

# SETTING UP BUSINESS IN VENEZUELA



## General Aspect

Venezuela is located on the northern part of the South American continent. Venezuela has a vast coastline towards the Caribbean Sea and the Atlantic Ocean. Venezuela limits with Colombia, Brazil and Guyana. Venezuela and Guyana have a dispute over a piece of land of 159542 square kilometers. Venezuela's legal tender is the Bolivar. Since 2003, free Exchange of foreign currency is restricted. Venezuela's population is of approximately 31,519,000. The official languages are Spanish and indigenous languages of the existing indigenous tribes in Venezuela.

## Legal Forms of Business Entities

| Legal form                 | Feature   | Remarks   |
|----------------------------|---|---|
| <b>Branch Office</b>       | as no legal identity, but is part of the head office business and its organization.   | Although the branch office is a part of the head office, the branch office should be registered with the Venezuelan Commercial Register Office and should obtain a Fiscal Information Number from Venezuelan Tax Authorities. |
| <b>Sole Proprietorship</b> | Set up by a single natural person, who is fully liable for the debts contracted by the firm with his own present and future wealth. Sole proprietorships may only use the individual's last name. It requires an entry with the Commercial Register Office. | No independent legal personality  |
| <b>Partnerships</b>        | Any partnership requires at least two partners with a personal commitment. Their liability for the partnership's debts and liabilities is generally unlimited and personal, including all private assets.   | No independent legal personality  |

There are the following partnerships in Venezuelan law:

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| <b>Civil Law Partnership</b>           | An association of individuals or enterprises united in the achievement of a joint contractual purpose.   |  |
| <b>General Commercial Partnership</b>  | An association of at least 2 individuals, both of them fully liable for debts with their private assets. The company must be entered in the commercial register.                       |  |
| <b>Limited Partnership (Comandita)</b> | A legal form where the general partner is personally liable without limitation and where the limited partner is liable with limitation to respective share of the partnership capital. | Limited partnership should be registered with the Commercial Register Office.<br>Currently, not a common vehicle to carry on businesses. |

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| <b>Partnership Company</b> (Comandita por acciones) | A species of the Limited Partnership where the partnership capital of the limited partners is divided in shares. | Partnership Company should be registered with the Commercial Register Office.<br>Not a common vehicle to carry on businesses. |
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There are the following corporations in Venezuelan law:

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| <b>Limited Liability Company</b> (Sociedad de Responsabilidad Limitada) | A limited liability Company should be registered with the Commercial Register Office. Limited liability companies should be created with at least two members. The capital of the limited liability Company should not be under VEF 20 nor exceed VEF 2,000. Liabilities of members shall be limited to their respective contributions.   | Limited liability companies are no longer an alternative as the capital of the limited liability Company. |
| <b>Corporation</b>  | The Corporation shall be recorded with the Commercial Register Office, signed by the founding shareholders. Although the Code of Commerce does not set a minimum capital stock, Commercial Register Offices may determine a minimum capital stock based on the purpose of the Company. The capital stock should be fully subscribed and paid capital stock should be of no less than 20% of the subscribed capital stock. | No bearer's shares is accepted in Venezuelan Law.   |
| <b>Mixed capital stock companies</b>                                    | Downstream activities in the hydrocarbon industry may be carried out by mixed capital stock companies. Government will be the major stockholder and the minor stockholder will be a private investor.   |   |



# Organizational Questions

| Topic                                  | Feature   | Remarks  |
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| <b>Commercial Register</b>             | <p>Companies of all legal forms must be entered in the commercial register of the location where the Company is seated. Civil law entities should not be registered with the Commercial Register Office but the Public Register Office of the Municipality in which the civil law entity is seating.</p> <p>Professional enterprises should register with the Commercial Register Office if adopting the form of a Company governed by the Code of Commerce.</p> <p>The Commercial Register Office is not administered in electronic form. All proceedings should be carried out at the Commercial Register Office.</p> |  |
| <b>Register Notification</b>           | All forms of companies governed by the Code of Commerce should be publicized in a national journal, to render all legal effects. In addition, the companies should register with the national tax authorities to obtain a Tax Identification Number. In addition, companies should register with the Municipal Tax Authorities to obtain a license of Operations. Professional enterprises are not required to register with the Municipal Tax Authorities. Companies should register with labor authorities.   |  |
| <b>Bank Account</b>                    | To open a bank account individuals need a valid ID card or Passport, Tax Identification Number, proof of residency. Companies need an excerpt from the commercial register and the articles of association of the company.  |  |
| <b>Transfer of Goods and Machinery</b> | Goods and machinery are subject to import taxes and excises   |  |
| <b>Transfer of Capital</b>             | Due to the foreign Exchange control regime, transfer of capital outside Venezuela is restricted.  |  |
| <b>Visa and Residence permit</b>       | <p>If investing or working in Venezuela, aliens should obtain corresponding visas. Visitors may be required visas.</p> <p>Residents should obtain permits to remain in Venezuela.</p>   | Venezuelans who live outside Venezuela are required to file their Venezuelan Passport if entering Venezuela. |



## Employment

| Topic                | Feature  |
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| <b>Work permit</b>   | Aliens should obtain a permit to work in Venezuela. Proceedings should be initiated with the Venezuelan Consulate Office.  |
| <b>Labour law</b>    | <p>Employment regulations in Venezuela: Minimum of 15 days of holidays per year, with 1 additional day per year up to 30 days of holidays. In addition, a holiday bonus will be paid starting at 15 days of salary, with 1 additional day of salary per year up to 30 days.</p> <p>Normal working hours is of 40 hours per week and a continuous two-day rest period per week. An employee may resign or be dismissed provided all conditions set out in the law are fulfilled. Currently, Government ensures that employees are not dismissed. If so, a judicial proceeding should be initiated.</p>  |
| <b>Social system</b> | <p><b>Social Security System:</b> A contribution of 9-11% by employer on monthly salaries paid to employees and 4% by employee on his/her monthly salary. <b>Unemployment Compensation:</b> a contribution of 2% by employer on monthly salaries and 0,5% of the monthly salary paid to employee. <b>Mandatory Housing Fund:</b> a contribution of 2% of overall salary shall be paid by employer and 1% of the overall salary paid to employee shall be made by employee. <b>INCES:</b> A contribution of 2% shall be paid by the employer and 0,5% by employee. This contribution shall be levied every three months.</p> <p>All employee contributions shall be withheld and remitted by the employer to corresponding authorities.</p> |

## Taxation

Companies in Venezuela are subject to national and municipal taxes. On the national level, companies shall be subject to income tax. Members of a partnership are required to report and pay taxes on income earned by the partnership. Entities are also subject to economic activities tax on a municipal level. Tax rate varies depending on economic activity and municipality.

| Tax                         | Feature   | Remarks  |
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| <b>Corporate Income Tax</b> | <p>Corporations are subject to a progressive tax rate starting at 15% and up to 34%, on all world-wide taxable earnings of the corporation. Dividends paid out to shareholders are subject to the dividend tax, at a flat rate of 34%. The tax shall apply if the profits distributed as dividends exceed the profits subject to income tax at the corporate level. Therefore, dividends may be distributed free of tax (if profits distributed were subject to corporate income tax) or subject to 34%.</p> <p>Tax treaty benefits apply if companies prove to be residents of the other jurisdiction.</p> | <p>Tax Unit is defined by the Tax Authorities and adjusted every year during the month of February.</p> <p>For the taxable year 2017, one tax unit equals VEF 300.</p> <p>We should expect adjustment very soon.</p> |

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| <b>Economic Activities Tax</b>                     | Economic activities (industry, trade and services) are subject to the municipal tax. Professional services are not subject to the tax. Rates will vary depending on activities carried out and municipality where the activity is carried on. Tax is paid every year.  | All businesses should obtain a license or permit to legally operate within the corresponding municipality.   |
| <b>Personal Income Tax</b>                         | Individuals earning more than 1,000 tax unit per taxable year shall be subject to the personal income tax. A progressive tax rate shall apply starting at 6% and up to 34%. Tax residents are allowed deductions whereas non-residents have no such allowance. Tax residents are subject to tax on world-wide basis whereas non-residents are subject to tax on domestic source income.  | Allowances:<br>Standard deduction of 774 Tax Unit or itemized allowances.<br>Deduction of 10 Tax Unit is allowed to the taxpayer and dependants, subject to limitations. |
| <b>Personal Income Tax in case of partnerships</b> | As partnerships are not separate legal entities but associations of partners, the partners themselves generally are subject to the personal income tax, with the individual tax rate applicable to each shareholder  |  |
| <b>Value Added Tax (VAT)</b>                       | The normal VAT rate is 12%. An additional 10% rate is levied on luxurious goods. VAT exemption applies to goods and services, such as education, banking services, public utilities services. For services rendered by a foreign entrepreneur, the reverse-charge-system has to be applied.  | Export of goods and services are zero rated.<br>Taxpayers shall be identified with their tax information number.   |
| <b>Real Estate Transfer Tax</b>                    | Transfer of real estate is subject to a 0,5% tax rate of the sales price. An exemption will apply if the sales price does not exceed 3,000 tax units. An exemption also applies if seller sells his/her main abode (duly registered with the Tax Authorities) and profits are then invested in acquiring a new abode within the following 2 years. Taxpayers aged 65+ are also exempt of the transfer tax.   |  |
| <b>Real Property Municipal Tax</b>                 | Every property owner in Germany is annually liable to real estate tax. The tax rate depends on the category of real estate, the assessed value of the property and the municipal collection rate.  |  |
| <b>Other national contributions</b>                | <b>Sports Contribution:</b> Public and private enterprises shall contribute 1% of net profit or yearly accounting earnings if exceeding 20,000 tax units. <b>Drug Contribution:</b> Public and private enterprises with at least 50 employees are required to contribute 1% of operative turnover or profits. <b>Science and Technology:</b> varies per type of industry between 0,5% and 2% on yearly gross territorial income exceeding 100,000 tax units of the preceding year. |  |
| <b>Non-resident Taxation</b>                       | Non-resident individuals and companies in Venezuela receiving income generated in Venezuela, are subject to Venezuelan limited taxation with their Venezuelan-sourced income. Non-resident individuals and companies are subject to the corresponding progressive tax bracket. Maximum tax rate is 34%.<br><br>Non-resident individuals are not entitled to the allowances set forth by law to resident individuals.   |  |



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