

Doing Business in Venezuela





Preface

This guide has been prepared by Baker Tilly Venezuela, an independent member of Baker Tilly International. It is designed to provide information on a number of subjects important to those considering investing or doing business in Venezuela.

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This guide is one of a series of country profiles compiled for use by Baker Tilly International member firms' clients and professional staff. Copies may be downloaded from www.bakertillyinternational.com.

Doing Business in Venezuela has been designed for the information of readers. Whilst every effort has been made to ensure accuracy, information contained in this guide may not be comprehensive and recipients should not act upon it without seeking professional advice. Facts and figures as presented are correct at the time of writing.

Up-to-date advice and general assistance on Venezuelan matters can be obtained from Baker Tilly Venezuela, contact details can be found at the end of this guide.

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1 Fact Sheet

Facts and figures as presented in sections 1 through 4 are correct as at 8 January 2015.

Geography

Location:	Northern South America
Area:	912,050km ²
Land boundaries:	Brazil, Colombia, and Guyana
Coastline:	Caribbean Sea and North Atlantic Ocean
Climate:	Tropical, hot and humid; more temperate in the highlands
Terrain:	Andes Mountains and Maracaibo Lowlands in the northwest, central plains, and Guiana Highlands in the southeast
Time zone:	GMT -4:30

People

Population:	30.405 million (2013 estimate)
Religion:	Roman Catholic 96%, Protestant 2%, other 2%
Language:	Spanish is the official language

Government

Country name:	Bolivarian Republic of Venezuela
Government type:	Federal republic
Capital:	Caracas
Administrative divisions:	23 states, one capital district and one federal dependency (made up of 72 individual islands)

Political situation

The unicameral National Assembly has 165 seats. The Head of State and the Head of Government is the President, who is elected by popular vote for a six-year term.

Economy

GDP – per capita:	US\$14,415 (2013)
GDP – real growth rate:	1.3% (2013)
Labour force:	14,144,292 (2013)
Unemployment:	5.9% (December 2014)
Currency (code):	Venezuelan bolivar fuerte (VEF)



2 Business Entities and Accounting

The main company forms in Venezuela are the limited liability company and the corporation. Other business forms include partnerships and branches.

2.1 Companies

2.1.1 Limited liability companies

In a limited liability company (*sociedad de responsabilidad limitada*), the liability of members is generally limited to their capital contribution. The company's capital may not be represented by shares or negotiable instruments.

Limited liability companies are administered by the annual general meeting, and are generally managed by one or more managers. Limited liability companies may also appoint one or more commissioners to inspect and oversee the operations of the company. If a commissioner is not appointed, the functions of the commissioner are carried out by the members that are not also managers of the company. A commissioner must be appointed if the company's share capital exceeds set limits.

2.1.2 Corporations

In a corporation (*sociedad anónima*), the liability of shareholders is generally limited to their share capital contribution. Corporations may offer their shares to the public if certain conditions are met.

Corporations are administered by the annual general meeting, and are generally managed by one or more managers. Corporations are also required to appoint one or more commissioners to inspect and oversee the operations of the company.

2.1.3 Company names and registration

The name of a limited liability company or corporation must include the company's legal form or relevant abbreviation.

Limited liability companies and corporations must be registered in the Commercial Register.

2.2 Partnerships

The partnership types available in Venezuela include the general partnership, the limited partnership, and the partnership limited by shares. All partnership types are generally required to be registered in the Commercial Register.

2.2.1 General partnerships

A general partnership (*sociedad en nombre colectivo*) may be formed by partners that have unlimited joint and several liability for the debts and obligations of the partnership.

2.2.2 Limited partnerships

A limited partnership (*sociedad en comandita simple*) is formed by general and limited partners. General partners have unlimited liability for the debts and obligations of the partnership (jointly and severally if there are two or more general partners). The liability of limited partners is generally limited to their contribution. Limited partners may not manage the partnership, or undertake administrative acts on behalf of the partnership; if they do so, they become liable for the debts and obligations of the partnership as if they were general partners.

2.2.3 Partnerships limited by shares

A partnership limited by shares (*comandita por acciones*), is similar to a limited partnership in terms of the partners, but the capital of the partnership is divided into shares.

2.3 Branches

Foreign companies may generally conduct business activities in Venezuela through a branch. A representative in Venezuela with full powers (generally) must be appointed.

Branches must be registered in the Commercial Register.

2.4 Joint Ventures

A joint venture in Venezuela may be formed where one party gives one or more other parties a share in the profits or losses of one or more operations, or all of their trade. A joint venture agreement is not subject to the requirements applicable to companies, but should be concluded in writing. A joint venture is not a separate legal entity.

2.5 Audit and Accounting Requirements

Companies are required to prepare annual financial statements, including the balance sheet and profit and loss account.

Companies are generally required to prepare their financial statements in accordance with the International Financial Reporting Standards (IFRS) as adopted by Venezuela with modifications. Small companies (as defined) are generally required to prepare their financial statements in accordance with the IFRS for SMEs. Small companies in certain industries (such as oil and mining) must use full IFRS as adopted by Venezuela with modifications.

Traders are generally required to keep accounting records in the Castilian (Spanish) language.

Accounting books and other records must generally be kept for a period of 10 years.

2.6 Filing Requirements

Annual financial statements, and the commissioners report (where required), must generally be submitted to the Commercial Court or Registrar of Companies within 10 days of approval.

3 Finance and Investment

3.1 Exchange Control

Foreign exchange controls exist. Foreign exchange transactions must generally be completed through the National Centre for Foreign Trade (*Centro Nacional de Comercio Exterior* (CENCOEX)), the Ancillary Foreign Currency Administration System (*Sistema Complementario para la Adquisición de Divisas* (SICAD)), SICAD II, or via securities' transactions.

Anti-money laundering legislation requires regulated parties, including banks and other financial institutions, insurance companies, and casinos, to report suspicious transactions to the National Financial Intelligence Unit (*Unidad Nacional de Inteligencia Financiera* (UNIF)).

3.2 Banking and Sources of Finance

The Central Bank of Venezuela (*Banco Central de Venezuela* (CBV)) is responsible for (amongst others) price stability, monetary policy, the management of international currency reserves, payment systems, and regulation of the foreign exchange market.

Commercial banks operating in Venezuela provide the majority of financial services.

There are generally no restrictions on foreigners opening bank accounts in Venezuela; certain documentation and a minimum deposit may be required.

The Caracas Stock Exchange (*Bolsa de Valores de Caracas* (BVC)) provides a marketplace for listing and exchanging securities.

Private equity and venture capital investors provide investment in Venezuela.

3.3 Investment Incentives and Restrictions

For business related incentives, see 5.7.

There are generally no restrictions on foreign business investment in Venezuela; however restrictions may apply to certain sectors and services, including the hydrocarbon sector, certain media services, and certain professional services regulated by legislation.

4 Employment Regulations

For employment tax considerations, see 5.3.

4.1 General Employment Matters

4.1.1 National employment standards

Legislation provides minimum rights and conditions of employment in Venezuela (certain exclusions apply), including maximum daily and weekly working hours, rest periods, paid holiday entitlement, year-end bonus entitlement, and maternity and paternity leave rights.

A contract of employment may be concluded orally or in writing (preferred). There must be two copies of a contract of employment concluded in writing (one for each party), which must include:

- Name, address, nationality, age, and marital status of the parties
- Job title or position, and a description of the services to be provided
- Start date of the employment relationship
- A statement that the contract is for an indefinite period, for a fixed term (and its duration), or for particular work (and the work to be undertaken)
- Regular daily working hours
- Salary (or how it is to be calculated) and other benefits, and when and how these are paid
- Place of work
- Any applicable collective agreements
- Place where the contract was concluded
- Other lawful provisions agreed by the parties, and
- Any other terms established by legislation.

Where an employer has 10 or more employees, at least 90% of employees must generally be Venezuelan; temporary derogations from this requirement are available in certain circumstances.

A contract of employment may be terminated by dismissal, retirement, agreement between the parties, or circumstances outside the control of both parties. A termination by dismissal must be for justified reasons. Justifiable reasons under which an employer may terminate a contract of employment include circumstances relating to the employee, including (amongst others) lack of integrity or immoral conduct at work, or intentional or gross negligence relating to health and safety at work. Justifiable reasons under which an employee may terminate a contract of employment include (amongst others) a reduction in wages, or workplace harassment. The notice period required for terminating a contract of employment depends on the employee's length of employment. Payment of wages may be provided in lieu of notice. A contract of employment may be terminated without notice in certain circumstances.

The standard monthly minimum wage from 1 December 2014 is VEF4,889.11.

4.1.2 Pensions and other benefits

Social security contributions (see 5.3.2) provide (amongst others) pensions, and benefits in respect of maternity, disability, accident, illness, and unemployment.

4.2 Visas

Citizens of certain countries do not generally require a visa for short-term visits to Venezuela. Citizens of other countries generally require a visa.

Visas available for entry into Venezuela include:

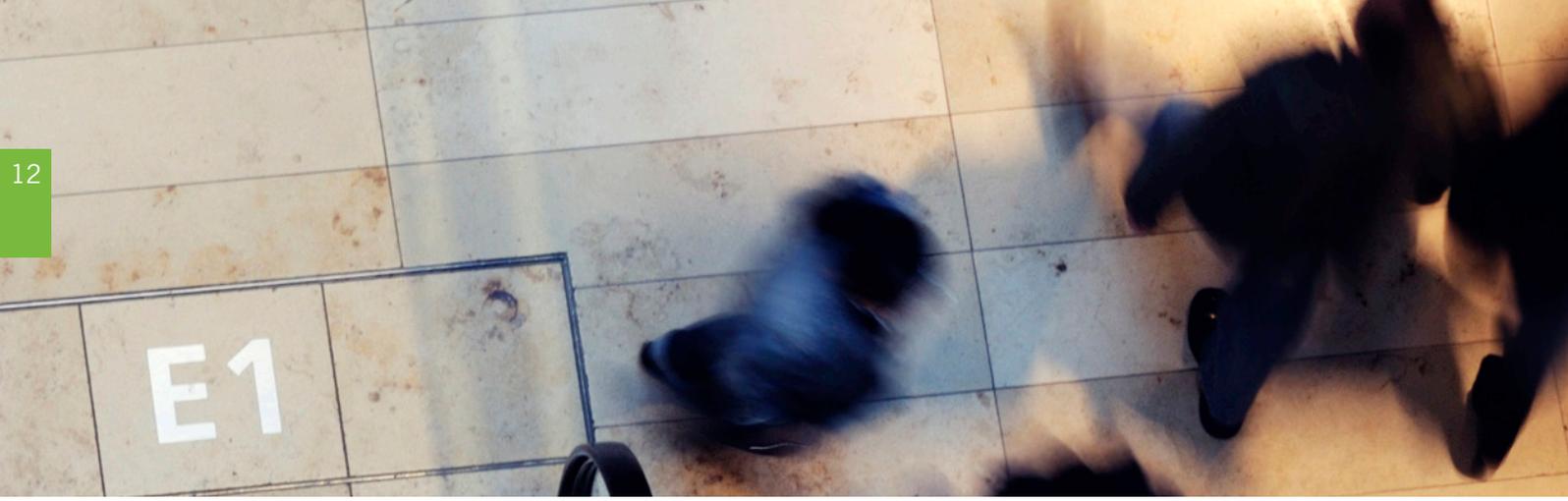
- Tourist visa (T)
- Transit visa (VT), and
- Visas for business (TR-N), investors (TR-I), entrepreneurs/industrial (TR-EI), family (TR-F or TR-FV), students (TR-E) etc.

For further information on Venezuelan visa requirements, visit www.mppre.gob.ve.

There are generally no restrictions on foreigners purchasing real property in Venezuela.

4.3 Trade Unions

Employees may form and join trade unions, and collective bargaining is permitted.



5 Taxation

Facts and figures as presented in section 5 are correct as at 8 January 2015.

5.1 Corporate Income Taxes

Resident companies, which are companies incorporated or domiciled in Venezuela, are generally subject to tax on their worldwide income.

Non-resident companies are generally subject to tax on their Venezuelan source income, subject to the terms of any relevant tax treaty.

Corporate income tax rate is generally levied at progressive rates based on tax units (*unidades tributarias* (UT)) as follows:

Taxable Income (UT)	Rate (%)
Up to 2,000	15
Over 2,000 – 3,000	22
Over 3,000	34

For 2014, one tax unit is equal to VEF127. The tax unit rate for 2015 has not yet been confirmed.

Certain types of income, such as income from hydrocarbon activities, are subject to tax at alternative rates.

Taxable income must generally include any taxable capital gains. Income from the sale of shares listed on the Caracas Stock Exchange is generally subject to tax at the rate of 1%.

Unutilised losses can generally be carried forward for up to three years, subject to an annual maximum deduction of 25% of taxable profit. Net inflation losses cannot be carried forward. Before 1 January 2015, net inflation losses could generally be carried forward for one year. Losses cannot be carried back.

Group tax consolidation is not available in Venezuela; consequently losses cannot be offset against the profits of another company in the same group.

The tax year is the calendar year. Companies may generally apply to use an alternative accounting period.

Tax returns are generally due for filing within three months following the tax year end.

Companies whose taxable income in the previous year exceeded 1,500 tax units (1,000 tax units for certain taxpayers) are generally required to make advance payments of corporate income tax based on 80% of the preceding year's tax liability. Any remaining corporate income tax due is generally payable within three months following the tax year end.

5.2 Personal Taxes

Individuals that are resident or domiciled in Venezuela are generally subject to income tax on their worldwide income.

Individuals that are not resident or domiciled in Venezuela are generally subject to income tax on their Venezuelan source income, subject to the terms of any relevant tax treaty.

Resident individuals are subject to tax on taxable income at progressive rates based on tax units (UT) as follows:

Taxable Income (UT)	Rate (%)
Up to 1,000	6
Over 1,000 – 1,500	9
Over 1,500 – 2,000	12
Over 2,000 – 2,500	16
Over 2,500 – 3,000	20
Over 3,000 – 4,000	24
Over 4,000 – 6,000	29
Over 6,000	34

Non-resident individuals are generally subject to tax on taxable income at the rate of 34%.

Taxable income must generally include any taxable capital gains. Income from the sale of shares listed on the Caracas Stock Exchange is generally subject to tax at the rate of 1%.

Inheritance and gift taxes are generally levied at progressive rates of up to 55%, subject to exemptions.

There is no wealth tax.

5.3 Employment Related Costs and Taxes

5.3.1 Fringe benefits

There is no separate fringe benefits tax. Unless specifically exempt, taxable benefits-in-kind form part of the taxable income of individuals and are subject to personal income tax.

5.3.2 Social security costs

Employers and employees are generally required to make the following social security contributions (subject to possible salary ceilings):

Contribution Category	Employer Rate	Employee Rate
Social security	9%, 10%, or 11%, depending on risk categorisation	4%
Housing contribution	2%	1%
Unemployment	2%	0.5%
Education	2% of gross payroll	0.5% withheld from annual profit sharing bonus

5.4 Withholding Taxes on Payments Abroad

The rates of withholding tax on the following payments made abroad by companies are generally:

	Rate
Dividends	34% (generally) on dividends paid in excess of profits subject to corporate income tax
Interest	15% to 34% on 95% of interest (generally); 4.95% for certain interest paid to a foreign financial institution
Royalties	15% to 34% on 90% of royalty

For payments made to recipients in countries with which Venezuela has a double tax treaty, the rates of withholding tax may be reduced under the terms of the treaty.

5.5 Value Added Tax (VAT)

VAT is generally levied on the supply of goods and services in Venezuela, and on the importation of goods.

The standard VAT rate is currently 12%. Legislation permits the standard VAT rate to be set each year from a range of 8% to 16.5%. Legislation provides that an additional percentage of between 15% and 20% applies to certain luxury goods (including certain vehicles, motorbikes and aircraft, caviar, and certain jewellery). A reduced rate of 8% applies to certain supplies, including certain imports, and national passenger transportation services by air. A 0% VAT rate applies to exports. Certain supplies are exempt from VAT, including certain foodstuffs, books, magazines and newspapers, national passenger transportation services by land or water, educational services, and healthcare services.

Traders can generally recover the VAT with which they themselves are charged on their purchases of goods and services, subject to conditions and possible exceptions.

5.6 Other Taxes

5.6.1 Stamp duty

Stamp duty is levied on certain documents and transactions at varying rates.

5.6.2 Urban property tax

Municipalities generally levy a property tax on the value (as defined) of urban property, subject to exemptions. The rates vary depending on the municipality.

5.6.3 Municipal business licence tax

Municipalities generally levy an annual business licence tax based on annual gross business income. The tax rate varies depending on the municipality and the type of business.

5.6.4 Excise taxes

Excise taxes are imposed on certain goods, including alcohol, alcoholic beverages, tobacco, and cigarettes.

5.7 Tax Incentives for Businesses

5.7.1 Research and development (R&D) expenditure

R&D expenditure may generally be deducted from taxable income.

5.7.2 Free zones

Qualifying companies established in a free zone in Venezuela benefit from incentives, including income tax exemption, customs duty exemption, import duty exemption, and VAT exemption.

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