

DOING BUSINESS in VENEZUELA



FOREWORD

This guide has been prepared with the aim of providing basic information to people interested in investing and doing business in Venezuela. It does not cover in detail all the requirements and subjects considered, but it is intended to provide an overall idea of the benefits of doing business in Venezuela and to answer basic taxation requirements.

The guide is intended to be used for informational purposes only and you should consult a professional tax advisor to acquire more information.

The material contained in this guide is based on information and regulations in effect as of May 2020.





ABOUT BLITA INTERNATIONAL

BLITA International is a global association of independent tax accountants, tax attorneys and business consultants dedicated to providing personalized professional services for all your international tax planning and business management needs.

Our member firms are committed to provide the highest quality professional services to help meet your business and financial goals across international borders. The local expertise of our members regarding tax regulations, culture and knowledge of doing business in their home countries, allows them to provide the best solution and advice to maximize your profit and reduce your tax implications.

COUNTRY ESSENTIALS

Capital city	Caracas
Area and population	912,050 km ² and a population of 28,644,603 people (July 2020 est.)
Language	Spanish
Currency	Venezuelan bolivar (VEF)
International calling code	+58
GDP	\$98.4 billion USD (2018 est.)
GDP – per capita	\$3,411 USD (2018 est.)
Exports	\$ 3.7 billion USD (2018 est.)
Imports	\$12.8 billion USD (2018 est.)
Government structure	Venezuela is a federal presidential republic. The chief executive is President who is both head of state and head of government. Executive power is exercised by the President. Legislative power is vested in the National Assembly.

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WHY YOU SHOULD DO BUSINESS IN VENEZUELA





STRATEGIC GEOGRAPHIC LOCATION

Venezuela enjoys a privileged location in the northeast of South America, having a convenient access to the Caribbean Basin and Latin America, as well as an advantageous connection to the east coast of the United States and Western Europe. The country's proximity to the equator gives it a tropical climate with two seasons, wet and dry, and average temperatures of 25°C or 78°F.

GLOBALLY IMPORTANT OIL PRODUCER

Venezuela is an oil producing country on a world scale. It is the sixth country in reserves of light crude oil in the world and first in heavy oil reserves. Its proven natural gas reserves are estimated at 147 million cubic feet. In recent years, resources from oil exports have generated sufficient revenues to sustain the country's economic growth.

Oil resources gains represent about 95% of export earnings. The oil and gas sector accumulate approximately 25% of GDP, making Venezuela the fifth oil exporting country, with a daily production of over 2.3 million barrels. Additionally, the country is one of the founding members of the Organization of Petroleum Exporting Countries (OPEC).

QUALIFIED WORKFORCE

The labor force in Venezuela is one of the most qualified workforces in the region, formed of a large number of universities distributed throughout the country. Additionally, the government has implemented a series of programs called "missions" that have reduced the illiteracy rate while adding historically poor social sectors access to formal education at primary, secondary, technical and university levels of training.



MODERN INFRASTRUCTURE

Venezuelan ports and airports are undergoing a privatization process, promoting the growth of important markets in these sectors. Venezuela is also one of the Latin American countries with the largest number of paved highways. Out of nearly 59,000 miles of road, 60% of them are highways, which are mostly located in the north of the country, where the population density is at its greatest. About 98% of goods transport is moved by trucks using their highways. In addition, Venezuela has 11 international and 36 domestic airports, the main one, located in Caracas, processes 90% of international flights, 84% of air cargo and 40% of domestic passengers.

ABUNDANT NATURAL RESOURCES

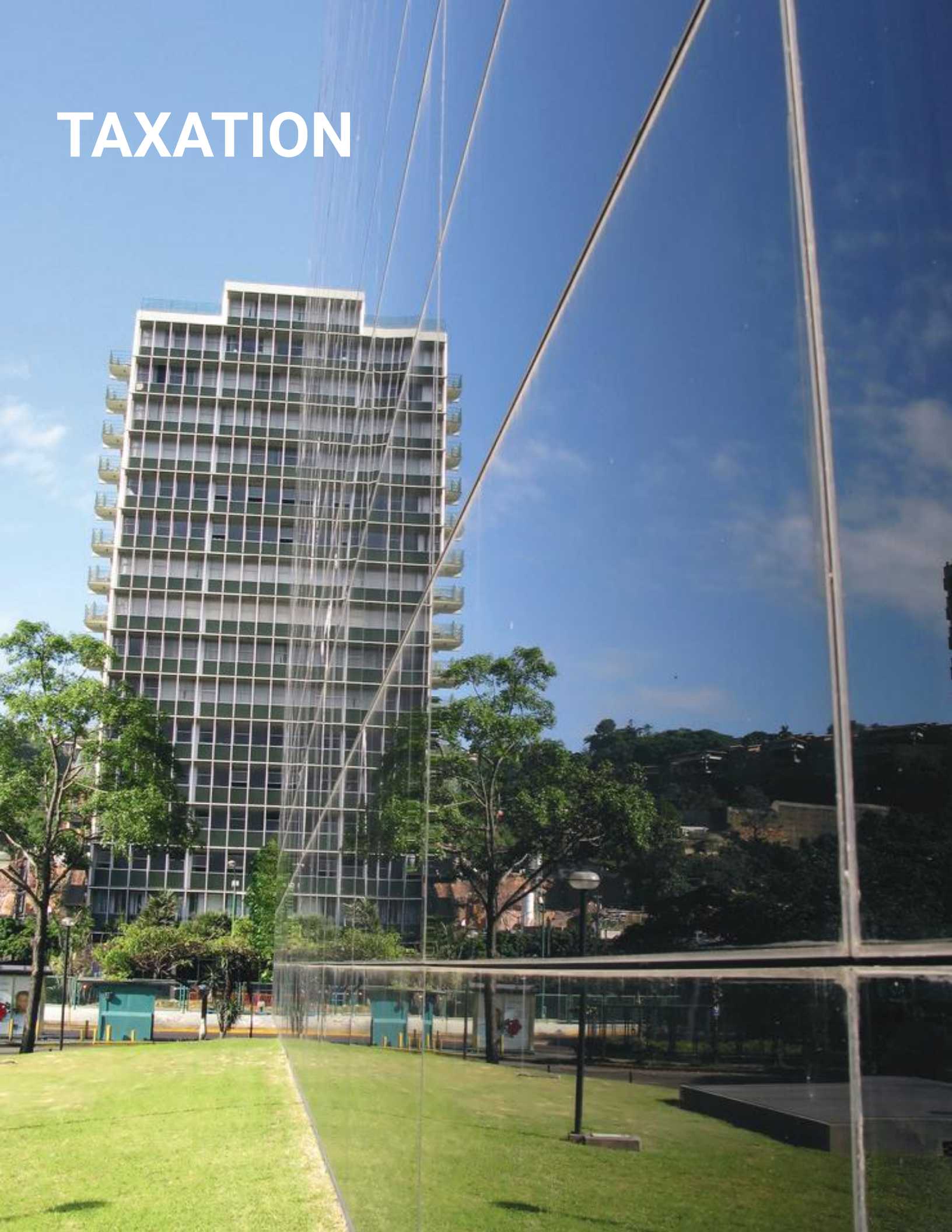
Oil and gas are not the only abundant natural resources in Venezuela. After oil, iron is the second most exploited mineral resource. It is estimated that Venezuela has 15 billion metric

tons of iron, more than 8 billion of coal reserves and accessible deposits of bauxite, gold, and other commercial minerals.

FREE-TRADE ZONES

Venezuela has four types of free-trade zones: Nueva Esparta, La Península de Paraguaná, La Isla de Margarita and Santa Elena de Uairén, and Mérida. The Nueva Esparta zone is a commercial free port. The Paraguaná Peninsula is an industrial free-trade zone focused on the development of the export industry with more than 40 enterprises in operation. The Isla de Margarita and Santa Elena de Uairén is a duty-free area, while Mérida is a free-trade zone for producers of goods and services within the cultural, scientific and technological sectors.

TAXATION





CORPORATE TAXES

Corporate income tax is levied on income derived worldwide by corporations and business entities incorporated in Venezuela, and on income derived from Venezuelan sources by non-resident entities. Foreign entities that conduct business in Venezuela permanently are required to pay income taxes on local or foreign income.

Corporate taxes have progressive rates of 15%, 22% or 34%, and are based on Tax Units.

TAXES ON CAPITAL GAINS AND DIVIDENDS

Capital gains are generally taxed as ordinary income. However, capital gains that are derived from the sale of shares registered on the stock exchange are subject to a 1% tax rate on gross income.

Dividends that exceed the tax base of the paying company are subject to a final withholding tax of 34%.

ESTATE AND GIFT TAXES

Inheritance and gift taxes are levied with progressive rates of up to 55%.

In the case of donations, both the donor and the grantee are jointly responsible for the tax levied on the donation.

SALES / VAT TAXES

A sales tax is levied on the sale of goods, imports and services. The standard rate is 16%. Reduced rates apply for certain imports and professional services. Exports of goods and services are tax-exempt.

Similarly, there is an additional tax rate of 15% for sales, imports and luxury consumer services established by law.

TRANSFER TAXES

Venezuela does not levy transfer tax. However, a stamp tax is required when registering the transfer document of any asset or action, at rates that vary according to the location and the transaction.

EMPLOYMENT TAXES

Tax withholdings from income derived from employment are applied according to the following contribution percentages:

	Employee	Employer	Maximum Salary
Social Security	4.0%	9.0% - 12.0%	5 minimum wages
National Institute of Educational Cooperation (INCES)*	2.0% (only on profit received)	0.5%	No limit
Housing and Habitat Payment System (FAOV)	1.0%	2.0%	No limit
Unemployment or layoff contingency	2.0%	0.5%	10 minimum wages

*The INCES contribution only applies to companies that have more than 5 employees.

PERSONAL TAXES

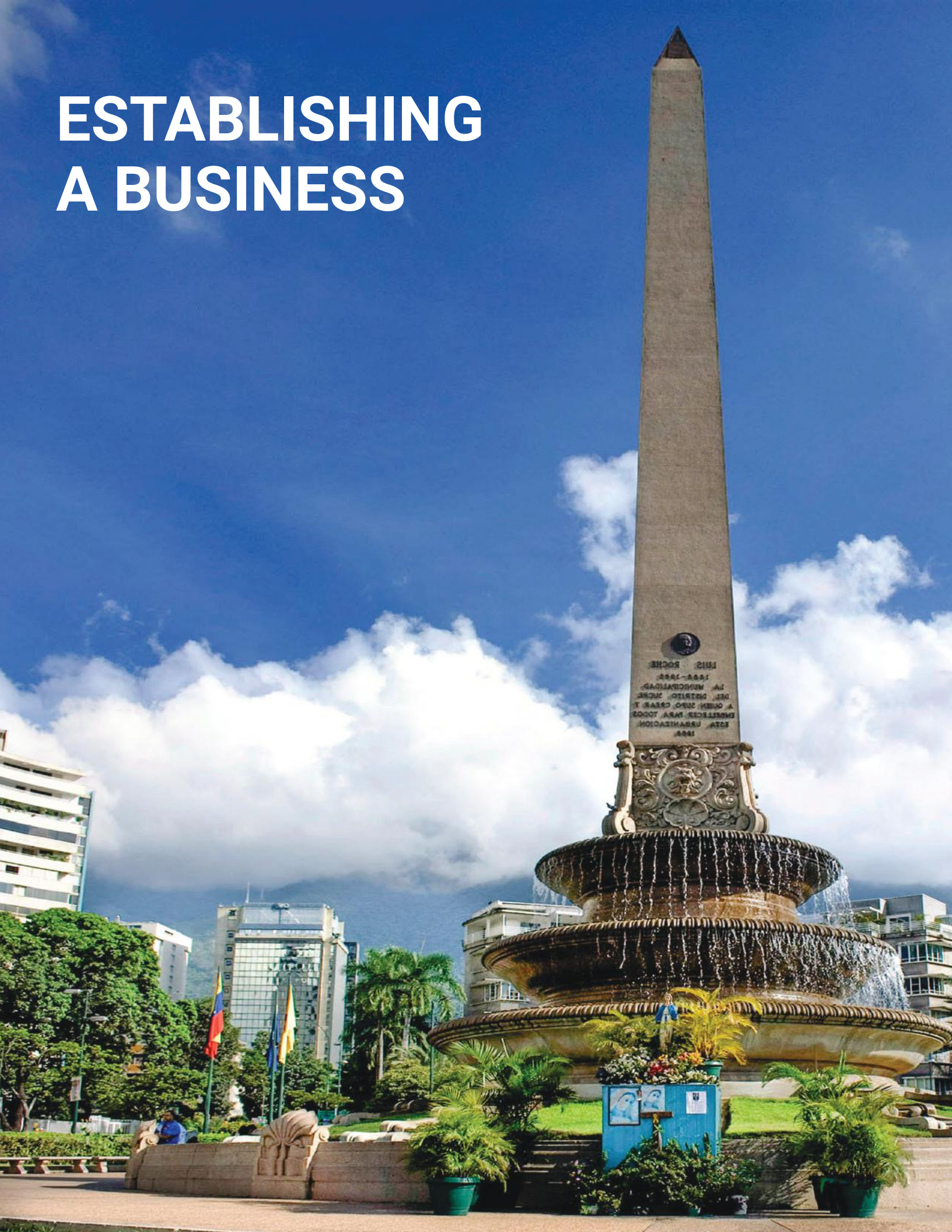
Venezuelan residents are subject to worldwide income tax. Non-residents are only subject to the payment of taxes on income of Venezuelan origin. A tax credit is available for foreign income taxes, which can be up to the amount of Venezuelan taxes payable on said income.

An individual is considered a resident if he or she remains, continuously or not, more than 183 days of a fiscal year in Venezuela. Individual income tax is levied according to the following progressive rates:

If the net income is:	Tax rate:
Up to 1,000 units	6%
1,001 to 1,500 units	9%
1,501 to 2,000 units	12%
2,001 to 2,500 units	16%
2,501 to 3,000 units	20%
3,001 to 4,000 units	24%
4,001 to 6,000 units	29%
6,001 units and over	34%

Income taxes are based on Tax Units. For 2020, 1 Tax Unit = 1,500 Bs

ESTABLISHING A BUSINESS



PROCESS TO INCORPORATE A COMPANY

An investor aiming to establishing a business entity in Venezuela needs to comply with 20 procedures.

PROCEDURES

Reserve company name

Obtain an approval of the company name

Lawyer must prepare and legalize the company's constitutive documents and social statutes

Open bank account

Register at the local mercantile registry (*Registro Mercantil*)

* Publish articles in a local newspaper (*Gaceta Forense del Registro Mercantil*)

* Register company books

Register at the local *Servicio Nacional Integrado de Administración Aduanera y Tributaria* (SENIAT) to obtain a fiscal number (*Registro Único de Información Fiscal*, RIF)

Obtain tax clearance certificate at municipal level (*Instituto Municipal de Aseo Urbano*)

Register for social security at a local regional fund

* Register at National Bank for Housing and Habitat (*Banco Nacional de Vivienda y Habitat*, BANAVIH)

* Register at the National Institute of Socialist Cooperation & Education

Register with the Ministry of Labor

Go through a labor inspection (by the Labor Inspectorate)

* Obtain fire approval and undergo an inspection

* Obtain conformity of use certificate (zoning permit)

* Obtain industrial or commercial license from competent municipality

* Register at the National Commission for People with Disabilities (*Consejo Nacional para las Personas con Discapacidad*, CONAPDIS)

* Register at the National Superintendence for the Defense of Socioeconomic Rights (*Superintendencia Nacional para la Defensa de los Derechos Económicos*, SUNDEE)

* Register at the National Institute of Prevention, Occupational Health and Safety (*Instituto Nacional de Prevención, Salud y Seguridad Laborales*, INPSASEL)

Note: Steps marked with an asterisk (*) may be completed simultaneously.

REQUIREMENTS TO INCORPORATE A COMPANY





The *Sociedad de Responsabilidad Limitada* (S.R.L.), similar to a Limited Liability Company, is the most common form of incorporation in Venezuela. Shareholders in an S.R.L. are liable only to the value of their shareholding.

COMPANY NAME

Venezuelan regulations require company names to be approved and reserved with the Mercantile Registry.

REGISTERED OFFICE

Under Venezuelan regulations, all companies must have a registered business address where documents may be legally served.

DIRECTORS

An S.R.L. can be managed by one or more people, shareholders or not, whose powers are determined in the by-laws. There are no restrictions on the nationality or residence of directors.

SHAREHOLDERS

An S.R.L. registered in Venezuela must have a minimum of 2 shareholders. There are no restrictions on the nationality or residency of shareholders.

MARKET OPPORTUNITIES AND COMMERCIAL SECTORS





OIL AND GAS FIELD MACHINERY

Although there is some uncertainty regarding the investment capability of the state-owned oil company, *Petróleos de Venezuela* (PDVSA), export opportunities in the next couple of years are predicted to be in the billions of U.S. dollars, driven primarily by the international private participation in the natural gas industry.

Venezuela is a significant importer of wells and pipelines, control systems, double screws and submersible pumps, flanges, drilling equipment, valves and compressors, among others. The best prospects are in the natural gas subsector, due to strong private participation, favorable legislation, and strong government support.



AUTOMOTIVE PARTS AND ACCESSORIES

Venezuela has a motor vehicle population of over 3 million cars, trucks and buses, plus nearly half a million motorcycles. Accounting for both locally assembled and imported vehicles, the annual increase is about 200,000 vehicles. Local assemblers include General Motors, Ford, Hyundai, and Toyota. Roughly 30% of the components of assembled vehicles are locally manufactured. The estimated average age of vehicles in circulation is well above 10 years. These two factors make Venezuela an excellent market for parts and accessories for old cars.



SAFETY AND SECURITY EQUIPMENT

The Venezuelan market for industrial safety equipment is estimated to be nearly 80 million dollars per year, with a predicted 3% annual growth over the next years. The best prospects are found in the personal safety products, access control, closed circuit television, and fire safety products subsectors.



INFORMATION AND COMMUNICATION TECHNOLOGIES

The information and communication market in Venezuela includes the production, marketing and operation of computer equipment and software, services based on information technology and telecommunications.

A legal framework with precise guidelines for the development of the sector and the existence of Technology Parks support the activity, making it an excellent market niche for commercializing cutting-edge technologies. In this context, the business opportunities in the sector are mainly concentrated in the outsourcing of processes (outsourcing), businesses with a web platform, wireless networks and voice over IP services.

Venezuela's success in ICT is due to a high quality and less expensive offer compared to other countries. In addition, there are more than 80 national specialized education centers in the field, which form a qualified workforce with high international prestige. For this purposes, various companies already offer their products and services abroad, under international quality standards.



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