



Venezuela Economic Outlook

By Arca Análisis Económico

Here is our monthly summary of recent economic developments in Venezuela:

- The Organic Law for the Coordination and Harmonization of the Tax Powers of the States and Municipalities (LOCAPTEM) was published in the *Official Gazette* No. 6,755 of Aug. 10, 2023. There are now 90 days until its entry into force on Nov. 8, 2023. States and municipalities have 90 days from the entry into force of the law to adapt their regulations. However, the entry into force of the law repeals all state laws and municipal ordinances that establish tax rates other than those provided for in said law. (For more details on the law, please see related article in this month's Update.)
- On the other hand, the company Petróleos de Venezuela S.A. (PDVSA) received a shipment with 260,000 barrels of naphtha sent by the European companies Eni and Repsol. As reported by *Bloomberg Online*, the gasoline will be mixed with less refined gasoline found in the Paraguaná Refining Center in Falcón state, with the intention of alleviating the fuel supply problem in Venezuela.
- Both European companies and the Venezuelan state-owned company are in talks to establish a fuel supply schedule, despite the fact that the terms of trade are not clear. It should be noted that Eni asserted that the activities it carries out in Venezuela comply with all the regulations related to the sanctions imposed by the United States.
- In the banking sector, the National Superintendency of Banking Institutions (Sudeban) authorized the operation of a new bank within the microfinance segment that was born under the 100 percent digital concept, according to the text published in the *Official Gazette*.
- Obviously, the fact that the management business model is more of a neobank concept points to a lighter cost structure and greater operational flexibility, always based on the technological platform being as robust as necessary.
- Up to now, only three entities compete in the microfinance segment: Bancrecer, Mi Banco and Bangente. Between the three, at the end of July, they consolidated a loan portfolio of \$353.2 million bolivars, which represents 1.10 percent of the total bank loans in the last reported month.
- Likewise, these three entities added a volume of total deposits of \$577.8 million bolivars, at the end of July, which is equivalent to 0.59 percent of the system's total deposits from the public.

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Venezuela Participates in Alliance to Reinforce Agenda for the Protection of the Amazon

By Holland & Knight

In order to prevent the Amazon ecosystem from reaching a point of no return, the Venezuelan government, together with the governments of Bolivia, Brazil, Colombia, Ecuador, Guyana, Peru and Suriname, which are part of the Amazon Cooperation Treaty Organization (ACTO), agreed to strengthen their agenda and set common objectives to protect the Amazon ecosystem. This was announced within the framework of the Amazon Summit held on Aug. 8, 2023.

The Venezuelan government, within the framework of this alliance, committed to strengthen its agenda to promote sustainable development in the Amazon rainforest, as well as to mitigate deforestation and organized crime that affect the ecosystem. The countries of the alliance also called on more developed countries to participate in this initiative and to make additional efforts to halt the destruction of the Amazon rainforest.

However, despite the initiatives promoted by the member countries of the alliance, no concrete agreement was reached regarding the protection of indigenous groups and environmental groups. Nor did any commitment materialize for member countries to adopt Brazil's commitment to end deforestation by 2030. Nor were any targets agreed upon with respect to hydrocarbon activities as proposed by the Colombian government.

The Venezuelan government has proposed that the Colombian government should also pursue objectives with respect to hydrocarbon activities in the Amazon.

In general terms, the countries of the alliance failed to materialize their objectives in a binding agreement to regulate and put an end to activities such as illegal mining, organized crime and deforestation in the Amazon. Nevertheless, there is a general sense of urgency regarding a fundamental ecosystem that is home to 10 percent of the earth's biodiversity. So it is expected that, internally, the Venezuelan government will strengthen its environmental legislation to guarantee the protection of the Amazon.

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Republic Issues Law for Coordination and Harmonization of Tax Powers of States, Municipalities

By Tinoco Travieso Planchart & Nuñez

The Organic Law for the Coordination and Harmonization of the Tax Powers of the States and Municipalities (LOCAPTEM) was enacted on Aug. 10, 2023 and published in the *Official Gazette* No. 6,755 Extraordinary, which establishes the legal regime that will serve as a framework for the taxation of states and municipalities, as provided in Numeral 13 of Article 156 of the Constitution of the Bolivarian Republic of Venezuela.

Beginning: The law establishes the principles that govern local and municipal taxation, such as legality, justice, equity, territorial integrity, coordination, harmonization, cooperation, solidarity, concurrence, co-responsibility, progressivity, generality, good faith, productivity, capacity tax, nonretroactivity, nonconfiscation, efficiency, effectiveness, speed, transparency, simplicity and legal certainty.

Supplementary Application: It is established that the Organic Tax Code will be of supplementary application to the taxation of states and municipalities.

Coordination of Fiscal Stimuli: The law provides that the fiscal stimuli created by the states and municipalities must be coordinated with the Ministry of Finance, as well as everything related to the simplification, standardization and modernization of collection and the design of public policies and programs to reduce avoidance and tax evasion.

Prohibition of Discriminatory Treatment: Article 11 of the law establishes that discriminatory treatments cannot be established for taxpayers who, in or from their territory, on an itinerant, temporary or eventual basis, carry out economic activities. Therefore, no distinctions can be made between residents and transients.

Payment Currency: It is established that the payment of the taxes of the states and municipalities, as well as their accessories and sanctions, must be made in bolivars and under no circumstances may the payment be required in foreign currency.

Account Currency: The use of a dynamic account currency will be allowed for the calculation of taxes, accessories and sanctions, which will be the highest value currency published by the Central Bank of Venezuela (BCV).

Limit to the Sanctioning Power: The sanctions imposed by the states and municipalities for noncompliance with their tax regulations must observe the margins and limits established in the Organic Tax Code.



Simplification of Procedures: The state tax administrations and municipalities must eliminate the rule of additional requirements to those established in the current regulations and must adapt their legislation to simplify the procedures in which unnecessary collections are required. The states and municipalities may not request solvencies issued by themselves, nor collections that have been consigned in previous procedures and likewise must prepare their tax formats or forms in a transparent manner so that taxpayers unequivocally can know the tax base and the applicable rates.

Use of the Fiscal Information Registry (RIF): The states and municipalities must use the RIF kept by the National Integrated Customs and Tax Administration Service (SENIAT), as an identification number for their taxpayers, in order to guarantee that the identification is made uniquely and unequivocally in the different political-territorial entities.

Use of Technology and Updating of Electronic Portals: The states and municipalities must implement a mechanism based on information technologies for the declaration and payment of taxes within their competence. Likewise, the states and municipalities must publish and keep updated all or their legal regulations of a tax nature on their electronic portals.

Applicable Rate and Minimum Tax Rate: The rate of the municipal tax on economic activity may not exceed 3 percent of the gross income obtained. The annual taxable minimum may not exceed the equivalent in bolivars of 240 times the exchange rate of the highest value currency (Euros), published by the BCV.

Exceptional Rate: Exceptionally, the municipal tax rate will be up to 6.5 percent of the gross income obtained, in the following branches: 1) exploitation of mines and quarries; 2) services and construction of the oil industry; 3) advertising services; 4) retail and/or wholesale sale of alcoholic beverages; 5) sale of food, drinks and entertainment; 6) commercial banks, financial institutions, insurance, administrators and activities of a similar nature; 7) sale of jewelry, watches and precious stones; and 8) manufacture of liquor, tobacco, cigarettes and derivatives.

Single Classifier: The Ministry of People's Power with competence in matters of economy and finance will establish the Harmonized Classifier of Economic Activities, with the purpose of standardizing the categories for tax purposes.

Validity of Licenses on Economic Activities: From the entry into force of the law, the licenses for economic activities will be valid for a minimum of three calendar years, counted from the date of their issuance, without prejudice to the payment of the corresponding fee for their annual maintenance, with automatic renewal, under sworn declaration of the applicant.

Exceptions: The municipalities will consider incorporating in their ordinances, general exemptions for natural or legal persons whose main activity is, among others: 1) management and management of waste and solid waste; 2) social assistance and public charity, 3) construction of low-income housing; and 4) development of productive activities in duly constituted Special Economic Zones.

Sales: The municipalities will consider incorporating into their respective ordinances, tax reductions of at least 30 percent of the amount to be paid, for those taxpayers who: 1) carry out permanent sanitation, maintenance and/or improvement tasks in municipal spaces; 2) carry out their activity through community socio-productive organizations; and 3) carry out activities that contribute to the socioeconomic development of the municipality.



Tax Harmonization: Rules are also created for the harmonization of other municipal taxes other than the tax on economic activities, and for state taxes and for such purposes rules are provided for land valuation such as the annual review of cadastral tables, rules for vehicle taxes instruments credit and means of payment, among others.

Benefits to New Entrepreneurs: It is established that the sum of all municipal taxes applicable to entrepreneurs may not exceed 1 percent of the gross annual income obtained by them. Municipalities are urged to establish a simplified tax regime consisting of a single rate depending on the economic activity and the volume of annual sales, and will be governed by the same procedure for its determination, declaration, liquidation, payment, collection, control and inspection.

Rates: The values of the state and municipal rates will be adjusted to a Table of Values by type and may not exceed the following limits:

Rate Type	Limit
Comprehensive waste and solid waste management rate	Up to the amount established in accordance with the special law that regulates the matter
General inspection fee	Up to 0.10 times the Exchange Rate Currency higher value (TCMMV) BCV per M2 of extension or area of the establishment
Inspection fee for the sale of spices and alcoholic beverages	Up to 0.20 times the TCMMV BCV per M2 of extension or area of the establishment
Rate of obtaining copies and documentary certificates	Up to 1 times the TCMMV BCV for the first page of the document and up to 0.40 times the TCMMV per additional page
Fee for the process of granting licenses, permits, authorizations, conformity and solvency	Up to 15 times the TCMMV BCV
Fee for maintenance of the license or authorization for the exercise of economic activities	Up to 15 times the TCMMV BCV
Fee for use of public goods	Up to 0.10 times the TCMMV BCV per M2 of extension or area, per day of use
Fee for conservation and use of land roads	Up to the amount established in accordance with the special law that regulates the matter
Fee for service authorization	Up to 100 times the TCMMV BCV
Fee for nonemergent services	Up to 150 times the TCMMV BCV



Electronic Tax Stamps and Limit Amounts: The states must implement the electronic fiscal stamp, which constitutes an instrument of different denomination that will be issued by the state tax authorities through an automated system. The amount required for fiscal stamps, stamps and sealed paper, for each procedure or request, may not exceed the following limits, depending on the type of taxpayer:

Person	Maximum Limit
Natural person	Up to 10 times the Exchange Rate Currency greater BCV Value
Legal person	Up to 10 times the Exchange Rate Currency greater BCV Value

Repealing Provision: Once the law enters into force, all regulations containing tax rates other than those established by the Constitution and this law will be repealed.

Validity: This law will enter into force 90 days after the date of its publication in the *Official Gazette* of the Bolivarian Republic of Venezuela. However, the provisions related to the creation and attributions of the Higher Tax Harmonization Council, including the attribution of the People's Ministry of Economy and Finance to dictate the Tables of Values established in the law, will enter into force with the publication of the law in the respective *Official Gazette*.

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