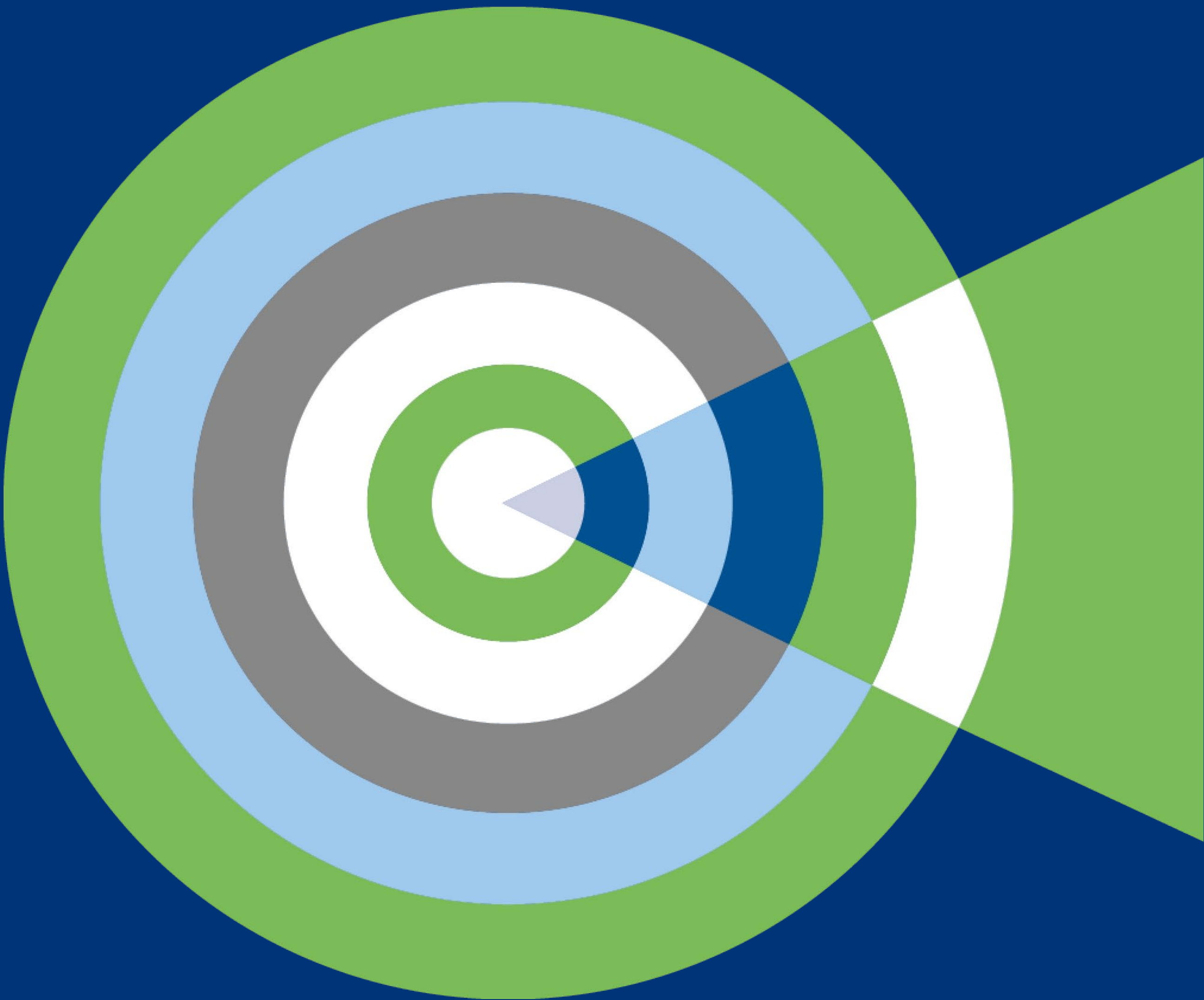
UHY

DOING BUSINESS

IN PERU



The network for doing business

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1 – INTRODUCTION

UHY is an international organization providing audit, accountancy, business management and consultancy services through financial business centers in around 100 countries throughout the world.

Business partners work together throughout the network to conduct transnational operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering a business operation in Peru has been provided by the office of UHY's representative there:

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Information in the following pages has been updated so that it is effective at the date shown, but inevitably it is both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current in March 2024.

We look forward to helping you do business in Peru.

2 – BUSINESS ENVIRONMENT

GENERAL BACKGROUND

Peru is the third biggest nation in South America, covering 1,285,215 square kilometers.

The country has three natural regions: the coast, highlands and jungle and an estimated population (for 2023) of 34.19 million. Around 78% of the population lives in urban areas and 22% in rural areas.

The administrative divisions of the country include 24 departments and one constitutional province, Callao. Each department consists of provinces, totaling 180 (Callao included), and these provinces are divided into districts, totaling 1,838. The capital city is Lima.

The Peruvian government is organized administratively into the executive power, comprising the president of the Republic, who is the head of state and is elected by direct voting for a five-year term (the next elections are due in April 2024). Legislative power is centered in a unicameral congress, with 133 congressmen who are directly elected. Power over the administration of justice is held by the judiciary. Its highest body is the National Counsel of Magistrates.

The official language Is Spanish, but in many regions of the country the Quechua language is in use (a dialect inherited from the Inca culture) as well as Aymara, which is the language of the Aymara people of the Andes. The currency is the *Nuevo Sol* ('the Sol'), which has PEN as its currency code.

ECONOMY

The main objective of the Peruvian government's economic program, established by the Ministry of Economy and Finance (www.mef.gob.pe), is to optimize the financial and economic activity of the state, to establish macroeconomic activity, and to achieve sustainable growth.

Peru has been one of the fastest-growing Latin American economies: GDP has grown by an average of 2.4% in 2023. Economic indicators suggest that growth has successfully stabilized around a sustainable level. Domestic consumption and private investment are the main driving forces of growth.

GDP per capita is USD 681.62 Billion (2023) and GDP per capita is 6554.96 USD (2022 estimate). As the economy has grown, poverty in Peru has steadily decreased. But, although Peru is one of the regions' leading growth powerhouses, its per capita GDP still ranks below that of neighboring countries.

Overall, however, Peru continues to enjoy the benefits of its liberalization policies that have supported high levels of efficiency in the goods, labor and financial markets.

PRICE AND EXCHANGE RATE STABILITY

Peru continues to have one of the lowest rates of inflation in Latin America (estimated at 3.24% in 2023). Its exchange rate, left free to non-speculative market forces, is also one of the most stable in Latin America.

The country's economic growth has largely been built on this exchange rate and price stability, reflecting the government's strong commitment to fiscal balance and a conservative monetary policy.

The 'Sol' has been the least volatile of all Latin American currencies in the past few years and was the least impacted by the downturn of the US dollar. Since the mid-1990s, the Sol's exchange rate with the US dollar has fluctuated between 1.25 and 3.75 per dollar. The exchange rate, estimated for 2023, is 3.758 'Soles' per dollar.

Yet, despite this strong macroeconomic performance, analysts contend that Peru's dependence on mineral and metal exports, and imported foodstuffs, makes the economy vulnerable to world price fluctuations.

ECONOMIC INDICATORS

Economic analysts also point to:

- Peru's increasingly robust financial system (delinquency is at an historical low), and that private companies more and more frequently issue bonds in the local market.
- The Lima Stock Exchange has ranked as the world's most profitable.
- Examination of fiscal accounts shows the main evaluation categories of rating firms relate to the evolution of income, expense, and general government balance indicators. Rating agencies favor countries with a large tax payroll and low tax rates.
- Peru has made great strides in balancing its fiscal accounts. (In 2022 it recorded a deficit of 2.7% of GDP by 2022). Tax pressure (tax revenues to GDP) is expected to grow, and the quality of public expenditure is expected to improve through a new wave of state reforms and effective austerity measures.

EXPORT GROWTH

Total exports reached USD $ 67.241 billion in exports in 2023, largely from mining (see rankings table below). This achievement reflects growth in international demand derived from rising international prices as well as increased volumes of raw materials being demanded from the Latin American region generally.

EXPORTING INDUSTRIES

Increases in exports – up in 19.6% from 2022– have been made possible through a combination of factors, including the maintenance of high international prices, a strong demand for Peruvian products, especially in countries with which it has commercial agreements, and the expansion of supply and Peruvian capacities to participate in the competitive international market.

Mining exports continue to increase. Exports include many different metals including copper, gold, molybdenum, silver and zinc.

The Peruvian mining sector boasts an impressive geological potential, with vast natural resources spread across the region and low production costs, making it an attractive option for new companies and increased investments. However, the sector has faced significant challenges in 2022 due to social and political conflicts. Despite these obstacles, Peru maintains its position as the world's second and third-largest producer of copper and zinc, respectively, and remains the primary producer of gold, zinc, lead, and tin in Latin America.

Mining currently accounts for nearly 8.3% of the total GDP, which is a slight decrease from the 10% achieved in the previous year. Nevertheless, it contributes 64 % to national exports and is the primary generator of foreign exchange in Peruvian foreign trade, the combined investment in mining amounted to USD 38.5 billion, bringing the total investment in the Peruvian economy from 2012 to 2021 to USD 59.016 billion.

The value of exports reflects, in addition to the increase in international prices of metals, Peru's sustained pace in exploration, discovery, mine construction and exploitation, which has enabled a continual increase in mineral production. A disproportionate decline in international prices is not anticipated, given the sustained demand from both the developed economies and from countries with large and rapidly growing populations, such as Brazil, Russia, India, and China.

PERU'S RANKING AS AN EXPORTER OF METALS

	WORLDWIDE	LATIN AMERICA
Copper	2	2
Gold	2	2
Zinc	2	1
Silver	3	2
Lead	4	2
Tin	5	1
Molybdenum	3	2
Iron	17	5

Source: Peruvian Ministry of Energy and Mines

In addition, Peru is exporting an increasing amount of hydrocarbons, of which the country is projected to become a net exporter.

Peru has also substantially increased most of its non-traditional exports. Forestry, fishing, textiles and garments, manufacturing, jewelry, and service exports have also increased.

In agribusiness, Peru is currently the world's leading exporter of asparagus, organic coffee and dried paprika. Peru is also a world-leading producer and exporter of fishmeal and oil. Fishing is one of the major economic activities, and is among the sectors with the highest level of exports.

But, after minerals, the sector that stands out the most is the textile and clothing sector (with USD 1147 million in exports reported in 20123, a surge of 38.06 % over the previous year). The trend has continued.

Significantly, the expansion was the biggest expansion of all 17 components making up the country's manufacturing breakdown. Higher manufacturing and retailing output in the textiles sector may signal that Peru's economy, which has generally been driven by mining, may be broadening.

MAIN EXPORT DESTINATIONS

Exporting mostly to importing mostly from China ($15.1B), United States ($13.8B), Brazil ($3.54B), Argentina ($2.49B), and Chile ($1.84B).

KEY SECTORS

MINING

The sector that contributes most to Peruvian exports is mining. It represents an important source of foreign currency and a large part of investment made in the country in recent years. In 2018, mining registered 61.8% of total exports.

The main companies in mining sector exports are: Minera Cerro, that operates an open-pit copper and molybdenum mining complex located 20 miles southwest of Arequipa; Minera Las Bambas, the mine is expected to produce more than 2MT of copper in concentrate in its first five year of operation; Minera Antapaccay. Is a subsidiary of Glencore plc, operates the Antapaccay copper mine in Peru's Cuzco region; Southern Peru Copper Corporation, is the country largest producer of copper. It operates in Toquepala and Cuajone mines, and the Ilo metallurgical complex; and Minera Antamina, which engages the production of copper, zinc, molybdenum, silver and lead by products. Is one of the country's leading copper and zinc concentrate largest mines.

The main metals produced by Peru are gold, copper, zinc, tin and silver.

FISHING

Peru has great hydro-biological resource diversity. The following have been identified in Peruvian seas:

- 750 fish species
- 872 mollusc species
- 412 crustacean species
- 45 equinoderm species
- 240 algae species.

There are also chelonians, cetaceans, and mammals.

Peru is the second biggest fishing country in the world, according to The Food and Agriculture Organization of the United Nations.

Favorable geographic and climatic conditions include:

- A 3,080km coastline and 900,000 sq. k
- m of territorial sea
- Plankton abundance (both phytoplankton and zooplankton)

- Sea currents, especially the Humboldt Currernt that allows for the upwelling phenomenon.

Legislation for the promotion and development of aquaculture (Law 27460), grants the following benefits:

- Income tax discounts (tax rate 15%)
- IGV (sales tax) anticipated recovery (productive stage) Suspension of aquaculture duty payment.

AGRO-INDUSTRY

Peru is a mega-diverse country, having 84 out of the 104 life zones recognized in the world. Together with the diversity of its ecological levels, Peru has the advantage that practically every crop can be planted year-round. Peru has about 8 million hectares available for crop cultivation, 17.9 million hectares for pastures and 48.7 million hectares for forestry production.

Most companies developing crops for exports are logistically organized for production in the fields and in plants (if they work with processed products) and to carry out product exports. These companies can also work with small producer organizations to comply with the quantity of product required for their markets. There are also some exporting companies that have industrial plants only and need small producer organizations in different areas to get primary product supplies.

Important characteristics of agro-exporting companies are their offer diversification, as a result of both their business knowledge and of the need to use industrial plant at full capacity. The four larger non-traditional farming product exporters, specializing in horticulture products, are:

- Camposol exports fresh, preserved and frozen asparagus, piquillo pepper and preserved chilli, preserved artichokes, avocados, fresh and preserved mango, onion, as well as other preserved, frozen vegetables and other fresh fruits
- Agricola Virú exports preserved asparagus, preserved artichokes, piquillo pepper and preserved chili, preserved ground garlic and other preserved fruits and vegetables
- Alicorp mainly exports balanced foods, products related to the oil industry (edible oils, soaps, mayonnaise, shortening, ketchup) and products derived from the wheat milling industry (pasta, cookies and crackers, flours, wafers)
- Drokasa exports fresh and frozen asparagus, grapes and figs.

Agricultural exports have shown a progressive growth in recent years. From USD 1,339 million in 2005, average annual growth rate has exceeded 20%. This increase was achieved thanks to the development of a highly diversified supply of agriculture. In previous years, few products exceeded USD 10 million in exports. From 2007, more than 30 products exported reached total sales above this amount. The trend has continued with US$10.421 billion exports in 2022 in agricultural exports compared with the same period in the previous year.

During the period spanning from January to December of the past year, traditional agricultural exports reached a total of US$/1.340 billion, representing a substantial increase of 58.9% from the year prior. This remarkable growth can be attributed to the amplified shipment of unroasted coffee without decaffeination, which amounted to US$1.221 billion, constituting 91.1% of the total - a level that had not been observed since 2012 due to issues related to the presence of yellow rust.

Additionally, it is worth noting that exports of refined cane or beet sugar contributed to this positive trend, amassing US$72 million and accounting for 5.4% of traditional agricultural exports, as did sales of other cane sugar (US$11 million; 0.8%).

In contrast, non-traditional agricultural exports amounted to US$9.080 billion, indicating a 9% increase compared to the previous year. Notable among these exports were fresh cranberries, which generated US$1.364 billion and represented 15% of total sales, followed by fresh grapes (US$1.364 billion; 15%), avocados (US$895 million; 9.9%), and fresh or chilled asparagus (US$372 million; 4.1%).

Other noteworthy products that ranked high in the agricultural export sector include fresh mangoes, achieving sales of US$301 million and accounting for 3.3% of the total, animal feed (US$264 million; 2.9%), other citrus fruits (US$178 million; 2%), other cocoa beans (US$159 million; 1.7%), ethyl alcohol (US$157 million; 1.7%), frozen mangoes (US$148 million; 1.6%), artichokes (US$129 million; 1.4%), and crude palm oil (US$125 million; 1.4%).

TEXTILES

The fine textile tradition in Peru dates back to pre-Inca times and is supported by the high quality of inputs used, such as alpaca and Pima cotton fibers. Textile and apparel production have evolved in techniques and designs to produce some of the highest quality products in their respective types worldwide.

The textile development of the country has been possible thanks to the farming of exceptional quality fibers, such as the Peruvian Pima cotton (extra-long fiber) and the Tangüis cotton (long fiber).

Peru is the world's largest producer of the finest fibers from the South American Camelidae species, among which are the alpaca and vicuña. The latter exceeds cashmere fiber quality.

Peru has achieved good positioning as a reliable supplier with a well-developed textile sector. This is based on excellent quality cotton growth to rearing and shearing of vicuñas and alpacas, to spinning, weaving, dyeing and finishing fabrics and the manufacturing of garments.

TOURISM

Peru is heir to 1,000-year-old cultures and a rich colonial tradition. It is also an enclave harboring one of the largest range of biodiversity on the planet.

The biggest attractions to be found in Peru are the ruins of Machu Picchu, one of the seven new wonders in the world, Chavín de Huantar, the Kuélap Fortress and the ruins of Caral among others. Handicrafts, native music and dance, as well as an abundance of gastronomic delights make Peru a country with big opportunities for the development of tourism investment.

The city of Cusco, the ancient capital of the Incan Empire, was placed on the World Cultural Heritage List by UNESCO in 1983, and is one of the most important destinations in Peru.

Buildings awaiting discovery among the cobble-stoned streets include Koricancha, the palace of Inca Roca, and Andean baroque structures from the colonial period, such as the Cathedral and the Church of the Company of Christ. In addition, Cusco houses the picturesque neighborhood of San Blas where the best artisans have set up their workshops. This city also has an exciting nightlife with cafes, restaurants, and bars. Just ten minutes away from the city there are the massive walls of the Sacsayhuamán fortress and a few kilometers from there are the archaeological sites of Qenko, Pukapukuara and Tambomachay – Incan buildings constructed completely from stone.

The towns of Písac, Maras, Chinchero and Ollantaytambo, spread throughout the Sacred Valley of the Incas, are one hour from Cusco. From there, tourists can travel by train to Machu Picchu. Another way of getting to the citadel is by following one of the Inca Trails, a spectacular network of pathways that snake their way among the snow-covered mountains, rivers, and countryside – making it one of the best trekking routes in the world, scattered with archaeological sites and areas rich in unique plant and animal species.

The Sacred City of Caral-Supe is a UNESCO World Heritage site. Located in the Supe Valley, 200 kilometers north of Lima (Peru), it is about 5,000 years old and it was the capital of the Caral civilization.

COUNTRY RISK

The high growth of the Peruvian GDP and, in general, and the capacity of the national economy to escape contagion from the various crises affecting other Latin American countries, are variables considered by the international financial market as a point in favor of Peru.

Peru is considered CRT-3 country, it has a moderate level of economic, political, and financial system risk. It had had an economic model for the past 10 years, Peru's growth peaked at 6% on average between 2004 and 2012. However, Peru faced economic difficulties in 2015, while the situation improved in 2016 and 2017. The GDP growth reached 4.1% in 2018, driven by sound fiscal and monetary policies and by growth in services, mining and fuel, and manufacturing. The IMF estimates that growth will stay the same in 2023 and 2024, 2.3%.

Peru recorded a budget deficit of 1.9% of the GDP in 2023. Inflation slowed down and reached 1.4%, the lowest rate in 9 years. However, it is expected to increase slightly to 2% for 2020 and 2023. Furthermore, public debt was cut almost in half, from the 44.3% of the GDP in 2004 to 26.4% in 2018. The economy’s overall stable and strong performance has allowed the government to increase its revenues and balance the budget.

Inflation decreased to 1.3% in 2018 and is forecast to remain between 2.0% and 2.5% over the next few years.

3 – FOREIGN INVESTMENT

Investment flows into Peru are expected to continue their expanding trend as a result of investor confidence in the country's economic performance, reinforced by the qualification of the Peruvian economy as 'investment grade'.

Credit risk agencies Fitch and Moody's have raised their ratings for Peru to A+, indicating a stable and positive outlook. This improvement in the classification of the Peruvian debt is the outcome of strong economic growth, reduction in 'dollarization', improved fiscal accounts and reduction of the debt burden, as well as the accumulation of reserves as a result of a marked trade surplus.

Foreign direct investment (FDI) inflows in 2022 were USD US$ 7,455 M. It is the fourth recipient of FDI in Latin America after Brazil, Colombia and Chile. Investment has been concentrated in mining, finances, communication, industry and energy, reflecting the growing strength of the country's domestic market. An Economic Commission of Latin America and the Caribbean (ECLAC) report shows that the total stock of FDI stood at USD 104 billion (46.4% of the GDP.

Peru offers the following advantages:

- A stable macroeconomic climate
- Monetary stability
- Less country-risk than in other countries in the region
- Investment opportunities
- A variety of human and natural resources
- An excellent geographic location
- Andean Trade Promotion and Drug Eradication Act (ATPDEA) and other integration incentives
- Political will which favors investment attraction and sustaining responsible economic administration.

Peru offers investors several sectors with clear comparative advantages, such as:

- Mining – the sector that contributes the most to total Peruvian exports
- Agriculture – with a series of projects, and with capacity for agricultural cultures, the climate allows produce to be harvested throughout the year
- Fishing and aquaculture – offering a great diversity of sustainable resources
- Textile and apparel production – specializing in high quality, with raw materials like cotton and wool of alpaca, among others; offering contributions to manufacturing industry
- Tourism – with different archaeological sites, cultural centers and natural sites to visit
- Other important areas with development expectations are the forestry industry and use of Peruvian biodiversity
- The supply of a skilled workforce at competitive prices is also of importance.

With the arrival of the natural gas project Camisea, Peru intends to obtain a reduction in the deficit of the trade balance of hydrocarbons of around USD 500 million. It also expects to consolidate exports of natural gas. Camisea is an important change in this sector, increasing significantly the local supply of fuels, delivered to a group of industrial clients through a network of natural gas distribution in Lima.

Investment opportunities in infrastructure have been promoted by Proinversion (approximately USD 5 billion), especially through the construction of roads and the operation of ports and airports (www.proinversion.gob.pe).

Sustained growth in foreign investment can be seen, even though expected growth peaks have still not been reached.

A Free Trade Area for the Americas between Peru and the US is under way. In addition, most Peruvian exports have a zero tariff to enter the European Union (EU) as well as other Latin American countries.

Peru is also a member of APEC to improve its trade in the Pacific Basin. It also has an active policy of negotiation of international trade agreements with American, European and Asian countries and economic groups.

Peru has a modern legislative framework for foreign investment. For detailed information on legal matters regarding foreign investment, see: www.proinversion.gob.pe.

To consolidate the judicial framework protecting investments, Peru has also actively negotiated bilateral treaties for reciprocal promotion and protection of investments. Treaties have been concluded with countries of the Pacific Basin, Europe and Latin America. An agreement with the Overseas Private Investment Corporation (OPIC) has also been signed. OPIC grants coverage to US investments developed in Peru.

4 – SETTING UP A BUSINESS

Peru welcomes foreign investors, through a free market economy where conditions are similar for investors either local or foreign. There is complete freedom for importing and exporting any kind of lawful goods and services.

Salaries are governed through direct negotiations between the company and workers.

A minimum capital is not required for starting a business.

LEGAL FORMS OF COMPANIES

Legislation enables various forms of companies. The most common is:

Corporation

In a corporation, capital is represented by registered stocks contributed by shareholders, who are not personally liable for the corporate debts. In order to incorporate a company, at least one fourth of the capital stock must be paid-up.

Capital may only be contributed in the form of goods and rights capable of being economically appraised. The contribution of services is forbidden.

In accordance with the provision of by-laws, the Board of Directors meeting may be held without the presence of the directors, through written, electronic or other means that allow for adequate communication and guarantee the authenticity of agreements.

The Corporation may be a:

a) Corporation S.A.

This alternative has many articles that must be specifically clarified by a specialist consultant. It is the most common option for a foreign company wishing to be incorporated in Peru.

b) Closed corporation S.A.C

A closed corporation shall not have more than 20 shareholders and its stocks may not be listed on the stock market.

Under Peruvian law, almost all corporations need three or more directors on a board as well as a designated manager. Their names must be listed in the incorporation documents. Only closed corporations are exempt from this rule.

A shareholder wishing to transfer stocks shall report this to the company’s management, which, in turn, will inform the other shareholders about the matter, in order to allow them to practice their preferential right of acquisition.

SET-UP PROCESS

The process of setting up a business usually takes about four to six weeks. A corporate name normally, but not necessarily, includes the names of the main partners. To get a right to incorporate a company with a corporate name, you need to make a reservation at the Public Registry. If there are no conflicts with other corporate names, then you are given the right to incorporate a company within the following 30 days.

You will need to open a business banking account in the name of the company. Popular Banks in Lima includes Banco de la Nación, Interbank and Banco de Crédito BCP. Investors need to deposit at least 25% of their entire business capital into the Peruvian bank of their choice. This deposit is necessary to make the business legal and official, so you will need to demonstrate proof of the deposit transaction and the overall capital set aside for the operation.

Next, file the articles of incorporation with a public notary. Partners execute the incorporation public deed before the notary and obtain an official stamp on all business accounting books and minute books. The notary will charge a small fee for each stamp issued.

After execution of the deed, the company needs to file the deed with the Public Registry to obtain registration. Only once registration has been granted is the new company legally and validly incorporated and existing.

In order to transact business, the company will need to register and obtain a Tax Roll Number with the taxing agency, Superintendencia Nacional de Administración Tributaria (SUNAT). This government agency is involved in various tax issues, such as income tax, added value tax and collecting social security funds.

Acquire a taxpayer identification number, commonly referred to in Peru as a Registro Unico del Contribuyente (RUC). Go to any Lima office of SUNAT to get your RUC. Also register with EsSalud and the Oficina de Normalización Previsional, two state entities that administer health insurance and pensions for employees based on the tax contributions that your company makes to Peruvian social security.

Contact the local District Council office in the neighborhood where you plan to open your business. Ask for a Certificate of Compatibility application. This certificate will demonstrate that your business will not disrupt the community in which it operates. Submit the application with any supporting evidence and wait for council approval.

Contact the National Institute of Civil Defense (INDECI) and request a technical report of approval. Peruvian legal codes require that all new companies demonstrate the security and sound construction of their facilities to the INDECI before soliciting a municipal license of operation.

Submit a formal request for a municipal license to the local City Council office in whatever zone applies to your business. This application will need to be submitted along with copies of many of the aforementioned documents. Check with officials at the office to see what supporting materials are required. Pending approval, your business will be fully legal and ready for operation.

Be prepared for tedious processes. Peruvian bureaucracy moves slower than in some parts of the world, so don't be surprised if things take longer than you're used to. Hire a trustworthy accountancy consultant and lawyer who speak both English and Spanish. Enlist your attorney to help you manage all legal phases of the business launch. Obtain receipts and official documents for all transactions. Keep files of everything relating to your business venture. Keep in mind that fees will be charged for almost every step of the process.

5 – LABOUR

Peruvian legislation has different modes for recruiting labor, including contracts for certain terms of temporary or occasional work or service.

Local companies are entitled to hire foreigners to comprise up to 20% of their workforce, provided that their salaries do not exceed 30% of the total wages paid by the company. Employers are exempt from the limiting percentage in the case of highly skilled technical and professional personnel. Foreign workers' contracts should be written and subscribed for a specific term, which can be renewed for a maximum period of three years.

Employers may hire temporary workers through 'Co-operatives for Job Encouragement' and labour intermediary companies. In these cases, there is no direct labour link between the worker and the employer. A maximum percentage of 20% applies, related to the number of workers with a direct labour link.

Companies may also hire people aged from 16–25 years old through the Youth Labour Formation Program. The number of young people should not exceed 10% of the total staff. This limit may be increased, provided the percentage exclusively comprises handicapped young men or young women with family responsibilities.

WORKING HOURS

The work regime establishes a shift of eight hours daily, or 48 hours per week for workers older than 18 years, with overtime paid for surplus hours. This surplus must not be lower than 25% of the value of every normal hour during the first two hours and 35% during the remaining hours. The worker is entitled to a rest of a minimum of 24 consecutive hours per week. Rest days for holidays are established by law.

SOCIAL SECURITY AND ENTITLEMENTS

Workers are entitled to:

- Social health insurance coverage (ESSALUD) – the employer contributes to ESSALUD at a rate equivalent to 9% of the worker's income
- Affiliation with the National Pension System (NPS) or the Private Pension System (PPS) – in the first instance, a worker contributes 13% of their wage; in the second, approximately 8% to the chosen pension fund private manager
- Life insurance – this is provided by the employer once the worker has a continuous four-year labour period
- Compensation for arbitrary discharge – the amount paid totals one-and-a-half times the remuneration for each year worked, totaling up to 12 remunerations
- Severance payment (CTS) – these are considered a social benefit as provision for contingencies derived from a work stoppage. Severance payment is made twice a year, in May and November
- Vacation period – 30 days for each full year worked

- Bonus – two annual bonuses in July and December, equivalent to one monthly wage for each bonus
- Company profit sharing – ranges from 5-10% of a company's net income, according to the economic activity in which the company is engaged (companies with no more than 20 workers are not compelled to share profits among their workers).
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LABOUR BENEFITS IN PERU COMPARED WITH LATIN AMERICA

ITEM	PERU	LATIN AMERICA
Vacations	30 days	Maximum 20 days in Uruguay 15 days average
Bonus	2 wages per year Compulsory, July-December	1 wage average In Chile, bonus is voluntary
Payment for time of service	1 wage per year Type of unemployment INS	This payment does not exist Unemployment insurance exists
Profit Sharing	Between 5–10% of net income, according to activities	Ecuador 15% Bolivia 1 wage Others, optional
Labour stability	Where a worker is unreasonably fired, he/she is to be returned to his/her job Compensation of 1.5 wages per years, maximum 12 wages	Except in Bolivia, which has recently regulated this subject, compensation is paid in other countries
Maternity leave	90 days. Twelve laws also protect motherhood and children	Venezuela and Chile grant 126 days for maternity leave In other countries, the average is 84 days
Negotiation by economic activity	Only in civil work. The General Labour Act applies this benefit to all the activities	The International Labour Organization does not recognize this subject. Negotiation by sector is voluntary

Source: Centro de Estudios Jurídicos y Legales, Chamber of Commerce of Lima.

6 – TAXATION

INCOME TAX

Income tax is an annual tax levied on all income earned by taxpayer's resident in country, regardless of the nationality of individuals, companies' place of incorporation, or location of the income source.

Non-resident taxpayers are subject to income tax only with respect to their Peruvian source income.

In the case of enterprises, income tax applies to any gains or profits derived from transactions with third parties, as well as from exposure to inflation calculated at the end of each fiscal year.

For purposes of this tax, taxable incomes are classified in the following categories:

- Income generated by leasing, subleasing or transfer of goods
- Income generated by other capital
- Income generated from business, trade, industries and other income as explicitly indicated by law
- Income generated by independent work
- Income generated by dependent work and other income from independent activities as explicitly indicated by law.

INCOME TAX RATES

CORPORATE RESIDENT TAXPAYERS

Tax to be paid by resident corporate bodies is determined by applying a 29.5% rate to their net income. In addition to this, they will pay 5% on every amount charged as expenditure that turns out to be actually an indirect disposal of profit not subject to subsequent tax control.

Corporates must pay in advance a percentage on the monthly income, which can be 1%, 1.5% or the result of dividing the Income Tax of the previous year among the income of that year ("coefficient"). This will be applied as credit against the annual Income Tax.

Entities are allowed to deduct expenses in order to generate or maintain the source of taxable income. Requirements or limitations apply to the deduction of certain expenses such as interest expenses (thin capitalization rules), bad debt provisions, intangible assets, salaries, vehicles, travel expenses, gifts, donations, penalties, operations entered into with tax havens or non-cooperating territories, etc.

Tax losses can be carried forward under one of these systems (i) against net income generated only within the following four fiscal years after the year in which the loss was incurred; or (ii) against 50% of the net income generated in the following fiscal years after the year in which the loss was generated.

Dividends and any other type of profit distribution paid by a resident entity to a non-resident entity will be subject to a 5% withholding tax. Distribution to another resident entity is not levied.

INDIVIDUAL RESIDENT TAXPAYERS

Tax to be paid by individuals is determined by applying to their total net annual income the following rates. This applies to incomes that come from lease or other type of transfer of movable or immovable property, shares or other transferable securities, and or work performed in a dependent or independent manner, provided that no business activity is carried out.

Income of first category: Generated by lease or other type of transfer of movable or immovable. The amount is 6.25% over the gross income (5% of net income). The deductions are 20%.

Income of second category: Generated by shares, other transferable securities, transferable securities, interest on placement of capital, royalties, patents, annuities, key rights or others. The amount is 6.25% over the gross income (5% of net income). The deductions are 20%.

Income of forth and fifth category: This tax applies when a work is performed in a dependent or independent manner. This income tax applies when the annual income of the individual is higher than 7UIT. The value of a UIT in 2024 is PEN 5.150. The rates are set on a cumulative and progressive scale for official established tax units (Unidad Impositiva Tributaria –UIT):

- Up to 5 UIT 27 = 8%
- For amounts in excess of UIT 5 and up to UIT 20 = 14%
- For amounts in excess of UIT 20 and up to UIT 35 = 17%
- For amounts in excess of UIT 35 and up to UIT 45 = 20%
- For amounts in excess of UIT 45 = 30%

Dividends and other profit distribution schemes as received from resident corporate bodies are subject to 5% withholding tax.

Shares received by individuals for concept of profit capitalization, reserves, primes, adjustments for change of business, revaluation surplus or any other equity account, shall neither be considered as dividends nor as other profit distribution schemes.

NON-RESIDENT TAXPAYERS (WITHHOLDING TAX)

Interest from external credits = 4.99%, provided they fulfil the following requirements:

- Cash loans shall be proven with the entry of currency to the country through the national financial system
- The credit shall not accrue an annual interest rate on balance due higher than the LIBOR, plus 7 points.
- The credit is granted by a foreign non-related company.

Interest derived from external credits that does not fulfil any of the requirements stated above, or that portion of income in excess of the maximum rate established under the second bullet point above = 30%

Interest paid abroad by multiple operation companies established in the country, resulting from the local use of their foreign lines of credit, even with related company = 4.99%.

Dividends and other profit distribution schemes as received from artificial persons = 5%. Shares received for concept of profit capitalization, reserves, primes, adjustments for change of business, revaluation surplus or any other equity account shall neither be considered as dividends nor as other profit distribution scheme.

Capital gains from direct or indirect transferring Peruvian stock or securities registered in the stock market exchange of Peru = 5% (exempt until 31.12.2019 when stock exchange relevance exists)

Royalties = 30%.

Technical assistance by means of activities of transferring knowledge or as engineering services, project development or finance consulting, utilized within Perú = 15%.

Digital Services by internet o similar, essentially automatic and impossible without IT, utilized within Peru = 30%.

International activities are levied with the following effective tax rates:

• Insurance	2.1%
• Lease of vessels	8%
• Lease of aircraft	6%
• Air transport	0.3%
• Maritime transport	0.6%
• Supply of containers	4.5%
• Demurrage of containers	24%
• Telecom services	1.5%
• International news services	3%
• Distribution of movies, records or similar	6%
• Broadcasting live foreign TV shows within Peru	6%

Other income = 30%

Individuals shall calculate their tax by applying a 30% rate to pension amounts or remuneration for personal services rendered in country, including royalties and other income.

SOME EXEMPTIONS

Any type of fixed or variable rate interest, in national or foreign currency, paid for deposits in the Financial System, except those perceived by businesses; or from bonds and debt papers issued by Peruvian Government.

Interests derived from development loans granted directly or through suppliers or financial agents by international institutions or foreign government organizations.

Interests received or paid by saving and credit cooperatives for operations made with their partners.

Direct or indirect alienation of stock embedded in Exchange Traded Funds (ETF) under Peruvian indexes, for the constitution, cancelation or management of the ETF.

INCOME OF FOREIGN CITIZENS ENTERING THE COUNTRY

Foreign citizens who carry out activities entailing generation of Peruvian source income during their stay in country shall give one of the following documents to the migration authorities at the time of leaving country:

- Income and Withholding Certificate (Form 1492) – this certificate is issued by the taxpayer, employer or the pertaining legal representative − It will be in force during 30 calendar days from the issuance date.
- Income and Withholding Certificate generated by SUNAT – On Line Operations: This is self-issued and signed by the taxpayer, employer or the pertaining legal representative. It will be automatically generated, and, once signed, it can be used by a foreign citizen. Many certificates could be printed, according to foreign citizens' number of voyages. It will be in force during 30 calendar days as from the day of submission through SUNAT.

The issuance of those certificates shall take into account the period between the date of the last certificate given to foreign citizen and the date of issuance of the new certificate.

Foreign citizens shall present a Sworn Statement in the following cases:

- When income tax has not been withheld because the taxpayer was a non-domiciled entity. For that purpose, foreign citizens shall submit Form Nº 1494, Sworn Statement of Direct Payment of Tax, as well as the corresponding voucher.
- When a foreign citizen enters the country with the visa of an artist, religious worker, student, independent or immigrant, and he carries out activities not entailing Peruvian source income, he shall submit Form Nº 1495, Sworn Statement of Making Activities not entailing Peruvian Source Income.

INCOME TAX ON AGRICULTURE

According to Law 27360, Corporate Income Tax is 15% for crops, breeding and agribusiness activity of agricultural products outside Lima. The forestry industry and the agribusiness of wheat, tobacco, oilseeds, oils and beer are not included. Annual depreciation rate for hydraulic and irrigation infrastructure works is 20%.

INCOME TAX IN THE AMAZON REGION

For income tax purposes, the Amazon Region comprises the departments of Loreto, Madre de Dios, Ucayali, Amazonas and San Martín, as well as some provinces in adjacent departments, as indicated in Law 27037.

The aforementioned law sets up a special regime for income tax under specific conditions, one of which is that the domicile of the taxpayer's home office, its registration in Public Records and his assets and/or production are located and carried out in the Amazon Region, in a percentage no less than 70% of his total assets or production.

A 5 or 10% rate shall be applied for Corporate Income Tax purposes by taxpayers located in the Amazon Region who are mainly devoted to economic activities such as: lumber extraction, farming, aquaculture, fishing, tourism as well as manufacturing activities related to processing, transformation and trading of primary products derived from the aforementioned activities, provided they are carried out in the region.

Taxpayers in the Amazon region who are mainly engaged in agricultural activities and/or transformation or processing of products qualified as native crops and/or alternate crops for that environment, are exempted from Corporate Income Tax. In the case of oil palm, coffee and cacao, the exemption shall be applicable only to the agricultural production. Transformation or processing companies for these products shall apply a 5 or 10% rate as Corporate Income Tax.

Companies devoted to trading activities in the Amazon Region that reinvest no less than 30% of their net income on investment project may apply a 5 or 10% rate for Corporate Income Tax purposes.

MINING TAXES

In addition to corporate income tax, there are mining royalties, special mining tax (IEM) and the special mining levy (GEM). These apply to the operating profit. Companies without Taxation Stability Agreement are taxed with royalties and the IEM and the progressive rates go from 1% to 12%. Companies with Taxation Stability Agreement are levied only with GEM which progressive rates are 4% to 13.2%.

OIL & GAS ROYALTIES

The Contractor will be obliged to pay a royalty to the State in return for the hydrocarbon extracted which is established and collected by PERUPETRO and it is differentiated by contract. Hydrocarbons at production controlled points will be valued based on a series of international prices. The Royalty is a percentage of the valuation calculated and determined in the manner established in the contract, according to a methodology legally established.

TAXATION STABILITY

The state may guarantee taxation stability for contract holders by entering into law agreements with them.

There is a regime of judicial stability of a general nature, which includes the income tax system and to which both national and international investors may have access as well as those companies receiving their investments provided they comply with minimum requirements for investment.

In order to promote development of productive investments, there are also promotion regimes at sector level such as those existing for mining and hydrocarbons.

AGREEMENTS TO PREVENT DOUBLE TAXATION

In order to solve problems derived from international double tax burden, Peru has signed a double tax treat with Chile, Canada, Brazil, United States of Mexico, Korean Republic, Switzerland and Portugal. Additional tax treat with Japan is about to be signed.

These treats are regarding double taxation on income tax under the Organization for Economic Co-operation and Development (OECD) model.

Other kind of agreement under different rules to avoid double taxation has been arranged with the countries within the Andean Community (Colombia, Ecuador, Bolivia y Perú).

INTERNATIONAL TAXATION

Several provisions have been introduced in the law governing income tax with the aim of regulating the application of transfer prices as well as operations through fiscal havens.

For tax purposes, transactions between related parties or those entered into with tax havens or non-cooperating territories, will be deemed at the Fair Market Value. This is the value agreed with independent parties in similar transactions. A supporting transfer pricing study and reports to Tax Administration would be necessary.

VALUE ADDED TAX

The Value Added Tax (VAT) levies the added value in each transaction carried out at different stages of the economic cycle, based on a debit and credit scheme.

VAT works as follows: the VAT paid for all purchases of goods and services is deducted ('tax credit') from the gross income VAT calculated for each taxpayer, so that only the balance between these two amounts is paid to the State.

LEVIED OPERATIONS

This tax is applied to consumption of goods and services affected as follows:

- Local sale of goods.
- The rendering or use of services within Perú.
- Construction contracts.
- The first sale of real estate carried out by its constructors.
- The import of goods.

RATE

The total VAT rate is 18%.

NON-AFFECTED AND EXEMPTED ITEMS

Non-affected items are:

- Export of goods and services.
- Transfer of goods resulting from the corporate reorganization.
- Transfer of second-hand goods made by individuals or corporate bodies that do not engage in business activities.

- Transfer or import of goods for social assistance, public, health, education, sports or culture purposes.
- Import of goods for personal use and household items
- Leasing of real estate levied with individual income tax.
- Certain commissions and international transportation tickets.
- Financial income of certain financial entities or from securities issued under public or private offer or transferred in the stock exchange.
- Certain transactions between the parties in consortia, joint ventures and other forms of cooperation agreements that do not carry independent bookkeeping.
- Gambling and betting.
- Taxpayers located in the Amazon region when performing the following operations:
  - Sale of goods affected in the region for consumption therein
  - Services rendered in the region, and
  - Construction contracts or the first sale of real estate made by its constructors.
- Companies located in the departments of Loreto, Ucayali and Madre of Dios for sales made in these departments and for consumption therein.

Taxpayers must apply VAT to all operations not falling under the above conditions and pursuant to the general rules for this tax.

EXEMPTIONS

Exemptions are:

- Sale or import of goods set on Annex I of the VAT Law (certain animals, fruits, vegetables, agriculture supplies, gold and vehicles)
- Services of the Annex II of the VAT Law (certain public or cargo transportation services, live cultural shows, etc.)
- Companies located on Border Zones (Tacna and Puno)
- Companies incorporated or established in the Special Development Zones of Ilo, Matarani, Paita, Tumbes and Loreto.

ADVANCED VAT RECOVERY REGIME

GENERAL REGIME

This regime consists in the return of VAT paid in imports and/or local purchase of capital goods carried out by individuals or corporate bodies locally engaged in production of goods and services intended for export or which sale is levied with the VAT and who have not yet started their commercial activities.

SPECIAL REGIME OF ANTICIPATED RECOVERY OF VAT

Legislative Decree N. – 973 establishes that a Special Regime of Anticipated Recovery of Value Added Tax (VAT) is applied to investments of any economic sector that generates corporate income tax. This regime consists of the return of VAT paid in imports and/or local purchase of new capital goods, new intermediate goods, services and construction contracts, carried out in the pre-operative stage to be used by the beneficiaries of this regime directly <u>for the execution of the projects planned in the Investment Contracts destined to operations burdened with the VAT or for export</u>.

This regime relates to individuals or corporate bodies investing in any economic activity from business and corporations and that fulfil the following requirements:

- Submit the project to ProInversión to invest in public infrastructure works and utilities for at least 2 years and a minimum amount of USD 5 million as total investment including the preoperative stage. This amount does not include VAT payment
- Award of the Ministry Resolution of the pertaining sector that entitles to 'enjoy the regime'
- To be in the pre-operative stage of the public infrastructure work and public utility matter of the pertaining Investment Contract.

VAT REFUND

This regime, as set on Law 28754, consists of the refund of the tax that has been transferred or paid in the import and/or acquisition operations of local intermediate goods, capital goods, services and construction contracts during the pre-operative stage of the public infrastructure works and utilities, provided that these goods or services have been destined to operations not burdened with VAT and be directly used in the execution of the investment projects in infrastructure works and public utilities. The requirements to enjoy the regimen are similar to those set in the previous special regimen.

CREDIT IN FAVOUR OF EXPORTERS

Exporters are entitled to request return of VAT that may have been paid on the purchase of goods or services used in manufacturing of exported goods. In this regard, a procedure similar to drawback is used as explained below.

EXCISE TAX

The consumption selective tax levies the local sale at manufacturer level and the import of goods such as cigarettes, alcoholic beverages, soft drinks, mineral water, other luxury items, fuels, casino, slot machines and games of chance.

Tax rates range from 0–300%, according to the type of goods or service.

Payment of fixed amounts is considered in some cases according to the levied product or service.

Some exemptions to the Consumption Selective Tax are detailed below:

- Companies located in the departments of Loreto, Ucayali and Madre of Dios for sales made in said departments for consumption therein
- Companies incorporated or established in Special Development Zones of Ilo, Matarani, PaitaTumbes and Loreto.

TAX ON CASINOS AND SLOT MACHINES

The tax on casinos and slot machines burdens the operation of these games and is a monthly tax.

The aliquot is 12% of the taxable base.

The taxable base is the result of the difference between the monthly net income and the expenses for maintenance of the slot machines and casino facilities. The monthly net income is the result of the difference between the total amount received by bets or money destined to gambling and the total amount delivered by the prizes granted in the same month.

To fix a taxable base, a 2% of the monthly net income is considered for the expenses of maintenance of slot machines and casino facilities. For that purpose, a reserve for that item should be made. If, within one month, the amount of prizes exceeds the amount of income received, the balance will be deducted from the income of the next months, up to the full payment.

The taxable base is fixed independently for each activity and each establishment. Tax on casino gambling and slot machines will be deducted to determine the income of third category class.

CUSTOMS DUTIES

Customs duties levy the import to country of foreign goods and are calculated on the import CIF value (CIF Ad Valorem Duties).

The tariff structure includes five levels with rates at 0%, 4%, 6% and 11%, and incorporates items totaling 7,802.

PERU CUSTOMS DUTY TARIFF STRUCTURE

Advalorem Level	Sub Headings	
	Number	Proportion (%)
0	5,497	70.45%
4%	2	0.03%
6%	1,621	20.78%
11%	682	8.74%
Total	7,802	100 %

TARIFF IMPROVEMENT REGIMES

TEMPORARY ENTRY REGIME

This regime involves the suspension of tariffs and every type of taxes applicable to the import of goods intended for 'active improvement' for subsequent export.

It is called 'active improvement': the physical and/or chemical transformation applied to raw materials, materials, ingredients, intermediate products and, in general, all kinds of goods, with the purpose of manufacturing or transforming a good; the assembly of two or more goods and the operations undergone by packages, package materials and package linings of goods to be exported; goods to be repaired, restored or conditioned; all of which shall be actually contained in goods to be exported .

Goods to be imported shall be devoted to operations and/or processes of 'active improvement'.

The requesting company must be formally incorporated in the country and registered in the sector registries corresponding to its economic activity.

The regime duration is 24 months and requires a guarantee for suspended tariffs and taxes.

DRAWBACK OR TARIFF REFUND

This Customs Regime allows, as a result of export of goods, for total or partial refund of tariffs that may have been paid to import goods contained in exported goods or consumed during their production.

The refund rate amounts to 3% of the FOB export value up to the first annual USD 20 million by tariff item or by non-related exporting company and up to the 50% of the production cost. That amount can be modified by the Ministry of Economy and Finance.

Exporting companies that have imported through third parties the materials included or consumed in the manufacture of the exported good, as well as goods manufactured with imported consumables or raw materials purchased from local suppliers, pursuant to legal provisions on the matter, may benefit from this regime.

The Ministry of Economy and Finance annually approves the list of goods excluded from this benefit.

REPLACEMENT OF GOODS

This is the regime under which goods are imported with automatic tariff exemption and all other taxes levied on imports, which are equivalent to those that were imported and transformed in a final product for export.

The term to enjoy this benefit is one year after having imported the goods to be replaced.

EXCHANGE REGIME

The State guarantees the free availability, use and disposal of foreign currency by individuals and corporate bodies resident in Peru. Likewise, the State guarantees free convertibility of foreign currency at a unique exchange rate.

FREE COMPETITION AND PROTECTION OF INTELLECTUAL PROPERTY

The State facilitates and supervises free competition, fights any limiting practice, regulates the exercise of dominance in the market, and protects intellectual property.

The National Institute of Protection of Intellectual Property (INDECOPI) is the agency in charge of enforcing legal provisions on the defense of competition and protecting market from monopolistic practices, which may control and restrict competition in the production and commercialization of goods and rendering services, as well as practices that may generate illegal competition and those affecting market agents and consumers.

INDECOPI also controls and punishes application of dumping and subsidies practices; defends consumers' rights, looks after the fulfilment of regulations that punish practices against commercial good faith, defends regulations on free trade and controls provisions establishing non-tariff restrictions. It also revises actions and provisions of public administration entities, included within municipal or regional scope, which may impose bureaucratic obstacles impeding or hindering, unlawfully or irrationally, the access or permanence of economic market agents.

In addition, INDECOPI shall protect intellectual property rights, under any expression, and shall act as a registration office of intellectual property.

7 – ACCOUNTING & REPORTING

NIC are technical specifications adopted by the accounting profession to register transactions and financial statement formulations, which are approved by the Accounting Regulating Committee.

The overall application of NIC makes financial statements more significant and reliable as tools for decision-making.

Accounting principles generally accepted in Peru include the international financial reporting standards (IFRS) officially issued through resolutions issued by the Accounting Standards Board. The IFRS incorporates the international accounting standards (IAS) and the pronouncements of the Interpretations Committee (SIC). At the date of the Financial Accounting Standards, the mandatory application of IFRSs has been formalized from 1 to 5 of IAS SP from 1 to 21 and 13 SIC (like 7, 10, 12, 13, 15, 19, 21, 25, 27, 29, 30, 31 and 32). The following is a summary of accounting practices and the main situations that can affect the formulation of financial statements in Peru.

VOLUNTARY APPRECIATION

VOLUNTARY APPRECIATION OF ASSETS DUE TO MERGER OR REORGANISATION The legal ruling allows for the appreciation of assets of companies that have been absorbed. As there is no definition of this, it is considered that assets subject to appreciation are non-monetary ones, such as inventories, investments and fixed assets. Appreciation incorporated by a merger in the absorbing company is not valid for taxing purposes, except in the case that the resulting IR is paid.

VOLUNTARY APPRECIATION OF FIXED ASSETS (OUTSIDE THE SCOPE OF A MERGER OR REORGANISATION)

In this case, the registry of voluntary appreciation of fixed assets must comply with the following conditions:

- Existence of a clear sub-appreciation of assets
- Appreciation is based on appraisals carried out by independent accountants qualified in Peru with professional experience in this type of work
- The reasonable assurance of future recovery of appreciated assets must be taken into account i.e. when annual depreciation charges can be absorbed by incomes generated by the entity
- The effect of voluntary appreciation outside the scope of a merger or reorganization is not valid for taxing purposes. Consequently, all its effects must be withdrawn for the corresponding tax assessment.

ACCOUNTING PRACTICES

FINANCIAL STATEMENTS CONSOLIDATION

The purpose of the preparation of consolidated financial statements is to know the financial situation, results of operations and cash flows of a group of companies

economically linked as one company. It is assumed that consolidated information is more useful in decision-making.
In this regard, CONASEV issued order no 103-99-FF/94.10, in which it points out that the parent company of economically linked companies is bound to submit duly audited consolidated financial statements with its subsidiaries. In addition, if any of the companies of the group is registered with the Lima Stock Exchange, the parent company must submit non-audited quarterly consolidated financial information.

It is worth noting that according to effective IR laws it is not allowed to assess tax in a consolidated way – therefore companies make this assessment individually.

BUSINESS MERGERS

The accounting treatment of business mergers is ruled by NIC 22 and aimed mainly at registering company acquisitions or company mergers in which the buyer cannot be identified.

The methods for the accounting treatment of business mergers are:

- The buying method
- The interest merger method.

CONSTRUCTION AGREEMENTS

NIC 11 regulates the journalisation of construction agreements for the formulation of construction companies' financial statements.

This regulation includes detailed guidelines in reference to the determination of the agreement's income components and costs, as well as aspects in reference to amendments to the labour agreement, contractor's complaints and payment of incentives.

However, it also requests the acknowledgement of income and costs by applying the work progress percentage method. When the agreement results can be reliably estimated, income and costs must be acknowledged with reference to the work progress percentage method, to balance date.

In those cases, in which the agreement results cannot be reliably estimated, incomes must be acknowledged only to the extent of costs incurred which can be recovered. In this case, costs must be acknowledged in results of the period incurred.

In those cases, where it is possible that the total agreement costs exceed the total income of the same, the known expected loss must be acknowledged in the results.
According to the effective tax laws, the IR is determined based on results of each of the completed works, i.e. based on the finished contract method.

JOURNALISATION OF INCOME TAX

The IR reserve is estimated according to legal requirements established by taxing authorities. In many circumstances, these rules differ from accounting policies applied in determining financial profit. Temporary differences between IR rules and accounting policies are registered according to NIC 12.

FINANCIAL LEASING AGREEMENTS

According to what is established by NIC 17, financial leasing agreements must be shown in the lessee's general balance through the registration of a good (asset) and an obligation (liability) of equal amounts at the beginning of the agreement. This registration must be made to the reasonable value of the good received in leasing, net subsidies and tax loans received by the lessee; or, if less, to the current value of minimum leasing payments.

INVESTMENTS

Companies that distinguish between current and non-current assets in their financial statements must classify their investments (with the exception of investments in associations or subsidiaries) in these categories depending on the purpose for which said investments were acquired.

Investments classified as current must be shown either at market value or at the lower value between cost and market value. If current investments are shown at the lower value between cost and market value, the balance could be determined based on the portfolio, either global or by investment category, or based on individual investments.

Investments classified as non-current must be registered in the general balance at:
Cost

- Appreciated sums
- In the case of negotiable share certificates, at the lower value between cost and market value, established based on the entire portfolio.

A long-term investment balance must be reduced to acknowledge non-temporary decreases in its value. The reduction shall be established and carried out individually for each investment.

In addition, NIC 40, Real Estate Investments, effective in Peru since 1 January 2002, establishes rules for the acknowledgement, gauging and dissemination of information on real estate investments.

JOINT VENTURES

Joint ventures adopt different forms and structures. The following are the most common: jointly controlled operations; jointly controlled assets; and jointly controlled entities. These three types of ventures have the following common characteristics: two or more partners are joined by a contractual arrangement; and the contractual arrangement establishes a joint control. The accounting acknowledgement is regulated by NIC 31.

INFORMATION ON SEGMENTS

Companies that quote their assets and other important economic entities must describe activities by significant industrial segments, and indicate the composition of each significant geographic segment in which they operate according to what is established by NIC 14.

ACCOUNTING TREATMENT OF INVESTMENTS IN JOINT VENTURE COMPANIES

According to NIC 28, the investor can register the investment in joint ventures using the following methods:

- Capita participation method – a method through which the investment is initially registered as cost and is later adjusted to changes subsequent to their acquisition in the investor's share in the company's equity invested in. The statement of results shows the investor's share in the joint venture's operations results
- Cost method – a method by which the investment is registered as cost. The statement of results shows the investment profit only for the amount of accrued net profit distributions the investor receives from the company in which he invests, originated after acquisition date.

Surplus distributions received from those profits are considered as an investment recovery and are registered as a reduction of the investment cost according to NIC 25. If an investor has 20% or more of voting powers of the company in which they invest, directly or indirectly through subsidiaries, it is assumed they have an important influence, unless they can clearly prove this is not the case.

Investments in a joint venture must be registered in financial statements consolidated by the capital participation method, except when a) the investment is acquired and maintained exclusively with the intention of selling it in the near future; and b) the investment operates under long-term severe restrictions that considerably affect its capacity to transfer funds to the investor; the cost method must be used in these cases.

A joint venture investment is journalized by using the capital participation method from the date the company obtains the joint venture definition. When an investment is acquired, any difference between the acquisition cost and the investor's share in the reasonable values of identifiable net assets is journalized according to NIC 22, 'Accounting treatment of business combinations'.

INTER-COMPANY TRANSACTIONS

NIC 24 requires that the existing relationship between the related parties in which a link is shown must be explained, even in the case that no operations have been carried out between them. In the case that there have been operations, the informing company must explain the nature of the relationship of the related parties as well as the type of operations and the necessary elements for a better understanding of the financial statements.

FINANCIAL INSTRUMENTS

At present, financial instruments constitute basic tools for tasks carried out by the board of directors, management and auditing committees of companies and are frequently the center of attention of shareholders' meetings. Management and supervision of these instruments go beyond the accounting issue and, in many cases, have an important repercussion in company funds' future flows.

Financial instruments used in Peru are mostly bonds in all their modalities (convertibles, subordinates, financial leasing etc.), financial futures agreements and forward agreements, among others.
Accounting disclosure and treatment of these operations in financial statements is established in NIC 32, 'Financial instruments'. These standards establish certain requirements for the submission of financial statements and identify the information that must be disclosed on acknowledged (journalized) and non-acknowledged (non-journalized) instruments in financial statements.

Submission requirements refer to classification of financial instruments in liabilities and equity, acknowledgement of interests, dividends, related profit and loss, and circumstances in which financial assets and liabilities must be compensated. The information to be disclosed refers to factors that affect the amount, opportunity and certainty of future fund movements of a company in relation to its financial instruments and accounting policies applied to the same.

Likewise, this standard recommends the disclosure of information on the nature and scope of the use of a company's financial instruments, business objectives and associated risks (prices, loans, liquidity or cash flow), as well as management policies to control them. In addition, NIC 39, 'Financial instruments: acknowledgement and gauging', establishes rules for the acknowledgement, gauging and disclosure of information on financial assets and liabilities owned by companies, including accounting of coverage operations. In Peru, NIC 39 was obligatorily applied from 1 January 2003.

SHARE PROFITS

The application of NIC 33, which establishes guidelines for the disclosure of share profits, was approved in Peru in September in September 1997 and has been effective since 1 January 1998. The basic purpose of this standard is to disseminate principles for the determining and submission of share profits applicable to all companies whose shares remain in a security market or are in the process of issuing shares to be quoted in a security market, and for those companies that without quoting shares wish to disclose their share profits. This submission allows making comparisons of the profit per share of different companies in an established period of time or of the same company during various fiscal years.

To determine profit shares, it must be taken into account whether net profits will be divided among ordinary shares, or whether the effects of any potential share dilution will be taken into account.

For comparative purposes, share profits must be submitted according to the type of share and, equally, from one period to the other.

8 – UHY REPRESENTATION IN PERU

UHY BLANCAS SANDOVAL & ASOCIADOS, SAC
PERU

UHY

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SOCIAL MEDIA CONNECTIONS

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- LinkedIn: https://www.linkedin.com/company/blancas-sandoval-&-associates-pa/mycompany/
- Twitter: https://twitter.com/casandovalMBA
- YouTube: https://www.youtube.com/channel/UCIT6aWudXYR5poGRquFw_wQ/featured

Year established:	2012
Number of partners:	3
Total staff:	30

ABOUT US

Experience makes the difference.

BRIEF DESCRIPTION OF FIRM

UHY Blancas Sandoval & Asociados starts activities in South Florida, USA in 2012 and operates in Peru since 2014. Member of Urban Hacker Young - UHY International, an independent network of audit firms and consultants No 15 in the ranking of the largest in the world. Leaders in business consulting, providing high quality accounting, financial auditing, legal, corporate finance and general business services.

SERVICE AREAS

Accounting
Auditing
Corporate Finance
Corporate Services
Management consulting
Accounting Outsourcing
Tax planning and compliance

SPECIALIST SERVICE AREAS

Tax
Audit
BPO for mining companies

The network for doing business

UHY BLANCAS SANDOVAL & ASOCIADOS, SAC
PERU

UHY

PRINCIPAL OPERATING SECTORS

Banking & financial services
Construction & real estate
Distribution & franchising
Education
Health sciences & care
Mining
Not-for-profit organisations
Pharmaceuticals & biotech

LANGUAGES

Spanish, English

CURRENT PRINCIPAL CLIENTS

INHISA
MARKEN
MEGA
OLMIX GROUP
PACIFIC CORPORATE SUSTAINABILITY LATAM
Shire - Takeda

OTHER COUNTRIES IN UHY CURRENTLY WORKING WITH, OR HAVE WORKED WITH IN THE PAST

USA
Peru
Ecuador

BRIEF HISTORY OF FIRM

Firm launched in South Florida and operating in Peru since 2012, to offer small and medium-sized companies consulting services in accounting, taxes and business consulting. We help entrepreneurs by providing personalized support so that they continue to grow, in addition to improving their operational efficiency and profitability, as well as financial and international tax planning.

Member of Urban Hacker Young – UHY International, the world's largest independent auditing firm and leaders in business consulting, with teams that operate in more than 8,600 professionals, in 320 offices distributed worldwide in 92 countries and ranking 20th among accounting and financial auditing firms in the world.

The network for doing business

LET US HELP YOU ACHIEVE FURTHER BUSINESS SUCCESS

To find out how UHY can assist your business, contact any of our member firms. You can visit us online at www.uhy.com to find contact details for all of our offices, or email us at info@uhy.com for further information.

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