



**LEX MUNDI:
GUIDE TO DOING BUSINESS
IN
BOLIVIA**

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GUIDE TO DOING BUSINESS IN BOLIVIA

I. INCORPORATION OF COMPANIES

The most common business enterprises incorporated under Bolivian law are Corporations and Limited Liability Partnerships (“LLP”). These business entities share common aspects, but differ in complexity of structure and methods of ownership.

The organizational structure of a Corporation consists of the following tiers: three or more shareholders, directors/officers, and a comptroller.

Shares represent ownership interests in a Corporation. They are freely transferable by endorsement and such transfer is tax exempt.

The ownership and management structure for a LLP requires a minimum of two partners. A Board of directors is optional, and no comptroller or by-laws are required.

Capital quotas represent ownership interests in a LLP. Transfer of capital quotas must be approved by all partners and is tax exempt. Each time partners transfer capital quotas, the articles of incorporation must be amended.

For the incorporation of a corporation or LLP, the following information is required:

1. Name, age, marital status, nationality, profession, domicile and I.D. number of those people that will become partners or shareholders and/or name, nature, nationality and domicile of those entities that will become partners or shareholders.
2. There are no limitations or special restrictions for foreign partners or shareholders. In the case of a foreign entity, a certificate of good standing is required.
3. Name and domicile
4. Purpose
5. Paid in capital

A minimum of three directors is required for Corporations. Board members may be of any nationality and may reside outside Bolivia. Corporations also require a comptroller and alternate who must be domiciled in Bolivia. The mentioned corporate bodies are not required for a LLP.

The nearest Bolivian Consulate must legalize the incorporation documents. Further, said documents must be submitted in Spanish. Translated documents into Spanish may be filed provided a court appointed translator in Bolivia has translated them.



A special power of attorney may be granted for purposes of incorporating a Bolivian entity. As with all other documents, said power of attorney must be in Spanish and legalized by a Bolivian Consulate.

The first step in forming a local entity is the filing of articles of incorporation, by-laws, tax ID, and all other documents required by law. Said filing is done before the Bolivian Commerce Registry (FUNDEMPRESA). Provided all documents are in good standing, the Bolivian Commerce Registry shall issue a license allowing for the commencement of operations of the new entity. The license is usually issued within three weeks from the moment that all pertinent documentation has been filed.

Subsidiaries and Branches

Under Bolivian law, a subsidiary is any company formed in Bolivia and whose main shareholder or main partner is a foreign entity. Subsidiaries enjoy the same tax treatment as any other Bolivian entity.

Any foreign company may also incorporate branch offices in Bolivia without limitation whatsoever. Branches enjoy the same tax treatment as any other Bolivian entity. In order to establish a branch office, the following documents are required:

1. Articles of incorporation.
2. Bylaws.
3. Certificate of good standing.
4. Board resolution approving the establishment of a branch.

The above documents must be legalized before a Bolivian Consulate. If said documents are in English a translation must be obtained from a court appointed translator in Bolivia.

The board resolution approving the establishment of the branch must include the following:

1. Domicile of the branch. The domicile of the branch may be in any Bolivian city.
2. Amount of capital assigned to the branch. There is no minimum capital requirement but it must be deposited in a Bolivian bank.
3. A power of attorney for the establishment of the branch.
4. A power of attorney for the manager of the branch.

II. INSURANCE

Under Bolivian law, only local insurance companies may offer insurance services. Foreign companies may provide insurance services through branches or subsidiaries duly formed and registered in Bolivia. Global



Insurance Policies are an exception to this rule. Accordingly, insurance policies with global coverage may be offered in Bolivia without the offeror having to incorporate a local entity.

The Bolivian Government through the Superintendency of Pensions, Insurance and Securities acts as the regulator for the insurance sector. Insurance contracts are subject to the regulations of the Bolivian Commerce Code and other specific laws.

III. TAXES

The Bolivian tax regime is comprised of the following taxes:

Value Added Tax (VAT).

The VAT is a tax that is applied on:

- The sale of all movable goods located in the country.
- The work contracts
- Imports.

The general rate of this tax is of 13%. Debits are compensated with credits resulting from purchases of goods, services and imports directly related to the business of the taxpayer.

Salaries of employees are levied with a complementary 13% VAT with the right to compensate the debits with credits resulting from the purchase of any goods, services or imports levied with the 13% VAT.

The employer is required to withhold taxes on salary at a rate of 13%.

Import of Goods

Capital goods are subject to an import duty of 5% on CIF value plus 13% of the Value Added Tax, 3% transactions tax, 2% warehouse fee and 1.5% customhouse agent's fee and 1.92% for the verifying companies.

Imports of non capital goods are subject to a 10% import duty, plus the mentioned VAT, transactions tax (3%) and the other charges.

Special Consumption Tax

The import of vehicles is subject to a further 18% tax. However, passenger carrying vehicles and heavy-load vehicles are only subject to a further 10% tax. (Special Consumption Tax).



All tobacco related products are subject to a further 50% tax.

All imports must be verified as to their quantity, quality and price by foreign companies contracted by the Government such as the Swiss companies SGS and Inspectorate, which charge a 1.92% fee on CIF value.

Complimentary Regime for the VAT Tax

This tax was created as a complementary tax to the VAT, and is applied on income, which is not subject to the Profit Tax, mentioned later on, of individuals and undividable successions, originating from capital investment or work or the application of both factors in conjunction.

This tax is applied on the totality income derived from a Bolivian source, not mattering where the taxpayer is domiciled or residing.

Payment of dividends to individuals is not subject to this tax. This tax is determined by applying a 13% on said income.

Company Profit Tax

This tax is applied on profit as shown in the audited Balance Sheets at yearly financial closing.

All companies established in Bolivia whether public or private, and their branches or subsidiaries are subject to this tax.

Profit is determined by revenues, benefits or earnings, which stem from the financial statements, that may or may not be produced periodically. It is also determined through sworn statements of those subjects that are not obliged to carry financial records.

This tax is based on net profit, which is obtained by deducting from the gross profit, all necessary expenses for the conservation of the source that generates profit.

When rent that derives from a Bolivian source is paid to foreign beneficiaries, it is presumed that the encumbered net profit is equivalent to 50% of the sent or paid amount. 25% of this amount must be retained. (12.5% of total income sent abroad)

The general rate on the profit of a Company is of 25%. Freelance professionals pay a 12.5%.



Real Estate and Vehicle Tax

This tax is applied on all entities or individuals that own real estate, registered vehicles, yachts or aircrafts.

The taxable base on real estate is determined by the fiscal evaluation carried out in each municipal jurisdiction.

The taxable base on vehicles is determined by the post-customs value of the vehicle as determined by the State and its yearly devaluation.

Transactions Tax

This tax is applied on the exercise of trade, industry, profession, business, leases, donations, works and services or any other activity, profitable or not, which comprise the transfer of ownership of movable assets, property and rights.

All private and public entities and individuals are subject to this tax.

The transfer of assets is subject to this tax, unless such assets are contributed to the capital of a company. The purchase of shares of stock, debentures, securities, or any credit document is exempted from such tax.

The general rate established is 3% over gross revenue derived from the transaction.

Additional rate to Extraordinary Profits resulting from the Exploitation of Non Renewable Natural Resources

Besides the 25% established as general rate for this tax, the net profit resulting directly from activities of exploration and production of non renewable natural resources is taxed by an additional 25% rate which, is applied previous deduction of the following:

- A variable percentage at the tax payer's choice of up to 33% of the investments accumulated in exploration, development, production, benefit and in protection of the environment, directly related with such activities performed in the country starting on the fiscal year 1991. This deduction will be used in a maximum amount equivalent to the 100% of such investments.
- 45% of the net income obtained from the production of non-renewable natural resources during the year filed.
- For the hydrocarbon producing companies, the net income from each exploitation operation is the value of production measured at wellhead for each oilfield.



- For the minerals and/or metals producing companies, the net profit from each exploitation operation is the commercial value placed in the site of the mining operation.

IV. LABOR MATTERS

All labor relations in Bolivia are governed by the Bolivian Constitution, the General Labor Law of 1942 (the “Labor Law”), the Social Security Code, and a number of Supreme Decrees that apply to specific amendments to the Labor Law and Social Security Code on various matters.

As of 1985, Bolivian law allows complete discretion for hiring and dismissing personnel. Thus, an employee is free to work for any employer and the employer is free to hire and dismiss its employees.

Minimum Salaries

Wages are freely agreed upon between the employee and the employer, and are usually established contractually. At present, the minimum wage is around Bs. 440.00 (\$US 60.00) per month.

Each year the Ministry of Labor issues a resolution establishing the percentage by which salaries must be increased. Said percentage is based on the inflation rate.

Performance related salary increases are also permitted.

Bonuses and benefits

Christmas Bonus

The Christmas Bonus is equivalent to one month’s salary payable in December.

Production Bonus

A Company reporting a profit must pay its employees an annual bonus equivalent to the salary earned in a month and fifteen days and as a maximum, the equivalent of 25% of the profits.

Seniority Bonus

After one year of service, the basic salary is increased as a seniority bonus equivalent to 5% of the monthly salary. After the fifth year of work such percentage goes up to 7% based on a progressive scale under which the bonus gets to 50% after 25 years or more of work. In the private sector, this bonus is applied as per agreement between the parties.



Five year bonus

An indemnity for seniority only applies to those who have been working for more than five years. The equivalent of one month's salary, for every year worked, is given as an indemnity for seniority. Indemnities for seniority are only granted if requested by the employee. If the employer grants the seniority bonus, the employee is considered to have lost all seniority rights regarding those five years.

Indemnification and Discharge.

Termination of an employment contract is the result of a dismissal or a voluntary withdrawal. In either of the mentioned cases the employee is generally entitled to severance, and other benefits contemplated by the Labor Law.

Upon the dismissal or voluntary withdrawal of an employee, the employer and employee must sign and file a form ("finiquito") before the Bolivian labor authorities. Should the employee consider the form to be inaccurate, she/he may initiate a labor claim for social benefits not paid.

Notice of Termination

Fixed term employment contracts require a 30 day notice of termination by the employer and 90 days notice of termination by the employee. Temporary employment contracts and employment contracts for a specific tasks or service require a 1 week termination notice after 1 month of work, 15 days termination notice after 3 months of work, and 30 days termination notice after 1 year of work.

Provided notice of termination has been given, an employee may be entitled to the Five Year Bonus, vacation balance, Christmas Bonus, Production Bonus and Seniority Bonus.

Termination Without Notice

Termination without notice is valid under Bolivian law under any of the following circumstances:

1. Intentional material damage caused to work instruments.
2. Disclosure of Industrial Secrets.
3. Negligent acts that may affect industrial security and hygiene.
4. Unjustified absence for more than 6 days.
5. Failure to comply with work agreement.
6. Voluntary withdrawal by Employee.
7. Theft or robbery by Employee.



If notice of termination is not given, the employee may be entitled to an indemnity for lack of prior notice (three months severance payment). Said employee may also be entitled to the following benefits: Five Year Bonus, vacation balance, Christmas Bonus, Profit Bonus and Seniority Bonus.

Indemnity for lack of prior notice upon termination

An indemnity for lack of prior notice only applies to those workers who have been working for more than three months. The equivalent of a three-month salary is given as an indemnity for lack of prior notice.

Work Schedule

Working hours under Bolivian law are 8 hours per day or 48 per week.

Women under 18 years of age should not work for more than 40 hours per week. Any work above the 48 hours per week for men or 42 hours per week for women is permissible paying double the hourly salary.

Night shifts should not exceed 7 working hours. An ordinary working schedule should be interrupted with one or more breaks. Overtime work and holy days will be compensated with a 100% extra charge; night work performed in the same conditions than during the day is compensated with an additional 25% to 50%, according to the case and there is also an extra charge for working on Sundays.

Vacations

Bolivian law establishes the following mandatory vacation periods:

- 1-5 years of work - 15 working days vacation.
- 5-10 years of work - 20 working days vacation.
- 10 years and over - 30 working days vacation.

Leave not taken must be paid off.

Foreign Employees

Foreign nationals arriving in Bolivia with a tourist visa and intending to work in Bolivia should request from the Migration Secretary a change of visa.

The Labor Law establishes that a company should operate with a maximum of 15% of foreign employees and their salaries cannot be over 15% of the total payroll. Such percentages are not applied to small companies that have less than 5 employees. Technicians and other professionals are not considered foreigners for such limitation.



If the foreign employee has been living in Bolivia for over 10 years and is married to a Bolivian citizen or is the father of Bolivian children, he(he) will not be considered a foreigner for such limitation.

Any foreigner can obtain renewable residency in Bolivia for a period of two years.

Regarding social security, foreign employees are exempt for the long-term coverage contribution, such as death, retirement or complete incapacity, so long as they can demonstrate that such contributions are made elsewhere.

Visas

Tourist Visas

Good for 30 days, but may be renewed in Bolivia for an additional 60 days. Not valid as a work permit.

The Bolivian Consulate issues tourist visas prior presentation of a valid passport and transportation tickets. If a tourist requests renewal of his visa, proof of financial solvency may be requested.

Visas issued to tourists that were born in the following countries do not require prior consultation with the Bolivian Ministry of Foreign Affairs:

Albania, Andorra, Saudi Arabia, Argil, Azerbaijan, Bahrein, Bangladesh, Barbados, Blears, Belize, Korea, Cuba, Cyprus, Dominican Republic, Egypt, Salvador, United Arab Emigrates, Slovakia, Estonia, Grenada, Guatemala, Guyana, Haiti, Honduras, Hungary, Jamaica, Jordan, Kuwait, Lithuanian, Liechtenstein, Latvian, Malta, Morocco, Mexico, Micronesia, Moldavia, Nauru, Nicaragua, Oman, Pakistan, Panama, New Guinea, Puerto Rico, Qatar, Rumania, Russia, San Marino, Surinam, Trinidad y Tobago, Tunes, Tuvabu, Ukraine, Vanuatu and Venezuela.

Prior consultation to the Bolivian Ministry of Foreign Affairs is required for visas issued to nationals of the following countries:

Afghanistan, Angola, Armenia, Benin, Brunei Bosnia, Botswana, Bulgaria, Burkina, Burundi, Bhutan, Cabo Verde, Kampuchea, Cameron, Center African, Congo, Comoros, North Korea, Costa de Marfil, Croatia, Chad, China, Djibouti, Eritrea, Slovenia, Ethiopia, Fiji, Gabon, Gambia, Georgia, Ghana, Guinea, Hong Kong, India, Indonesia, Iran, Iraq, Ireland, Kazajstan, Kenya, Kyrguistan, Kiribati, Laos, Lesotho, Lebanon, Libya, Liberia, Macedonia, Madagascar, Malaise, Malawi, Maldives, Mali, Mauricio, Mauritania, Mongolia, Mozambique,



Myanmar, Namibia, Nepal, Nigeria, Rwanda, Santo Tome, Senegal, Seychelles, Sierra Leon, Singapore, Syria, Somalia, Sri Lanka, Sudan, Swaziland, Thailand, Taiwan, Tayikistan, Togo, Tonga, Tanzania Turkmenistan, Uganda, Uzbekistan, Viet Nam, Yemen, Yugoslavia, Zambia, Zimbabwe.

Special Purpose Visa (Business)

Good for 30 days and may be renewed two times for the same period.

This visa can be obtained at any Bolivian Consulate or in Bolivia with the presentation of a valid passport, transportation tickets and documents that indicate the purpose of coming to Bolivia, a labor contract or for activities related to culture, arts or sports.

Multiple Entrance Visa

Good for up to 180 days, except with a prior authorization from the Subsecretary of Migration.

This visa entitles the holder to enter Bolivia on a constant basis for work purposes.

Permanent Visas

Besides the mentioned visas, the following visas can also be issued:

A) Temporary:

- Period of Stay in Bolivia: One or two years, renewable.
- Requirements & How to Apply: This visa can be obtained in Bolivia and can be extended to the family of the beneficiary of the visa.
- The following documents must be filed: valid passport that must have a Special Purpose Visa; medical certificate, certificate of domicile and of good behavior.

B) Definite:

- Period of Stay in Bolivia: Indefinite.
- Requirements & How to Apply: This visa is granted to foreigners who: own real estate or a stable investment in Bolivia, are professionals or technicians involved in community services, have obtained a university degree in Bolivia or have retired and receive income from abroad or have Bolivian children.

Unions

The Bolivian Constitution and the Labor Law allows for the establishment of unions. Thus, there are trade, departmental and national unions.



Labor Claims

Labor claims fall under the jurisdiction of the Labor Courts. However, Bolivian law requires that conflicts between employees and employers should first procure conciliation in the Ministry of Labor, mediated by a labor inspector.

If the conflict is not amicably resolved through the conciliation process, the parties may file a labor claim before the Labor Courts. The assigned court will issue judgment in first instance. This judgment may be appealed to the Superior District Court and is finally resolved by the Bolivian Supreme Court, located in the city of Sucre. If as a result of the final judgment the employer fails to pay social benefits to the plaintiff, he may face jail term.

Taxes

The employer shall retain 13% of the workers pay (RC-IVA).

The employee can use his invoices as fiscal credit for tax purposes (13% IVA).

Social Security

Social security is mandatory in Bolivia. It covers the employee and his family at short and long-term risk.

Social security obliges the employer to contribute 10% of the total payroll amount.

The Social Security Code considers occupational accident as every organic damage or functional damage produced by a sudden and violent action of external cause, during or as consequence of the work performed and resulting in the affliction or death of the insured.

Every insured worker that suffers an occupational accident, is obliged to submit himself to medical or surgical treatments which the medical service of the National Social Security deems necessary, to avoid or reduce his state of permanent disability, to recuperate his capacity to perform his customary work or to readapt himself for another occupation. The non-compliance of this obligation will result in the loss of monetary contributions.

Whenever the medical doctors of National Social Security indicate that no more medical attention is required because the injury caused by the occupational accident is no longer treatable and the worker is declared permanently disabled, totally or partially, a benefit will be provided in proportion to the level of disability.



The total benefit for permanent disability is equivalent to 100% of the minimum national salary that the worker should receive plus a 30% of the surplus of the basic salary (monthly average salary of the last three months previous to the illness or accident on the minimum national salary).

In cases of parallel partial disability the insured has the right to receive a benefit, calculated on the benefit that he would have received for total permanent disability in the proportion that is established for each injury by the corresponding Value List.

V. ENVIRONMENTAL MATTERS

Environmental Law No. 1333 of April 27, 1992, was enacted in order to achieve the protection and preservation of the environment and natural resources, promoting sustainable development with the purpose of improving quality of life. Sustainable development is understood as the process through which the needs of present generations are satisfied, without presenting a risk to the needs of future generations.

At present and in order to comply with the main objectives of the Environmental Law, the following institutions have been created:

- a) Ministry of Sustainable Development - The main executive body.
- b) Departmental Councils for the Environment - Organisms of maximum decision and consultation at the departmental level.
- c) Departmental Secretaries of Sustainable Development and Environment - These are responsible instances of environmental management in the departments of the country, and in charge of the application of the national environmental policy.
- d) National Environment Fund - Entity responsible for handling and administrating the funds collected to implement plans, programs and national projects proposed by the Ministry of Sustainable Development, cooperating with the identification of financial sources and when it corresponds, the administration of the funds for environmental purposes.
- e) Environmental Information National System - Its obligations and duties are to register, organize, up-date and publish national information regarding the environment.

Activities and Factors Susceptible of Generating Environmental Liability

Article 20 of the Environmental Law, considers the following activities and/or factors susceptible of generating environmental liability:

- a) Those that pollute air, waters (in every state), soil and sub-soil.



- b) Those that produce harmful alterations of the hydrologic, edaphologic, geomorphologic and climatic conditions.
- c) Those that alter the cultural patrimony, landscape and collective or individual goods protected by law.
- d) Those that alter the natural patrimony constituted by biological, genetic and ecological diversity, its interrelations and processes.
- e) Direct or indirect human actions that produce or may produce temporary or permanent environmental damage.

It is the duty of all entities or individuals that develop activities susceptible of degrading the environment, to take the corresponding preventive steps, inform the competent authority and potential affected persons, to prevent damages to health, the environment and goods.

Environmental Impact Evaluations

The Environmental Impact Evaluation (EIE) consists of a group of administrative procedures, studies and technical systems that appraise the possible adverse environmental effects resulting from the execution of a determined work, activity or project. The EIE classifies public and private activities into any of the following categories:

- a) Requires analytical integral EIE.
- b) Requires specific analytical EIE.
- c) Does not require specific analytical EIE but its conceptual revision may be advisable.
- d) Does not require EIE.

The works, projects or activities that due to their characteristics may require an Environmental Impact Evaluation previous to their execution, must count with the Environmental Impact Declaration (EID), issued by competent environmental authorities. The EID shall include studies, technical recommendations, regulations and limits, within which the works will be developed, evaluated, and registered before competent environmental authorities. The EID constitutes an environmental license.

Administrative Infractions and Environmental Crimes

Breach of the Environmental Law and its dispositions will be considered an administrative infraction, if not a crime. These sanctions will include a fine.

All entities or individuals who carry out actions that damage, deteriorate, degrade or destroy the environment, according to the severity of the damage, is committing a crime that will merit the sanction established in the Bolivian Criminal Code.