling of products. • Other similar services, subject to prior approval by the Cabinet Council.
3. What is the geographical area involved?	Any region within the Panamanian territory.
4. What are the benefits in scope?	Exemption from income tax, VAT on services rendered, dividend tax, notice of operation tax. Services provided to companies located within Panama are subject to income tax, and VAT applies on services rendered.
5. What are the requirements?	A multinational company headquarters (MHQ) is an office that has management control in the region and, from Panama, provides services exclusively within the group and abroad. In some cases, technical support may be provided to customers who have purchased a product or service from a group company. The MHQ can be organized as a branch or as a legal entity. Some special reporting requirements apply.
6. Is it easy to remit cash overseas?	Yes
7. Are there enforceable transfer pricing rules?	Yes, transfer pricing rules where implemented following the OECD model. However, transfer pricing rules are not applicable to MHQs.
8. Which countries have a tax treaty in force with Panama?	Barbados, Czech Republic, France, Ireland, Israel, Italy, Luxemburg, Mexico, Netherlands, Portugal, Qatar, Singapore, South Korea, Spain, United Arab Emirates, United Kingdom. Plus 9 information exchange treaties.

Tax consequences at the recipient level

Issue/Question	Response
1. What are the requirements to obtain a tax deduction of the fee charged by a foreign SSC?	All expenses incurred wholly and exclusively for the production of Panamanian source income and/or in the conservation of its source will be allowed as a deduction for income tax purposes, such as, but not limited to, depreciation, interest expense, management fees and any other expense related to the production and conservation of local source income. Allocation between different sources of revenue is primarily done by tracing the cost and/or the expense directly to the sources of revenue they aimed to produce and/or maintain, however all cost and/or expenses, even if traced directly to the sources of revenue they aimed to produce or maintain, do not exceed the proportion of taxpayers' local gross income to total gross income in order to be deducted. In other words, the deductible costs and expenses shall not exceed the proportion resulting from dividing the taxable income with regard to the income total including the exempt ones and of foreign source.
2. Is there any withholding tax applicable for the services provided by a foreign SSC?	Yes, payments for services made to nonresidents are subject to a withholding tax of 12.50% (the law provides for 50% of the amount paid to be subject to the tax rates set by articles 699 and 700 of Panama's Tax Code).
3. Is there any indirect tax applicable to SSC related transactions?	Subject to withholding of VAT at rate of 7% if services are provided between Panama.
4. Are there any exchange controls that could impact the payments to a foreign SSC?	No

Peru

Tax considerations for Shared Services Centers

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Shared Services Center tax considerations

Issue/Question	Response
1. Are there special tax regimes applicable to the activities to be performed by the SSC?	Yes, under the Free Zone and Trade Zone of Tacna (ZOFRATACNA) regime. Additionally, under domestic provisions, call center and business support service activities rendered from Peru can qualify as an export that is exempt from VAT.
2. Which activities typically qualify for this special tax regime?	• Industrial, agro-industrial, maquila, and assembly activities. Storage services, distribution, unpacking, packing, labelling, division, display, and classification of goods. • Call center services, software development services. • Activities of repair, refurbish and/or maintenance of machinery, engines, and equipment for the mining industry, based on a list approved by the Ministry of Economy and Finances.
3. What is the geographical area involved?	The city of Tacna.
4. What are the benefits in scope?	Users performing the qualifying activities within the ZOFRATACNA area shall be exempt from: • Income tax, VAT, excise tax, current or future tax laws (does not extend to employees' health contribution charges for customs clearance services). • A special tariff of 6% will be levied on either the CIF value or the purchase price of the goods traded within this area, whichever is higher.
5. What are the requirements?	To qualify for the benefits, beneficiaries must meet the following requirements: • Qualify as resident in the country based on the income tax provisions and register as taxpayer. • Qualify as a ZOFRATACNA user, as per Peruvian provisions.
6. Is it easy to remit cash overseas?	Yes
7. Are there enforceable transfer pricing rules?	Yes, based on the OEDC model.
8. Which countries have a tax treaty in force with Peru?	Currently, Peru has tax treaties in force with Andean Community (Bolivia, Colombia, and Ecuador), Brazil, Chile, Canada, Korea, Mexico, Portugal, and Switzerland.

Tax consequences at the recipient level

Issue/Question	Response
1. What are the requirements to obtain a tax deduction of the fee charged by a foreign SSC?	Invoices and supporting documentation in compliance with local provisions are necessary to claim an allowable deduction for corporate income tax purposes (including documentation substantiating that the services were effectively rendered). Additionally, transfer pricing rules may apply.
2. Is there any withholding tax applicable for the services provided by a foreign SSC?	• Royalty–30%, technical assistance services–15%, Digital services–30%. • Non royalty, technical, or digital services from overseas–0% These rates could be mitigated by using a tax treaty country.
3. Is there any indirect tax applicable to SSC related transactions?	Generally, unless a specific exemption applies, the use in Peru of services rendered overseas will qualify as an import of services subject to VAT at an 18% rate, under the reversed charge mechanism.
4. Are there any exchange controls that could impact the payments to a foreign SSC?	No

Uruguay

Tax considerations for Shared Services Centers

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Shared Services Center tax considerations

Issue/Question	Response
1. Are there special tax regimes applicable to the activities to be performed by the SSC?	Yes, three: Shared Services Center (SSC) regime; Distance Attention Centers (DAC); Free Zones (FZ) regime.
2. Which activities typically qualify for this special tax regime?	SSC regime: Advice and data processing, which must relate to activities developed, goods located, or rights economically used abroad. The services generally must be for use outside Uruguay with less than 5% of services provided to resident-related parties. DAC regime: Services provided through telemarking operators with the support of software. FZ regime: Commercial activities, industrial activities, service activities and off-shore activities.
3. What is the geographical area involved?	FZ regime: Within the free zones SSC regime and DAC: The Uruguayan territory
4. What are the benefits in scope?	SSC regime: Corporate income tax exemption for 90% of income, subject to requirements. Only dividends on 10% non-exempt income will be subject to WHT (7%). Reduced WHT on technical service fees. Net worth tax exemption. 0% VAT on exported services. DAC regime: Income tax (IRAE) exemption of up to 100%. FZ regime: Complete exemption from all national taxes on transactions carried out by Free Zone users.
5. What are the requirements?	Specific requirements apply to each regime.
6. Is the regime subject to a specific timeframe?	SSC regime: 5 or 10 years, depending on the number of new employees in a qualified direct work position and the investment in training. DAC regime: IRAE exemptions are applicable for a period of 10 years after the request. FZ regime: During the term of the contract as a Free Zone user.
7. Are there enforceable transfer pricing rules?	Yes, based on the OECD Model.
8. Which countries have a tax treaty in force with Uruguay?	Argentina, Ecuador, Finland, Germany, Hungary, India, Liechtenstein, Malta, Mexico, Portugal, South Korea, Spain, and Switzerland. Exchange of information agreements with Australia, Canada, Denmark, France, Greenland and Iceland are also in force Norway.

Tax consequences at the recipient level

Issue/Question	Response
1. What are the requirements to obtain a tax deduction of the fee charged by a foreign SSC?	The expense must be necessary to generate taxable income and be well documented. Expenses also need to be taxable in the hands of the recipient. Invoices and supporting documentation in compliance with local regulations required.
2. Is there any withholding tax applicable for the services provided by a foreign SSC?	Royalties–12%. Technical assistance services–12%. Any service rendered physically in Uruguay–12%. Non-technical services from overseas–0%. These rates may be reduced under a tax treaty.
3. Is there any indirect tax applicable to SSC related transactions?	Not to services rendered exclusively abroad by non-residents.
4. Are there any exchange controls that could impact the payments to a foreign SSC?	No

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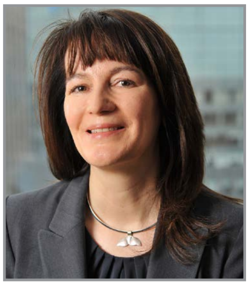

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