OECD Tax Policy Reviews: Peru 2026

OECD Tax Policy Reviews: Peru 2026

This work is issued under the responsibility of the Secretary-General of the OECD, and does not necessarily reflect the official views of OECD Member countries.

This document, as well as any data and map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Note by the Republic of Türkiye
The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Türkiye recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Türkiye shall preserve its position concerning the "Cyprus issue".

Note by all the European Union Member States of the OECD and the European Union
The Republic of Cyprus is recognised by all members of the United Nations with the exception of Türkiye. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

Kosovo*: This designation is without prejudice to positions on status, and is in line with United Nations Security Council Resolution 1244/99 and the Advisory Opinion of the International Court of Justice on Kosovo's declaration of independence.

Please cite this publication as:
OECD (2026), *OECD Tax Policy Reviews: Peru 2026*, OECD Tax Policy Reviews, OECD Publishing, Paris, https://doi.org/10.1787/47e6c63e-en.

ISBN 978-92-64-51520-8 (print)
ISBN 978-92-64-71482-3 (PDF)
ISBN 978-92-64-37443-0 (HTML)

OECD Tax Policy Reviews
ISSN 2707-7691 (print)
ISSN 2707-7705 (online)

Photo credits: Cover © Mario Segovia Guzman/Shutterstock.com.

Corrigenda to OECD publications may be found at: https://www.oecd.org/en/publications/support/corrigenda.html.

Foreword

OECD Tax Policy Reviews provide independent, comprehensive and comparative assessments of OECD Member and non-Member countries' tax systems. By benchmarking countries' tax systems and identifying tailored tax policy reform options, the main objective of the reviews is to enhance tax policy design and to support the adoption and implementation of tax reforms. This report was funded by the Swiss State Secretariat for Economic Affairs (SECO).

The report provides an assessment of Peru's current tax system as well as tax policy reform recommendations. It is divided into six chapters, starting with a chapter that summarises the findings (Chapter 1), followed by topic specific chapters focused on the nexus between economic growth and tax revenues (Chapter 2), tax expenditures (Chapter 3), payroll taxes and mandatory benefits (Chapter 4), the personal income tax design (Chapter 5), and the design of special economic zones (Chapter 6).

The report was written jointly by David Whyman, Yannic Rehm, Gioia de Melo and Bert Brys, and led by Gioia de Melo under supervision and guidance provided by Bert Brys, Head of the Country Tax Policy Unit at the Tax Policy and Statistics Division of the OECD Centre for Tax Policy and Administration. At the OECD Centre for Tax Policy and Administration, the report was prepared under the leadership of the Director, Manal Corwin, the Deputy Director, Ben Dickinson, and the Head of the Tax Policy and Statistics Division, Kurt Van Dender.

The analysis in the report is based on discussions with national stakeholders and partners in Peru, notably during the project team's mission to Lima in February 2026. The report also benefitted from written and oral comments by national stakeholders during bilateral meetings in Paris in May 2026, as well as various online meetings and presentations.

The authors would like to thank Ana Cinta González Cabral, Diana Hourani, Edoardo Magalini, Pierce O'Reilly, Laura Stefanelli and Andrew Viola from the OECD Centre for Tax Policy and Administration, Paula Garda from the OECD Economics Department and Carlos Lever, International Monetary Fund consultant for their helpful comments. The authors are grateful to authorities of the Ministry of Finance (MEF) and National Superintendence of Customs and Tax Administration (SUNAT) for their for their support in the development of this study. They would also like to express their gratitude to all government officials whose insights enhanced this report, with special thanks to Miryam Yepes, Irene González, Zulema Calle, Joao Pérez, Eduardo Sotelo from MEF, and Domingo Neyra, Reynaldo Torres and Carlos Rojas from SUNAT for their active involvement and support throughout the project.

Table of contents

FIGURES

INFOGRAPHICS

TABLES

Abbreviations and acronyms

ASM	Artisanal and small-scale mining
BEPS	Base erosion and profit shifting
CIT	Corporate income tax
CTS	Severance savings accounts (*Compensación por tiempo de servicios*)
EET	Exempt–Exempt–Taxed tax treatment
ENAHO	National Household Survey (*Encuesta Nacional de Hogares*)
EsSalud	The Social Health Insurance (*Seguro Social de Salud*)
ETR	Effective tax rate
FHTP	Forum on Harmful Tax Practices
GDP	Gross domestic product
IGV	Value added tax (*Impuesto General a las Ventas*)
ILO	International Labour Organization
IMF	International Monetary Fund
INEI	Institute of Statistics and Informatics (*Instituto Nacional de Estadística e Informática*)
ISC	Excise Tax (*Impuesto Selectivo al Consumo*)
LAC	Latin America and the Caribbean
LME	London Metal Exchange
MEF	Ministry of Economy and Finance (*Ministerio de Economia y Finanzas*)
MILA	Integrated Latin American Market (*Mercado Integrado Latinoamericano*)
MINCETUR	Ministry of Foreign Trade and Tourism (*Ministerio de Comercio Exterior y Turismo*)
MINEM	Ministry of Energy and Mines (*Ministerio de Energía y Minas*)
MNEs	Multinational enterprises
MYPE	Small and Medium Enterprise (*Micro y Pequeña Empresa*)
NRUS	New United Simplified Tax Regime (*Nuevo Régimen Único Simplificado*)
PIT	Personal income tax
PRODUCE	Ministry of Production (*Ministerio de la Producción*)
QDMTT	Qualified Domestic Minimum Top-up Tax
REINFO	Integral Registry of Mining Formalization (*Registro Integral de Formalización Minera*)
RER	Special Income Tax Regime (*Régimen Especial de la Renta*)
RG	General regime for business taxation (*Regimen General*)

RMT	SME Tax Regime (*Régimen MYPE Tributario*)
RUC	Unified Taxpayer Registry (*Registro Único de Contribuyentes*)
SIS	The Integral Health Insurance (*Seguro Integral de Salud*)
SME	Small and medium-sized enterprise
SSC	Social security contribution
SUNAFIL	National Superintendence of Labour Inspection (*Superintendencia Nacional de Fiscalización Laboral*)
SUNAT	National Superintendence of Customs and Tax Administration (*Superintendencia Nacional de Aduanas y de Administración Tributaria*)
TE	Tax expenditure
TEE	Taxed–Exempt–Exempt tax treatment
UIT	Tax Unit Value (*Unidad Impositiva Tributaria*)
VAT	Value added tax *(Impuesto General a las Ventas – IGV)*
ZED	Economic development zones (*Zonas Económicas del Desarrollo*)
ZEEP	Special privately-operated economic zones (*Zonas Económicas Especiales Privadas*)

Executive Summary

At 16.3% of GDP in 2024, Peru's tax-to-GDP ratio remains low compared to other countries in Latin America and the Caribbean (LAC). This persistently modest revenue performance is due to various tax-related factors, including high levels of labour and firm informality, weaknesses in tax compliance and enforcement and the increased use of tax expenditures (TEs) to achieve policy objectives that may be better realised through spending. In addition, certain tax design features contribute to this outcome, such as the highly schedular structure of the personal income tax (PIT), and specific provisions in simplified regimes that hinder formal business growth. Improving the design of Peru's tax system is essential not only for increasing revenue and ensuring fiscal sustainability in the medium term, but also for supporting greater public investment and social spending.

Despite three decades of robust economic growth, Peru has not been able to generate a sustained increase in its tax-to-GDP ratio, which has fluctuated between 15 and 19%. Peru's tax revenues remain highly volatile, mostly reflecting fluctuations in mineral prices**.** Mining-related tax revenues have not contributed to a persistently higher tax-to-GDP ratio over the medium term. Trends observed in 2023 and 2024 may suggest that revenues from the mineral sector can no longer be expected to rise, even in a period of high prices, which may highlight underlying vulnerabilities linked to non-compliance, tax avoidance and informal and illegal mining. Making sure other growth sectors besides mining, such as agro-exports and tourism, contribute adequately to increasing the tax-to-GDP ratio is key to improving long-term tax buoyancy.

There is scope for Peru to strengthen its tax system to better support growth, equity, and revenue mobilisation. Reforms should focus on restoring the link between economic growth and tax revenues by broadening the tax base and increasing the number of businesses and workers within the reach of the tax system, but also on improvements to tax design. Key priorities include rationalising widespread TEs such as the reduced corporate income tax (CIT) rate for the agriculture sector and the VAT reduced rate for hotels and restaurants, taxing capital income at slightly higher rates and reducing the high basic tax allowance that applies to labour income. Over time, Peru could move away from its overly schedular personal income tax system by introducing a dual progressive income tax system that taxes employment and capital income separately under their own progressive tax rate schedules.

Peru's tax system is often used to address challenges that originate outside the tax domain. Income-based tax incentives are frequently used to offset structural issues such as inadequate infrastructure and skills shortages. While tax incentives may under certain circumstances incentivise investment, an overreliance on such measures risks eroding the tax base without addressing the underlying constraints on investment and growth. In line with the principles of Norm VII of Peru's tax code, which restricts the use of tax expenditures, these challenges are generally more effectively addressed through targeted public spending. Special regimes and TEs intended to support small and medium taxpayers are often too generous and not effective at encouraging formalisation. Peru's experience also

highlights the difficulty of phasing out ineffective TEs, which are often extended despite indications of their limited effectiveness. Examples include the Special Development Zones regime and reduced VAT rates for restaurants and hotels.

There is significant scope to improve the design of the new Special Economic Zones (ZEEPs), which are managed by private operators. The ZEEPs regime must be carefully designed and effectively governed from the outset. The ZEEPs preferential tax regime should be evaluated in light of the Global Minimum Tax, in particular if the design of the ZEEP regime continues to include generous income-based tax incentives. Peru could consider using more detailed, industry-specific eligibility criteria to target additional investment that generates positive spillovers to the domestic economy and to prevent the ZEEPs from eroding the domestic tax base and/or creating unfair competition with domestic industries located outside these zones. However, the success of industry targeting is not guaranteed, also because deciding on the eligible industries is a challenging exercise. Furthermore, to enable this special regime to become a significant driver of economic growth, it should be implemented alongside broader reforms that address other key barriers to investment.

Expanding enforcement efforts to the informal sector is essential to broaden the tax base over time, even if it may not maximise revenue collection in the short term. Tax enforcement is an integral part of a whole-of-government approach to formalisation, aligned with efforts to address challenges at their source. For many informal entrepreneurs, the main reason for remaining informal is not an inability to pay taxes, but rather the lack of compelling reasons to register their business as the risk of detection might be low. Understandably, SUNAT, the tax administration, has prioritised short-term revenue mobilisation, which may result in insufficient resources being allocated to monitoring harder-to-tax segments, such as businesses and entrepreneurs in simplified regimes, despite their importance to the future tax base. A key priority must be to address the significant fraud linked to the issue of fabricated VAT invoices issued by inactive companies, including through the regulation governing the classification of entities lacking operational capacity. These schemes enable firms to claim undue refunds, undermining revenue collection, and facilitating the export of informal or illegal production in the mining sector.

Reducing labour informality requires a coordinated, whole-of-government approach that recognises the strong links between labour, social protection, and tax policies. A whole-of-government approach also requires addressing broader economic constraints such as low levels of education, skills and productivity, as well as weaknesses in institutional quality**.** Reducing non-wage labour costs alone is unlikely to significantly reduce informality if other underlying factors are not addressed. For instance, labour informality is widespread among microenterprises, which already benefit from reduced obligations, with the additional cost of formally employing a minimum wage worker under the microenterprise regime amounting to only 1.3% of the minimum wage. Therefore, reforms should combine reducing non-tax, non-wage labour costs with simplifying labour regulations, providing stronger incentives for formalisation, and enforcing the labour and tax rules more effectively. In this context, enhancing the labour inspection capacity of the National Superintendence of Labour Enforcement (SUNAFIL) is critical. This will require improved procedures and additional resources. There may be scope to reduce non-wage labour costs in the general labour regime where total mandatory employer payments can amount to 50% of the wage for a minimum-wage worker. In a context where the level and design of labour costs matter, it is particularly important to revise the design of profit-sharing rules to avoid the discrete shift that occurs when firms exceed 20 workers. Integrating RMT and RER regimes into one single, simplified regime for SMEs, with profits as the tax base, would incentivise companies to declare their workers. The reform measures recommended in this report should be evaluated over time to assess their effectiveness and, where necessary, complemented by additional measures, including tax policy adjustments.

Strengthening the financing of the social protection system, and ensuring that this leads to an improvement in the quality of the benefits provided, is integral to reducing informality in Peru. The quality and effectiveness of public spending and social protection are perceived to be poor, which undermines incentives for voluntary compliance. These dynamics reinforce each other: a lack of compliance reduces the tax revenues needed to strengthen social protection, creating a cycle that is difficult to break. A first step to improve the financing of the main contributory health insurance scheme, EsSalud, would be to broaden the base of health social security contributions. Aligning contribution rules across the public and private sector and transferring health contributions on bi-annual bonus payments to EsSalud would promote consistency. While these measures would reduce take-home pay, incentives to formalise could be strengthened if the additional revenue is used successfully to improve the quality and perceived value of social protection. Furthermore, progress in formalisation is a key determinant of the sustainability and adequacy of the social protection system, not only by strengthening contributory schemes but also by supporting non-contributory programmes through increased general tax revenue.

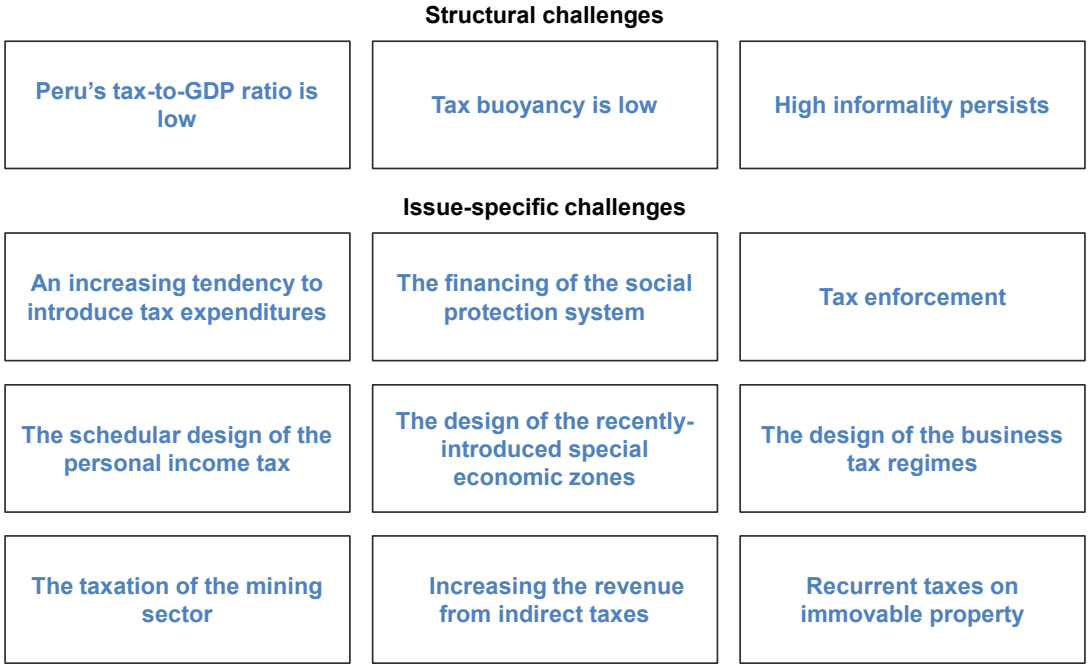
1 Main tax policy challenges

This chapter presents Peru's main tax policy challenges and proposes a series of policy recommendations to address them. The chapter introduces measures to gradually increase Peru's tax-to-GDP ratio, primarily by reducing informality and by strengthening the design of the tax system and the functioning of the tax administration, including through enhanced tax enforcement. The chapter also examines the risks associated with the recent increase in the use of tax expenditures, discussing ways to improve governance and oversight alongside considerations relating to the implementation of the new special economic zones. In addition, the chapter explores policy options to enhance the financing of the social protection system, improve the taxation of the mineral sector, and reform the schedular personal income tax system, the simplified business tax regimes, and the indirect tax system, and introduce measures to strengthen the financing of subnational governments.

Introduction

This chapter outlines the three main challenges that Peru's tax system is facing, as well as nine additional challenges, and provides policy recommendations to address them. The chapter is divided into 12 sections, each of which focuses on a particular tax policy challenge. Many of these challenges are cross-cutting and interrelated, highlighting the need for a coherent and coordinated approach to reform. The identified challenges and associated recommendations aim to mobilise additional revenues in Peru while enhancing horizontal and vertical equity and avoiding adverse effects on economic growth. Several of the challenges examined in this chapter are considered in greater depth in subsequent add-on chapters, which offer a more detailed analysis and additional tax policy recommendations.

Infographic 1.1. Peru's main structural and issue-specific tax policy challenges



Source: OECD.

Challenge 1: Peru's tax-to-GDP is low

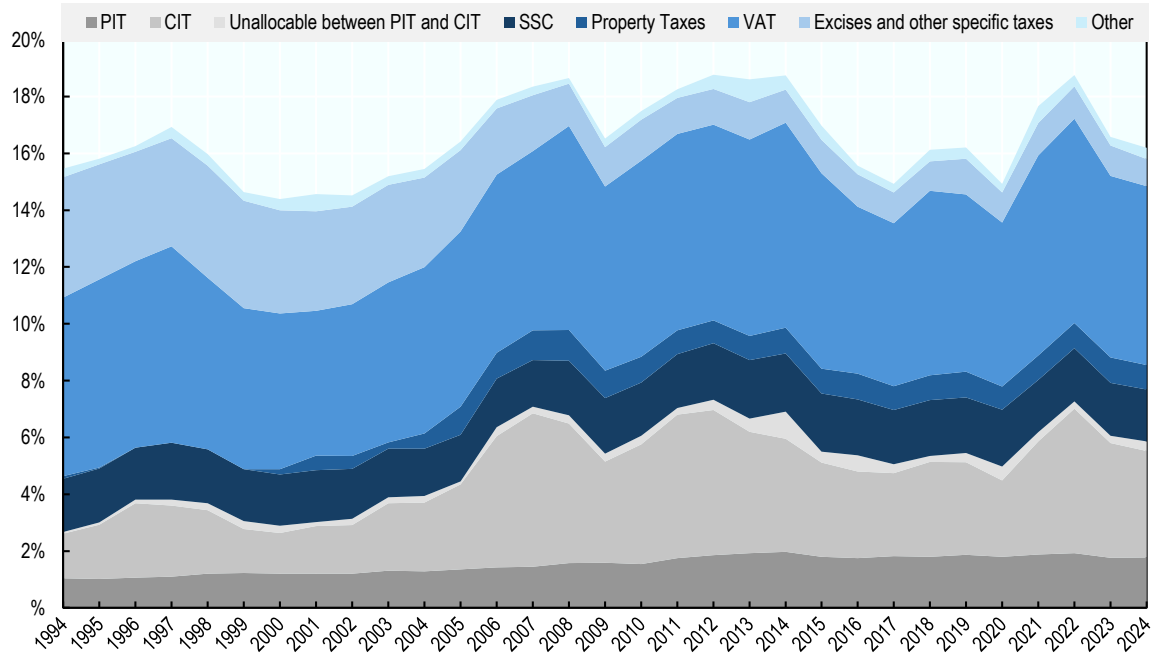
Peru's tax-to-GDP ratio was 16.3% in 2024, which is low by international standards. The tax-to-GDP ratio in Peru is lower than in every OECD country and below the LAC average of 22%. It also remains below the average OECD tax-to-GDP ratio (24.8%) at the time OECD countries reached a comparable GDP per capita level to Peru's level today (OECD, 2025[1]; OECD et al., 2026[2]). Furthermore, despite several decades of sustained economic growth, Peru's tax-to-GDP ratio has not shown a sustained upward trend. Instead, it fluctuated considerably within a range of 15-19% between 1994 and 2024 (see Figure 1.1), despite a substantial increase in GDP per capita over the same period.

Peru's low tax-to-GDP ratio is primarily driven by high levels of informality and limited tax compliance. Additional contributing factors include specific choices in the tax system design, as well as the impact of tax expenditures (TEs). In recent years, Peru's CIT and VAT non-compliance rates have ranged from 33-55% and 28-38%, respectively (SUNAT, 2024[3]; SUNAT, 2022[4]). Had there been no non-compliance with these two taxes, Peru's tax-to-GDP ratio would have reached 23.5% in 2021.[1] In addition,

the persistently high level of labour informality (around 70%) limits the contribution of SSCs and PIT to total tax revenue (see Figure 1.1) (INEI, 2026[5]). TEs further erode Peru's revenue mobilisation. In 2025, the foregone revenue due to TEs was estimated to be 2.2% of GDP (SUNAT, 2025[6]); however, these estimates do not yet fully capture the recent trend towards the introduction of additional TEs. In addition, certain features of the tax policy design contribute to the relatively low tax-to-GDP ratio.

Figure 1.1. The tax-to-GDP ratio and tax structure in Peru

Tax revenue as a percentage of GDP by tax type, 1994-2024



Notes: SSC refers to social security contributions.
Source: OECD Revenue Statistics.

Without a sustained increase in tax revenues, Peru risks widening fiscal deficits and a rapid increase in public debt, which raises concerns about fiscal sustainability in the medium term. Peru's tax-to-GDP ratio is already lower than its expenditure-to-GDP ratio, as evidenced by a fiscal deficit of 2.2% of GDP in 2025 (Ministry of Economy and Finance of Peru, 2025[7]). Furthermore, the recorded deficit for 2025 was offset by one-off deficit-reduction measures, such as a tax amnesty, the sale of state assets, and the use of the El Niño reserve fund in a non-El Niño year. This suggests that the actual fiscal shortfall in 2025 was considerably larger than 2.2% of GDP. In October 2025, Peru's Fiscal Council projected that the country's fiscal deficit would remain above 3% of GDP over the next decade. Consequently, the public debt-to-GDP ratio is projected to rise to almost 50% by 2036, up from approximately 30% currently (Merino and Murga, 2025[8]).

Strengthening tax revenues is essential to support medium-term fiscal sustainability and create the fiscal space needed to support growth-enhancing public investment and social spending in Peru. Inadequate provision of public goods can hinder stronger and more inclusive economic growth. For example, increased spending on education in Peru could improve workforce skills and strengthen labour productivity (OECD, 2025[9]). Furthermore, additional spending on infrastructure is required to reduce high logistics and transport costs (IMF, 2025[10]). Spending in these two areas could stimulate business investment and boost productivity. Furthermore, increased spending on public health and social protection

could improve well-being and equity (OECD, 2025[11]). Implementing the recommended increases in expenditure in these areas, particularly given Peru's existing fiscal shortfall, would also require raising the tax-to-GDP ratio. However, the benefits of increased spending depend on the efficiency of public spending and, more broadly, on the government's ability to translate higher revenues into improved social and economic outcomes.

There is a tendency among policymakers to rely on TEs to achieve policy objectives that could be delivered through other mechanisms without eroding the tax base. According to the Fiscal Council of Peru, as of October 2025, a total of 38 laws creating or expanding TEs had been approved during the 2021-2026 legislative session. The process through which these TEs have been designed and introduced deviates from the good governance practices mandated in Norm VII of the tax code. Notably, the opinion of different directorates within the Ministry of Economy and Finance (MEF) is often not sufficiently considered when new measures are implemented, including the ex-ante evaluation of their revenue impact. Moreover, there has been a substantial increase in the use of profit-based tax incentives, such as reduced tax rates and tax holidays. Annex A presents international evidence on the effectiveness of these types of tax incentives. The recently approved TEs risk failing to achieve their objectives, forgoing tax revenue on economic activities that would still have occurred in their absence and, over time, putting pressure on the country's fiscal stability. Recommendations to address these issues are discussed in more detail in the subsection on TEs in this chapter (Challenge 4), and in Chapters 3 and 6.

Informality and non-compliance remain high. Around 70% of Peru's labour force is informal (INEI, 2026[5]). This high level of labour informality, which has not decreased substantially in over a decade, narrows in particular the base of social security contributions (SSCs) and personal income tax (PIT). Combined revenues from these taxes amounted to just 4% of GDP in 2023 and represented a smaller share of the tax mix than in the average LAC or OECD country (OECD, 2025[1]). Additionally, high levels of business informality in certain sectors result in significant CIT and VAT non-compliance.

Poor quality public spending undermines tax morale and reduces voluntary compliance, as taxpayers perceive an imbalance between the taxes they pay and the level and quality of public services that government provides in return. Firstly, the provision of public services, particularly by subnational governments and in remote areas, is often considered inadequate (IMF, 2025[12]; IMF, 2025[10]). Peru exhibits a relatively low level of spending efficiency, creating the impression that paying additional taxes will not result in a significant improvement in public services (OECD, 2025[9]). For example, although Peru allocates the highest percentage of GDP to infrastructure, compared to peer countries, it is perceived as having the poorest infrastructure quality (OECD, 2025[9]). Secondly, the contributory healthcare system for formal sector workers, EsSalud, is not perceived to deliver higher quality services than the non-contributory healthcare scheme, SIS, which covers low-income households, independent workers, and microenterprise workers at low contribution rates. Alongside efforts to increase tax revenue, attention must be given to improving the capacity of subnational governments, the quality of contributory social protection for formal sector workers, and the efficiency of tax collection and spending. While these objectives must be considered in their own right, they must also be considered as part of a strategy to increase tax morale and tax compliance.

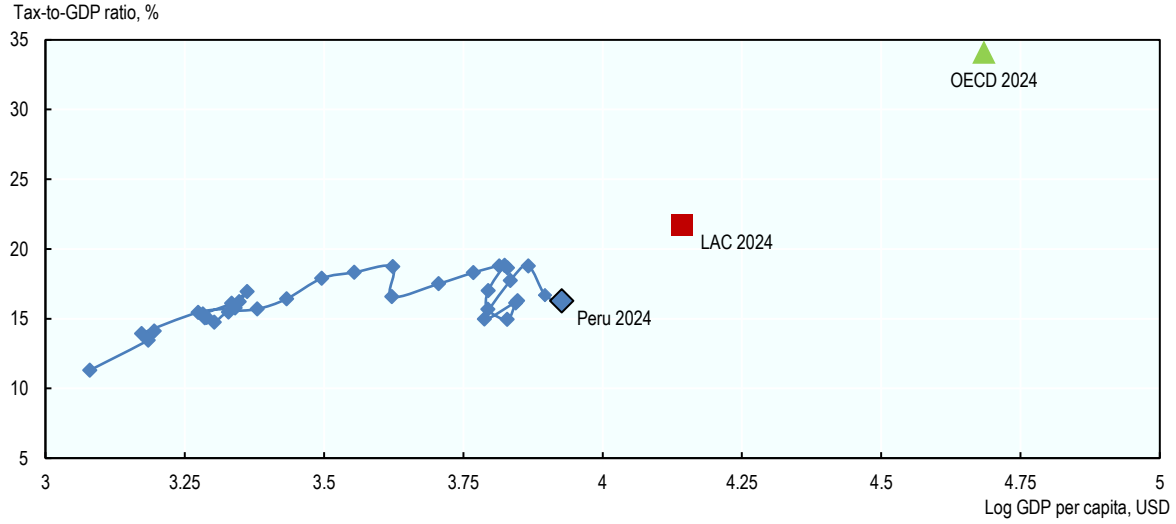
In the absence of robust enforcement, high levels of non-compliance and low tax morale tend to reinforce each other. Firms that employ informal workers are very unlikely to be detected (Bosch et al., 2026[13]). This indicates weaknesses in the enforcement of labour regulations, which will be discussed later in this chapter. Furthermore, Peru's tax administration's (SUNAT) natural emphasis on current revenue collection may entail trade-offs with investment in monitoring the informal sector and taxpayers in the presumptive and simplified tax regimes, which constitute tomorrow's tax base. High levels of tax evasion, coupled with the widespread presence of partially or fully informal firms and workers, contribute to inequities and undermine the level playing field in the economy. Firms that meet their tax obligations may be at a disadvantage when competing with non-compliant businesses, which can reduce incentives for

compliance more broadly. This affects tax morale and reduces voluntary compliance, including among firms that would otherwise be willing to comply.

Challenge 2: Tax buoyancy is low

Peru's past economic growth has not translated into sufficient revenue growth to increase Peru's tax-to-GDP ratio. Over the 2004-2024 period, Peru experienced sustained economic growth: GDP per capita increased by 84%, growing by an average of 3.2% per year in constant prices. However, the tax-to-GDP ratio in 2024 is close to its 2005 level of 16% (SUNAT, 2026[14]; OECD et al., 2026[2]). Increases in GDP per capita typically reflect higher productivity and profitability, implying a strengthening of the overall tax base and an enhanced capacity to mobilise tax revenues across the economy. Ideally, such long periods of sustained economic growth would automatically generate increases in the tax-to-GDP ratio. Without such a trend, Peru's tax-to-GDP ratio will not converge with the averages for LAC or the OECD in the long term, even though its GDP per capita will (possibly) do so (Figure 1.2). This pattern is particularly notable in the context of the fiscal shortfall and rising expenditure needs discussed above. As discussed below, this suggests a low "tax revenue buoyancy" and reflects growth in sectors marked by high informality and non-compliance, as well as in activities subject to low effective tax rates alongside high volatility in mining revenues.

Figure 1.2. Evolution of tax-to-GDP ratio and GDP per capita in Peru, 1990-2024



Note: GDP per capita is log base 10. The red dot represents the average tax-to-GDP ratio and GDP per capita among countries in the LAC region for which 2024 data was available in the OECD Revenue Statistics Database. The green triangle represents the 2024 average tax-to-GDP ratio and log GDP per capita among OECD countries.
Source: World Bank GDP Database, OECD Revenue Statistics Database.

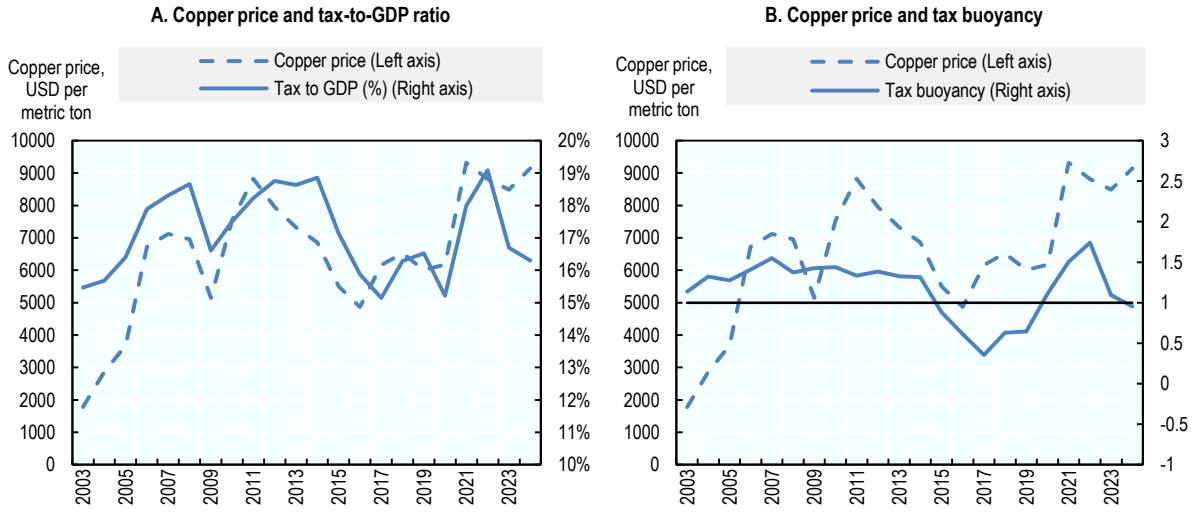
Tax revenues are volatile and the tax revenue buoyancy is low on average over time

Tax buoyancy measures the extent to which economic growth translates into tax revenue growth. Tax buoyancy is defined as the ratio of tax revenue growth to GDP growth. To increase the tax-to-GDP ratio, Peru would need to achieve a tax buoyancy ratio greater than 1 over time. This means that revenue must increase faster than GDP. A tax-to-GDP ratio that remains unchanged despite economic growth, as observed in Peru, suggests that the long-run tax buoyancy is close to 1.

Tax revenues in Peru are volatile, and short-term fluctuations appear to be driven largely by mineral price cycles. The tax-to-GDP-ratio in Peru has fluctuated within a band of 15-19%, closely following the price of minerals (Figure 1.3). Rising mineral prices lifted the tax-to-GDP ratio from 15% to 19% between the mid-2000s and the early 2010s amid strong economic growth. However, the ratio then declined from 19% to 15% between 2014 and 2017 as mineral prices fell. After the decline in mineral prices, the tax-to-GDP ratio did not rise to its previous level of 19% again until mineral prices increased in 2021-2022. Since then, the tax-to-GDP ratio has fallen and dropped to 16% in 2024, essentially returning to its 2005 level.

Historically, tax buoyancy exceeded 1 during mineral price booms but decreased when mineral prices declined. During 2003 to 2013, average tax buoyancy reached 1.4 (Figure 1.3). Had this level of buoyancy been maintained, Peru's tax-to-GDP would have surpassed the LAC average of 21% in 2019 and exceeded 24% in 2024. The following decade from 2014-2023 was characterized by an average buoyancy of less than 1 despite positive GDP growth in most years. This illustrates the difficulty of achieving sustained increases in the tax-to-GDP ratio in Peru over the long term. It also hints at a relatively low overall tax buoyancy in Peru (see Chapter°2).

Figure 1.3. Tax-to-GDP ratio, tax buoyancy and copper price over time

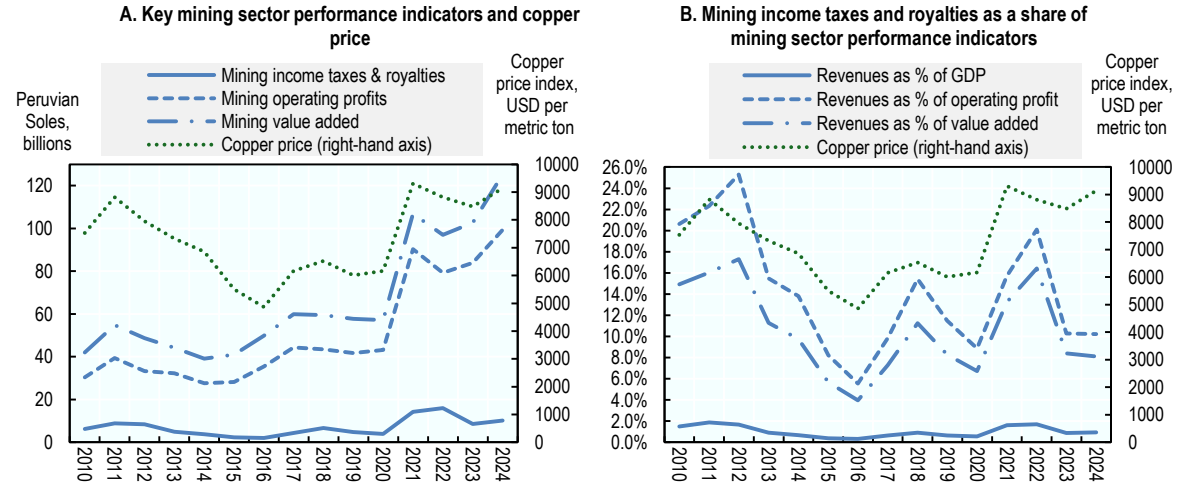


Note: Copper price is displayed on the left-hand axis. Tax-to-GDP or tax buoyancy are displayed on the right-hand axis in the respective panels. The tax buoyancy indicator is defined as the five-year moving average (lagged) of the annual tax buoyancy indicators. Note that the years 2009 and 2020 were omitted from the tax buoyancy panel and replaced with averages of the surrounding years in order to avoid one-off effects from the 2009 financial crisis and Covid pandemic. As such, the tax buoyancy level may be best interpreted as a medium-term indicator of the trend in the tax-to-GDP ratio.
Source: SUNAT, Central Bank of Peru, London Metals Exchange.

More recently, the data suggests a disconnect between mineral prices and tax revenues: the tax to-GDP ratio declined in 2023 and 2024, despite high mineral prices and positive economic growth. In previous periods of high mineral prices, such as 2011-2014, the tax revenue buoyancy remained at or above 1 so that tax revenues increased at least proportionally with economic activity when mineral prices were high. However, in 2023 and 2024, the tax-to-GDP ratio declined despite high mineral prices. This pattern is observed regardless of whether total tax revenue is considered or mining tax revenue.[2] For mining tax revenue, the pattern holds regardless of whether it is expressed as a percentage of GDP, mining sector operating profit or value added, or in absolute terms (see Figure 1.4). When expressed as a percentage of mining sector operating profits or value added, tax revenue on mining profits in 2023 and 2024 dropped to levels last seen in the late 2010s, when mineral prices were low. Operating profits and

value added in the mining sector are currently at record levels in line with elevated copper prices (see Figure 1.4).

Figure 1.4. Revenues from the taxation of mining profits and the copper price over time



Note: The left panel depicts the evolution of mining sector value-added, mining sector operating profits, and income taxes and royalties' revenue from the mining sector measured in billions of current Peruvian soles (left-hand axis) and the copper price (right-hand axis). Both the *Impuesto Especial a la Minería* and the *Gravamen Especial a la Minería* are included in these figures, in addition to revenue from the 3rd category of the income tax. The right panel depicts the evolution of revenues from taxes and royalties levied on the mining sector's profits as a percentage of GDP, as a percentage of mining sector value-added, and as a percentage of mining sector operating profits (left-hand axis) and the copper price (right-hand axis). The tax revenues data reflects taxes collected, which may differ from tax liability accrued, and excludes refunds. Royalties are included because they represent an important source of revenue in Peru even though the OECD Revenue Statistics Database does not include them in total tax revenues. A different mining tax regime, particularly with respect to royalties, applied only in 2010.
Source: SUNAT Statistics, Tables A11, A22, A2, INEI Supply and use tables, and London Metal Exchange.

The underlying causes of the decline in tax revenue from the mining sector in 2023 and 2024 warrant further investigation. If the disconnect between high mineral prices and mining tax revenue persists, it suggests that high prices alone can no longer be relied upon to temporarily boost the tax-to-GDP ratio, even during price booms (see Chapter 2). The decline in tax revenue could possibly be driven by illegal and informal mining, as well as the emergence of new avoidance patterns in the formal sector as well as BEPS risks (see Challenge 10). The decline in tax revenue cannot be attributed to changes in the tax regime, as it remained unchanged across the two periods. Nor does it appear to reflect increased depreciation allowances or the deduction of larger current expenditure, which would reduce the CIT base, since annual investment in new mining projects was high in 2011-2012, declined in 2015, and remained much lower throughout the 2020-2024 period (even in absolute terms) (MINEM, 2026[15]). Furthermore, the value-added in the mining sector and its operating profits more than doubled in absolute terms since 2011-2012 and continued to increase strongly in 2023-2024 (Figure 1.4). As mining royalties are levied at progressive rates that increase with operating profit margins, it was anticipated that the increase in tax revenues would exceed the increase in operating profits and persist beyond 2022, continuing into 2023 and 2024.

Smoothing the impact of volatile mining revenues on the budget may improve the quality of public investment and support growth

Implementing mechanisms to smooth the impact of the mining revenue volatility on the budget could improve the quality of public investment. As illustrated in Figure 1.4 and in Chapter 2, the volatility of mining tax revenue significantly contributes to volatility in the tax-to-GDP ratio. Between 2011 and 2024, tax revenues declined in seven out of twelve rolling two-year periods by amounts ranging from 0.4% to 1% of GDP, with drops exceeding 0.75% of GDP in four years during this period. Half of the CIT and royalties from mining, are allocated to districts through the canon system, along with other natural resource-based revenues. Districts are required to spend these revenues on public investment. For the average district, these natural resourced-based revenues account for 36% of the budget but fluctuate by almost 30% year on year (IMF, 2025[12]). Tying a significant portion of public investment to volatile funding sources may undermine expenditure quality. For example, the largest and most impactful infrastructure projects have long time horizons and require stable funding to be completed successfully. Amid revenue volatility, however, districts appear to opt for smaller, less impactful projects. The average public investment project size is approximately USD 600 000. Furthermore, projects may be abandoned or postponed when mineral revenues fall (IMF, 2025[12]). Indeed, nearly 60% of district projects that started before 2010 and were scheduled to be completed before 2024 were not finished by that date (IMF, 2025[12]). Although public investment projects may fail to be completed for various reasons, introducing a mechanism to mitigate the impact of year-on-year variations in mining revenues on public investment budgets could help to address these challenges.

Addressing long-run buoyancy and short-term downside volatility in the tax-to-GDP ratio

Strengthening the taxation of the non-extractive economy will be necessary to support tax buoyancy. Non-extractive sectors account for around 90% of GDP and have grown at an average annual rate of 3.3% in constant prices since 2011, suggesting an increased ability to pay taxes. However, their contribution to Peru's tax-to-GDP ratio has remained stagnant. To generate a sustained increase in the tax-to-GDP ratio, it is necessary to address long-standing informality, non-compliance, and other challenges that narrow the tax base and continue to undermine the translation of economic growth into revenue growth throughout the economy. The recent disconnect since 2023 between rising copper prices and falling tax to GDP ratio underscores this necessity, as it demonstrates that copper prices can no longer be counted on to temporarily boost the tax-to-GDP to more adequate levels (see Chapter 2).

A strategy to increase the tax-to-GDP ratio should focus on restoring the link between economic growth and tax revenue growth without harming economic growth. Increasing tax buoyancy and promoting strong economic growth are compatible goals. The period from 2003 to 2013 was characterised by strong economic growth, alongside increased tax compliance and, albeit modest, labour formalisation. During this period, the estimated VAT non-compliance rate fell from 49% to 30% but has hovered within 33-38% range since 2015 (SUNAT, 2024[3]). Similarly, the labour informality rate declined from 79% to 70% in the years leading up to 2013 but has remained at around 70% since 2014 (INEI, 2022[16]).

Strategies to strengthen tax buoyancy should prioritise broadening the tax base. There is limited scope for increasing tax rates. Previous analysis suggests that the main statutory rates of the CIT, VAT, and labour income taxes within the PIT are broadly in line with those of LAC peers and many OECD countries (IDB et al., 2023[17]). However, these tax rates do not generate as much revenue as a percentage of GDP as they do in LAC peers and OECD countries, primarily due to high levels of non-compliance and a large proportion of taxpayers operating within simplified tax regimes. The strategies for increasing tax buoyancy set out in this report primarily focus on measures to broaden the tax base. This includes bringing more businesses and individuals within the reach of the tax system, as well as limiting the introduction of new TEs that would further reduce the tax base (see the later sub-sections of this chapter for a more detailed discussion). There is also a need to strengthen anti-avoidance measures in many sectors, a topic

not discussed in depth in this report. There is also scope to adjust certain tax rates, including those on capital income and mining.

Challenge 3: High informality persists

Labour informality in Peru remains high and persistent. Around 70% of the labour force is employed informally, including 85% of the self-employed (INEI, 2024[18]; INEI, 2026[5]). Despite sustained economic growth and various efforts aimed at reducing informality, the level of informal employment has remained broadly unchanged since 2014. Overall, labour informality in Peru is significantly higher than in comparable countries and remains elevated relative to the country's GDP per capita (ILO, 2026[19]).

The drivers of informality differ across income groups. Labour informality in Peru is in many cases associated with low productivity and low incomes, and with workers that lack the financial capacity to pay taxes and contributions**.** One third of the self-employed in Peru are small informal agricultural producers, many of whom have very low incomes and low education levels (INEI, 2024[18]). The average informal agricultural worker in Peru received an income of less than S/ 700 e per month in 2023; i.e. 60% of the statutory minimum wage (ComexPeru, 2024[20]). Incomes can be even lower for workers in remote areas of the country. For example, the average income of an agricultural worker in Puno is below S/ 400, corresponding to just 36% of the statutory minimum wage or less than USD 120 per month (ComexPeru, 2024[20]). With incomes at such low levels, it is likely that these workers are informal because they cannot afford to pay the taxes and SSCs that formal workers do.

However, informality also persists in parts of the labour force where a lack of workers' ability to pay cannot explain why they are informal. For instance, over 55% of the self-employed in Peru with income in the top income decile are informal (World Bank, 2025[21]). The persistence of high levels of informality among these workers suggests that growth in higher-productivity sectors alone will not be sufficient to reduce informality across the economy. Stricter tax enforcement will also be required.

Substantial labour informality also occurs within Peru's formal sector. Around one-third of workers employed by formal businesses are informal, accounting for approximately one-quarter of all informal workers (INEI, 2024[18]). Informal employment also occurs in larger formal businesses. Among formal firms with 32 or more employees (the category most likely to be subject to the general tax regime) 19% of employees are informal (OECD, 2025[9]; INEI, 2024[18]).

A key priority is to strengthen the enforcement of labour laws in order to increase the probability of detecting firms that hire informal workers. One obstacle that Peru's labour inspection authority (SUNAFIL) faces in enforcing labour regulations and sanctioning non-compliant firms is insufficient resources. Peru has the fewest labour inspectors of any country in LAC, with fewer than 0.2 inspectors for every 10 000 workers, compared to 1.7 in Chile and 0.8 in Uruguay (Bosch et al., 2026[13]). The number of complaints exceeds the number of inspectors, and less than 0.1% of firms are inspected each year (Bosch et al., 2026[13]). Another limitation concerns targeting and inspection procedures: SUNAFIL typically only conducts an inspection once a formal complaint has been filed. By this time, the informal worker may already have left the firm, making it difficult to gather legally admissible proof of an employment relationship. SUNAFIL does not check the formal status of other employees at the same firm in these situations. Furthermore, SUNAFIL does not inspect firms that are not registered for tax purposes, which creates a large tax-induced incentive for firms who hire informal workers to be unregistered. It is recommended that funding is increased to hire more inspectors, and that the targeting of inspections and the procedures are strengthened. A key priority should be enhancing coordination between SUNAFIL and SUNAT, and beginning to monitor non-registered firms. While this effort may not be cost-effective in the short term, it is a strategic priority for increasing tax revenue in the medium and long term. Inspections could be targeted using financial and other information to identify firms most likely to hire informal workers. Financial information from SUNAT, as well as licensing information from municipalities, could be made

available, to improve SUNAFIL's targeting of enforcement activities. Indeed, studies indicate that increased enforcement is the most effective way to reduce labour informality (Bosch et al., 2026[13]).

Experience with the microenterprise labour regime in Peru shows that reducing the cost of formal hiring alone is insufficient to formalise the labour force. Even though the microenterprise labour regime reduces the benefits that increase labour costs to almost zero, many microenterprises and their employees remain in the informal sector. Under this regime, firms with sales of up to 150 UIT (approximately USD 250 000) are exempt from almost all non-wage labour costs, including employer SSCs. This threshold covers 94% of all businesses in Peru and over 8 million people, accounting for nearly half of the Peruvian labour force (PRODUCE, 2024[22]). The resulting labour tax wedge at the average wage amounts to just 1.3% of labour costs, compared to 18.1% under the general regime while most other benefits that increase labour costs do not apply under the microenterprise regime (see Chapter 4). Nevertheless, 88% of workers in firms eligible for the microenterprise regime remain informal (PRODUCE, 2024[22]). This outcome illustrates that reducing the cost of formal hiring alone is insufficient to generate meaningful reductions in labour informality.

Another example is the NRUS regime: despite the very low effective tax burdens it imposes on the natural persons with a business, informality remains high among this group. The Nuevo Regimen Unico Simplificado (NRUS) is a presumptive tax regime available to the individuals who own a small business with earnings below approximately 6 times the minimum wage. It excludes the liberal professions. NRUS taxpayers make a monthly flat tax payment of S/ 20 and S/ 50, applicable to gross monthly income up to S/ 5 000 and S/ 8 000, respectively. This payment replaces the CIT, PIT and VAT while pension and health contributions for the business owner are optional. NRUS taxpayers are also eligible for reduced SSCs under the microenterprise labour regime if they hire workers. Furthermore, the NRUS reduces the administrative burden of formalisation by eliminating the need for financial record-keeping or accounting books. Despite these substantial reductions in tax liabilities and compliance costs, informality among natural persons with a business remains very high.

Effective approaches to reducing labour informality should not only aim at reducing the costs of formalisation but also increase the benefits of formality and strengthen enforcement of both tax and labour regulations. A whole-of-government approach would also require reforms that enhance productivity, alongside strong education and skills systems. Crucially, it would depend on high institutional quality, the rule of law, and well-functioning public services (OECD, 2025[9]). For most informal entrepreneurs, the main reason for remaining informal is not an inability to pay taxes, but rather a lack of compelling reasons to register their business. Survey evidence from ENAHO shows that in 2021, only 2% of informal respondents mentioned an inability to bear the tax burden when asked about their reasons for remaining informal. Conversely, 49% of respondents indicated that they saw no reason to become formal (INEI, 2022[16]). This reflects both push and pull factors. Firstly, the probability of being detected and penalised for hiring informal workers (especially by microenterprises) is extremely low due to limited enforcement (Bosch et al., 2026[13]). Secondly, the benefits of formality are perceived as too small. In particular, there is little perceived difference in quality between formal and informal social protection. For example, formally individuals in the NRUS and formal microenterprise employees have access to the same health system (SIS) as their informal counterparts because no SSCs have to be paid under both regimes. Therefore, these workers do not obtain access to EsSalud, and informality rates are 88% and 83%, respectively, among these two groups. Therefore, a more effective formalisation strategy could focus on improving the quality of formal social protection, as well as strengthening labour enforcement.

Nevertheless, the cost of formal hiring remains high under the general regime and could act as a barrier to formalisation, even if this is not directly reflected in the tax wedge. This is because, although the labour tax wedge in Peru is not particularly high, it does not fully reflect the total cost of formal hiring in the country. For an average wage earner without children, the tax wedge including PIT and SSCs paid by both employers and employees amounts to 18.1% of labour costs under the general regime. This tax wedge is lower than in Mexico and Costa Rica, but similar to the tax wedge in Chile when non-tax

compulsory payments are taken into account (see Chapter 4). However, employers in Peru are also required to make a number of mandatory payments that are neither taxes nor SSCs and, therefore, are not included in the tax wedge. These include the biannual bonus, mandatory profit sharing, the family allowance and contributions to severance savings accounts (CTS). Once these payments are taken into account, the cost of formally hiring a minimum wage worker in Peru under the general regime can be about 50% higher than the statutory minimum wage and over 70% higher than the minimum wage in the agricultural sector, where an additional, sector-specific bonus applies (see Chapter 4). While these payments do not increase the tax wedge, they do raise the cost of formal employment, particularly around the minimum wage. Ensuring that the cost of formal hiring remains aligned with the productivity of the worker should form part of a comprehensive formalisation strategy, even where priority is given to increasing productivity, strengthening enforcement, simplifying regulatory frameworks, and enhancing the adequacy and quality of social protection and health insurance systems. While non-wage labour costs constitute an important determinant of informality, reducing these costs in isolation is unlikely to yield durable reductions in informality if other underlying drivers remain unaddressed.

Complex labour regulations may cause firms to perceive formal hiring as riskier than informal hiring. The probability of detecting a labour law violation is likely higher for a formal employee than an informal one, since legally admissible proof of the employment relationship already exists. This could cause formal firms to perceive formal hiring as riskier or more costly than informal hiring. These risks are exacerbated in tourism and agriculture, fishing and small-scale mining where worker turnover is higher due to seasonal work. Furthermore, the complexity of Peru's labour regulations makes them difficult to understand and interpret, increasing the likelihood of unintentional non-compliance (TMF, 2023[23]; OECD, 2019[24]). For instance, lengthy and onerous dismissal procedures are easily violated by accident, which can trigger severance obligations and lengthy, costly judicial proceedings. Peru may consider simplifying labour regulations and dismissal procedures and adjusting labour inspections and enforcement as part of a whole-of-government approach to strengthen formalisation.

Several features of Peru's tax system result in discrete increases in firms' tax liability as they grow and surpass certain thresholds. This can encourage informality. These thresholds can hinder growth and encourage firms to operate partially in the informal economy. Studies have found clustering around the threshold of employing 10 workers, which determines eligibility for the RER business tax regime (IMF, 2024[25]). Another example is the obligation to share profits with employees, which comes into effect once a firm has hired at least 21 formal workers (Legislative Decree 892). For an employer, the decision to hire the 21st worker formally might only be justified if that worker's labour productivity exceeds not only that worker's wage and non-wage costs, but also the additional costs imposed on the entire workforce through profit distribution. Put differently, formal firms are incentivised to hire informally beyond the 20th worker (World Bank, 2025[21]). Other documented behavioural responses to this threshold include firm splitting, temporary hiring, or delaying business growth (Tolentino, 2021[26]). Peru could consider basing the requirement for profit distribution for large firms on gross revenues rather than on the number of employees. However, while this would reduce the disincentive to formalise labour, it could also create an incentive to underreport revenues. Alternatively, Peru could redesign the system so that the profit-sharing rate increases gradually with either the number of workers or turnover. This approach would avoid discrete designs that would create greater disincentives to formalisation and firm growth by encouraging firms to remain below 21 workers or underreport employment. The rate could start at a low initial level and rise progressively to the current rate (see Chapter 4).

The Regimen Especial a la Renta (RER) may reduce incentives for labour formalisation, since labour costs cannot be deducted under a turnover-based tax regime. Under the RER regime, firms are taxed at a rate of 1.5% levied on their gross income (calculated net of returns and discounts but without deducting costs). While this design aims to reduce compliance costs, it implies that the size of the formal wage bill has no impact on the firm's tax liability. Eligibility for the RER extends to enterprises with up to ten workers per shift. Currently, 18% of taxpayers in category 3 are registered in this regime (SUNAT,

2026[14]). Formal businesses with six to ten employees, who are most likely to operate under the RER, demonstrate the highest rates of labour informality (50%) compared to smaller and larger firms that are ineligible for the RER (OECD, 2025[9]). These features suggest that turnover-based taxation under the RER could contribute to labour informality. Going forward, presumptive taxation based on turnover could be restricted to micro businesses under the NRUS.

However, for firms operating under the general CIT regime, the deductibility of costs may not constitute a sufficiently strong incentive to hire formal workers at the minimum wage level. This can be particularly the case in the agriculture sector, where firms benefit from a reduced tax rate. As previously noted, the cost of formally hiring a minimum wage worker in Peru under the general labour regime can be around 50% higher than the statutory minimum wage. Firms registered under the general business tax regime and subject to the 29.5% CIT rate may still find it more advantageous to employ a low-wage worker informally than to incur the additional non-wage costs under the general labour regime, even when all labour expenses are fully deductible from taxable income. This incentive is even stronger for firms in the agricultural sector, which face higher labour costs while benefiting from a reduced CIT rate of 15%. In this context, the savings in non-wage labour costs associated with informal hiring outweigh the reduction in CIT liabilities resulting from the deductibility of total labour expenses for the employer. Studies in other settings have found that firms take the statutory CIT rate into account when deciding how much of their wage bill to declare formally (Madzharova, 2011[27]). In effect, this implies that in settings where the enforcement of labour and tax obligations is relatively weak, labour informality within formal firms involves arbitrage between CIT liability and non-wage costs (including SSC liabilities).

In an environment of low enforcement, formal firms in the MYPE and general regimes may increase tax evasion through other means to compensate for their inability to deduct informal labour costs from the CIT base and to hide the turnover realised by the informal workers. Given the high rates of VAT and CIT non-compliance in Peru, formal firms that hire workers informally and, therefore, cannot deduct labour costs from the tax base, may be applying a range of other tax evasion techniques to reduce their CIT liability. These techniques could include fabricating invoices to increase reported costs or under-declaring sales to decrease reported income. This suggests that costly labour regulations and other factors that push firms towards informal hiring, which effectively constitutes non-compliance in the PIT and SSCs, may also contribute to non-compliance in the CIT and VAT.

The drivers of informality in Peru are diverse; strengthening the formalisation of the economy requires a whole-of-government approach supported by enhanced inter-agency co-ordination. The microenterprise and SME labour regimes are forgoing revenues without sufficiently formalising eligible workers. The regimes result in jump discontinuities in labour costs across their eligibility thresholds. These eligibility thresholds may be incentivising significant turnover underreporting, potentially eroding the CIT and VAT bases. However, reforming the special labour regimes to reduce their generosity or lower their eligibility thresholds carries risks. Unless enforcement of the tax obligations of small enterprises is strengthened, any reform might invite further evasion to meet the lowered eligibility thresholds or avoid the high non-wage costs under the general regime. An effective formalisation approach could prioritise first increasing tax and labour enforcement through a whole-of-government approach that involves coordination between government agencies. This could be complemented by reducing the regulatory burden on formal employment and the cost of formal hiring in the general regime while improving the quality of formal social protection.

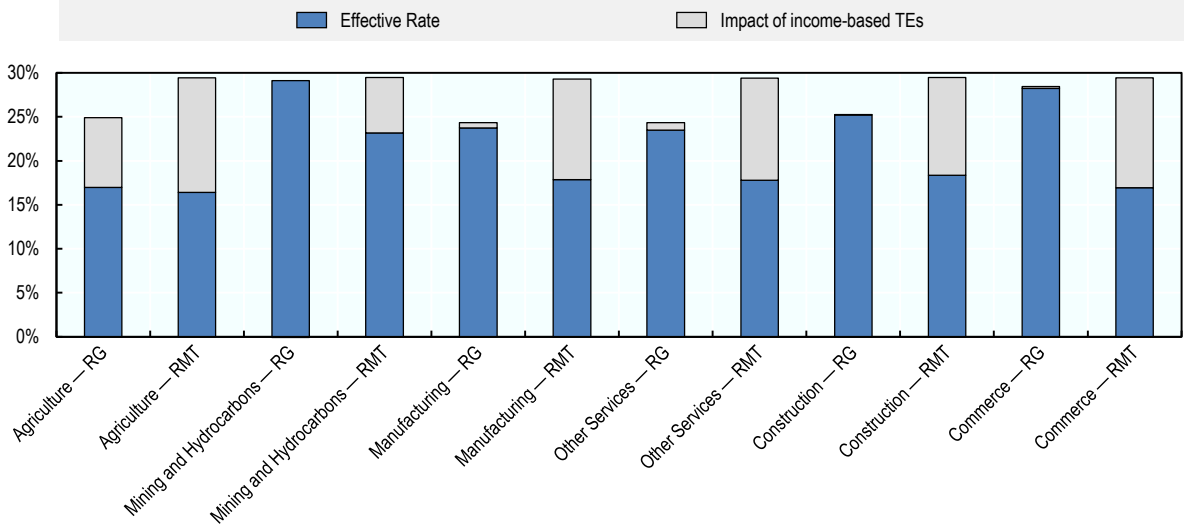
Challenge 4: An increasing tendency to introduce tax expenditures

Peru has taken an important step towards improving fiscal transparency by publishing a TE report that quantifies the revenue foregone from selected tax provisions. The estimated revenue foregone from all types of TEs in 2025 is relatively limited, at 2.2% of GDP (SUNAT, 2025[6]). This is partly due to

low take-up in the context of significant informality and tax non-compliance. As these structural challenges are addressed and the tax system becomes more effective, the fiscal cost of TEs is likely to increase. This highlights the need for ongoing monitoring and evaluation. Peru could consider refining the definition of the benchmark tax system used to identify TEs to allow for more comprehensive coverage of tax reliefs. This would further enhance tax transparency. For instance, Peru could identify all simplified regimes as TEs (see Chapter 3).

To date, the use of tax incentives under the CIT has been limited, accounting for just 0.12% of GDP and 3% of CIT revenues. This is partly due to high levels of business tax non-compliance. As previously mentioned, the estimated revenue forgone from CIT TEs appears low for another reason: this estimate does not take into account the revenue foregone under simplified regimes. In particular, the reduced rates embedded in the MYPE rate schedule could be considered a TE, but this is not currently quantified.[3] Figure 1.5 shows effective tax rates by sector compared to the rate that would apply in the absence of profit-based tax incentives.[4] Overall, the use of profit-based tax incentives under the CIT appears limited, with the notable exception of the agricultural sector, which has benefited from a reduced CIT rate of 15% since 2001.

Figure 1.5. Effective CIT rates in Peru, 2024



Note: The graph shows CIT ETRs calculated by SUNAT from the universe of 2024 tax return data in Peru (excluding lossmaking firms) by economic sector and regime. RG indicates the general regime and RMT indicates the MYPE regime. The height of the blue bar represents the actual tax liability of businesses once tax credits have been deducted) as a share of their profit before that profit is reduced by exempt income or enhanced deductions. The sum of the blue and grey bars represents a counterfactual ETR in the absence of profit-based TEs (e.g., no exempt income or sector-specific reduced rates are available). The counterfactual rate (sum of the blue and grey bars) does not reverse the impact of expenditure-based incentives and may therefore still be lower than the statutory CIT rate of 29.5%. The reduced rate of 10% applied to the first 15 UIT of profit in the RMT is considered as a profit-based TE although it is not currently measured in Peru's tax expenditures report.
Source: SUNAT.

The recently approved TEs could result in a significant loss of tax revenue. By October 2025, Peru's Congress had approved 38 laws creating new or expanding existing TEs since the start of the 2021-26 legislative period. According to the Fiscal Council of Peru, measures approved by December 2025 could result in revenue forgone up to 1.8% of GDP (Merino and Murga, 2025[8]). Given Peru's low tax-to-GDP ratio and existing fiscal shortfall, this potential fiscal cost is a cause of concern. Furthermore, despite being legally required to do so, no compensatory measures to cut spending or increase revenues elsewhere have been proposed to offset the fiscal cost of these TEs. This proliferation of TEs is occurring alongside

a broader expansion of fiscally costly measures, following a 2022 Constitutional Court ruling that expanded Congress's powers to enact measures involving public spending. During the 2021-2026 legislative session up to October 2025, Congress passed 221 fiscally costly laws by "insistence", thereby overruling the MEF's formal technical objections validated by the executive.

The adoption of new TEs and other legislation with fiscal costs is impacting Peru's fiscal outlook. Without the recent fiscally costly measures, the Peru's Fiscal Council estimates that Peru's deficit would be on track to converge to 1% of GDP in the 2030s, thus complying with Peru's fiscal rule and stabilising the debt-to-GDP ratio at 30% (Merino and Murga, 2025[8]). However, following the approval of legislation introducing new TEs and other costly measures in the current legislative session, the fiscal deficit is projected to exceed 3% of GDP throughout the 2030s. In addition, if all of the proposed legislation containing TEs and other costly measures is enacted, the deficit is projected to exceed 6% of GDP throughout the 2030s (Merino and Murga, 2025[8]). These projections are concerning because adherence to fiscal discipline has been a key factor in Peru's macroeconomic stability in recent decades.

The departure from mandated governance standards for TEs raises concerns

The creation of new TEs is increasingly deviating from the governance standards mandated by Peruvian law. Norm VII of Peru's tax code sets out the requirements for creating a TE. These include: (1) a clear objective, supported by an ex-ante impact assessment that demonstrates the TE's potential to achieve this objective; (2) quantification of the foregone revenue, alongside a proposal for compensatory fiscal measures to offset the revenue foregone; and (3) for any TE whose validity is to be extended, an ex-post impact assessment that demonstrates the TE's ability to achieve its objectives. These requirements are key to preserve the tax system's equity and simplicity, and are in line with international best practice regarding the effectiveness and fiscal sustainability of TEs (IMF-OECD-UN-World Bank, 2025[28]). Norm VII has strengthened coordination among public entities and across ministries within the Executive branch; however, it has not been effective in preventing Congress from enacting economically inefficient tax expenditure legislation. These requirements are rarely followed by Congress, as Congress can enact a TE that does not comply with Norm VII by "insistence". During the 2021-2026 legislative session, up to October 2025, 17 laws creating or expanding TEs were enacted by insistence. This is more than four times the number of such enactments during the equivalent portion of the previous three legislative sessions combined (Merino and Murga, 2025[8]). Additionally, in six cases, a law reducing public revenues was not reviewed by the MEF at any stage (Merino and Murga, 2025[8]). In approximately a dozen cases, laws that violate Norm VII were not explicitly objected to by the Executive, even though the MEF's technical analysis and assessment resulted in a negative opinion (Merino and Murga, 2025[8]). This can be partly explained by the fact that Norm VII of the tax code has the force of law, meaning it does not prevail over laws introducing TEs. Granting preferential status to Norm VII and thereby strengthening the MEF's role in the TE assessment, would therefore require a constitutional reform.

Phasing out TEs that fall short of their objectives has proven challenging in Peru, highlighting the risks of introducing new TEs without the required technical analysis. The difficulty of reforming existing TEs illustrates the importance of adhering to Norm VII and conducting ex-ante impact assessments to ensure TEs are correctly designed from the outset. In many cases, TEs have been extended without an ex-post impact assessment demonstrating their effectiveness, in breach of Norm VII (Ministry of Economy and Finance of Peru, 2022[29]). Even worse, certain TEs have been extended without reforms despite evidence showing that they are not achieving their objectives. This was the case for Peru's long-standing ZEDs. Law 30 446 extended tax benefits, including a 0% corporate income tax rate, for the ZEDs of Ilo, Matarani and Paita until December 2042, despite evidence indicating that these zones had not attracted substantial investment. Similarly, the reduced VAT rate in the tourism sector, which was originally introduced as an interim measure introduced during the Covid-19 pandemic to stimulate activity and job creation, was extended by Law 32 219 despite evidence showing that it had failed to stimulate sales or employment (World Bank, 2025[21]). The same applies to the drawback refund system for

exporters, which reimburses import duties vastly in excess of those actually paid (Cusato, Chavez and León, 2017[30]). The need to phase out ineffective TEs and to follow the criteria set out in Norm VII has been stressed by several MEF reports (Ministry of Economy and Finance of Peru, 2025[7]; Ministry of Economy and Finance of Peru, 2024[31]). Recommendations for reforming particular TEs are described in detail in Chapter 3.

The current reliance on TEs reflects an over-dependence on the tax system to address a wide range of issues

TEs are not necessarily the most suitable instrument for resolving the issues they are intended to address. In certain cases, the use of TEs might be warranted to achieve specific policy objectives. However, in many cases, these objectives can only be effectively achieved by addressing the underlying causes directly. Using the tax system to address these issues results in foregone tax revenues and partial solutions, if any. Norm VII stipulates that TEs should only be considered if they are likely to be more effective than any available spending option. Engaging the technical expertise of the MEF to assess whether proposed TEs meet this requirement could lead to more effective policy outcomes.

Despite public expenditure potentially being a more effective option, generous CIT exemptions and reduced rates are increasingly used to attract investment. International evidence suggests that CIT incentives can only increase investment once the key precursors to investment are already in place (see Annex A for a literature review). Evidence shows that even the most generous CIT exemptions fail to attract investment in an unfavourable investment climate. In such situations, the tax savings on pre-tax profits from an economic activity may not exceed the cost of investing in infrastructure and relocating labour to carry out that economic activity. Spending measures to improve infrastructure and increase skills may be preferrable to tax incentives. These considerations may be relevant to reduced CIT rates in the Amazon, as well as to the reduced CIT rates of forthcoming ZEEPs and tourism ZEDs (see Challenge 8, and Chapters 3 and 6).

The concept of 'smallness' is sometimes stretched, resulting in tax benefits being granted to companies that do not need them. For instance, the reduced VAT rate for tourism was justified as a means of alleviating the tax burden on small businesses; however, the definition of a small business under this scheme encompasses 99.5% of businesses (PRODUCE, 2024[22]). This definition of 'smallness', based on an annual sales threshold of 1 700 tax units (UIT)[5], or approximately USD 2.5 million, is used to justify reductions in various taxes, including PIT, CIT and VAT as well as administrative measures aimed at easing compliance, such as extending the filing deadline for the annual income tax return. Furthermore, businesses with a turnover of up to 150 UIT (approximately USD 234 000) can hire workers with significantly reduced social security contributions and non-wage labour costs under the MIPYME labour regime. TE proposals that are justified by the 'smallness' of the targeted taxpayers could benefit from a more data-driven approach and technical analysis by the MEF to inform their eligibility thresholds.

The recently passed and proposed TEs risk further weakening the link between economic growth and tax revenues, thereby reducing the tax-to-GDP ratio in future years. As CIT revenue collected under the general regime accounted for 20% of Peru's total tax revenue in 2024, the overuse of CIT TEs can have large revenue implications. Certain TEs grant fast-growing industries, such as tourism (Law 32 449) and agro-export (Law 32 434) generous reduced CIT rates. Growth in these industries will subsequently generate less additional tax revenue than in the past, reducing tax buoyancy in Peru. The reduced CIT rates in the ZEEPs could also result in foregone tax revenues if the investment they attract would otherwise have occurred under the general tax regime (see Chapter 6 for a more detailed discussion). Reduced VAT rates granted to particular sectors, such as restaurants and hotels (Law 31 556) also weaken tax buoyancy.

Challenge 5: Strengthening the financing of health insurance

Strengthening incentives for formalisation requires improving the attractiveness of services provided by EsSalud

The creation of the Seguro Integral de Salud (SIS) in the early 2000s led to a significant expansion in public health services and coverage (OECD, 2025[11])**.** The SIS currently covers around 60% of the population, primarily low-income individuals and informal workers. It is largely non-contributory; i.e. financed through general taxation. However, non-poor self-employed workers and micro-entrepreneurs may enrol by paying a modest contribution; these groups account for only a small proportion of SIS beneficiaries.

The mandatory contributory scheme EsSalud, which covers most formal workers, offers more comprehensive health coverage than the SIS. However, EsSalud's attractiveness is constrained by its underdeveloped healthcare infrastructure and long waiting times. EsSalud provides health insurance to formal workers and their dependents and to pensioners, covering approximately 26% of the population (OECD, 2025[11]). The insurance is mandatory under both the SME and general regimes and is financed through an employer contribution levied at a rate of 9%. Pensioners are subject to a 4% contribution rate. Although EsSalud offers a broader range of services than the SIS and private insurance schemes, access to care is often constrained by long waiting times. Peruvians covered by EsSalud often rely on hospital services, even for primary care, due to the limited availability of healthcare facilities (OECD, 2025[11]).

Although merging SIS and EsSalud could enhance efficiency, it could also further weaken incentives to formalise employment. The government has considered merging SIS and EsSalud for several years. However, such a reform involves significant trade-offs. While a merger could improve efficiency by increasing access to healthcare facilities for beneficiaries of both schemes, it could also reduce the incentives to formalise labour as discussed in (Nauerz and Torres, 2021[32]). These authors conclude that, although the expansion of the SIS improved welfare significantly, it had the unintended effect of increasing informality, as small businesses faced less pressure to formalise workers given that access to healthcare was provided for free.

In order to strengthen EsSalud's financial sustainability and thereby improve the quality of services offered, Peru could consider reinstating health contributions on the two bonus payments. To enhance the attractiveness of its services, EsSalud will require both improvements in spending efficiency and increased revenues. Formal workers are entitled to two annual bonus payments, each equivalent to one monthly salary. The law provided a temporary exemption from contributions levied on these bonuses for the years 2009 and 2010. However, it stipulated that the corresponding amount would still be paid by the employer and passed on to the worker, thereby increasing their take-home pay. This provision was subsequently extended and finally made permanent in 2015. According to an ILO study, eliminating this exemption would increase EsSalud's financial resources by 14.3% (ILO, 2023[33]). Peru could also consider levying health contributions on the CTS payment. However, such reforms that would reduce net take-home pay may reinforce disincentives to formalisation. The impact of these changes on the tax is discussed in Chapter 4.

In line with ILO recommendations, Peru could consider removing the contribution base ceilings for independent workers providing services to the central government, public healthcare workers and teachers. Currently, public health care workers, teachers, and independent service providers to the central government benefit from contributions ceilings that do not apply to other workers. Restoring an effective contribution rate of 9% for these workers would increase EsSalud's revenue by 7%, contributing to greater horizontal equality (ILO, 2023[33]). As this change would affect public sector workers, it is not expected to create a disincentive to formalisation.

The universalisation of non-contributory benefits would require careful planning of domestic revenue mobilisation

While proposals to make social protection benefits universal would solve current coverage gaps, they would pose significant financing challenges. Some researchers have recently proposed decoupling social security from employment to address the incentives for informality and the disincentives to formal employment. This would mean changing the rights holder from the worker to the citizen, thereby universalising rights (Levy and Cruces, 2021[34]; Ñopo, 2021[35]). In terms of financing sources, this would mean shifting from SSCs to general tax revenue. The rationale behind this is that the universal provision of basic, tax-financed social protection floors could help to address the low coverage rates of the existing social protection system, while reducing the disincentives to formalisation associated with targeted, non-contributory programmes. However, this proposal raises the challenge of mobilising the additional revenues required to finance such a reform. Moreover, such an approach would weaken the link between contributions and benefit entitlements, potentially undermining compliance incentives as weaker perceived links between payments and benefits tend to reduce the incentive to pay taxes and SSCs, and to participate in the formal economy.

Reforms aimed at providing adequate universal social protection entail significant costs. The provision of universal healthcare services funded entirely from general tax revenues can be very costly. Depending on the scope and quality of services provided, costs can rise to as much as 8% of GDP, as observed in Denmark's universal healthcare system. Transitioning from a contribution-based to a tax-financed social protection system can generate significant short-term financing gaps that are often difficult to offset through alternative revenue sources. In Peru, the tax bases for income tax and VAT are relatively narrow and can only be gradually broadened over time because a large part of the economy is informal. Financing such universal floors would require substantial additional domestic revenue mobilisation. This would necessitate major reforms to all major taxes, including the CIT, PIT and VAT, as well as significant improvements in tax enforcement. The reduction in SSC revenues would materialise immediately, whereas efforts to offset these losses through increased CIT, VAT and PIT revenue would take considerably longer. Without a clear strategy to mobilise domestic resources and formalise the economy, cuts to SSCs combined with universal benefits financed through general revenue would reduce the funds available for social protection. For this reason, progress in formalisation is a key determinant of the sustainability and adequacy of the social protection system, not only by strengthening contributory schemes but also by supporting non-contributory programmes through increased general tax revenue.

Challenge 6: Continuing to strengthen tax enforcement

Building on SUNAT's strong progress in digitalisation

SUNAT has made significant progress in digitalising the tax administration. Taxpayers can now register for a unique identification number (RUC), file annual tax returns, and fulfil their obligations entirely online. This reduces administrative and logistical barriers to compliance. SUNAT has also invested in innovative outreach initiatives to inform taxpayers of their obligations and encourage voluntary compliance. These efforts demonstrate a broader institutional commitment to digitalisation and to simplifying tax compliance.

SUNAT has advanced in its efforts to collect and use tax data but there remains scope for increasing its use for tax policy purposes. The agency publishes an annual TE report that provides estimates of the revenue foregone of major TEs. Going forward, SUNAT should prioritise sharing the underlying data with the MEF and possibly other parts of government in a timely manner for more in-depth tax policy analysis, while ensuring that taxpayer's identity is protected in accordance with the tax secrecy provisions of the Political Constitution of Peru.

Electronic invoicing (e-invoicing) has proven to be one of SUNAT's most effective compliance tools. It increases the probability of detecting VAT non-compliance, and its implementation has resulted in a significant increase in VAT revenues (Bellon et al., 2022[36]). It also reduces compliance costs by streamlining administrative procedures, while generating structured digital records of commercial transactions that can be used for enforcement and policy analysis purposes. Furthermore, e-invoicing creates incentives for formalisation. Firms that source from informal suppliers may no longer be able to deduct these expenses from taxable income, which increases the cost of operating informally. Nevertheless, e-invoicing has not completely eliminated the fabrication of false invoices or the deduction of fake purchases as an evasion strategy, and underreporting remains high. SUNAT has developed multiple tools to combat fictitious transactions, including the designation of “entities without operational capacity”, which enables the disallowance of VAT credits and income tax deductions for transactions carried out prior to such designation, as well as a tax deregistration process that prevents the issuance of invoices and the recognition of credits and deductions going forward. It is recommended to maintain the legal framework established by Legislative Decree No. 1532, as it provides SUNAT with the authority to combat tax fraud based on a risk management approach. Such legal framework establishes specific rules and procedures to exercise these powers and contributes to the actions of the Tax Administration so that they are developed within a context of legal certainty and the corresponding guarantees to taxpayers in accordance with international good practices.

SUNAT is encouraged to strengthen its use of data to improve tax enforcement further. Increasing the probability of detecting non-compliance in VAT, CIT and PIT is essential for raising the tax-to-GDP ratio in Peru over time. Linking VAT and CIT data is essential for identifying non-compliance among businesses. Similarly, linking PIT data from all categories and exploiting the use of the Common Reporting Standard (CRS) and the possibilities under the Exchange of Information upon Request (EOIR) is crucial. While SUNAT’s data sources are already integrated and encompass both internal and external information to develop algorithms for detecting non-compliance, combat tax crimes, money laundering and corruption, there remains scope to further exploit tax and third-party data. Peru endeavors to expand the use of exchange of information for tax purposes in accordance with the international agreements signed by Peru. In this regard, Peru has made significant progress in the implementation and use of both the Automatic Exchange of Information (AEOI) and the EOIR. With respect to the AEOI, Peru has implemented coordinated compliance strategies based on Common Reporting Standard (CRS) data to promote voluntary compliance among high-risk taxpayers (OECD, 2026[37]).

While expanding enforcement efforts to the informal sector may not maximise revenue collection in the short term, it is essential to broaden the tax base over time. In the short term, enforcement action targeting the general tax regime may raise more revenue than actions targeting businesses under special tax regimes or within the informal economy. While prioritising enforcement among large formal firms is aligned with the objective of revenue collection, SUNAT is advised to strengthen its use data-driven tools to target medium-sized informal firms that have the capacity to pay taxes but have not yet entered the formal economy. However, the lower probability of evasion detection within the special regimes and the informal sector may encourage firms that are not complying with tax regulations and have the capacity to pay taxes to operate outside the general regime. Increasing the risks of remaining informal for businesses that have the capacity to pay taxes but remain informal is crucial for ensuring increases in tax buoyancy over time.

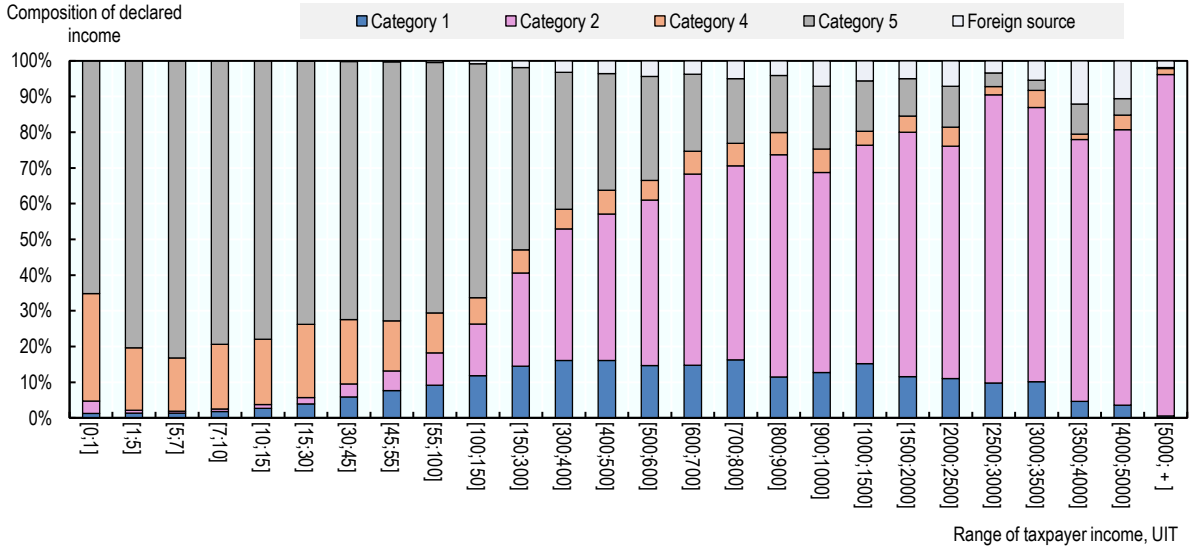
Enforcement could be strengthened by enhancing data-sharing across government agencies. SUNAT has signed inter-agency cooperation and information-sharing agreements with SUNAFIL, the Ministry of Foreign Trade and Tourism (MINCETUR), subnational governments and other public and private entities. Automatic, bidirectional data exchange between SUNAT and SUNAFIL could be explored within the framework of these agreements. This would enable both agencies to improve their monitoring processes and enhance compliance with tax and labour obligations. For instance, SUNAT could collaborate with SUNAFIL to ensure that workers in formal firms are formally registered, and that SSCs

and PIT liabilities have been met. Similarly, access to tourism operating licences managed by MINCETUR could help to formalise businesses in the tourism sector. Access to municipal business licence registries would further support this effort across industries. While these data-sharing arrangements have potential, they would require significant intergovernmental coordination and IT investment. A whole-of-government strategy aimed at increasing formalisation could incorporate these data-sharing initiatives.

Challenge 7: Improving the schedular design of the personal income tax

In Peru, the PIT follows a schedular design, with separate taxation of capital and employment income. Income from dependent employees and self-employed not taxed under third category is taxed jointly under a progressive rate schedule. Actual business costs incurred are not tax-deductible, but self-employed entrepreneurs can deduct a presumptive deduction instead. Rental income (declared under category 1) and most other capital income (declared under category 2) is taxed at a rate of 5%. As in many countries, capital income declared under categories 1 and 2, as well as foreign income, is concentrated among higher-income taxpayers (see Figure 1.6).

Figure 1.6. Schedular composition of the PIT base across the income distribution (in UIT)



Note: Data refer to the year 2021 in which 1 UIT was equal to S/ 4 400 (around USD 1 300). Note that natural persons may instead declare their business income in category 3 and accordingly pay tax within either the NRUS, RER, RMT, or general CIT regime. As such, the graph does not give a complete picture of the extent to which taxpayers in the upper income ranges in Peru earn capital income.
Source: SUNAT.

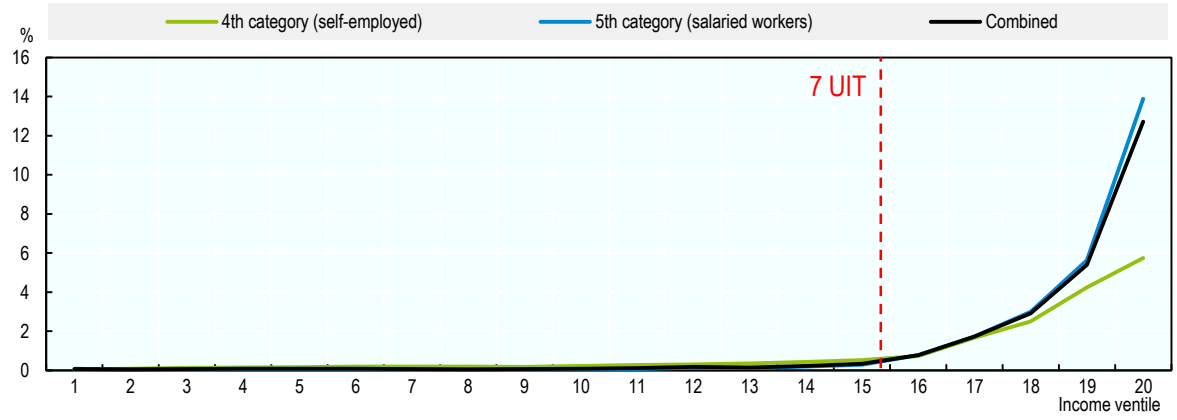
Foreign capital gains are added to labour income and taxed at progressive rates of up to 30% with certain notable exceptions. Foreign-sourced capital gains derived from the sale of securities are taxed at progressive PIT rates with a top PIT rate of 30%. However, foreign-sourced capital gains derived from the sale of securities in the integrated stock exchange (MILA), which comprises the stock exchanges of Chile, Colombia, Mexico and Peru, are taxed at a 6.25% rate, in line with Peruvian-sourced capital gains derived from the sale of securities. In addition, capital gains derived from the sale of securities sourced from another member country of the Andean Community are exempt from taxation in Peru in accordance with Decision 578.

Excessive schedularity reduces progressivity and creates opportunities for tax arbitrage. A main disadvantage of a schedular tax system is that it can reduce the progressivity of the PIT because income from different sources is not aggregated and taxed under a single progressive tax rate schedule. This also creates an incentive to obtain different types of income, each of which is taxed separately, rather than having just one type of income. It also encourages arbitrage through the reclassification of income to benefit from lower tax rates. The main advantage is that it allows capital income at the personal level to be taxed at a lower rate when the statutory CIT rate is high. It also implies that tax withholding at source can be treated as a final tax, which facilitates compliance and reduces compliance costs. However, this approach requires the extensive use of withholding mechanisms and third-party information reporting to limit evasion. The most common type of schedular income taxation in OECD countries is dual income taxation, where labour and pension incomes are taxed together at progressive tax rates, and different types of capital income (e.g. dividends, rent) are taxed together, typically at lower flat rates. Among 38 OECD countries, 8 use a comprehensive income tax system, 24 use a dual (or semi-dual) income tax system and 6 use another system (Hourani et al., 2023[38]).

In the short term, Peru could consider raising the tax rate applied to categories 1 and 2. In the medium term, it could transition to a dual progressive income tax. In the short term, there is scope to increase the taxes on dividends and capital gains. As the statutory and effective CIT rates are not particularly low, an increase in the rate from 5% to 10% would appear feasible. In the medium term, Peru could introduce a dual progressive income tax that taxes employment and capital income separately under their own progressive tax rate schedules. All capital income would be aggregated into a single tax base and subjected to a mildly progressive tax rate schedule, taking into account that equity income has already incurred CIT. This approach would strengthen vertical equity given that capital income is disproportionately concentrated in the upper part of the income distribution. A relatively low basic capital income tax allowance, for instance 0.5 UIT, could exempt a minimum level of savings income from taxation. A capital income tax reform would also provide an opportunity to align the tax treatment of domestic and foreign-sourced equity income, thereby reducing compliance costs for SUNAT as well as for financial intermediaries (see Chapter 5).

Peru could introduce a withholding tax on rental income. Following the amendment to the Income Tax Law, category 1 income will be taxed on a cash basis as of 1 December 2026, necessitating the introduction of a withholding mechanism. In the short term, Peru could consider requiring online platforms to withhold tax on rental income. Owners of properties that are let could be required to self-declare the rental income they receive. Over time, SUNAT could use the ownership information included in the fiscal cadastre for audit purposes and incentivise property owners to declare the rental income they have earned. Priority could be given first to strengthen the fiscal cadastre for the main cities and then it could be expanded to the entire country.

Figure 1.7. Effective labour income PIT rates by income category in 2024



Note: Category 4 income refers to income from self-employed work while category 5 income is labour income of salaried workers. The combined rate is close to the rate observed for category 5 income because the weight of self-employed income among total income is low.
Source: OECD based on data from SUNAT.

Effective tax rates on labour income are particularly low for both dependent and self-employed workers. Information on combined effective tax rates across all income categories is not available. Currently, Peru has a basic PIT allowance of 7 UIT, meaning that taxpayers can deduct 7 UIT (around USD 11 000) when calculating taxable income that is taxed under the progressive PIT rate schedule. At 7 UIT, the PIT exemption threshold for employment income is high, which reduces the role of the PIT as a revenue raiser. This threshold is substantially higher than the minimum wage and only slightly below the average wage. According to data from SUNAT, more than 70% of formal workers earned less than 7 UIT in 2024. For taxpayers with income exceeding 7 UIT, effective rates are very low, except for higher incomes. For workers earning above S/ 102 000 (around USD 28 500), the effective PIT rate increases to 13.9% in the case of dependent workers and 5.7% for the self-employed (Figure 1.7). Ideally, effective rates should be computed including income from category 1, 2 and foreign sourced income, but this information is currently not available.

There is scope to reduce the basic PIT allowance. Reducing the basic PIT allowance from 7 UIT to, for instance, 5 UIT would raise the tax wedge for an average wage earner by around two percentage points, from 18.1% to 20.0%. This would only modestly affect workers with income below the average wage, as only a small proportion of their income would exceed the reduced threshold, if at all. Even after reducing the basic allowance by 2 UIT, Peru's tax wedge would remain lower than, or similar to, that of several other countries in the region. This is particularly the case when mandatory private pension contributions in other LAC countries are included in the comparison. However, if the 3 UIT deduction for additional expenses is maintained, the revenue gain from reducing the basic tax allowance by 2 UIT is expected to be more limited. This is because some workers whose income exceeds the new 5 UIT PIT basic tax allowance would likely start claiming the expense deduction.

Measures to broaden the PIT base would improve horizontal equity and increase revenues. There may be scope to reduce the cap applicable to the 20% presumptive deduction for self-employed workers (category 4 income), which is currently set at 24 UIT (around USD 38 000). Alternatively, self-employed individuals facing higher labour costs can opt to be taxed under other business tax regimes within category 3. Additionally, unless the CTS returns to its original design and function, the tax exemption of severance pay should be eliminated. The CTS has effectively become part of regular salary and no longer serves a distinct social protection function; it should therefore be taxed as regular labour income. The CTS, as well as improvements to the design of the 3-UIT deduction, are discussed in Chapter 3.

Challenge 8: Strengthening the design of the recently introduced special economic zones

Peru has recently introduced a new special economic zones (SEZ) model that involves the private sector and provides a five-year CIT holiday for qualifying investment subject to compliance with substance and minimum investment requirements.[6] Peru's previous SEZ regime has been in place for almost four decades, but economic activity in its four operational zones (Zofratacna, ZED Paita, ZED Ilo and ZED Matarani) has remained very limited. Less than 3 000 workers are employed across the four zones, and exports from the zones account for only 0.1% of total exports (AZFA, 2025[39]; AZFA, 2024[40]). This is despite generous tax incentives under the previous regime, including an indefinite exemption from CIT. In 2025, Law 32 449 introduced a new model of Private Special Economic Zones (ZEEPs), under which privately operated zones benefit from a 0% CIT rate for the first five years, followed by progressively increasing reduced rates for further 20 years. As no ZEEP has yet been established and parts of the regime's design are still being specified, Peru has an opportunity to refine the design before investment decisions are made and the rules might become more difficult to change.

Income-based tax incentives, such as those foreseen in the ZEEPs, have shown mixed results across countries and can involve significant revenue costs if they are poorly targeted or overly generous (Jenkins et al., 2025[41]; OECD, 2026[42]). They can also result in windfall gains for investors who would have invested even in the absence of the incentive. Expenditure-based incentives, such as accelerated depreciation or investment tax credits or allowances, are often recommended where they can achieve the intended policy objectives more efficiently or cost-efficiently (see Annex A). Where income-based incentives are used, the literature has identified a number of principles that can inform their design (IMF-OECD-UN-WB, 2015[43]; OECD, 2026[42]). The net benefit of SEZ regimes, even in countries where significant activity takes place in SEZs, will depend on the type of investment that is attracted, the spillovers that the activity in the zone generates for the domestic economy, and how the tax incentives in the zone are designed (Frick and Rodríguez-Pose, 2021[44]; World Bank, 2017[45]).

The CIT rate schedule in ZEEPs, including the tax holiday, is very generous, may be partly ineffective in attracting investors, and its interaction with international tax rules should be studied further. The regime provides a 0% CIT rate in the first five years of operation, followed by reduced rates for a further 20 years. For large multinational enterprises, low effective tax rates in Peru may trigger top up taxes in the countries where these MNEs are headquartered as a result of the Global Minimum Tax (OECD, 2026[46]). In such cases, Peru could forgo tax revenue without reducing the overall tax burden of the investor. At 25 years, the duration of the tax reduction may also be longer than the useful life of some of the investments made in the zones and, even in the final phase, the 15% rate remains well below the standard CIT rate. It would therefore be important for Peru to study the interaction between the international tax rules and the ZEEP design, which could involve considering the introduction of a Qualified Domestic Minimum Top-up Tax (QDMTT) or other domestic tax measures that would allow Peru to retain the top-up tax revenue. Such an analysis would be necessary because the extent to which these rules affect individual investors will depend on the size and structure of the MNEs that Peru attracts, the country in which these MNEs have their headquarters, as well as their economic substance in the country, including how much they invest and how much they spend on salaries, among other factors.

If income-based incentives continue to be used, a central question for the new ZEEP regime is whether it is designed to attract economic activity that would not otherwise occur in Peru, even under a reformed standard tax system. If firms that invest in ZEEPs would have invested regardless of the ZEEP regime, the revenue forgone would represent a net fiscal cost for the country without an offsetting economic gain. For the ZEEPs to succeed, the policy would have to be part of a broader strategy to address underlying investment barriers in the country, and the net benefit will depend on whether the activity in the zones is genuinely additional and generates sufficient spillovers to the domestic economy.

Although this strategy comes with its own risks, one approach to ensure additionality and limit the revenue cost could be to target the ZEEP regime more narrowly to industrial activities that are unlikely to be developed under Peru's standard tax system. This could also prevent that domestic investors locate new investment primarily in ZEEPs.[7] The law already excludes a number of activities, such as geographically mobile activities in accordance with BEPS Action 5, including financial, accounting and legal services, leasing, insurance and the exploitation of intellectual property rights. Extractive activities such as mining and fishing, among others, are excluded as well. A recently published decree[8] specifies some additional excluded activities, such as the manufacturing of clothing or the processing of metals but also allows the Ministry of Foreign Trade and Tourism (MINCETUR) to modify these exclusions.[9] The actual scope of eligible activities may therefore remain broad. Bringing activities where Peru is already competitive into the ZEEP regime would not be desirable. If Peru would want to stimulate investment in activities that are already present in the domestic economy, introducing additional expenditure-based incentives within the general CIT regime may be more appropriate than geographically limited income-based tax reductions. Designing the eligibility criteria for the ZEEP regime (industry targeting, minimum investment amounts, number of jobs created) involves trade-offs (OECD, 2026[42]), as criteria that are too restrictive may deter some investment and become complex to administer and enforce (see Chapter 6).

The private operator model alone is unlikely to overcome the structural investment barriers that limited the effectiveness of Peru's previous SEZ regime. In Peru, the limited success of the previous regime has been linked to weak connectivity, infrastructure that was not adapted to larger scale investment, and limited access to relevant skills (MINCETUR, 2025[47]; OECD, 2026[48]). One rationale for the private operator model, and for extending the tax incentives to zone operators, is that they are responsible for developing and maintaining zone infrastructure, among other responsibilities. However, allowing operators to determine the location of zones is likely to result in zones being established in areas where infrastructure already exists and where competition with existing firms is strongest, for example close to the capital region. A decree published in April 2026[10] is likely to reinforce this pattern, as it prioritises locations with strong connectivity, access to energy, housing, health and education services, proximity to existing economic activity and the availability of skilled labour. While such locations may be best suited to attract investment, this weakens the case for extending generous tax incentives to zone operators on the grounds that they are expected to develop infrastructure.

The implementation of the ZEEP regime will require close monitoring, transparency and regular evaluation. It is important that the Ministry of Economy and Finance (MEF) and SUNAT remain closely involved in the administration and enforcement of the rules that apply to ZEEP businesses. A key area for enforcement is the interaction between ZEEPs and domestic businesses, to ensure that goods entering the domestic economy are properly taxed under the VAT and applicable import charges. The annual publication of information on beneficiaries, investment, employment and tax benefits, as foreseen in the law, provides a basis for assessing the regime. This would complement estimates of revenue forgone in the TE report (covering both income tax incentives, but also other tax reductions and exemptions) and regular evaluations examining whether ZEEPs generate additional investment and result in positive spillovers for the domestic economy.

Challenge 9: Strengthening the design of the business tax regimes

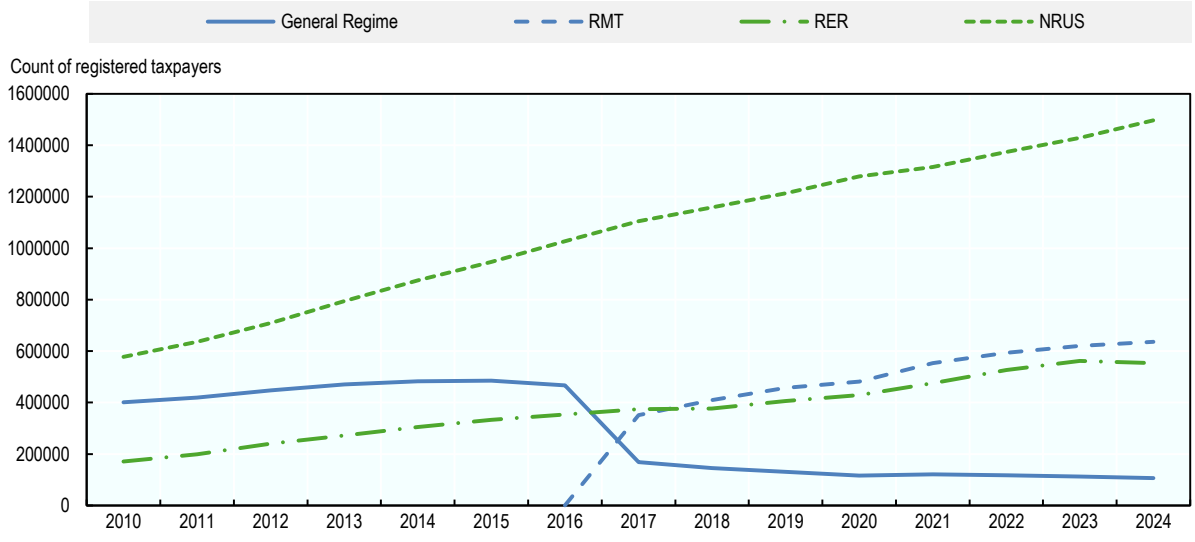
Despite being intended to foster formalisation and growth, the multiplicity of business tax regimes has created arbitrage opportunities and notch thresholds that have the opposite effect. Three alternative special tax regimes were introduced alongside the general regime to reduce informality by lowering tax liabilities and simplifying compliance obligations. However, the design features of these special regimes have created an environment conducive to tax arbitrage and non-compliance. There are jump discontinuities in tax liability across eligibility thresholds. There is also evidence of bunching at the maximum turnover threshold and employee-count threshold to enter the RER regime, suggesting that

businesses may be engaging in labour informality, underreporting of turnover, splitting businesses, or limiting growth in order to remain in this regime (IMF, 2022[49]; IMF, 2024[25]).

Following its introduction, a significant share of businesses in the general regime migrated to the MYPE RMT regime. When the MYPE RMT special regime was created in 2016, offering a reduced rate of 10% on the first 15 UIT of profits, the majority of businesses in the general regime left it to join the MYPE regime. This was contrary to the original objective of the RMT regime which was intended to serve as a stepping stone to the general regime for firms in the two pre-existing special regimes. In fact, in 2017, the number of businesses in the general regime reporting profits decreased by almost 300 000, while around 350 000 profit-reporting companies were registered in the RMT (see Figure 1.8). In 2024, only 14% of CIT taxpayers were in the general regime, yet it accounted for 92% of CIT revenues. In contrast, the RMT regime included 86% of CIT taxpayers but contributed only 8% of CIT revenues (IMF, 2022[49]; OECD, 2025[1]). A study conducted by the European Commission based on SUNAT data finds that businesses in the special regimes (NRUS, RER and RMT) have a probability of over 99% of remaining in the same regime the following year (European Union, 2025[50]).

The number of taxpayers registered in the microenterprise presumptive regime (NRUS) has increased steadily over time although only about one-third are actively making payments. The NRUS is accessible to natural persons who own a small business but excludes liberal professions. The NRUS presumptive tax replaces VAT, third category income tax and the Municipal Promotion tax. Businesses registered under the NRUS cannot issue invoices that entitle other business to claim a tax credit or deduct purchases from their taxable corporate profits. The fact that over two million natural persons are registered under this regime suggests that it could be an important tool for formalising small businesses (Figure 1.8). However, SUNAT statistics indicate that only 34% of the NRUS taxpayers made at least one payment under the regime in 2023, highlighting a significant compliance issue among micro-enterprises. Legislative proposals in Congress that exempt new businesses or certain activities from CIT as a tool to foster formalisation should be approached with caution, as they risk undermining incentives for formal employment.

Figure 1.8. Business taxpayers by regime over time



Note: RMT refers to the SME tax regime (Régimen MYPE Tributario). RER refers to the Régimen Especial de Renta. NRUS refers to Nuevo Régimen Único Simplificado. The number of businesses in the general and RMT regimes refer only to those reporting positive profits in a given year. Note that NRUS is open to natural persons with a closely held business activity only, while the other three regimes are open to both natural persons and firms.
Source: SUNAT and Ministry of Economy and Finance of Peru.

The RER and MYPE regimes could be replaced with a regime subject to the standard 29.5% rate but with simplified accounting requirements, aligned with IMF recommendations. Firms in the RER with annual turnover below S/ 525 000 and less than 10 employees pay a 1.5% turnover tax and are subject to VAT. Firms with turnover below 1 700 UIT are eligible for the RMT regime, which taxes profits as in the general regime and requires standard accounting records. The IMF proposes replacing the RER and MYPE regimes with a new regime that is subject to the standard CIT rate of 29.5% but is assessed on a cash-flow basis rather than on an accrual basis (IMF, 2022[49]). This proposal has a number of advantages. Harmonising the rate and the base across these regimes reduces arbitrage opportunities and evasion incentives. Taxation on the basis of profits would encourage firms to declare their workers, unlike the current RER. Including enhanced deductions on the formal wage bill in the new regime would further incentivise labour formalisation. The possibility of implementing such a proposal should be explored, jointly with other measures focused on reducing the cost of formalisation. Furthermore, enhancing tax enforcement is essential. Without further improvements in tax enforcement, some taxpayers, particularly those currently under-reporting income, may become fully informal to avoid a higher tax burden.

Challenge 10: Strengthening the taxation of the mining sector

As noted previously, tax revenues from the mining sector have not kept pace with growth in mining value added and operating profits, despite record prices. This is an unexpected outcome, given that Peru's sliding-scale royalty regime and the special mining tax are designed to ensure that tax revenues increase more than proportionally with prices and profitability. Based on the ratios of tax revenue to value added observed during past periods of high prices, tax revenues from mining sector profits (including income taxes and royalties) would be almost 1% of GDP higher than their current level. A range of factors may help to explain this discrepancy, including issues of non-compliance and avoidance.

The growing role of traders might be creating specific challenges for mining tax revenues in Peru. In recent years, producers have increasingly sold their minerals to domestic traders instead of directly exporting the minerals directly to the global market. The main trading companies purchase minerals on behalf of related entities domiciled in jurisdictions with territorial taxation systems. This type of business organisation may, possibly, create Base Erosion and Profit Shifting (BEPS) risks that narrow the domestic mineral tax base and reduce tax revenue and therefore warrant further investigation.

In recent years, VAT refunds claimed by trading companies have increased at a significantly faster pace than their sales, which may be contributing to reduced tax revenue collection from the mining sector. Almost all mining production in Peru is exported and therefore zero-rated for VAT. In practice, however, there is a chain of intermediaries between the mine and the exporter, and VAT is collected along this chain. The refunds requested by the exporter at the end of the chain appear to exceed the VAT collected along the chain. According to data provided by SUNAT, mineral sales by trading companies increased by 127% between 2016 and 2022, while VAT refunds rose by 240%. One possible explanation for this pattern is that certain intermediaries use fraudulent VAT invoices to legitimise illegal and informal production (Smith et al., 2024[51]).

Informal and illegal gold mining is widespread. It is estimated that 44% of the gold that is officially exported from Peru is mined informally or illegally totalling USD 7 billion, which is approximately 2.5% of Peru's GDP (IPE, 2024[52])**.** Artisanal and small-scale (ASM) miners, most of whom operate informally or illegally, produce almost half of Peru's annual gold production (ARM, 2024[53]). It should be noted that INEI, in coordination with the Ministry of Energy and Mines (MINEM) and the Geological, Mining and Metallurgical Institute (INGEMMET), have been tasked with conducting a national census of small-scale and artisanal mining. Additionally, a tax group has been established to provide training on compliance with their tax obligations, in coordination with the National Superintendency of Tax Administration (SUNAT), MINEM, and the miners' association.

The special regime for smaller mining firms may incentivise firms to under-declare revenues in order to avoid a significantly higher tax burden. As defined by Law 27 651 and Supreme Decree 014-92, small mining firms are not subject to mining royalties or the special mining tax (IEM), and they can be taxed under the simplified business tax regimes, including the presumptive regimes (NRUS and RER. This could create incentives for business splitting, novel ownership arrangements, and under-reporting in order to reduce the tax liability on mining profits. A thorough assessment of whether mining firms should be excluded from the scope of the presumptive tax regime is therefore recommended.

To address the various challenges discussed above, increased enforcement must play a key role. Procedures could be strengthened and additional resources could be made available for monitoring and auditing the intermediaries in the mining VAT chain. This would help detect and penalise the use of fraudulent invoices that lead to excessive refunds, analyse BEPS risks and regularise informal and illegal production.

Challenge 11: Increasing the revenue from indirect taxes

The VAT accounts for 38% of Peru's tax revenues in 2023, but non-compliance remains high, representing over 3% of GDP (OECD, 2025[1]; SUNAT, 2024[3])**.** Significant fraud occurs through the use of fabricated invoices issued by inactive companies, which legitimate firms subsequently use to claim undue refunds. As previously mentioned, SUNAT has started to classify companies, granting advantages to those that are highly compliant while identifying inactive entities under the category 'subjects without operative capacity'. However, the number of companies that have been identified to date under this category remains limited. Companies in this category are not authorised to issue invoices. Efforts to identify inactive companies issuing fraudulent invoices should be prioritised. SUNAT is also encouraged to strengthen its analysis of electronic invoices that are inconsistent with information reported in purchase and sales records.

VAT non-compliance may, in some cases, be linked to the presence of threshold-based "notches" in other parts of the tax system, which can create strong behavioural incentives for firms to underreport turnover. In particular, where eligibility for preferential regimes, such as the RER special regime or the microenterprise and SME labour regimes, is determined by reference to turnover ceilings, businesses operating near these thresholds may face significant discontinuities in their effective tax burden. Such discontinuities can encourage strategic behaviour, including the deliberate understatement of sales, in order to remain below the relevant thresholds and retain access to a more favourable tax treatment. From a tax policy perspective, these interactions underline the importance of assessing the broader design of the tax system when analysing VAT compliance gaps.

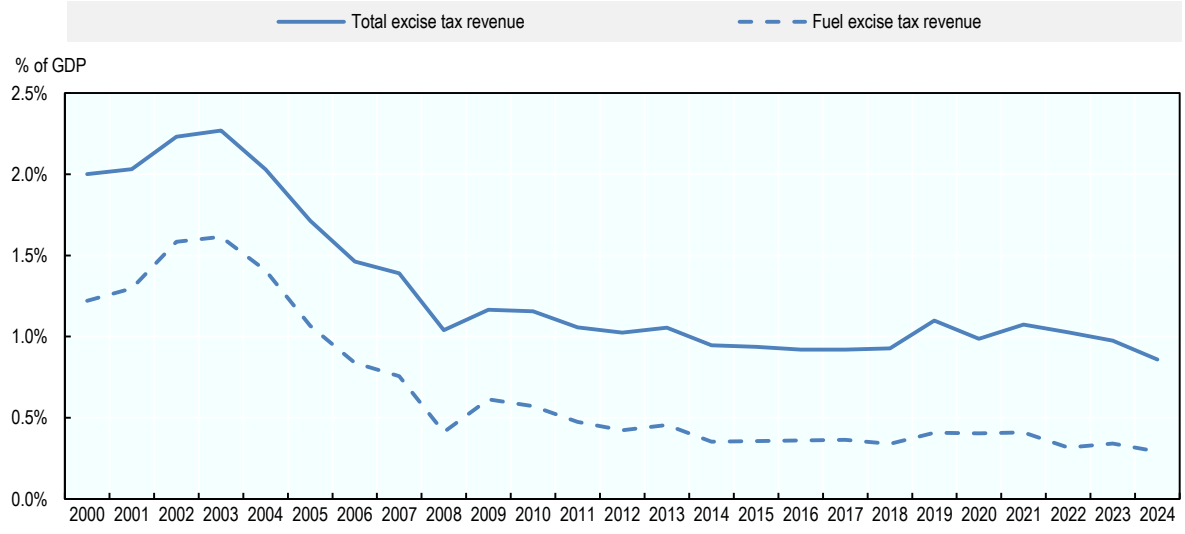
In the medium-term Peru could evaluate alternative policy instruments to achieve similar objectives currently pursued through VAT exemptions on agricultural products. Currently, agricultural products and their inputs are exempt from VAT. Such exemptions are often used to pursue social objectives. However, alternative policy instruments, such as targeted cash transfers to vulnerable households and direct expenditure programmes, may achieve these objectives with fewer distortions. VAT exemptions disrupt the VAT chain, undermining its self-enforcing properties, which are particularly important given Peru's context of low voluntary compliance. In the medium term, and only once fraudulent VAT invoicing has been brought under control, Peru could consider eliminating VAT exemptions and levying the standard VAT rate, while compensating low-income households for the VAT they have paid. This reform would require strengthened coordination with social assistance programmes to ensure the effective identification of eligible households.

The VAT treatment of digital services and intangible assets should be kept under continuous review to ensure alignment with evolving international standards and emerging business practices. It is important to monitor the implementation and performance of the VAT collection model applicable to

digital services and intangible assets, while also considering measures to ensure effective VAT collection on imports of low-value goods. Strengthening the regulatory framework in this area can help reduce uncertainty, enhance compliance, align the VAT system with broader international tax policy developments, and mitigate risks of tax evasion and fraud.

Excise tax revenue has decreased significantly over recent decades as a percentage of GDP driven by a decline in fuel excise revenues. Excise taxes raised 2.0% of GDP in 2004, compared to just 0.9% of GDP in 2024. The decline in fuel excise tax revenue is even more pronounced: fuel excise tax revenues accounted for 1.4% of GDP in 2004, but only 0.3% of GDP in 2024. Peru is advised to gradually align fuel taxation with GHG emissions, either by introducing a carbon tax to complement the existing excise on fuels or by implementing a structural reform that directly links fuel taxation to GHG emissions as has been recommended by the World Bank (World Bank, 2025[21]). However, this reform should only be introduced once the recent increase in energy prices has subsided. It is also recommended that Peru explores ways to increase its excise tax revenues, including introducing health taxes, particularly on new tobacco and nicotine products, as well as increasing existing taxes on cigarettes and online gambling. As part of this effort, it is important to assess whether current tax rates are adequate to achieve both revenue and behavioral objectives, review the appropriateness of existing tax structures across different products, and evaluate the treatment of emerging products and evolving consumption patterns. Finally, enhancing compliance and reducing illicit trade would further improve the effectiveness of the excise tax system and strengthen its contribution to Peru's revenue base.

Figure 1.9. Excise tax revenue in Peru as a percentage of GDP



Source: OECD Revenue Statistics 2026.

Electronic cigarettes and nicotine pouches are regulated in Peru but are not subject to an excise tax. In line with the objectives of protecting population's health, preventing smoking initiation and nicotine addiction, especially among younger generations, the WHO recommends either banning new tobacco, nicotine, and related products or regulating them strictly and taxing them with an excise tax (WHO, 2025[54]). In Peru, Law No. 32 159 regulates activities related to the consumption of tobacco, nicotine and related products. Although electronic cigarettes and nicotine pouches may be legally marketed and consumed in the country, they are not subject to an excise tax. In line with WHO recommendations, it is advisable to levy an excise tax on all tobacco, nicotine and related products, with the objective of reducing

their affordability and preventing initiation. The situation of electronic cigarettes in Peru is particularly concerning as their use already exceeds that of tobacco products among secondary education students (Government of Peru, 2025[55]).The WHO recommends taxing electronic cigarettes irrespective of its nicotine content, based on available evidence indicating that some products may contain nicotine even when not labelled as such, in addition to containing other toxic substances that pose health risks and contributing to smoking renormalization (World Health Organization, 2021[56]). Moreover, it would significantly facilitate and simplify tax administration, as verifying the presence of nicotine in these products requires specialised laboratory capacities. The WHO further advises taxing the devices, in addition to the liquids, where administrative capacity allows to do so.

Challenge 12: Strengthening the financing of subcentral governments through recurrent taxes on immovable property

Subnational governments in Peru only raise a small proportion of the revenue needed to finance their activities, which highlights weaknesses in local property taxation. Local district governments in Peru are only able to raise around 10% of the revenue required to cover their expenditure. This percentage is lower than in most peer countries, making Peruvian local governments especially dependent on central government transfers (IMF, 2020[57]; IMF, 2025[12]). In OECD countries, recurrent taxes on immovable property are the main source of revenue for local governments. However, property tax revenues collected by subnational governments in Peru amounted to just 0.3% of GDP in 2023, which is lower than in almost every other country in LAC and substantially lower than in OECD countries (OECD, 2025[9]).

A comprehensive review of the regulatory framework of the municipal tax system would be welcomed. Much of the design of the municipal tax system is based on economic, fiscal, and institutional conditions that have changed significantly in recent decades. The review should assess the performance of the main municipal taxes, identify their structural limitations, and adapt their design to align with international trends and the best practices implemented in other countries in the region, in order to strengthen the financial autonomy of local governments. In addition, measures should be promoted to broaden the municipal tax base and improve collection efficiency by identifying and evaluating areas for improvement within the current system. Particular attention should be given to reviewing tax exemptions, deductions and other preferential treatments that may reduce revenue-raising capacity without a sound technical justification. This would help strengthen municipal fiscal sustainability, increase own-source revenues, and enhance the capacity of municipalities to finance local public goods and services.

Strengthening property tax collection could improve the quality of local public services and improve tax morale in Peru. One of the main challenges to achieving sustainable fiscal consolidation at the local level is enhancing own-source revenues and ensuring the proper management of subnational debt. The public services provided by subnational governments are often the most visible benefit that citizens receive in exchange for the taxes they pay. Persistent weaknesses in the quality of public services at the subnational level appear to be linked to low tax morale in Peru (OECD, 2025[9]). Strengthening local recurrent taxes on immovable property would provide subnational governments with a stable source of revenue, supporting improvements in public service quality. In the long term, success in this area could contribute to enhancing tax morale and voluntary compliance.

Moving towards a regularly updated national property cadastre could strengthen local property tax collection. A key administrative deficiency impeding the collection of recurrent taxes on immovable property in Peru is the lack of good quality property cadastres. In fact, in 2023, many local districts lacked a property cadastre, which limited their ability to identify taxpayers liable for property taxes (INEI, 2022[58]). Furthermore, the majority of districts with property cadastres do not update them regularly, resulting in reference values for property taxation that are far below current market values. Investing in the development of a national property cadastre that is regularly updated in line with market values would

enhance property tax collection. A national cadastre is preferable because many local governments lack the necessary resources and technical capacity to carry out this task. According to the INEI, cadastres were the third most requested form of technical assistance from local governments, with 49% requesting it (INEI, 2022[58]). It should be noted that Decree No. 1365 sets out provisions for the development and consolidation of the National Urban Cadastre. The MEF's ongoing efforts to provide municipalities with technical assistance in creating a common cadastre should continue and eventually be expanded to include all municipalities, with the aim of forming a single national cadastre.

Investing in efforts to formalise property titles could support the development of the cadastre. As of 2024, around 52% of rural properties lacked a formal legal title, meaning they could not be included in the cadastre (CEPES, 2023[59]). Furthermore, in urban areas, many formal titles no longer reflect the current use of land. In particular, properties are often transferred, demolished and redeveloped into high-rise buildings without the property register being updated accordingly (Mateo Arias, 2023[60]). This further complicates efforts to create a national cadastre based on formal title information. From the property owner's perspective, the administrative costs of formalising property ownership will strengthen property rights and facilitate the sale of the property over time. This should incentivise property owners to voluntarily contribute to updating the cadastre's information.

Reform recommendations

Table 1.1. Reform recommendations linked to each challenge

	Reform recommendations
Challenges 1 & 2: Peru's tax-to-GDP ratio and tax buoyancy are low	• *Develop a strategy to increase the tax-to-GDP ratio over time and increase tax buoyancy:* - *Pursue a whole-of-government strategy to formalise the economy and ensure that future economic growth occurs in the formal sector, including through increased tax enforcement by SUNAT and monitoring of compliance with labour regulations by SUNAFIL (see Challenges 3 and 6). Increased enforcement is an integral part of a whole-of-government approach that tackles the challenges across different firms and workers at their source.* - *Limit the approval of new tax expenditures and rationalise some of the existing ones (see Challenge 4)* • *Develop a strategy to manage downside volatility in the tax-to-GDP ratio attributable to mineral price fluctuations*
Challenge 3: High informality persists	• *Develop and implement a whole-of-government strategy to reduce labour informality, including by strengthening the enforcement of labour regulations:* - *Significantly increase the number of SUNAFIL inspectors* - *Strengthen SUNAFIL's inspection practices towards formalisation-focused interventions, including in informal firms, instead of predominantly reactive inspections in response to complaints* - *Strengthen coordination between SUNAT and SUNAFIL* - *Increase the perceived quality of health insurance and adequacy of social protection benefits* • *Consider strategies to reduce the non-tax labour cost of hiring formal workers, in particular for low-income workers in the general regime and avoid employment-based contingent regulations that create disincentives to formalisation and firm growth:* - *Consider options to modify the mandatory profit-sharing rules, including whether to use a threshold based on turnover (rather than the number of workers employed) or making the profit-sharing rate increase gradually from a lower rate for smaller firms to the current rate* - *If Peru decides to reduce certain non-tax labour costs to lower the cost of hiring formal workers (profit sharing, CTS account contributions), consider strategies to compensate workers who are already formal to protect current take-home salaries* - *Evaluate the reform measures over time and complement with additional measures, if necessary* • *Assess and, if possible, streamline labour regulations to reduce compliance costs* • *Assess whether the small business labour tax regimes are successful in formalising workers* • *Over time, align the micro and small business labour tax regimes under the MYPE law with the business tax regimes targeted at microenterprises and small businesses once the latter are reformed (NRUS, RER, RMT)*

Challenge 4: An increasing tendency to introduce tax expenditures	• *Ensure that any new tax expenditure proposal fully complies with the governance standards in Norm VII of Peru's tax code and fiscal policy guidelines set out in the Multiannual Macroeconomic Framework* • *Consider abolishing:* - *The calculation method underlying the drawback refund mechanism, which is currently calculated as a fixed percentage of export good value. Replace this calculation method with a simple refund of import duties paid* - *Reduced CIT rate for medium and large agricultural companies (Law 32 434)* - *Reduced VAT rate for the tourism sector (Law 32 219)* - *Ensure that the ban on the ISC-exempt, VAT-exempt sale of alcohol in the Zofratacna commercial zone goes into effect in 2027 as currently scheduled (Law 27 688)* - *Law 31 962 that foresees the payment of interest on refunds, including those arising from taxpayer errors, at a rate higher than that which could be obtained in the financial system and establish a differentiated interest rate for refunds based on their nature* - *Reduced CIT rates in the Amazon region (Law 27 037)* • *Consider broadening the PIT and SSC bases rather than increasing the rates:* - *If severance accounts (CTS) are maintained, tax them under the PIT* - *Over time, consider broadening the SSC base to also include the CTS and bonuses (see Challenge 5)* • *Assess the additionality of investment in ZEEPs, estimate and report the ZEEP tax revenue forgone in the TE report (Law 32 449)* • *Assess the impact of the tourism special economic zones once these are implemented; do not create additional tourism special economic zones in geographical areas with existing tourism activity (Law 32 392)* • *Assess the impact of the Amazon VAT exemption (Law 27 037)* • *Assess the impact of the fuel ISC exemption in the Amazon region (Law 27 037)* • *Assess the impact of the income tax credit for investment in the Lima historical centre (Law 31 980)* • *Reform Law 32 335 by limiting positive sanctions among microenterprises to cases where a breach of formal obligations is first identified, provided it does not involve tax avoidance or evasion, such as the non-payment of taxes* • *Evaluate the trade-offs of modifying the PIT benchmark for mandatory pension contributions from a "taxed SSCs - Exempt returns to savings - Exempt pensions" (TEE) to an "Exempt SSCs - Exempt returns to saving -Taxed pensions" (EET) system (see Chapter 3)*
Challenge 5: Strengthening the financing of health insurance	• *Consider transferring health contributions of the bi-annual bonus payments to EsSalud instead of granting this amount to the worker..Consider making the CTS subject to health contributions.Ensure that the combined increases in the tax wedge are not too large, in particular if the PIT exemption threshold is reduced at the same time. If the increase is too large, consider implementing the reforms gradually (see Chapter 4)* • *Consider removing the contribution base ceilings for independent workers providing services for the central government, public healthcare workers and teachers* • *Aim at gradually lowering the threshold for the microenterprise labour regime* • *Enhance coordination between SIS and EsSalud while avoiding a full merger that could weaken incentives for formalisation* • *If Peru were to significantly expand or universalise social protection benefits while reducing SSCs, a carefully designed domestic revenue mobilisation strategy would be needed to avoid weakening social protection*

Challenge 6: Continuing to strengthen tax enforcement	• *Improve tax enforcement by increasing cross-checks between VAT and CIT return data for businesses and by systematically matching third-party information with taxes paid across all PIT categories* • *Increase efforts to use and share the tax data that is collected within SUNAT and between SUNAT and MEF, while safeguarding tax secrecy and ensuring compliance with security and confidentiality requirements* • *Increase efforts to identify organisations issuing fraudulent invoices and continue the cleansing of inactive companies maintaining the Legal Framework of Legislative Decree N.º 1532, which allows tackling tax fraud while guaranteeing legal certainty and protection to the taxpayer* • *Increase resources to detect unregistered businesses* • *Increase the monitoring of the simplified regimes* • *Strengthen third-party reporting and the use of this information*
Challenge 7: Improving the schedular design of the personal income tax	• *Consider reducing the general PIT allowance, for example from 7 UIT to 5 UIT* • *Consider increasing the personal income tax rate levied on dividend income and realised capital gains to 10%:* – *In the short run, refrain from a more ambitious increase as it would increase the combined capital income tax rate, taking into account the CIT and PIT at the shareholder level, significantly above the top PIT rate* – *Over time, if Peru would lower its statutory CIT rate, the personal income tax rate levied on dividends and realised capital gains could be increased in response. This type of reform should be part of a broader reform that strengthens the investment climate in the country* • *Consider introducing a withholding tax on rental with real estate agents and platforms acting as withholding agents* • *Over time, strengthen the progressivity of the tax system by moving towards a Dual Progressive Income Tax (DPIT) under which capital income is taxed under a separate but progressive tax rate schedule:* – *A basic amount of capital income could be tax-exempt (e.g. 0.5 UIT) or taxed at a 0% rate* – *Introduce a mildly progressive capital income tax rate schedule, taking into account that CIT has been paid on the return on equity* – *Include income from individual savings accounts into the tax base, in particular if a minimum amount of capital income would effectively be tax-exempt* – *Continue to withhold taxes on capital income as a pre-payment of the capital income tax liability assessed at the end of the fiscal year. Provide taxpayers with an opportunity to file a capital income tax return but pre-fill the tax return with third-party information. Charge additional tax or pay a refund in a timely manner* • *Over time, align the tax rates applied to domestic and foreign-sourced capital income* • *Use information from the cadastre and other property register information to enhance compliance with rental income tax* • *Interest income on loans from owner-managers to their closely held corporations should be taxed to eliminate arbitrage and ensure neutrality between related-party and third-party borrowing (see Chapter 5)*
Challenge 8: Strengthening the design of the recently introduced special economic zones	• *Ensure continued alignment of the ZEEP regime, the older regimes (ZEDs, Zofratacna commercial zone) and any other possible future regime with the BEPS Action 5 minimum standard* • *Ensure the tax incentives provided are well-designed:* – *Ideally, rely less on income-based tax incentives within the ZEEP regime and consider expenditure-based alternatives.* – *If income-based incentives are maintained, consider, at the minimum, replacing the initial tax holiday by a reduced rate. Consider also reducing the overall tax reduction period.* – *Exclude support activities within ZEEPs from all tax incentives, even if they are allowed to locate in the zone (including the VAT and excise tax exemptions)* – *Reconsider the excise tax exemption in the ZEEPs*

  - *If reinvestment rules are introduced in the future, ensure that re-investment only qualifies if it genuinely expands production beyond current levels rather than sustaining existing operations*
  - *Ensure that the tax benefits granted in ZEEPs are not extended over time to cover SSCs or the PIT of workers employed in ZEEP businesses*
  - *Study the impact of the Pillar Two Global Minimum Tax and adjust the design of the ZEEP regime (and the design of other tax incentives in Peru) accordingly. Evaluate the introduction of a QDMTT and/ or other measures that could lower the top-up tax paid in other jurisdictions*
  - *Consider combining the tightening of the ZEEP regime (e.g., through a narrower sector targeting) with expanding the use of expenditure-based tax incentives in the general CIT regime to incentivise investment*
- *Improve the targeting of the ZEEP regime:*
  - *Consider defining a more detailed whitelist of strategic sectors and activities eligible for ZEEP treatment, which is more detailed than Article 4 in Law 32 449, rather than relying primarily on a list of excluded activities*
  - *Avoid granting ZEEP treatment to sectors where Peru already has a comparative advantage, such as the exploitation of natural resources including mining, fishing or agriculture and tourism*
  - *If specific tourism development zones are put in place, consider limiting them to areas where there is currently little or no tourism activity and narrow eligibility to investments that create significant linkages with the local economy*
  - *Establish clear rules for reviewing and updating the sector list, involving the Ministry of Economy and Finance (MEF) and SUNAT*
  - *Keep the set of eligibility criteria simple and enforceable. Additional criteria (e.g., regarding employment creation) could be considered but the trade-offs would have to be evaluated carefully*
- *Ensure that the minimum size requirement is enforced across all regions*
- *Ensure that the public infrastructure outside ZEEPs, including roads, ports, energy supply is adequate before approving zones in a given location*
- *Choose a VAT treatment for the ZEEPs that facilitates linkages with the domestic economy while at the same time making it possible to monitor interactions between the zones and the regular economy:*
  - *Address the asymmetry in VAT treatment that could make domestic inputs more expensive than imports for ZEEP users. Consider a mechanism under which VAT on imports into ZEEPs is registered but payment is suspended until goods enter the domestic market. Allow ZEEP users producing for export to recover input VAT upon exportation*
- *Focus on putting in place rules that facilitate tax enforcement and transparency of activities in ZEEPs:*
  - *Ensure that minimum investment thresholds and other key parameters cannot be modified by ministerial decree*
  - *Require that all workers in ZEEPs are employed formally and contribute to personal income tax and social security*
  - *Ensure that SUNAT and the Ministry of Economy and Finance (MEF) remain closely involved in administering and enforcing the ZEEP rules, including during the 0% CIT period (if it is maintained in the final design), and have sufficient information*
  - *Include an estimate of revenue forgone created by the ZEEP regime in the tax expenditure report, complemented by a sectoral breakdown and descriptive statistics on ZEEP investors*
  - *Make the technical analysis that is required when a specific ZEEP is established publicly available, so that parliament and the public can assess the rationale for each zone*

	• *Phase out the "commercial zone" within the Zofratacna regime at the end of the current extension period and do not put in place similar zones which allow customers to purchase imported goods with reduced taxes and tariffs* • *Refrain from renewing the online shopping provision for the Zofratacna when it expires in 2027 (see challenge 4)*
Challenge 9: Strengthening the design of the business tax regimes	• *Consider replacing the RER and MYPE with one simplified regime* – *Ensure that business taxation under the new regime is levied on profits to encourage the declaration of labour costs, potentially supported by enhanced deductions for new formal workers* – *Consider harmonising the statutory rate in the simplified business tax regime and the general regime at 29.5% in order to avoid creating distortionary thresholds at which there is a discontinuity in tax liability which could incentivise non-compliance or disincentivise growth* – *Consider adopting simplified accounting methods, such as cash-flow accounting, within the new simplified tax regime* – *Avoid using the number of declared workers as a criterion for determining eligibility thresholds under the new regime*
Challenge 10: Strengthening the taxation of the mining sector	• *Address transfer mis-pricing and other BEPS risks arising from the presence of traders* • *Strengthen monitoring of small and medium-sized copper mining companies* • *Undertake a thorough assessment of whether mining firms should be excluded from the presumptive tax regime* • *Strengthen enforcement against gold smuggling*
Challenge 11: Increasing the revenue from indirect taxes	• *Prioritise strengthening VAT compliance and in particular addressing the prevalence of fake invoices* • *In the medium term, once VAT fraud has been significantly reduced, consider eliminating VAT exemptions while compensating low-income households for the VAT they have paid* • *Gradually align fuel taxation with GHG emissions once the recent increase in energy prices has subsided* • *Consider levying ISC on new tobacco and nicotine products as well as online gambling*
Challenge 12: Strengthening the financing of subcentral governments through recurrent taxes on immovable property	• *Implement a national cadastre and property valuation system based on harmonised valuation rules that apply across the country:* – *Ensure that the values in the national cadastre are updated to reflect market prices* – *Improve processes to formalise property titles to address the prevalence of informal land ownership and formal titles that no longer reflect actual land use* – *Improve municipal technical capabilities to ensure the effective management of the integrated cadastre program*

References

ARM (2024), *Artisinal and small-scale copper mining in Peru*, Alliance for Responsible Mining. [53]

AZFA (2025), "Doing Business Zonas Francas 2025", https://amzn-s3-azfa-strapi.s3.us-east-1.amazonaws.com/Doing_Business_Zonas_Francas_2025_43d4c11ca7.pdf. [39]

AZFA (2024), "Mapa Estadístico de Zonas Francas de Iberoamérica 2024", https://amzn-s3-azfa-strapi.s3.us-east-1.amazonaws.com/A_MAPA_2024_AZFA_TIRO_48x68cms_23_Diseno_Consolidado_FINAL_2_80bd4520cb.pdf. [40]

Bellon, M. et al. (2022), "Digitalization to improve tax compliance: Evidence from VAT e-invoicing in Peru", *Journal of Public Economics*, Vol. 210, p. 104661, https://doi.org/10.1016/j.jpubeco.2022.104661. [36]

Bosch, M. et al. (2026), "Large firms and the intensive margin of labor informality evidence from an enforcement intervention in Peru", *Journal of Development Economics*, Vol. 180, p. 103679, https://doi.org/10.1016/J.JDEVECO.2025.103679. [13]

CEPES (2023), *Situación de la titulación de tierras a nivel nacional*, Centro Peruano de Estudios Sociales, https://cepes.org.pe/2024/05/28/situacion-de-la-titulacion-de-tierras-a-nivel-nacional/ (accessed on 7 May 2026). [59]

ComexPeru (2024), *Desempeño del Mercado Laboral Peruano: Resultados en 2023*, ComexPeru, Lima, https://comex-assets.s3.amazonaws.com/comex-assets/web/posts/8992/reporte-laboral-009.pdf (accessed on 6 May 2026). [20]

Cusato, A., J. Chavez and M. León (2017), *El Impacto del Drawback sobre el Desempeño de Empresas Exportadoras Peruanas*, CIIE, https://EconPapers.repec.org/RePEc:bbj:invcie:660. [30]

European Union (2025), *Efectos de los regímenes especiales sobre la informalidad económica*, https://www.eeas.europa.eu/delegations/per%C3%BA/simplificar-los-reg%C3%ADmenes-tributarios-podr%C3%ADa-reducir-la-informalidad-empresarial-y-laboral-en-el_es (accessed on 3 August 2026). [50]

Frick, S. and A. Rodríguez-Pose (2021), "Special Economic Zones and Sourcing Linkages with the Local Economy: Reality or Pipedream?", *The European Journal of Development Research*, Vol. 34/2, pp. 655-676, https://doi.org/10.1057/s41287-021-00374-4. [44]

Government of Peru (2025), *Estudio Nacional sobre Consumo de Drogas en Estudiantes de Secundaria 2024: Reporte Ejecutivo sobre Magnitudes y Características del Consumo de Drogas*, Comisión Nacional para el Desarrollo y Vida sin Drogas - Devida [National Commission for Development and a Drug-Free Life], https://cdn.www.gob.pe/uploads/document/file/8369882/6964382-estudio-nacional-sobre-consumo-de-drogas-en-estudiantes-de-secundaria-2024.pdf?v=1752625289 (accessed on 13 May 2026). [55]

Hourani, D. et al. (2023), "The taxation of labour vs. capital income: A focus on high earners", *OECD Taxation Working Papers*, No. 65, OECD Publishing, Paris, https://doi.org/10.1787/04f8d936-en. [38]

IDB, T. et al. (2023), *Corporate Effective Tax Rates in Latin America and the Caribbean*, IDB, https://doi.org/10.18235/0005168. [17]

ILO (2026), *ILOSTAT Data Explorer, SDG Indicator 8.3.1 - Proportion of informal employment in total employment*, ILOSTAT, https://rshiny.ilo.org/dataexplorer13/?lang=en&segment=indicator&id=SDG_0831_SEX_ECO_RT_A&channel=ilostat (accessed on 11 May 2026). [19]

ILO (2023), *Valuación actuarial EsSalud Estudio financiero actuarial al 2022*, ILO, Lima, https://www.ilo.org/sites/default/files/wcmsp5/groups/public/@americas/@ro-lima/documents/publication/wcms_907291.pdf (accessed on 29 May 2026). [33]

IMF (2025), *Peru: 2025 Article IV Consultation—Press Release; and Staff Report*, International Monetary Fund, https://doi.org/10.5089/9798229013628.002. [10]

IMF (2025), *Peru: Selected Issues*, International Monetary Fund, https://doi.org/10.5089/9798229013741.002. [12]

IMF (2024), *Peru: Selected Issues*, International Monetary Fund, https://doi.org/10.5089/9798400276729.002. [25]

IMF (2022), *Peru: Technical Assistance Report—Tax Regime for Small Taxpayers and Special Economic Zones*, International Monetary Fund, https://doi.org/10.5089/9798400200533.002. [49]

IMF (2020), *Peru: Selected Issues*, International Monetary Fund, https://doi.org/10.5089/9781513526126.002. [57]

IMF-OECD-UN-WB (2015), "Options for Low Income Countries' Effective and Efficient Use of Tax Incentives for Investment", https://www.tax-platform.org/sites/pct/files/publications/100756-Tax-incentives-Main-report-options-PUBLIC_0.pdf (accessed on 22 July 2022). [43]

IMF-OECD-UN-World Bank (2025), "Tax Incentives Principles", *Platform for Collaboration on Tax*. [28]

INEI (2026), *Comportamiento de los indicadores del mercado laboral 2025*, INEI, Lima, https://www.inei.gob.pe/media/MenuRecursivo/boletines/01-informe-tecnico-empleo-nacional.pdf (accessed on 11 May 2026). [5]

INEI (2024), *Produccion y Empleo Informal en el Peru*, Ministerio de Economía y Finanzas del Perú, https://cdn.www.gob.pe/uploads/document/file/9215525/7564428-libro.pdf. [18]

INEI (2022), *Peru: Indicadores de Gestion Municipal*, INEI, Lima, https://www.inei.gob.pe/media/MenuRecursivo/publicaciones_digitales/Est/Lib1902/libro.pdf (accessed on 7 May 2026). [58]

INEI (2022), *Producción y Empleo Informal en el Perú: Cuenta Satélite de la Economía Informal 2007–2021*, Instituto Nacional de Estadística e Informática, Lima, Perú, https://www.inei.gob.pe/media/MenuRecursivo/publicaciones_digitales/Est/Lib1878/libro.pdf. [16]

IPE (2024), *Analisis comparativo de accciones gubernamentales frente a la mineria ilegal e informal en America del Sur*, IPE, https://ipe.org.pe/wp-content/uploads/2024/05/Mineria-ilegal-e-informal-en-America-del-Sur-Simposio-v2.pdf (accessed on 29 April 2026). [52]

Jenkins, G. et al. (2025), *Systematic Review of Evidence on the Impact of Tax Incentives in Latin American and Caribbean Countries*, Inter-American Development Bank, https://doi.org/10.18235/0013797. [41]

Levy, S. and G. Cruces (2021), "Time for a New Course: An Essay on Social Protection and Growth in Latin America Series", *UNDP LAC WORKING PAPER SERIES*, Vol. 24, https://files.acquia.undp.org/public/migration/latinamerica/undp-rblac-PNUD_bckPapers24-OK.pdf (accessed on 29 May 2026). [34]

Madzharova, B. (2011), "The Effect of Low Corporate Tax Rate on Payroll Tax Evasion", *CERGE-EI Working Papers*, https://ideas.repec.org/p/cer/papers/wp448.html (accessed on 27 April 2026). [27]

Mateo Arias, M. (2023), *Diagnóstico de la informalidad de la posesión informal Fray Ramón Rojas II etapa distrito Salas provincia y departamento de Ica*, Universidad Nacional Federico Villarreal, https://hdl.handle.net/20.500.13084/7678 (accessed on 7 May 2026). [60]

Merino, C. and A. Murga (2025), *Análisis de las leyes e iniciativas legislativas con impacto fiscal adverso del Congreso de la República: periodo 2021-2026*, Consejo Fiscal, Lima, https://cf.gob.pe/wp-content/uploads/2025/10/ND-Iniciativas-legislativas-vfinal-1.pdf (accessed on 24 April 2026). [8]

MINCETUR (2025), "Resolución Ministerial N.° 377-2025-MINCETUR - Exposición de Motivos", https://cdn.www.gob.pe/uploads/document/file/9193769/7548113-anexos-rm-377-2025-mincetur.pdf?v=1766498103. [47]

MINEM (2026), *Inversión Minera - Informes y publicaciones*, Ministerio de Energía y Minas - Plataforma del Estado Peruano, https://www.gob.pe/institucion/minem/informes-publicaciones/3614950-inversion-minera (accessed on 12 May 2026). [15]

Ministry of Economy and Finance of Peru (2025), *Marco Macroeconomic Multianual*, MEF, Lima, https://cdn.www.gob.pe/uploads/document/file/8563935/7091414-marco-macroeconomico-multianual-2026-2029.pdf?v=1756399214 (accessed on 24 April 2026). [7]

Ministry of Economy and Finance of Peru (2024), *Marco Macroeconomico Multianual*, MEF, Lima, https://www.mef.gob.pe/contenidos/pol_econ/marco_macro/MMM_2025_2028.pdf (accessed on 15 June 2026). [31]

Ministry of Economy and Finance of Peru (2022), *Marco Macroeconomico Multianual*, MEF, Lima, https://www.mef.gob.pe/contenidos/pol_econ/marco_macro/MMM_2023_2026.pdf (accessed on 22 June 2026). [29]

Nauerz, J. and J. Torres (2021), "Unintended Effects From the Expansion of the Non-Contributory Health System in Peru, WP/21/106, April 2021", *IMF Working Paper*, https://www.imf.org/-/media/files/publications/wp/2021/english/wpiea2021106-print-pdf.pdf (accessed on 7 May 2026). [32]

Ñopo, H. (2021), *Políticas de protección social y laboral en el Perú: Una espiral de buenas intenciones, malos resultados y peores respuestas*, GRADE, Lima, https://www.ssoar.info/ssoar/bitstream/handle/document/94474/ssoar-2021-nopo-Politicas_de_proteccion_social_y.pdf?sequence=1&isAllowed=y&lnkname=ssoar-2021-nopo-Politicas_de_proteccion_social_y.pdf (accessed on 27 April 2026). [35]

OECD (2026), “A Practical Guide to Investment Tax Incentives”, https://doi.org/10.1787/427c66a9-en. [42]

OECD (2026), *Education and Skills in Peru*, Reviews of National Policies for Education, OECD Publishing, Paris, https://doi.org/10.1787/7d430d1b-en. [48]

OECD (2026), “Tax Challenges Arising from the Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two), Side-by-Side Package: Inclusive Framework on BEPS”, https://www.oecd.org/content/dam/oecd/en/topics/policy-sub-issues/global-minimum-tax/side-by-side-package.pdf. [46]

OECD (2026), *Tax Transparency in Latin America 2026: Latin America Initiative Progress Report*, OECD Global Forum on Transparency and Exchange of Information for Tax Purposes, Paris, https://www.oecd.org/content/dam/oecd/en/networks/global-forum-tax-transparency/tax-transparency-in-latin-america-2026.pdf (accessed on 3 July 2026). [37]

OECD (2025), *Global Revenue Statistics Database*, OECD Publishing, https://www.oecd.org/en/data/datasets/global-revenue-statistics-database.html (accessed on 27 April 2026). [1]

OECD (2025), *OECD Economic Surveys: Peru 2025*, OECD Publishing, Paris, https://doi.org/10.1787/76f6eb73-en. [9]

OECD (2025), *OECD Reviews of Health Systems: Peru 2025*, OECD Reviews of Health Systems, OECD Publishing, Paris, https://doi.org/10.1787/f3ddb6a4-en. [11]

OECD (2019), *Investing in Youth: Peru*, Investing in Youth, OECD Publishing, Paris, https://doi.org/10.1787/9789264305823-en. [24]

OECD et al. (2026), *Revenue Statistics in Latin America and the Caribbean 2026*, OECD Publishing, Paris, https://doi.org/10.1787/2f21f131-en. [2]

PRODUCE (2024), *Las Mipyme en la economía nacional*, Ministerio de la Produccion, Lima, https://www.producempresarial.pe/wp-content/uploads/2024/02/PPT_Libro-Mipyme-2022_-1.pdf (accessed on 27 April 2026). [22]

Smith, N. et al. (2024), “Gold Supply Chain Opacity and Illicit Activities: Insights from Peru and Kenya”, *Journal of Illicit Economies and Development*, Vol. 6/1, pp. 42-59, https://doi.org/10.31389/JIED.209. [51]

SUNAT (2026), *Estadísticas y estudios*, https://www.sunat.gob.pe/estadisticasestudios/ (accessed on 27 April 2026). [14]

SUNAT (2025), *Estimación Potencial de los Gastos Tributarios 2026*, https://mef.gob.pe/contenidos/tributos/doc/Estimacion_Gastos_Tributarios_2026.pdf (accessed on 27 April 2026). [6]

SUNAT (2024), *Estimación del Incumplimiento en el Impuesto General a las Ventas (IGV) durante el año 2023*, SUNAT, Lima, https://www.mef.gob.pe/contenidos/tributos/doc/Incumplimiento_IGV_2023.pdf (accessed on 28 April 2026). [3]

SUNAT (2022), *Incumplimiento Global en el IR de la Tercera Categoría del RG y el RMT 2021*, SUNAT, Lima, https://www.mef.gob.pe/contenidos/tributos/doc/Incumplimiento_global_IR_3ra_categ_RG_RMT_2021.pdf (accessed on 30 April 2026). [4]

TMF (2023), *Insights Into Payroll Compliance in Peru*, Global Business Competitiveness Index, https://www.tmf-group.com/en/news-insights/payroll-compliance-guide/peru/ (accessed on 29 April 2026). [23]

Tolentino, E. (2021), "An evaluation of a mandatory profit-sharing reform in Peru, using quasi-experimental methods", *Journal of Industrial and Business Economics 2021 49:2*, Vol. 49/2, pp. 313-334, https://doi.org/10.1007/S40812-021-00193-Y. [26]

WHO (2025), *WHO position on Tobacco Control and Harm Reduction*, https://www.who.int/publications/m/item/who-position-on-tobacco-control-and-harm-reduction (accessed on 13 May 2026). [54]

World Bank (2025), *Peru - Public Finance Review : Mobilizing Resources for Service Delivery and Growth*, World Bank, Washington, DC, http://documents.worldbank.org/curated/en/099112625153026273 (accessed on 24 April 2026). [21]

World Bank (2017), "Special Economic Zones in the Dominican Republic: Policy Considerations for a More Competitive and Inclusive Sector", *Trade and Competitiveness Global Practice*, https://documents1.worldbank.org/curated/en/184001487332346268/pdf/112878-REVISED-PUBLIC-GVC-and-SEZ-in-DR-P152202-output-final-clean-new-title.pdf. [45]

World Health Organization (2021), *WHO technical manual on tobacco tax policy and administration*, World Health Organization, Geneva, https://iris.who.int/bitstream/handle/10665/340659/9789240019188-eng.pdf?sequence=1 (accessed on 7 July 2025). [56]

Notes

[1] 2021 is the most recent year in which non-compliance data for both VAT and CIT is available. The conclusion that non-compliance in these two taxes alone is reducing the tax-to-GDP ratio by several percentage points also holds outside of the Covid years. For instance, in 2019, the tax-to-GDP ratio of Peru would have been 24.2% if not for this non-compliance, according to the SUNAT's estimates.

[2] The mining sector is subject not only to corporate income tax and mining royalties, but also to the Special Mining Tax, the Special Mining Levy, and a contractual royalty, which is not administered by SUNAT, paid by some companies.

[3] Chapter 3 provides a technical discussion of possible revisions to the benchmark tax system used to define tax expenditures.

[4] The counterfactual effective CIT rate in Figure 1.5 for a particular sector may be substantially lower than the 29.5% CIT standard rate in the general regime if businesses in a given sector are able to benefit from significant expenditure-based CIT TEs such as enhanced deductions..

[5] 1 UIT is equal to S/ 5 500 in 2026 (approximately USD 1 600). The value of the UIT is updated every year, and informs many thresholds throughout Peruvian tax law (such as eligibility thresholds for the special regimes, brackets in the taxation of labour income, and deduction limitations and eligibility conditions in TEs).

[6] See Law 32 449 and Supreme Decree 005-2026-MINCETUR.

[7] The rules allow domestic investors to invest in ZEEPs only if they undertake an activity that they have not previously carried out in the national economy (Supreme Decree 005-2026-MINCETUR, Article 21.1).

[8] Supreme Decree 005-2026-MINCETUR, Annex 1.

[9] Article 4 in Law 32 499 defines broadly what type of activities are permitted, but it does not include a detailed list of activities (e.g., which type of manufacturing would be permitted).

[10] Supreme Decree 005-2026-MINCETUR.

2 Improving tax buoyancy

Despite three decades of economic growth, Peru's tax-to-GDP ratio remains low and not has not increased, fluctuating instead within a relatively narrow band of 15-19%. To bring Peru's tax-to-GDP ratio onto a convergence path with LAC and OECD countries, it is necessary to improve tax buoyancy, which measures the translation of economic growth into tax revenue growth. This chapter's analysis decomposes tax buoyancy by tax and by economic sector to indicate potential areas for reform. Additionally, mineral prices appear to introduce significant volatility into Peru's tax-to-GDP ratio, and this chapter proposes strategies to better manage this volatility.

Strengthening the translation of economic growth into revenue growth in Peru

Peru has not been successful in translating its economic growth into higher tax revenues as a percentage of GDP. Since the early 2000s, GDP per capita in constant prices has more than doubled; however, the tax-to-GDP ratio has not exhibited a sustained upward trend, instead fluctuating within a 15% to 19% range (World Bank, 2024[1]; OECD, 2025[2]).[1] Reflecting the weak long-run relationship between economic growth and tax revenue growth, Peru's tax-to-GDP ratio is not on a trajectory to converge towards the current averages observed in LAC and the OECD.

Variations in the tax-to-GDP ratio appear to be more strongly associated with movements in mineral prices than with changes in the rate of economic growth, resulting in revenue volatility rather than sustained increases in the tax-to-GDP ratio over time. In Peru, tax buoyancy[2] fluctuated above and below unity in line with changes in mineral prices, particularly the price of copper (see Figures 1.4 and 1.5 in Chapter 1). Over the past two decades, increases in the tax-to-GDP ratio have largely coincided with periods of rising copper prices, while subsequent declines in prices have reversed these gains. Between 2002 and 2014, the tax-to-GDP ratio rose from 15% to 19% alongside an 80% increase in GDP per capita in constant prices. This coincided with a period of rising copper prices. However, as copper prices fell over the next 3 years, the tax-to-GDP ratio fell back to the 15% level of 2002 despite continuing economic growth. The 2014 peak in the tax-to-GDP ratio was not exceeded until copper prices rose again in 2021 and 2022; and even then, only temporarily, with the tax-to-GDP ratio dropping to the 16-17% range in 2023 and 2024 (OECD, 2025[2]; World Bank, 2024[1]). In a counterfactual scenario in which long-run tax buoyancy had not fallen below unity during the mid-2010s mineral price downturn, Peru's tax-to-GDP ratio would have been persistently higher. All else equal, it is estimated that the ratio could have been approximately 3.7 percentage points higher, reaching 22.8% in 2022, thereby exceeding the LAC average[3] (OECD et al., 2025[3]).

The short-run volatility of Peru's tax-to-GDP ratio associated with fluctuations in copper prices does not imply that the tax system functions as an automatic stabiliser. In general, tax revenues that fall proportionally more than GDP during economic downturns can act as automatic stabilisers. By contrast, tax revenue declines linked to lower mineral prices do not appear to stabilise economic activity in Peru to the same extent. First, episodes of low mineral prices have generally not been associated with economic contractions, as GDP growth has remained positive, supported by activity in non-extractive sectors. Second, reductions in tax liabilities stemming from lower mineral prices are likely to be concentrated on the profits of mining companies, which operate largely as price takers in international markets. As a result, lower tax payments by the mining sector during price downturns do not appear to translate into higher domestic demand or additional economic activity when mineral prices are weak.

The positive impact of mineral price increases on tax buoyancy appears to have weakened in recent years. Despite mineral prices remaining at historically high levels, overall tax buoyancy declined to around unity over the period 2023-2024 (see Chapter 1, Figure 1.3). This development suggests that elevated mineral prices may no longer be sufficient to temporarily offset broader structural weaknesses in the transmission of economic growth into sustained revenue growth even during periods of high mineral prices (see also the sectoral tax analysis below). Whether this trend has continued in 2025 and 2026 remains to be seen, but it is an observation that requires the attention of policymakers in Peru.

Insufficient tax buoyancy in the non-extractive economy represents a key factor underlying the long-term stagnation of Peru's tax-to-GDP ratio. While it is common for resource-exporting economies to experience cyclical fluctuations in tax revenues in response to changes in commodity prices, such cycles would ideally occur around an upward long-term trend in the tax-to-GDP ratio. In Peru, weak revenue responsiveness in the non-extractive economy has limited the extent to which overall tax revenues have risen in line with long-term economic growth.

Managing the volatility of mining-related tax revenue, given its central role in financing subnational public investment, is key to supporting stable economic growth and strengthening the tax-to-GDP ratio. Volatility that weakens the translation of sustained economic growth into stable revenue growth, driven by international mineral price movements, can undermine medium- and long-term public investment planning and execution. The need for revenue stability is particularly acute in Peru, where a substantial share of mineral-related revenues is earmarked for subnational governments to finance public investment. In this context, the volatility of mineral revenues may contribute to investment projects being postponed or cancelled, particularly those with long planning horizons. Alternatively, local governments may prioritise smaller public investment projects. Nevertheless, mineral revenue volatility is just one possible cause of weak public investment by sub-central governments. Limited capacity and institutional constraints are other factors that may contribute to public investment having a low impact.

The buoyancy analysis points at sector- and tax-specific weaknesses in the transmission of economic growth into tax revenue growth. By examining buoyancy by sector and by tax type (see Box 2.1), the analysis highlights interactions between the tax system and the structure of the economy that contribute to Peru's long run tax buoyancy below 1 and to volatility in the tax-to-GDP ratio. These findings inform policy options to strengthen the long-run responsiveness of revenues to growth and to better manage downside volatility linked to mineral price fluctuations.

Potential strategies to enhance fiscal resilience could include strengthening the taxation of the tourism and agro-export sectors. The agro-export and tourism sectors currently contribute relatively little in tax revenue, accounting for approximately 3% and 6% of their value added, respectively, compared with an economy-wide average of around 17% (Figure 2.7). This gap reflects a combination of factors, including sector informality and the tax incentives that these sectors benefit from, profit margins and the fact that, in particular the agro-export sector, is export oriented which implies that their sales are zero-rated for VAT. Nonetheless, there appears to be scope to increase tax revenues from these sectors by rationalising TEs and strengthening the formalisation of these sectors. Strengthening taxation in these fast-growing sectors would help ensure that ongoing economic expansion is accompanied by commensurate growth in tax revenues. Moreover, as the drivers of growth in agro-exports and tourism appear largely uncorrelated with mineral prices (Figure 2.10.), enhanced revenue mobilisation in these sectors could help offset mineral-related revenue volatility.

An important element of a strategy to increase the tax-to-GDP ratio over time, while safeguarding economic growth, would be identifying and addressing the structural factors underpinning low long-run tax revenue buoyancy in the main domestic sectors; namely services, manufacturing, and commerce. Together, these sectors account for approximately 57% of GDP, but they have long-run buoyancy ratios close to or below one (Figure 2.7 and Figure 2.8.), which indicates that tax revenues have at most kept pace with underlying economic growth. The weak tax revenue responsiveness of these sectors is closely linked to high levels of informality and tax non-compliance. In this context, policies that promote formalisation, such as strengthened enforcement and improvements in the coverage and quality of social protection, could help to broaden the tax base and improve revenue performance without undermining growth dynamics.

Strategies to increase long-run buoyancy and manage volatility in the tax-to-GDP ratio

Strengthening the long-run relationship between economic growth and revenue mobilisation would require addressing structural constraints across all main tax types, including the CIT, VAT, PIT and SSCs. Despite approximately 16 years of robust economic growth, revenues from each of these taxes, expressed as a share of GDP, have remained broadly unchanged over time: PIT and SSC revenues have been largely flat, while CIT and VAT revenues have fluctuated within relatively narrow bands of around 3-

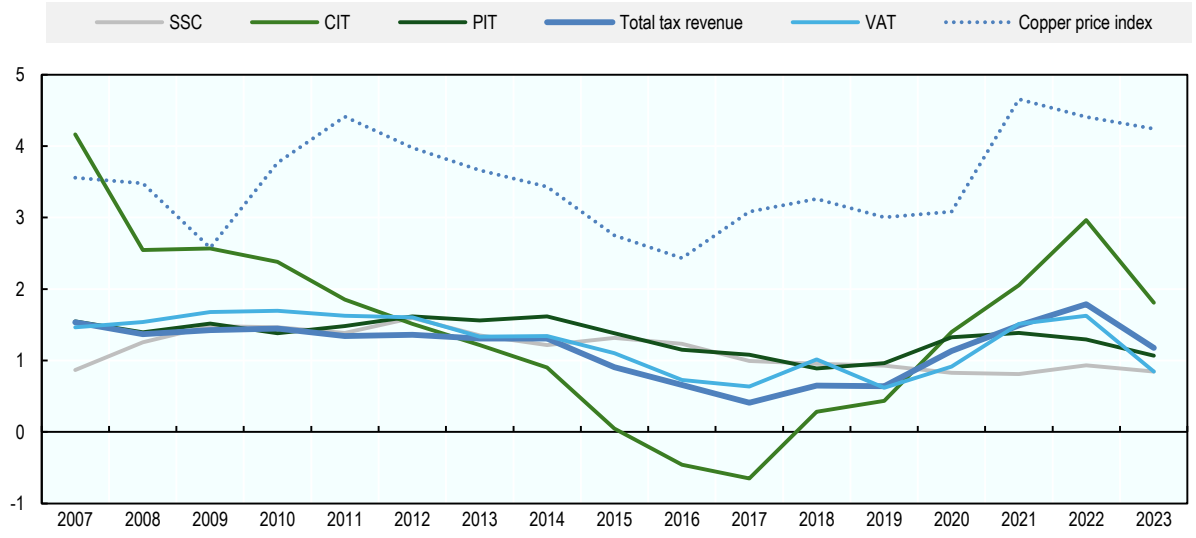
5% and 6-7% of GDP, respectively (Figure 2.2.) As a result, the contribution of each major tax to GDP in 2023 is broadly comparable to that observed in 2007, implying long-run buoyancy close to unity for each tax type (Figure 2.1). This pattern indicates that the persistent stagnation of the tax-to-GDP ratio in Peru reflects economy-wide challenges affecting all major taxes, rather than weaknesses confined to any single revenue source, and that it is more structural than just a revenue challenge with respect to mineral resources.

Broadening the PIT base and strengthening PIT progressivity would contribute to increasing tax buoyancy. PIT revenues have remained at around 2% of GDP since 2012 (Figure 2.2.), despite sustained growth in income per capita (see Chapter 1). Under a progressive PIT system, PIT revenues would be expected to grow more rapidly than aggregate income, which can provide an important source of endogenous tax buoyancy (if tax rate brackets are adjusted by less than nominal income growth, for example only by inflation). While Peru's schedular PIT applies a progressive rate structure to labour income, different types of capital income are taxed separately at a low flat rate. Enhancing the progressivity of the PIT, including through reforms to the taxation of capital income, could strengthen revenue buoyancy (see Chapter 5). These design reforms could be complemented by strengthened enforcement to improve capital income tax compliance. The buoyancy of the PIT is further constrained by its narrow tax base, reflecting both high levels of labour informality and a large standard tax allowance that applies to labour income. Strengthening the buoyancy of the PIT would require a reduction in the standard tax allowance, alongside the prioritisation of a whole-of-government approach to reducing labour informality (see Chapter 1).

Tax base protection measures could reduce revenue volatility of the mineral sector. Tax base protection measures would include rules that limit the ability of firms to offset losses from one project with the profits of another project. These measures can be designed to address broader base erosion and profit shifting (BEPS) risks, which are often pronounced in extractive industries due to their capital intensity, use of complex corporate structures, and exposure to international transactions. Without adequate safeguards, multinational firms may shift profits across jurisdictions through transfer pricing practices, intra-group financing, or the strategic allocation of costs, further increasing revenue volatility and reducing the effective tax contribution of the sector. To mitigate these risks, governments can complement loss ring-fencing rules with targeted BEPS countermeasures, such as strengthening transfer pricing regulations, introducing thin capitalization or earnings-stripping rules, and enhancing transparency through country-by-country reporting and beneficial ownership disclosure.

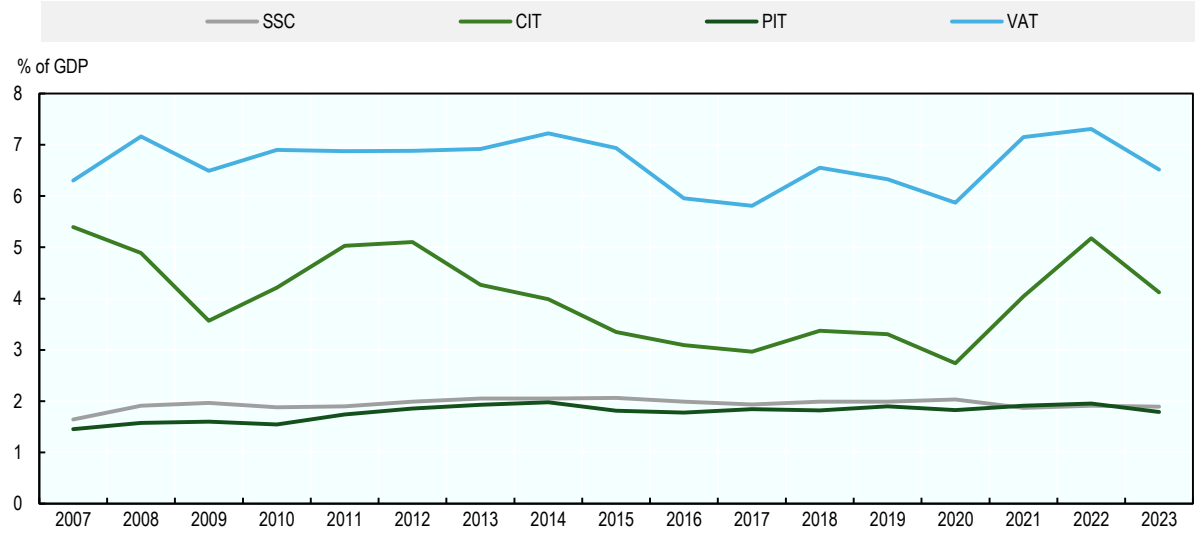
There is a positive correlation between VAT revenues and mineral prices (Figure 2.1 and Figure 2.2. . While VAT receipts are notably less volatile than CIT revenues, they nonetheless appear to increase with higher mineral prices. From a conceptual perspective, this relationship is not straightforward, as VAT levied on mineral outputs destined for export is, in principle, refunded[4], implying that higher mineral prices should not mechanically translate into higher net VAT revenues. The positive correlation observed may therefore reflect indirect transmission channels rather than direct taxation effects. Several hypotheses could be explored in this regard. These include spillovers from the mineral sector to non-extractive activities that are subject to VAT, changes in VAT compliance behaviour such as variations in refund claims or evasion patterns along supply chains linked to mining, and demand-side effects, including higher private consumption associated with increased profit distribution and increased employment during periods of elevated mineral prices. In addition, pro-cyclical public expenditure financed by higher mineral-related revenues may raise aggregate consumption and, in turn, VAT receipts. Further empirical analysis would be required to assess the relevance and relative importance of these potential channels.

Figure 2.1. Buoyancy by tax type



Note: The tax buoyancy indicator is defined as the five-year moving average (lagged) of the annual tax buoyancy indicators. In order to exclude the impact of one-off events such as the 2009 great recession, the value for the year 2009 is omitted and replaced with an average of the surrounding years.
Source: OECD Revenue Statistics, London Metal Exchange.

Figure 2.2. Tax collection by tax as a percentage of GDP, 2007-2023



Source: OECD Revenue Statistics.

Box 2.1. Methodology for sectoral tax calculations across tax types and sectoral buoyancy analysis

Calculation of sectoral tax revenue across all tax types

Tax revenues across all major tax types, including CIT, royalites and certain mining taxes, PIT, SSCs, excises and VAT, can be allocated by economic sector using industry classification data provided by Peru's tax administration (SUNAT). The tax revenue data across economic sectors does not include revenues from recurrent taxes on immovable property, local taxes, taxes on rental income and capital gains reported by natural persons who do not carry out a business activity.

PIT and SSCs are withheld and remitted on behalf of the employee by the firm and classified according to the firm's industry code. The self-employed are also assigned to a particular industry, and their PIT and SSC payments are categorised accordingly. In addition, VAT payments and VAT refunds are classified by industry code of the firm remitting VAT or receiving refunds. This enables the calculation of total tax revenues contributed by each economic sector to the central government across all tax types, net of refunds.

Tax revenue by economic sector from internal taxes was downloaded from Cuadro A6 from the SUNAT's statistics, and supplemented with data on refunds, SSCs, and import taxes by economic sector provided by SUNAT. A number of caveats need to be considered. First, taxpayers who operate across multiple industries are classified under a single industry category, typically the industry in which the business earns the largest share of its income. Second, taxpayers whose activities evolve over time might not promptly update their industry classification with SUNAT. Third, the datasets reflect taxes paid rather than tax liability accrued.

Ratio of sectoral tax to sectoral value added

Definition

The sum of revenues across tax types within a particular sector can be expressed as a percentage of that sector's value-added. Note that value-added includes both salaries and profits and is the difference between output and intermediate consumption. When this ratio is calculated for each economic sector, the weighted average of the different ratios per sector (applying weights calculated as each sector's value-added as a share of Peru's GDP) equals the national tax-to-GDP ratio.

Interpretation

The sectoral tax revenues to sectoral value-added statistic can be used to compare the tax revenue collected across economic sectors in a particular year or within an economic sector across years. Further, the ratio informs how tax collection from different sectors is affecting the national tax-to-GDP ratio, and what implications shifts in the sectoral composition of the economy will have on the evolution of the tax-to-GDP ratio over time.

Buoyancy by sector

Definition

The concept of tax buoyancy is typically applied at the national level, but it can also be applied at the sectoral level using the ratio of annual changes over time in sectoral tax revenue to changes over time in sectoral value-added. Tax buoyancy can also be calculated by sector within a particular tax type. For instance, the CIT buoyancy of a particular sector is calculated as the annual change in CIT revenues paid by that sector divided by the annual change in the sector's value-added.

Interpretation

This ratio can be interpreted as the degree to which the tax system is effective at translating value-added growth in a particular sector into tax revenue growth. A sectoral buoyancy ratio greater than 1 indicates that tax revenue across a particular tax or the sum of all tax types is growing faster than a sector's value-added. Sectors with high sectoral tax buoyancy may nevertheless make only a limited contribution to aggregate tax buoyancy when their economic weight is small.

Ratio of sectoral tax to national GDP

Definition

For each economic sector, the sum of tax revenues across all tax types can be expressed as a share of national GDP. When calculated on this basis for all sectors, the sum of these sectoral shares corresponds to the national tax-to-GDP ratio.

Interpretation

The ratio of sectoral tax revenues to (national) GDP does not control for differences in sector size. As such, it does not measure the intensity of taxation within a sector, but rather the contribution of each sector to the total tax-to-GDP ratio. This measure is therefore particularly informative for decomposing changes over time in the national tax-to-GDP ratio into sectoral components. Notably, a sector with a relatively small share of value added may simultaneously exhibit a high ratio of tax revenues to sectoral value added and a low contribution to the tax-to-GDP ratio.

Caveat with respect to the incidence of the VAT

Note that the sectoral tax revenue numbers reflect VAT remittance but not VAT incidence. In other words, VAT is attributed to the remitting economic sector, while the VAT incidence ultimately falls on final consumers.

The sectoral tax revenue to sectoral value-added ratio will depend on a wide range of factors that might affect tax collection in a given sector. These include not only the design of the tax system, but also the role of businesses in that sector as withholding agents, the degree of non-compliance, the level of informal activity, etc. As a result, the ratio of sectoral tax revenue to sectoral value-added should be interpreted with caution when it is used to infer the tax burden borne by a particular sector. For instance, the comparatively high tax to sectoral value-added ratio of the commerce sector is biased upwards as the sector collects VAT that is ultimately paid by final consumers. Hence, this ratio is not a reliable proxy for the tax burden on the commerce sector.

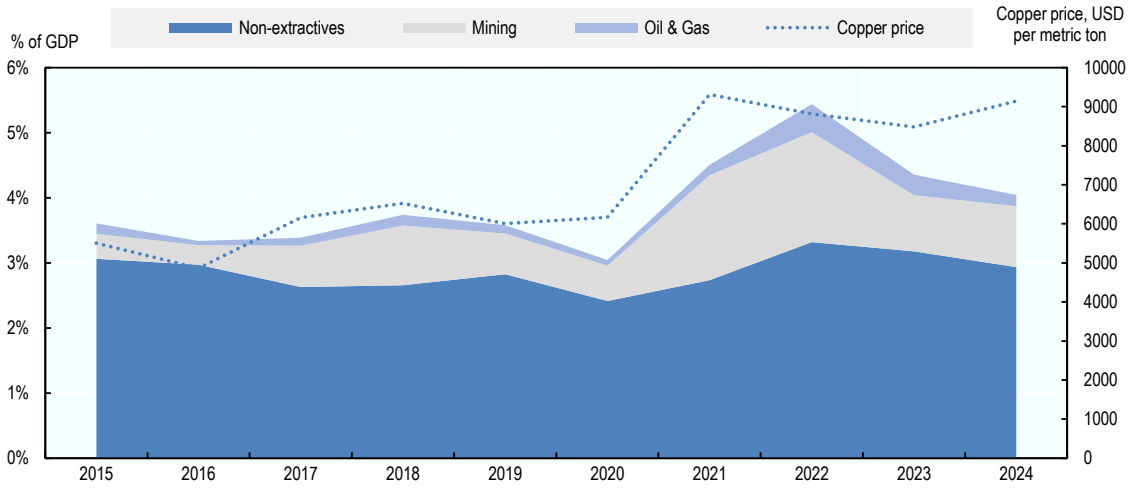
For the minerals, tourism, and agriculture sectors, the design of the VAT has an impact on the sectoral tax to sectoral value-added ratios. For the agricultural sector (particularly crop production), both outputs and inputs benefit from a VAT exemption, which keeps the ratio low. As the tourism sector predominantly provides services to final consumers, the VAT it collects is borne by final consumers and not the tourism sector itself. As a result, the sectoral tax revenue paid by the tourism sector overstates the effective tax burden borne by the sector.

Non-mineral sector CIT liabilities are positively correlated with mineral prices

The volatility of mineral prices results in volatility in CIT paid by the non-extractive sector. Although less sensitive than mining-sector CIT, the buoyancy of CIT revenues collected from non-extractive activities, which account for at least around two-thirds of total CIT receipts (Figure 2.3.), also appears to co-move with mineral prices. This pattern extends beyond CIT alone. When all tax types are considered jointly, total tax buoyancy in the non-extractive sector tends to fall below one during periods of declining copper prices, while exceeding one during periods of elevated mineral prices and stronger revenue performance in the extractive sector (Figure 2.4.). These correlations may reflect indirect linkages between the mineral sector and the broader economy. In particular, periods of high mineral prices may generate positive spillover effects for non-extractive activities, including increased demand for intermediate inputs such as transport services, manufactured equipment and financial services, as well as geographic spillovers benefiting service providers located near mining operations. Further analysis would be useful to better understand the magnitude and transmission mechanisms of these spillovers, and their implications for revenue volatility across the tax base.

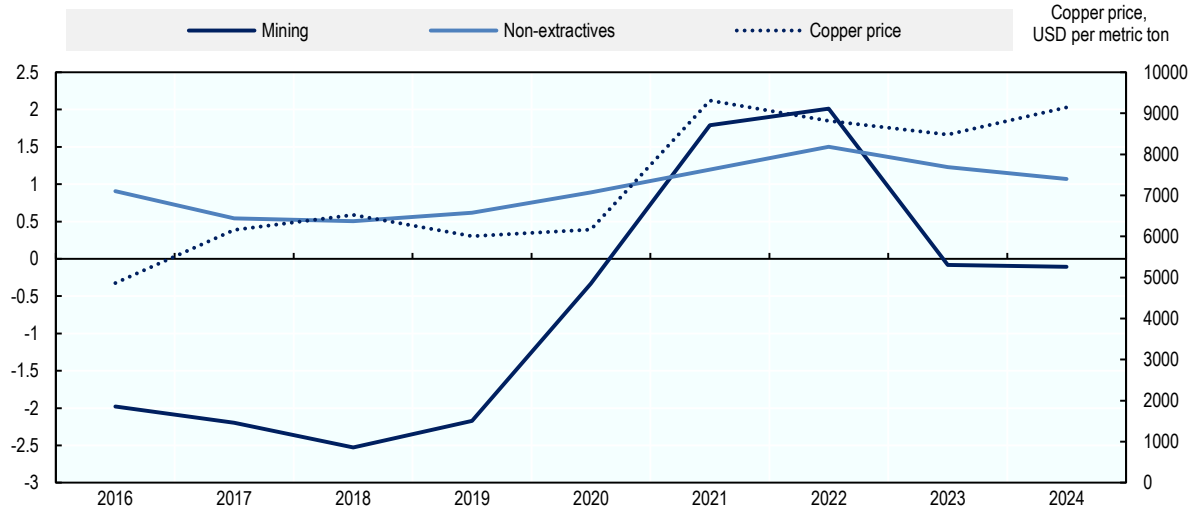
Recent evidence suggests an emerging weakening in the relationship between mineral price upswings and tax revenue buoyancy that extends beyond the extractive sector, raising a number of hypotheses that could be examined in future analytical work. One possible explanation is that the nature of economic linkages between the mineral sector and non-extractive activities has evolved, such that growth in the extractive sector no longer translates as strongly into an expanding tax base elsewhere in the economy. Developments in formalisation may be particularly relevant in this context. During the period of elevated copper prices in the early 2010s, labour informality and VAT non-compliance in the non-extractive economy declined steadily, whereas more recent periods of high mineral prices have not been accompanied by similar improvements in compliance indicators (see Chapter 1). Further in-depth analysis would be needed to assess these potential explanations and to better understand the changing transmission mechanisms between mineral price cycles, economic activity and tax revenue buoyancy.

Figure 2.3. Sectoral CIT revenues to GDP



Note: The numerator is the CIT revenue collected from each sector, while the denominator is the GDP of Peru, see scale on left hand side. The scale on the right-hand side displays copper prices. Mining royalties are added to the mining CIT.
Source: Sunat, London Metals Exchange, Central Bank of Peru.

Figure 2.4. Total tax buoyancy in the mining sector and the rest of the economy

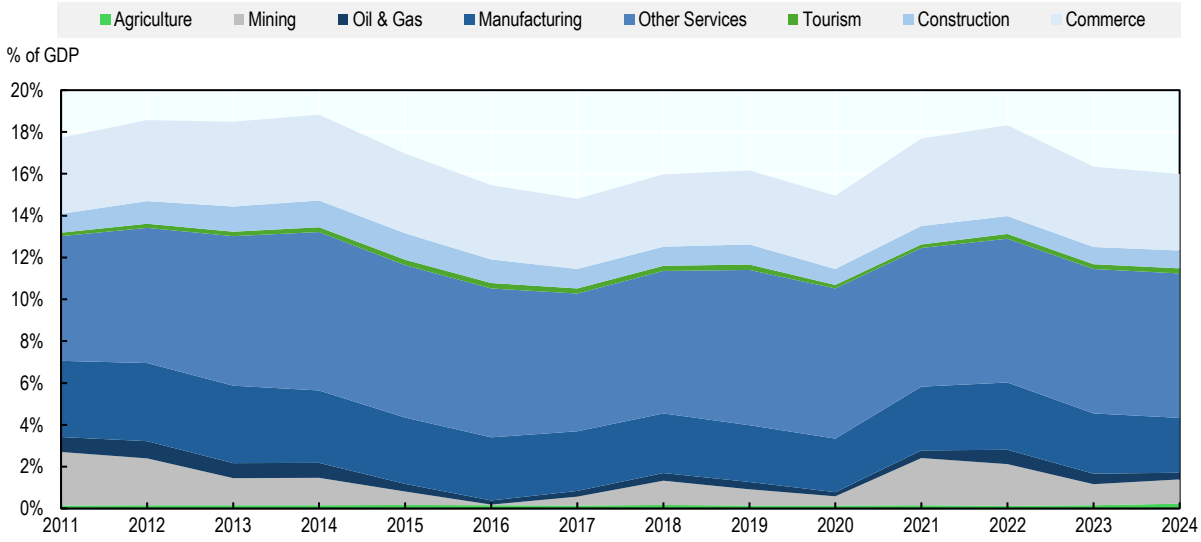


Note: Buoyancy is computed in 5-year lagging averages, representing the ratio of annual sectoral tax revenue growth to annual sectoral value-added growth averaged over 5 years. The left-hand axis displays the buoyancy ratio. The right-hand axis is the price of copper. All major tax types are included, specifically, PIT, CIT, SSCs, VAT, and Excises. Mining royalties are also included. See Box 2.1 for methodological details.
Source: SUNAT, London Metals Exchange, Central Bank of Peru.

Sector-specific considerations for strategies to increase long-run buoyancy and manage volatility in the tax-to-GDP ratio

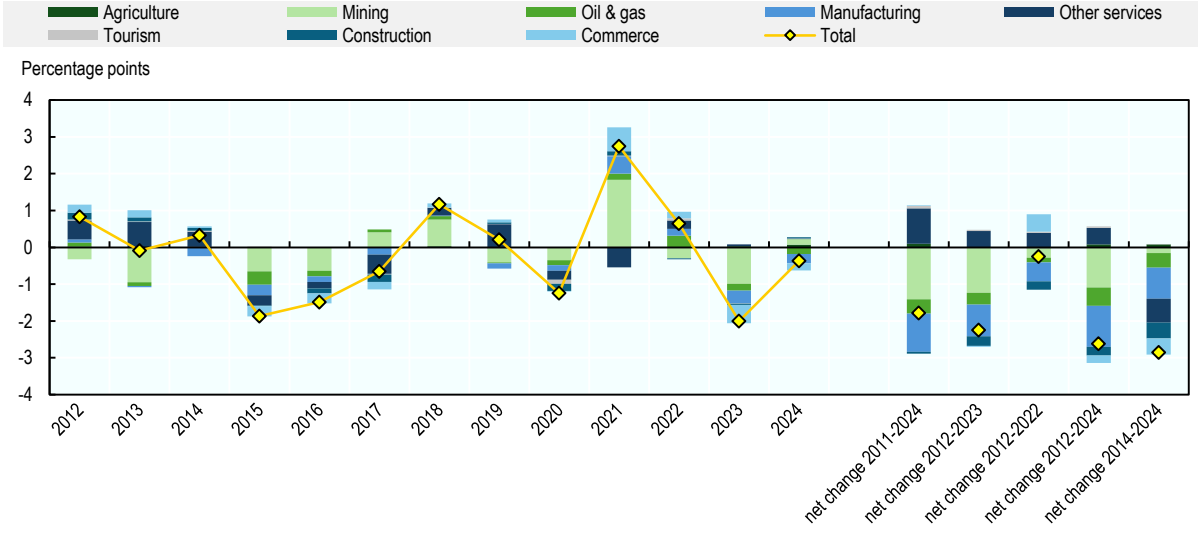
The ratio of tax revenues to sectoral value added in the mining sector has declined markedly over time and is now low by historical standards. While value added in the mining sector has more than doubled since 2011, tax revenues from the sector have remained broadly stagnant. As a result, the share of sectoral value added collected in taxes has fallen by more than half over this period (Figure 2.7). In the early 2010s, the mining sector contributed a higher proportion of its value added in tax revenues, around 22-23%, than the non-extractive economy, which averaged around 20%. By contrast, in 2023 and 2024, the tax-to-value-added ratio in the mining sector had declined to around 10%, compared with approximately 19% in the non-extractive economy, despite historically high mineral prices (Figure 2.7). This decline has important implications for aggregate revenue mobilisation. Illustratively, if the mining sector had contributed the same share of its value added in taxes in 2024 as it did in 2011, Peru's overall tax-to-GDP ratio would have been approximately 1.4 percentage points higher - an amount equivalent to nearly half of the fiscal deficit recorded in that year (Figure 2.6.) (Ministry of Economy and Finances of Peru, 2025[4]). If current trends persist, continued expansion of the mineral sector will not contribute to increasing the tax-to-GDP ratio over time. This development underscores the importance of examining the drivers of the low effective tax burden in the mining sector and assessing whether current tax policy and administrative settings remain aligned with the sector's capacity to contribute to public finances over the commodity price cycle, as discussed in the mining subsection of Chapter 1.

Figure 2.5. Sectoral decomposition of Peru's tax-to-GDP ratio



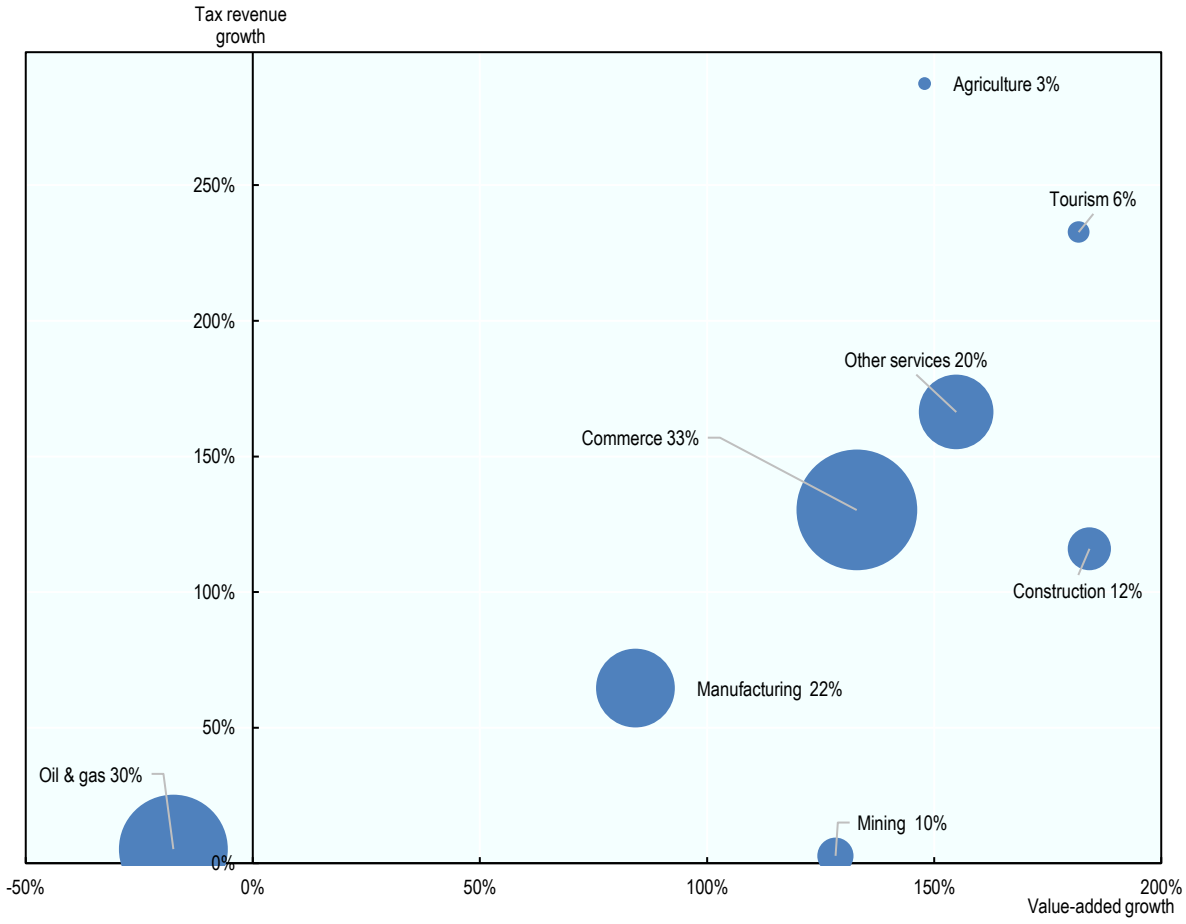
Note: The graph decomposes the national tax to GDP ratio into its sectoral components. CIT, VAT, Excises, PIT, SSCs, and mining royalties are all included, but recurrent local property taxes excluded, see Box 2.1 for methodological details. Commerce denotes wholesale and retail trade.
Source: SUNAT, Central Bank of Peru.

Figure 2.6. Sectoral decomposition of year-over-year changes in Peru's tax-to-GDP ratio



Note: Each yellow diamond represents the net annual shift in the tax-to-GDP ratio, equal to the sum of all of the coloured bars in its year, which decompose the annual change in national tax-to-GDP by sector. For instance, in 2023, the tax-to-GDP ratio decreased by two percentage points (from 19% to 17%), and approximately half of this decrease (a full percentage point) was due to reduced tax collection from the mining sector. Each sector's contribution to the annual change in national tax-to-GDP is equal to the annual change in that sector's ratio of sectoral tax to national GDP. In this ratio, the numerator sums sectoral tax revenue across all tax types (SSCs, CIT, PIT, VAT, excise taxes) and the denominator is national GDP. Mining royalties are included in tax revenues. The vertical axis shows the change in national GDP, expressed in percentage points. The "net change" bars on the right sum the displayed annual changes across the denoted span of years, decomposing the net change in tax to national GDP across the timespan into the amount attributable to each sector. Note that mining royalties are included; see Box 2.1 for further methodological details.
Source: SUNAT, Central Bank of Peru.

Figure 2.7. Tax revenue growth and value-added growth by sector, 2011-2024

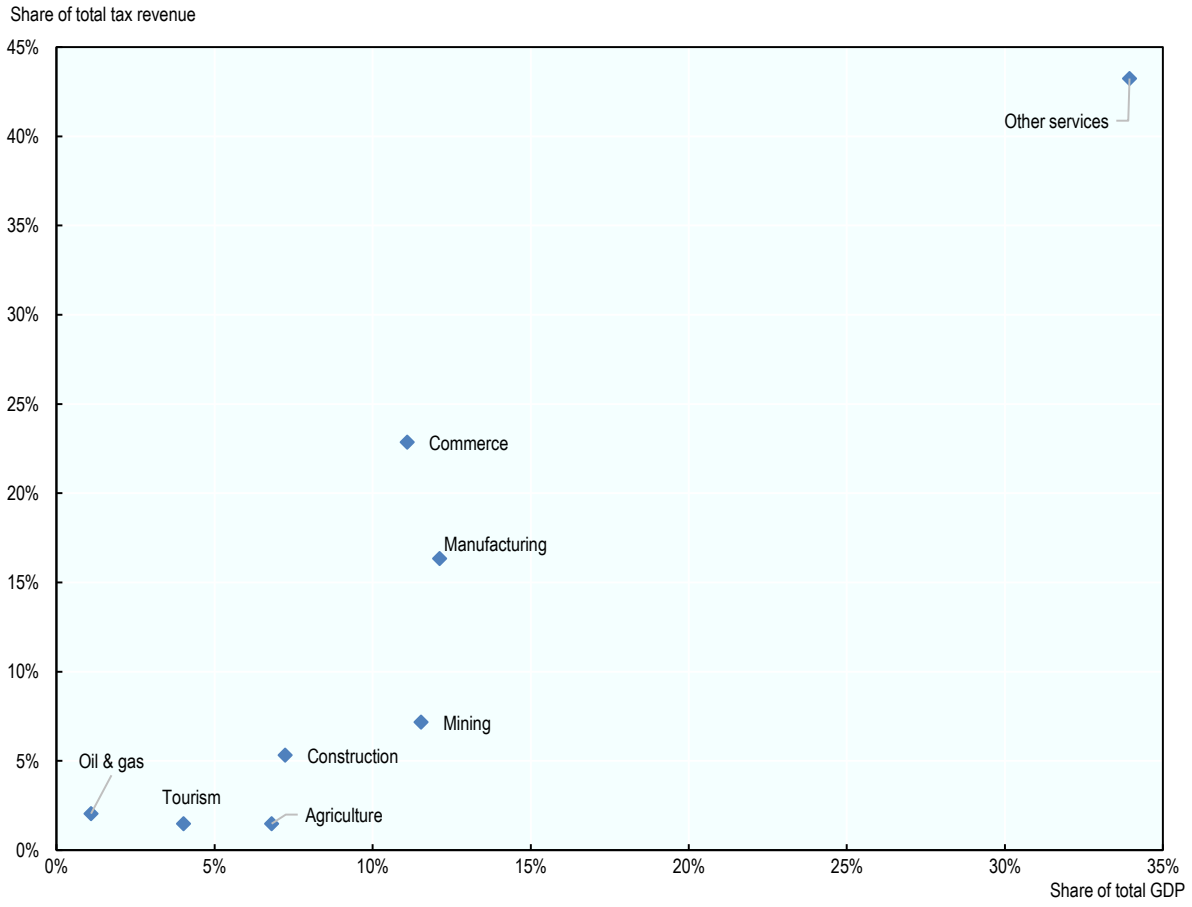


Note: The percentages written in the data labels display the sectoral tax to sectoral value-added ratio across all tax types in 2024, indicating the relative burden of the tax system on each sector. The sizes of the dots are scaled to the sectoral tax to sectoral value-added ratios for 2024. The graph displays the sectoral tax revenue growth (y axis) across all tax types (including VAT, CIT, SSCs, PIT, excises, and mining royalties as well as other special mining taxes, see Box 2.1 for methodology) and the sectoral value-added growth (x axis) within each sector of the economy, during the period of 2011 to 2024. Sectors towards the upper left of the graph are those where tax revenue grew faster than value-added between 2011 and 2024 (i.e. buoyancy greater than 1), while sectors towards the bottom right are those where tax revenue grew slower than value-added between 2011 and 2024 (i.e. buoyancy less than 1). See Box 2.1 for further methodological details. Note that tax revenue for the mining sector also includes royalties, even though the OECD revenue statistics database does not consider them tax revenues.
Source: SUNAT, Central Bank of Peru.

Manufacturing, services and commerce currently display sectoral tax-to-value added ratios that are above the economy-wide tax-to-GDP ratio, which implies that if these sectors continue to grow, they will support a gradual increase in the tax-to-GDP ratio. In 2024, the tax burden in manufacturing, services and commerce amounted to approximately 22%, 20% and 33% of sectoral value added, respectively[5], exceeding the national tax-to-GDP ratio (Figure 2.7). The manufacturing, services, and commerce sectors grew by 80%, 150% and 130%, respectively, in current prices, and their tax-to-value-added ratios have remained roughly unchanged. This suggests that continued growth in these sectors would support an increase in the tax-to-GDP ratio in line with these sectors' tax ratio. Any further increase in the taxes paid by these sectors would also increase the tax-to-GDP ratio over time. As these sectors together account for 57% of GDP in 2024 and are expected to continue growing, raising their long-run tax

buoyancy could be a key component of a strategy to increase Peru's overall tax-to-GDP ratio over time (Figure 2.8.).

Figure 2.8. Sectoral share of GDP vs share of contributions to total tax revenue



Note: The chart situates each sector according to its share of total tax revenue in Peru (y axis) and its share of Peru's total GDP (x axis), as of 2024. Sectors above the diagonal line contribute a higher percentage of Peru's total tax revenue than their share in Peru's total GDP. Sectors below the diagonal line contribute a lower percentage of Peru's total tax revenue than their share in Peru's total GDP. Tax revenue across tax types (CIT, PIT, VAT, SSCs, and excises) is attributed to each sector according to the methodology explained in Box 2.1. Royalties and other special taxes are included in mining sector tax revenue.
Source: SUNAT, Central Bank of Peru

Strengthening the taxation of the tourism and agro-export sectors could contribute to increasing Peru's tax-to-GDP ratio in the long run

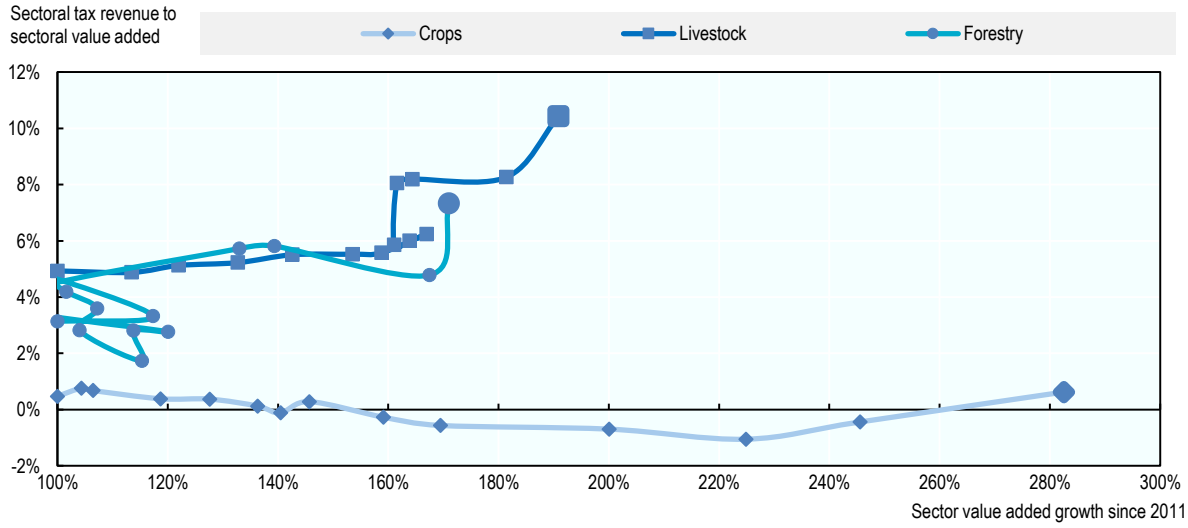
The agriculture and tourism sectors exhibit relatively high revenue buoyancy, but they continue to make only a limited contribution to overall tax revenues. Since 2011, value added in agriculture and tourism has grown by approximately 150% and 180% in current prices, respectively, among the fastest growth rates across economic sectors in Peru. Over the same period, tax revenues from these sectors have increased at a faster pace than sectoral output, particularly in agriculture, resulting in buoyancy well above unity (Figure 2.7). Despite this strong revenue responsiveness, the impact on aggregate revenue mobilisation has remained modest, reflecting the low starting ratio of tax paid to value added. In 2011, agriculture and tourism contributed only around 2% and 5% of their respective value added in taxes. In

2024, agriculture and tourism accounted for approximately 7% and 4% of GDP, respectively (Figure 2.8.), yet each generated tax revenues equivalent to only around 0.25% of GDP. This corresponds to sectoral tax-to-value-added ratios of roughly 3% in agriculture and 6% in tourism. Significantly higher increases in these ratios will be required in order for the growth in the tourism and agro-export sector to support an increase in the overall tax-to-GDP ratio (Figure 2.5. and Figure 2.7).

The limited contribution of the agriculture and tourism sectors to overall tax revenues reflects a combination of structural and tax policy-related factors, including high levels of informality, low productivity, and the presence of generous TEs. In the tourism sector, labour and business informality remains widespread, constraining the tax base. In addition, the application of a reduced VAT rate results in forgone revenues from formal tourism operators that otherwise exhibit taxable capacity. In agriculture, family farming and small-scale producers continue to account for a substantial share of sectoral value added, yet these activities are characterised by low productivity, very high informality, and limited capacity to pay taxes. At the same time, the analysis suggests that large and rapidly expanding agro-export firms display significantly higher productivity and profitability, and therefore a greater ability to pay tax. However, a range of sector-specific TEs limits effective revenue mobilisation from these firms. This indicates scope to reassess the design and targeting of TEs in the agro-export segment to better align taxation with taxable capacity, as discussed further in Chapter 3.

Recent growth in agricultural value added has been driven predominantly by large, highly productive agro-exporting firms. Between 2011 and 2024, the value of agricultural exports increased by approximately 363%, with large enterprises accounting for around 98.5% of this expansion.[6] By 2024, close to 95% of total agricultural exports originated from large companies (exceeding 2 300 UIT in annual turnover) operating in the crop subsector, rather than in livestock or forestry. Despite these developments, the net contribution of the crop subsector to the tax system has been negative in five of the past six years (Figure 2.9.). This stands in contrast to the rapid growth and increasing economic weight of the subsector. By comparison, livestock and forestry appear to account for most of the observed buoyancy in aggregate agricultural tax revenues, despite much lower export intensities (approximately 0.1% and 4% of value added, respectively) and more modest growth in value added. The high export orientation of the crop subsector, combined with the refund mechanism inherent in the VAT system, mechanically limits its net VAT contribution. However, after more than a decade of sustained expansion, amounting to over 180% growth in value added since 2011, largely driven by large-scale agro-exporters, the crop subsector appears to exhibit a level of profitability and scale that indicates that the sector could pay a higher share of taxes than it currently does. An assessment of the tax treatment and effective taxation of large agro-export firms, with a view to assessing whether current policy settings remain consistent with their taxable capacity, is left for further work.

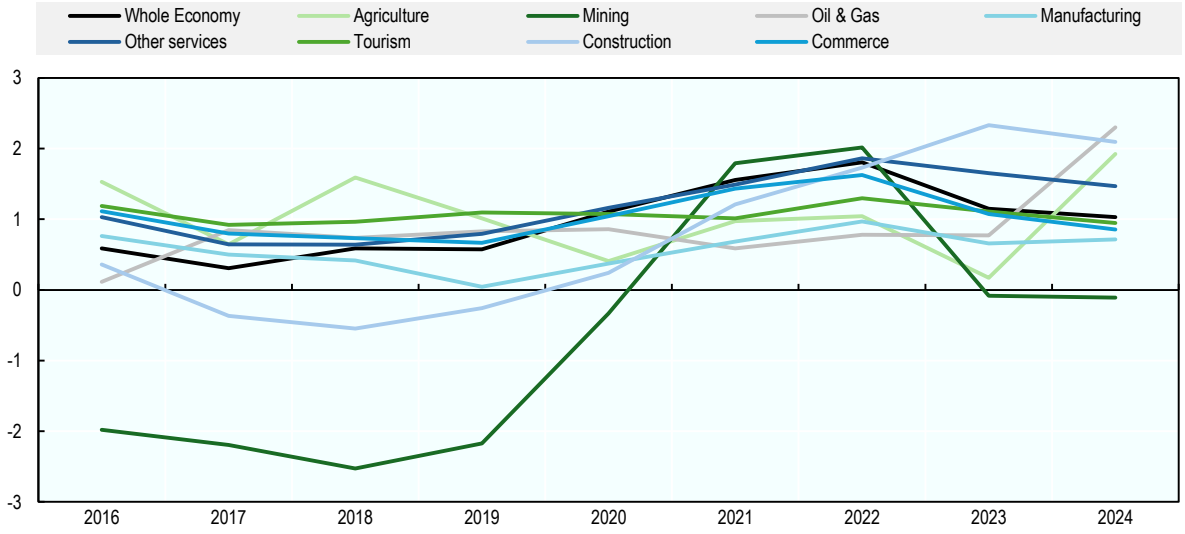
Figure 2.9. Evolution of value-added growth and sectoral tax revenue to sectoral value-added in agricultural subsectors, 2011-2024



Note: Each dot represents an annual point-in-time snapshot of the cumulative value-added growth in each subsector since 2011 (x axis) and of the annual sectoral tax to sectoral value-added ratio (y axis). See Box 2.1 for methodological details. Note that revenue from social security contributions is omitted here. The largest dots in each subsector's line represent the 2024 values; each subsector's line traces the annual dots for that subsector in chronological order from 2011-2024. Dots in the bottom left of the graph represent point in time snapshots of subsectors with little value-added growth (since 2011) and a very low sectoral tax to sectoral value-added ratio. Dots in the bottom right of the graph represent point-in-time snapshots of subsectors with relatively high sectoral value-added growth, but a very low sectoral tax to sectoral value-added ratio. Dots in the top left represent point-in-time snapshots of subsectors with a comparatively higher sectoral tax to sectoral value-added ratio, but very low cumulative value-added growth.
Source: SUNAT, Central Bank of Peru.

The agriculture and tourism sectors tend to exhibit comparatively higher revenue buoyancy during periods of low mineral prices. As the main drivers of agricultural output are relatively weakly correlated with developments in international mineral markets, the agricultural sector frequently records higher buoyancy than other sectors during periods of low copper prices (Figure 2.10.), as observed, for example, in 2016 and 2018. A similar pattern is apparent in the tourism sector, where growth is largely influenced by trends in international travel and tourist departures, which are likewise not closely linked to mineral price dynamics. As a result, tourism revenues tend to display relatively strong buoyancy in years when mineral-related revenues decline, often remaining at or above unity while buoyancy in other sectors falls below this threshold (Figure 2.10.). Nevertheless, despite the stronger buoyancy in these sectors, they are subject to relatively low tax collection as a share of value added, meaning their growth does not translate into an upward pressure on the tax-to-GDP ratio.

Figure 2.10. Total buoyancy by sector, 2016-2024



Note: Buoyancy is calculated as 5-year moving average (lagged) of the ratio of annual change in total sectoral tax revenue to annual change in sectoral value-added. CIT, VAT, PIT, SSCs, excise taxes, and mining royalties are included in the total sectoral tax revenue, see Box 2.1 for methodological details.
Source: SUNAT, Central bank of Peru.

Over time, the agriculture and tourism sectors have the potential to match and eventually exceed the tax revenue contribution of the mineral sector. By 2024, combined value added in agriculture and tourism had already surpassed that of the extractive sector, and both activities are projected to continue expanding at a faster pace than mining. This underscores the potential role of these sectors in supporting medium-term revenue mobilisation, provided that policy and administrative reforms strengthen their effective contribution to the tax system. By contrast, measures that further increase the generosity of tax benefits for agro-exporters and tourism-related activities, against the backdrop of already low sectoral tax-to-value-added ratios, would run counter to the objective of broadening the tax base and increasing overall tax revenues.

References

INEI (2022), *Producción y Empleo Informal en el Perú: Cuenta Satélite de la Economía Informal 2007–2021*, Instituto Nacional de Estadística e Informática, Lima, Perú, https://www.inei.gob.pe/media/MenuRecursivo/publicaciones_digitales/Est/Lib1878/libro.pdf. [6]

Ministry of Economy and Finances of Peru (2025), *Marco Macroeconomic Multianual*, MEF, Lima, https://cdn.www.gob.pe/uploads/document/file/8563935/7091414-marco-macroeconomico-multianual-2026-2029.pdf?v=1756399214 (accessed on 24 April 2026). [4]

OECD (2025), *Global Revenue Statistics Database*, OECD Publishing, https://www.oecd.org/en/data/datasets/global-revenue-statistics-database.html (accessed on 27 April 2026). [2]

OECD et al. (2025), *Revenue Statistics in Latin America and the Caribbean 2025*, OECD Publishing, Paris, https://doi.org/10.1787/7594fbdd-en. [3]

SUNAT (2026), *Estadísticas y estudios*, https://www.sunat.gob.pe/estadisticasestudios/ (accessed on 27 April 2026). [5]

World Bank (2024), *GDP per capita (constant LCU) | Data*, https://data.worldbank.org/indicator/NY.GDP.PCAP.KN (accessed on 27 April 2026). [1]

Notes

[1] If informal economic activity is not fully captured in the GDP estimates, the true tax-to-GDP ratio would be lower than the estimates quoted in this report. Currently, 18% of GDP is estimated to be informal (INEI, 2022[6]).

[2] Tax buoyancy measures the extent to which economic growth translates into tax revenue growth. Tax buoyancy is defined as the ratio of tax revenue growth to GDP growth. To increase the tax-to-GDP ratio, Peru would need to achieve a tax buoyancy ratio greater than 1 over time.

[3] Between 2014 and 2017, the tax-to-GDP ratio of Peru declined by 3.7 percentage points, according to OECD Revenue Statistics, and did not surpass its 2017 level until 2022. Aside from a one-year drop in tax-to-GDP associated with the 2009 great recession, this was the first sustained significant drop in Peru's tax-to-GDP since 2000. The 22.8% potential figure for 2022 comes from adding 3.7 percentage points to the recorded tax-to-GDP ratio of 19.1% of 2022. The LAC average tax-to-GDP ratio was 21.5% in 2022 (OECD et al., 2025[3]).

[4] Note that the VAT revenue displayed in the figures reflects collections minus refunds.

[5] Note that the commerce tax to sectoral value-added ratio is elevated because of how final VAT collected from end-consumers is attributed to the retail subsector even though in practice it is paid by end consumers.

[6] See "SUNAT Estadisticas Cuadro G1: Exportacion Definitiva por Sector Economico" (SUNAT, 2026[5]).

3 A balanced approach to tax expenditures in Peru

Tax expenditures (TEs) have not been identified as a significant policy challenge in Peru, particularly within the corporate income tax, due to high levels of non-compliance and to the significant role of simplified tax regimes that are not categorised as TEs. However, this may change, given that the approval of new TEs in Peru has recently increased in a manner that deviates from the governance procedures mandated by Peruvian law. The recent approval of additional TEs risks worsening Peru's fiscal outlook. Some TEs are not an effective solution to the problems they are intended to address and are therefore recommended to be reformed or abolished. The effectiveness of other TEs remains in question. Additional technical analysis is needed to assess their effectiveness and evaluate possible design improvements. This chapter presents a policy recommendations table that categorises various, provides presents. This chapter presents a policy recommendations table that categorises various long-standing and recently passed TEs, provides detailed analysis and presents specific reform proposals.

A narrow benchmark and low uptake account for low revenue forgone estimates from TEs in past years, but this may change over time

Peru foregoes about 2.2% of GDP in tax revenue per year according to the country's TE report. While this appears low at face value, this estimate ought to be interpreted carefully. Peru's TE report estimates that the revenue forgone from TEs amounted to 2.2% of GDP in 2025, a level that has remained roughly similar for two decades (SUNAT, 2025[1]). This percentage is lower than in LAC peer countries, whose revenue forgone as a result of TEs ranges from 2.5% to 8% of GDP per year. [1] Low TE take-up in the context of high non-compliance, together with the way the benchmark tax system is defined could explain this relatively low estimate for Peru, as will be explained below. On the other hand, when expressed as a percentage of tax revenues, Peru's revenue forgone does not appear as low relative to its peers. In addition, Peru's revenue forgone from TEs may rise in the coming years as recently passed TEs come into effect.

Significant tax non-compliance, together with complex administrative requirements, may account for the limited uptake of TEs in Peru. The revenue forgone from TEs in the PIT and the CIT is only 0.19% and 0.12% of GDP respectively (SUNAT, 2025[1]). However, within a context of high informality and tax non-compliance, taxpayers may be reducing their tax liability through evasion channels rather than through the uptake of TEs. In addition, burdensome administrative requirements that need to be met to benefit from certain CIT TEs may deter take-up.

Tax revenue forgone would increase if a wider range of tax provisions was classified as TEs. Peru's TE report excludes many CIT and PIT provisions that allow taxpayers to significantly reduce their tax liability, while other countries identify these provisions as a TE in their TE report. For instance, Peru's simplified business tax regimes (NRUS, RER and MYPE) that allow the majority of businesses to significantly reduce their business tax liability are excluded from Peru's TE report. A provision that allows taxpayers to deduct expenses from their taxable income under the PIT by up to 3 UIT (approximately equivalent to the minimum wage), is likewise not considered as a TE. If these provisions were included in Peru's TE report, the revenue forgone from PIT and CIT TEs would increase significantly. For example, an estimate of the revenue forgone from the simplified regime called Simples Nacional in Brazil is measured in the country's TE report and represents that country's costliest TE. In addition, Peru's TE report may underestimate CIT TEs because in some cases, CIT-exempt entities are not required to report all of their income to the tax administration.

Peru's could revise the benchmark tax system to exclude certain provisions that forgo tax revenue but are currently treated as part of the benchmark. Measuring the revenue foregone of a wider range of tax provisions would enhance transparency and could contribute to stronger tax policy. One possible option is to consider simplified regimes and the PIT 3 UIT deduction as TEs. Alternatively, Peru could follow the approach of certain OECD countries, such as Canada and the UK, which report the revenue forgone of certain provisions under the separate subheading of "structural relief" provisions rather than considering them as actual TEs (HMRC, 2024[2]; Department of Finance of Canada, 2026[3]). This approach would support more systematic tracking of fiscally costly elements of the tax system that would remain part of the benchmark. The recommendations table in the next section notes specific elements of the tax system that forgo revenue but are not currently included in the TE report (Table 3.1).

The revenue forgone estimates in the TE report may increase in the long run as the economy grows and tax compliance improves. As discussed in Chapter 1, only 25% of workers earn more than the standard PIT allowance and therefore have the opportunity to claim PIT TEs. This percentage may rise over time as economic growth continues or proposals to lower the standard allowance are enacted. Further, if tax enforcement increases, informality shrinks, and non-compliance becomes riskier over the long term, taxpayers may take greater advantage of TEs in order to reduce their tax liability. In addition, any future reforms significantly affecting the attractiveness of the simplified regimes might likewise motivate

taxpayers to exit the simplified regimes and claim TEs (that are currently measured in the TE report) in the general regime as an alternative tax reduction strategy. This means that the share of total tax revenue forgone through TEs is likely to increase over time as economic activity expands, incomes grow and tax enforcement improves.

The recent increase in the number of TEs approved presents fiscal risks and governance concerns

The recent proliferation of TEs in Peru risks becoming fiscally unsustainable. Peru's deficit and debt levels are projected to increase in the coming decade, partially due to a historic increase in the number of TEs that are being approved. A total of 38 laws establishing or expanding TEs had been passed up to October 2025 in the current legislative session (Merino and Murga, 2025[4]). According to the Consejo Fiscal, the collective revenue forgone of these TEs passed in the legislative session could reach up to 1.8% of GDP (Merino and Murga, 2025[4]).

The approval of new TEs and the evaluation of existing ones increasingly deviates from legally mandated governance standards. As discussed in Chapter 1, Norm VII of the Peruvian tax code contains clear standards for the approval of new TEs, mandating a rigorous technical foundation including ex-ante and ex-post economic impact assessments. However, these standards are increasingly disregarded. Congress passes TEs despite the technical objections of the MEF more and more frequently (Merino and Murga, 2025[4]). In many cases, the design of TEs appears to depart from international good practice or contain technical inconsistencies that could hinder their effectiveness. This is all the more concerning given that ineffective TEs in Peru appear to be difficult to reform. TEs are frequently extended without reforms even when there is strong evidence that they are ineffective. Total adherence to the standards of Norm VII for new TEs as well as rationalisation of existing TEs, as highlighted in several MOF publications, is therefore recommended (Ministry of Economy and Finance of Peru, 2022[5]; Ministry of Economy and Finance of Peru, 2024[6]).

Reforms could enhance the effectiveness and reduce the fiscal cost of Peru's TE provisions

TEs were grouped into four categories depending on whether they warrant consideration for reform (Table 3.1):

- **"No Reform":** Certain TEs within the Peruvian tax system are found to be well-designed and aligned with underlying policy objectives; these TEs are classified as "no reform."
- **"Maintain but Improve Design":** Other TEs are aligned with underlying policy objectives, but weaknesses in their design may undermine effectiveness. These TEs are classified as "maintain but improve design" and are accompanied by specific recommendations to address identified design shortcomings.
- **"Need for Impact Assessment":** For a further group of TEs, it is unclear whether they represent the most appropriate instrument to achieve the stated objective(s) and there is a risk of unintended consequences. However, additional evidence, particularly in the form of an impact assessment, is required to reach a definitive conclusion about this group of TEs. These TEs are classified as "need for impact assessment".
- **"Abolish" or "Do not Introduce":** Finally, certain TEs are assessed as not being an appropriate instrument to achieve their stated objective(s) and these TEs are therefore classified as "abolish / approval not recommended if still a proposal".

Table 3.1 also identifies the provisions that are currently not included in Peru's TE report. The last column in the table indicates whether the identified TEs are currently included in Peru's TE report (Table 3.1). The TEs include both recently enacted measures as well as longstanding provisions, including some that have not previously been identified as TEs and, therefore, for which the revenue foregone has never been measured.

Table 3.1. Tax Expenditure Policy Recommendations

		No reform	Maintain but improve design	Impact assessment is required / caution is advised	Abolish/ Approval not recommended if still a proposal	Provision is currently not included in the TE report
Tax provisions approved before 2021	CIT	ITAN tax credit				☒
	CIT	Financial transaction tax credit				☒
	CIT				Amazon reduced rates (Law 27 037)	
	CIT				Existing ZEDs	
	CIT				MYPE	☒
	CIT/PIT				RER	☒
	VAT				Zofratacna commercial zone (régimen de franquicia) (Law 31 543)	☒
	VAT			Amazon exemption (Law 27 037)		
	PIT		3 UIT expense deduction			☒
	PIT			Exemption on the returns from pension savings		☒
	PIT				CTS exemption	
	PIT			Foreign-sourced income derived from the sale of securities in the integrated stock exchange (MILA)		☒
	PIT		NRUS			☒
	PIT			Benchmark for pension savings (Taxed contributions -Exempt returns - Exempt pensions)		
	Excise			Amazon fuels exemption (Law 27 037)		
	Tariffs				Drawback refund system for exporters	
TEs approved since 2021	CIT & PIT	Accelerated tax depreciation allowances, tax credit for investment in irrigation infrastructure		Reduced PIT and CIT rates for individuals and small companies in agriculture, tax credit for	Reduced CIT rate for large agriculture companies (Law 32 434)	

		(Law 32 434)		reinvestment of profits (Law 32 434)		
	CIT & PIT	25% CIT enhanced deduction for purchases from small agricultural producers (Law 32 434)				
	CIT			Special zone for tourism development (Law 32 392) not yet implemented		☒
	CIT			Reduced CIT rate ZEEPs (Law 32 449) Not implemented yet		☒
	CIT		Enhanced deduction for hiring workers in textile and agriculture sector (Law 31 969)			
	VAT				Reduced VAT rate on hotels and restaurants (Law 31 556)	
	CIT			Lima city centre tax credit for investment and enhanced deduction of donations (Law 31 980)		☒
	All taxes				Tax amnesty 3567/2022-CR	☒
	All taxes				Positive sanctions (Law 32 335)	☒
Proposed TEs	CIT				New industry law (5892/2023-CR)	

Source: OECD.

TEs categorised as "No Reform"

Certain provisions, such as refundable credits for the net assets tax (ITAN) and the financial transaction tax (ITF), mitigate the distortive impact of these taxes. As their tax bases are not aligned with firm profitability, the ITAN and ITF are inherently distortive taxes, unless they are fully refundable. Refundable credits for ITAN and ITF under the CIT therefore constitute good practice. It implies also that both taxes effectively operate as a withholding mechanism for the CIT. Moreover, both the ITAN and ITF generate valuable information for the SUNAT, supporting the detection and deterrence of evasion in the CIT and PIT. Accordingly, no reform is recommended with respect to the refundable CIT credits for the ITAN and ITF.

Expenditure-based CIT incentives can support investment and economic growth while avoiding the fiscal risks associated with profit-based tax incentives. For example, CIT TEs included in Law 32434 that are targeted at the agricultural sector, including accelerated tax depreciation allowances for new investment in fixed assets in irrigation infrastructure, are expenditure-based tax incentives that aim at stimulating investment in the agricultural sector. These types of incentives may be warranted if government decides that the tax system should be used to stimulate this type of investment. Moreover, because the

revenue forgone from these incentives is directly proportional to the level of investment, the fiscal risk is comparatively lower than that arising from profit-based tax incentives.

TEs categorised as "Maintain but Improve Design"

The deduction of expenses from taxable personal income up to 3 UIT has the potential to support the formalisation of self-employed and household workers; however, adjustments to its design could enhance its effectiveness while supporting tax revenues and the progressivity of the PIT. Taxpayers may deduct from their taxable personal income 30% of eligible rent payments, medical expenses, and payments to (self-employed) service providers who earn category 4 personal income, as well as 100% of EsSalud SSCs paid for household workers and 15% of tourism-related expenditures, including hotels and restaurants. Some of these TEs, such as the deduction of SSCs, may contribute to the formalisation of the economy, albeit at a high revenue cost. At the same time, the composition of deductible expenses raises concerns from an equity perspective. In particular, deductions related to hotel, restaurant, and tourism spending (which account for approximately 49.7% of total claimed deductions) are less directly linked to formalisation objectives and may weaken the progressivity of the PIT (Ministry of Economy and Finance of Peru, 2024[7]). In addition, the deduction of 100% of SSCs paid for household domestic workers could be more effective if it were subject to a separate ceiling, rather than being included within the overall cap on personal deductions. This would ensure that households claiming other deductions are still able to fully deduct SSCs for domestic workers, thereby strengthening incentives for formalisation. More generally, the revenue foregone associated with this deduction could be systematically reported in the TE report, alongside an impact assessment to evaluate its contribution to increased formalisation and its distributional impact. Where evidence suggests that a given TE is not meeting its stated formalisation objective reforms are warranted. A reduction in the cap of 3 UIT should also be evaluated, in particular if the deduction of EsSalud SSCs for household workers would face a separate ceiling.

Enhanced deductions for the hiring of new formal workers in the agriculture and textile sectors are intended to promote labour formalisation; however, adjustments to the eligibility criteria could increase their effectiveness. At present, take-up of the incentives foreseen in Law 31 969 is very limited: only 35 firms have claimed the deduction, with an estimated revenue foregone of approximately S/ 2.2 million (around USD 640 000). Further analysis to identify the factors underlying this low take-up would be useful to assess the effectiveness of the measure and to inform potential reforms. Should participation increase, certain design features of the deduction may give rise to unintended behavioural responses. In particular, the requirement that eligible workers earn a monthly wage below S/ 1 700 in order for employers to benefit from the enhanced deduction may create incentives for partial wage informality or downward wage distortions. For example, employers could have incentives to report wages just below the threshold while compensating workers through unrecorded cash payments, thereby eroding the PIT and SSC bases. Replacing the wage eligibility threshold with a cap on the deductible amount could help mitigate these risks while preserving the intended formalisation.

TEs categorised as "Need for Impact Assessment"

The exemption from VAT applicable in the Amazon region could be assessed with respect to its distributional impacts and its effectiveness in promoting economic development relative to alternative policy instruments such as targeted public investment in areas such as infrastructure, health and education. The Amazon VAT exemption represents one of the costliest TEs reported in Peru's TE report, with an estimated fiscal cost of around 0.3% of GDP (SUNAT, 2025[1]). The TE is intended to address low tax-paying capacity and economic underdevelopment in the Amazon region. However, contrary to the requirements set out in Norm VII, no ex-post evaluation of the effectiveness of the TE has been conducted, despite it having been in place for many years. Available evidence nevertheless suggests

that the impact of the VAT exemption on regional development may be limited. In particular, an evaluation of the withdrawal of the Amazon VAT exemption in the San Martín region (combined with increased public investment) found that economic development accelerated in San Martín relative to comparable regions where the VAT exemption remained in place (Escobal, 2017[8]). This quasi-experimental evidence suggests that public spending would be more effective than the VAT exemption at promoting economic development in the Amazon region. Note that Norm VII mandates that tax benefits not be extended when there is a more effective spending option for the same goals. Moreover, VAT exemptions are a poorly targeted instrument to provide support to poor families, and more direct income or social protection support may be more effective and fairer.

The excise tax exemption on fuels in the Amazon region has generated significant leakage and unintended effects, including the subsidisation of illegal activities. The geographic concentration of fuel stations along the borders of the Amazon region facilitates access to untaxed fuel for consumers from neighbouring regions, creating avoidance opportunities. In addition, the exemption lowers operating costs for organised crime, illegal mining and other illicit activities that rely heavily on fuel inputs. As a result, the exemption undermines the integrity of the excise tax system while weakening enforcement efforts against illegal economic activity. Nonetheless, abolishing the fuel excise exemption in the Amazon region could trigger an increase in the cost of basic goods that would exacerbate poverty. Peru could consider abolishing the fuel excise exemption in the region while providing a compensation to households.

An evaluation of the income tax credits for real estate investment in Lima's historic centre would be advisable prior to considering any expansion of the measure. Stringent historical preservation requirements, together with the need to rehabilitate abandoned buildings, can increase investment costs in the historic centre. A recently introduced TE seeks to offset these higher costs by offering income tax credits for qualifying real estate investments.[2] An impact assessment could help determine whether the incentive has resulted in additional investment that would not otherwise have occurred, as well as its distributional implications. There is a risk that the tax credit is claimed for renovation projects that do not involve abandoned or historically designated buildings, and which therefore are not subject to elevated investment costs and may not represent genuinely additional activity. From an equity perspective, the measure may primarily benefit higher-income property owners, potentially weakening vertical equity in the PIT. Decisions regarding the continuation of the tax credit for the Lima historic centre, or its possible extension to other urban areas, would therefore benefit from an ex-post evaluation addressing additionality, distributional effects, and overall cost-effectiveness.

Peru could consider changing the taxation of pensions as part of a formalisation strategy, although this would require additional rules during the transition phase to avoid double taxation. Under current PIT rules, pension contributions are not deductible from taxable personal income, while both the returns on pension savings and pension benefits (upon retirement) are exempt from PIT. This is a Taxed-Exempt-Exempt (TEE) treatment. As a result, the principal contribution is taxed at the time of saving (i.e. the pension contribution is not deductible from taxable income), while returns are effectively untaxed. In contrast, the standard approach across OECD countries is to allow deductibility of pension contributions from taxable personal income, exempt returns on pension savings, and tax pension income upon withdrawal. Under this Exempt-Exempt-Taxed (EET) treatment, both the principal and returns, which constitute the pension received, are taxed at payout. In the Peruvian context, taxing pension income while allowing deductions for contributions would, at present, leave most pension benefits untaxed due to the high level of the standard PIT allowance. However, this issue could be addressed by a reduction in the basic PIT allowance, as recommended elsewhere in this report. Transitioning to an EET benchmark could also help remove disincentives to formalisation associated with the current non-deductibility of pension contributions. At the same time, transition considerations would need to be carefully assessed. In particular, current contributors have already paid PIT on pension contributions over many years, such that taxing future pension benefits could result in double taxation of the principal component. As this effect

would be closely correlated with age rather than income, potential implications for horizontal equity would warrant careful consideration in the design of any reform.

Once in place, the private special economic zones (ZEEPs) would benefit from a regular assessment of whether the investment they attract is genuinely additional. Where ZEEPs primarily absorb investment that would otherwise take place under the standard tax regime, the outcome may put a downward pressure on the tax-to-GDP ratio. In this context, the design of eligibility criteria is a key determinant of effectiveness. Restricting eligibility to a clearly defined set of sectors and activities that are unlikely to develop under the standard tax system could help strengthen additionality (see the Chapter 6).

A targeted assessment could help determine whether the reduced CIT and PIT rates applicable to small agricultural producers are targeted at taxpayers with limited capacity to pay tax. Under Law 32 434, individuals and firms engaged in agricultural activities with net income below 30 UIT are exempt from income tax, while those earning up to 150 UIT are subject to a reduced rate of 1.5% on income above the exemption threshold. While raising additional revenue from small producers with limited tax-paying capacity would not be advisable, an empirical analysis could assess whether taxable capacity begins below the current 150 UIT threshold at which the reduced rate ceases to apply. At the same time, if the recommendation to abolish the preferential 15% CIT rate for large agricultural companies were to be implemented, the continued existence of a sharp notch at 150 UIT could create incentives for income under-reporting or firm-splitting by larger producers seeking to qualify for the small-producer regime. That said, given the already high levels of informality and non-compliance in the agricultural sector, the practical significance of this risk may be limited. Finally, further broadening the scope of reduced income tax rates to activities beyond primary agricultural production would not be advisable, as this could dilute targeting, increase fiscal costs, and weaken the coherence of the overall income tax system.

The tourism special economic zones (ZEDTs) may have limited effectiveness in attracting additional high-quality investment and run the risk of reducing the tax buoyancy of the tourism sector. The new framework law (Law 32 392) allows for the creation of ZEDTs in which qualifying tourism enterprises benefit from reduced CIT rates for up to 15 years, including a zero-rate CIT during the first five years. Such provisions are not aligned with internationally recognised good practice (see Annex A) (IMF-OECD-UN-World Bank, 2025[9]). Given Peru's existing comparative advantage in tourism, these incentives risk subsidising investment that would likely have occurred in the absence of preferential treatment and could create tax-induced incentives for existing operators to locate most new activities into ZEDTs. Under this scenario, the ZEDTs could reduce the translation of economic growth into revenue growth within the tourism sector. Moreover, where ZEDTs are designated in areas with established tourism activity, firms operating outside the zones may face competitive disadvantages relative to firms in ZEDTs. In addition, the broad definition of eligible assets used to meet minimum investment thresholds encompasses items with limited potential to generate positive spillovers. According to the Official Letter 028-2026-EF/15.01 sent by the MEF to the Ministry of Tourism, Law 32 392 will require an amendment through legislation with respect to its tax-related provisions. This provides a key opportunity to improve its design and limit its distortive impact.

Non-tax policy measures may be more effective than TEs in promoting additional tourism investment. The tourism sector exhibits a relatively low tax-to-value-added ratio, which is estimated at 5-7% since 2011 (see Chapter 2), suggesting that the overall tax burden is unlikely to be a binding constraint on sectoral growth. While such estimates are subject to caveats, they indicate that profit-based tax incentives may have limited impact on stimulating investment. In contrast, several constraints on tourism investment are non-tax in nature and cannot be effectively addressed through CIT relief, notably insufficient transport connectivity to areas with high natural or cultural tourism potential. This consideration is particularly relevant given that Norm VII of Peru's tax code requires tax incentives to be considered only where no direct spending measure can achieve the same policy objective.

TEs categorised as "Abolish" or "Do not Introduce"

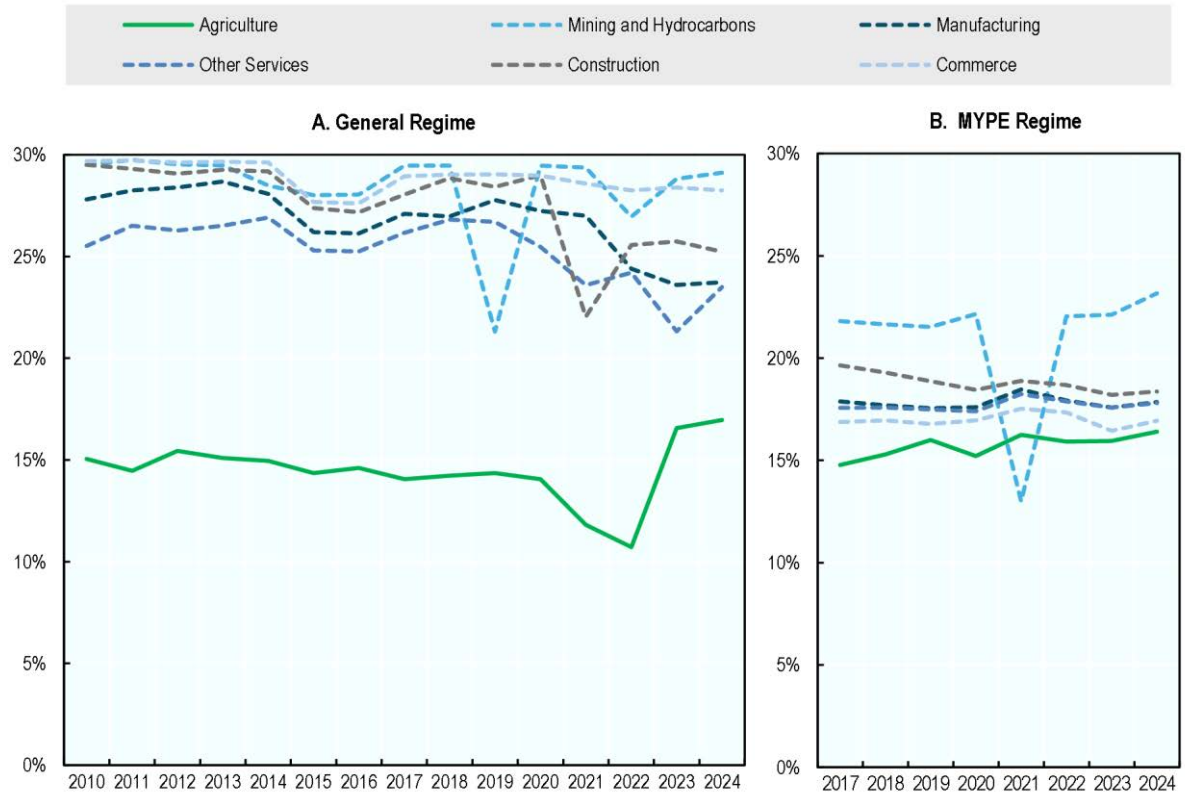
TEs targeted at agro-exporters

The design of Peru's duty drawback refund system for exporters scheme results in refunds that substantially exceed duties paid, diverging from its original policy objective. Ideally, drawback provisions should be limited to reimbursing duties actually paid on imported inputs used in the production of exported goods. However, Peru calculates drawback refunds as a fixed percentage of export value, which departs from this standard approach. The fixed rate has frequently exceeded the effective duty incidence, resulting in significant over-compensation. In 2013, the average beneficiary received refunds exceeding three times the duties paid, while 25% of beneficiaries received more than 13 times, and 10% more than 61 times the duties paid (Cusato, Chavez and León, 2017[10]). Although the scheme was originally intended to support manufacturers with high imported input intensity, around half of total drawback payments accrue to a small number of large agro-exporters for whom imported inputs account for only a small share of export value. These shortcomings could be partially mitigated in the short term through a supreme decree reducing the refund rate, pending legislative reform that limits refunds to duties directly paid on imported inputs.

Applying the standard CIT rate to large agricultural companies would strengthen horizontal equity in the tax system. Peru's agro-export sector has recorded rapid growth in value added and exports over the past decade, driven largely by large firms, yet it has contributed relatively little in tax revenue (see Chapter 2). As figure 3.1 shows, agricultural companies under the general regime have long enjoyed low CIT effective tax rates. Law 32 434 extends the reduced 15% CIT rate for large agricultural firms until 2035, rather than phasing in the standard CIT rate from 2028 as foreseen under Law 31 110. Eliminating this reduced rate would contribute to mobilizing much needed additional revenues and promote a more level playing field. Furthermore, given that agro-export revenues are not closely correlated with mineral prices, a more robust contribution from this sector could provide a countercyclical revenue source, helping to stabilise the tax-to-GDP ratio during downturns in commodity prices.

If the reduced rate for the agricultural sector is maintained, it will be important to ensure that this preferential treatment is not extended to manufacturing activities linked to the sector. According to a recent assessment by the MEF, the draft Supreme Decree regulating "agro-industrial" activities under Law 32 434 (pre-published through Ministerial Resolution No. 0508-2025-MIDAGRI) substantially broadens the scope of this category. In practice, it extends tax incentives to conventional manufacturing activities that do not face the structural constraints typically associated with agricultural production, as they operate within established supply chains and exhibit relatively high levels of market concentration. The expansion of such incentives weakens both the equity and the revenue-raising capacity of the tax system and may divert support away from taxpayers and sectors with greater demonstrated need.

Figure 3.1. CIT effective tax rate under the general and MYPE regime by economic sector



Note: CIT effective tax rates (ETRs) calculated by SUNAT according to sector classifications equivalent to those used in SUNAT Cuadro A6. Lossmaking firms are excluded. ETRs reflect the actual tax liability of businesses after tax credits have been deducted as a share of their profit before that profit is reduced by exempt income or enhanced deductions.
Source: SUNAT.

TEs targeted at the tourism sector

An impact evaluation has found that the reduced VAT rate for hotels and restaurants has not met its objectives of supporting sales or employment creation in the tourism sector. The measure was initially introduced as a temporary response to sustain activity and jobs during the COVID-19 crisis but has since then been extended until 2027. Although formally targeted at small firms, the eligibility threshold of 1 700 UIT (approximately USD 2.3 million in annual turnover) covers around 99.5% of tourism businesses (World Bank, 2025[11]). The evaluation finds no statistically significant effects on sales, employment, or consumer prices among eligible firms. Instead, the primary observed response was a reduction in the ratio of reported purchases to sales, consistent with a decline in the use of fraudulent invoices to sustain pre-existing levels of tax evasion. In light of these findings, the reduced VAT rate for tourism appears ineffective as an economic stimulus and is unlikely to represent an efficient use of public resources. Peru could therefore consider abolishing the reduced VAT rate for hotels and restaurants and refraining from extending similar rate reductions to other sectors. The analysis also indicates that there is a need for stricter enforcement of the sector to prevent the use of fraudulent practices, such as the use of fake invoices.

TEs targeted at the Amazon region

Reduced CIT rates are an ineffective instrument for offsetting non-tax barriers to investment in the Amazon region. Certain activities, particularly in agriculture, fishing, tourism, forestry and linked

manufacturing, are eligible for preferential CIT rates of 5% or 10% depending on the Amazon department, with the stated objective of compensating for disadvantages related to remoteness and limited infrastructure. Agriculture benefits from a complete CIT exemption if related to native varieties. However, international and domestic evidence suggests that profit-based tax incentives are generally ill-suited to attracting investment to underdeveloped regions, as they are unable to compensate for deficiencies in core elements of the investment climate, notably transport and logistics infrastructure (Andersen, Kett and von Uexkull, 2017[12]; ComexPeru, 2024[13]). In Peru, such reduced rates have coexisted for several decades with persistently low levels of economic development in the Amazon region, indicating limited effectiveness. More targeted expenditure-type of support may therefore be more appropriate to address these constraints, for example through increased public investment in transport connectivity. Reduced capacity to pay in the Amazon region is already partly addressed through nationwide provisions, including preferential income tax treatment for small agricultural producers under Law 32 434 and the NRUS presumptive regime for microenterprises. To the extent that additional support is warranted, it could be more effectively delivered through direct support measures. As such, reduced taxpaying capacity in the region does not appear to justify the use of additional CIT TEs.

Other TEs

The PIT exemption for withdrawals from the "Compensación por Tiempo de Servicios" (CTS) no longer aligns with the current function of the scheme. Historically, CTS balances, funded through regular employer contributions, could be accessed only under limited circumstances, typically upon termination of employment, and therefore resembled severance or social insurance payments that are exempt from PIT in Peru. Recent regulatory changes, however, allow employees to withdraw the full balance of their CTS accounts at any time, effectively converting CTS into a readily accessible component of regular remuneration. As a result, the continued exemption narrows the PIT base by excluding a growing share of labour income from taxation. The CTS exemption entails a revenue cost estimated at 0.15% of GDP, making it the fourth-largest measured TE (SUNAT, 2025[1]). At the same time, PIT in Peru is paid by only around 25% of formal workers and accounts for a substantially smaller share of total tax revenues than in the average OECD country. The phase-out of the PIT exemption for the CTS could be part of broader strategy to broaden both the PIT and SSC bases over time, which has to balance the broadening of these tax bases with ensuring the tax wedge does not increase by too much (see Chapter 4).

Positive sanctions raise significant concerns due to their adverse effects on revenue mobilisation and tax compliance. The Positive Sanctions Law (Law 32 335) limits the ability of SUNAT to impose monetary penalties on approximately 94% of registered microenterprises, even in cases of serious tax offences, unless the taxpayer has been previously detected at least once (PRODUCE, 2024[14]). The direct revenue foregone as a result of this measure could reach up to 0.5% of GDP annually (Merino and Murga, 2025[4]). By replacing fines with educational measures for first-time offenders, the law effectively removes the financial penalty associated with tax evasion for a large majority of firms that have not yet been audited. Amending Law 32 335 to limit positive sanctions strictly to minor, low-risk infringements where a breach of formal obligations is first identified provided it does not involve tax avoidance or evasion, such as the non-payment of taxes, would help restore the deterrent function of penalties and reinforce the integrity of Peru's tax enforcement framework. In general, positive sanctions can be used to complement financial penalties for tax crimes but should not replace them.

Law 31 962 and the amendments it introduced to the tax code raise serious concerns regarding tax compliance and the integrity of the penalty system. This law reduced the interest rate applicable to tax penalties and postponed its calculation from the date of notification of the fine and not from when the taxpayer commits the infraction. By deferring the application of late payment interest until formal notification, the law effectively reduces the net cost of violating tax obligations for those taxpayers who have not yet been detected and notified. Similar concerns arise regarding the equal treatment given to refunds resulting from administrative requests and those stemming from inaccurate tax returns, without

any distinction based on the cause of the overpayment. Additionally, the law foresees the payment of interest on refunds, including those arising from taxpayer errors, at a rate higher than that which could be obtained in the financial system, thereby creating incentives that may undermine compliance. Both distortions raise the expected returns to non-compliance relative to voluntary compliance and weaken incentives for accurate self-assessment of tax liabilities. In this context, reinstating the accrual of late-payment interest from the time the infringement is committed would strengthen SUNAT's enforcement capacity and support preventive compliance. Similarly, repealing Law 31 962 and introducing differentiated interest rates for refunds according to their origin would remove implicit subsidies for taxpayer errors and improve the coherence of the Peruvian tax system.

The proposed Nueva Ley de Industrias risks substantial CIT revenue losses without clear evidence of additional investment effects. The CIT currently accounts for nearly one-quarter of central government tax revenues in Peru (OECD, 2025[15]). Against a backdrop of a persistently low tax-to-GDP ratio that is not expected to rise with economic growth, alongside projected increases in public expenditure, broad sector-specific reductions in the CIT rate would place additional pressure on fiscal sustainability and are therefore difficult to justify (Ministry of Economy and Finance of Peru, 2025[16]). Analysis of the MEF indicates that the revenue forgone from the Nueva Ley de Industrias projects could exceed 3% of GDP (Merino and Murga, 2025[4]). Moreover, international best practice, as reflected in joint IMF-OECD-World Bank-IDB guidance, suggests that investment promotion is more effectively achieved through cost-based tax incentives that link tax relief directly to the new investment undertaken, rather than through reduced statutory rates that do not condition benefits on additional investment activity (see Annex A) (IMF-OECD-UN-World Bank, 2025[9]).

The commercial zone (or *régimen de franquicia*) associated with the Zofratacna special economic zone needs to be phased out. Under this regime, businesses located in Zofratacna may sell imported goods to natural persons in the domestic market under per-customer quotas that are exempt from VAT and ISC, while remaining subject only to a compensatory tariff of 6%. The scope of the regime currently includes alcohol (authorised until 2027) as well as a range of other consumer goods. While originally confined to retail sales within the geographic boundaries of the commercial free zone adjacent to Zofratacna, the regime has since been extended to e-commerce sales delivered anywhere in the national territory, albeit subject to lower individual quotas. The policy was initially introduced in the 1990s with the objective of formalising cross-border informal trade, but institutional capacity for tax administration and enforcement has since improved substantially. In its current form, the regime distorts competition by placing domestically produced goods, which are fully subject to standard VAT and ISC, at a disadvantage relative to imported goods sold under preferential tax treatment. The difficulty of effectively enforcing per-customer quotas increases the risk of leakage and further intensifies these distortions. Particularly problematic is the challenge of distinguishing exempt sales to natural persons from transactions with domestic firms, which are legally subject to full VAT and ISC. In addition, the discretionary power to expand quotas and eligible product lists by decree adds uncertainty and weakens fiscal control. Peru is advised to ensure that the commercial zone within the Zofratacna regime at the end of the current extension period.

References

Andersen, M., B. Kett and E. von Uexkull (2017), "Corporate tax incentives and FDI in developing countries", in *2017/2018 Global Investment Competitiveness Report: Foreign Investor Perspectives and Policy Implications*, World Bank Group. [12]

ComexPeru (2024), *Zonas Económicas Especiales: ¿Hacia Un Régimen Unificado?*, ComexPeru, https://www.comexperu.org.pe/articulo/zonas-economicas-especiales-hacia-un-regimen-unificado (accessed on 31 March 2026). [13]

Cusato, A., J. Chavez and M. León (2017), *El Impacto del Drawback sobre el Desempeño de Empresas Exportadoras Peruanas*, CIIE, https://EconPapers.repec.org/RePEc:bbj:invcie:660. [10]

Department of Finance of Canada (2026), *Report on Federal Tax Expenditures - Concepts, Estimates and Evaluations 2026: part 3 - Canada.ca*, Canada Ministry of Finance, https://www.canada.ca/en/department-finance/services/publications/federal-tax-expenditures/2026/part-3.html (accessed on 27 April 2026). [3]

Escobal, J. (2017), *Impacto de la renuncia de exoneraciones tributarias en la región San Martín: estimación preliminar*, GRADE, https://grade.org.pe/en/publicaciones/impacto-de-la-renuncia-de-exoneraciones-tributarias-en-la-region-san-martin-estimacion-preliminar/ (accessed on 27 April 2026). [8]

HMRC (2024), *Structural tax relief statistics*, Official Statistics, https://www.gov.uk/government/statistics/minor-tax-expenditures-and-structural-reliefs/structural-tax-relief-statistics-december-2024 (accessed on 27 April 2026). [2]

IMF-OECD-UN-World Bank (2025), "Tax Incentives Principles", *Platform for Collaboration on Tax*. [9]

Merino, C. and A. Murga (2025), *Análisis de las leyes e iniciativas legislativas con impacto fiscal adverso del Congreso de la República: periodo 2021-2026*, Consejo Fiscal, Lima, https://cf.gob.pe/wp-content/uploads/2025/10/ND-Iniciativas-legislativas-vfinal-1.pdf (accessed on 24 April 2026). [4]

Ministry of Economy and Finance of Peru (2025), *Marco Macroeconomic Multianual 2026-2029*, MEF, Lima, https://cdn.www.gob.pe/uploads/document/file/8563935/7091414-marco-macroeconomico-multianual-2026-2029.pdf?v=1756399214 (accessed on 24 April 2026). [16]

Ministry of Economy and Finance of Peru (2024), *Análisis Del Rendimiento De Los Tributos 2023*, MEF, Lima, http://www.mef.gob.pe/contenidos/tributos/doc/Analisis_rendimiento_tributos_2023.pdf (accessed on 29 April 2026). [7]

Ministry of Economy and Finance of Peru (2024), *Marco Macroeconomico Multianual 2025-2028*, MEF, Lima, https://www.mef.gob.pe/contenidos/pol_econ/marco_macro/MMM_2025_2028.pdf (accessed on 15 June 2026). [6]

Ministry of Economy and Finance of Peru (2022), *Marco Macroeconomico Multianual 2023-2026*, MEF, Lima, https://www.mef.gob.pe/contenidos/pol_econ/marco_macro/MMM_2023_2026.pdf (accessed on 22 June 2026). [5]

OECD (2025), *Global Revenue Statistics Database*, OECD Publishing, https://www.oecd.org/en/data/datasets/global-revenue-statistics-database.html (accessed on 27 April 2026). [15]

PRODUCE (2024), *Las Mipyme en la economía nacional*, Ministerio de la Produccion, Lima, https://www.producempresarial.pe/wp-content/uploads/2024/02/PPT_Libro-Mipyme-2022_-1.pdf (accessed on 27 April 2026). [14]

SUNAT (2025), *Estimación Potencial De Los Gastos Tributarios 2026*, https://mef.gob.pe/contenidos/tributos/doc/Estimacion_Gastos_Tributarios_2026.pdf (accessed on 27 April 2026). [1]

World Bank (2025), *Peru - Public Finance Review: Mobilizing Resources for Service Delivery and Growth*, World Bank, Washington, DC, http://documents.worldbank.org/curated/en/099112625153026273 (accessed on 24 April 2026). [11]

Notes

[1] The countries included in this comparison are Brazil, Chile, Colombia, Costa Rica, and Uruguay, and the data on TE revenue forgone are drawn from the GTED database.

[2] The law provides tax credits for investment for 5 years and deductions for donations for three years starting, effective from January 2025.

4 Payroll taxes and mandatory benefits

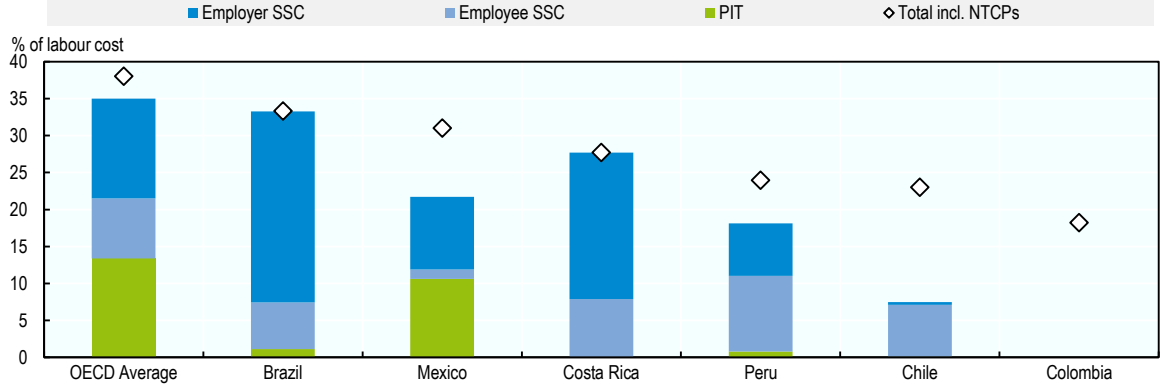
At around 18% of labour cost, Peru's tax wedge at the average wage level is not particularly high compared to that of its regional peers. A large proportion of formal sector workers do not effectively pay personal income tax (PIT) because of the high basic tax allowance. Reducing the basic allowance from 7 to 5 UIT would reinforce the role of the PIT while only modestly affecting the average tax wedge. However, the tax wedge does not fully reflect the total cost of formal employment in the country. Mandatory bonuses, severance savings and profit sharing can increase the cost of formally hiring a minimum wage worker under the general regime to around 150% of the base salary. At the same time, Peru operates several reduced labour tax regimes for smaller firms, substantially lowering the tax wedge and overall non-wage labour costs. Despite the tax wedge being close to zero under the micro-enterprise labour regime, almost 90% of workers in micro-enterprises remain informal. While reducing payroll taxes for low-income workers can contribute to greater formalisation, the impact on informality is likely to be limited in the absence of complementary measures that address the broader structural drivers of informal employment. This chapter examines the impact of reducing the basic tax allowance as well as of alternative reform measures that could contribute to financing health insurance on the tax wedge.

The labour tax wedge in Peru is not particularly high

At 18.1%, the tax wedge for the average-wage formal worker in Peru is not particularly high if compared to the tax wedge in other countries in the region and the OECD average (Figure 4.1). The labour tax wedge measures the ratio between personal income taxes (PIT) and employee and employer social security contributions (SSCs) and the total labour cost faced by the employer, where total labour costs are the sum of gross wages and employer SSCs. In Peru, the largest contributors to the tax wedge for an average wage earner in the general regime are pension (56% of the tax wedge) and health contributions (39%), while the PIT plays only a minor role (5%). Employer social security contributions finance health care (9% of gross wages) and employees contribute 13% towards pensions if they opt for the public system. Workers who decide to enrol in the private pension system pay a similar rate in private pension contributions.

As in many countries in the region, the earnings of the average wage earner largely fall within the basic PIT allowance. In the general regime, the PIT only accounts for less than 1% of labour costs for the average-wage earner in Peru.[1] The tax wedge simulations in Figure 4.1 do not account for the 3 UIT deduction (on top of the 7 UIT basic PIT allowance) to which most taxpayers in Peru have access. This deduction covers specific personal expenses, which need to be documented with electronic receipts, such as personal rent payments, restaurant expenses or social contributions for domestic workers. An average-wage salaried worker who claims the 3 UIT deduction would typically not have any PIT liability from their labour income. Tax wedge simulations are based on a modelled hypothetical taxpayer at a certain income level who fully declares all income and does not make use of any additional tax deductions. The estimates should therefore not be interpreted as the empirical effective tax rate workers in Peru face.

Figure 4.1. Tax wedge for a single taxpayer without children with average wage earnings

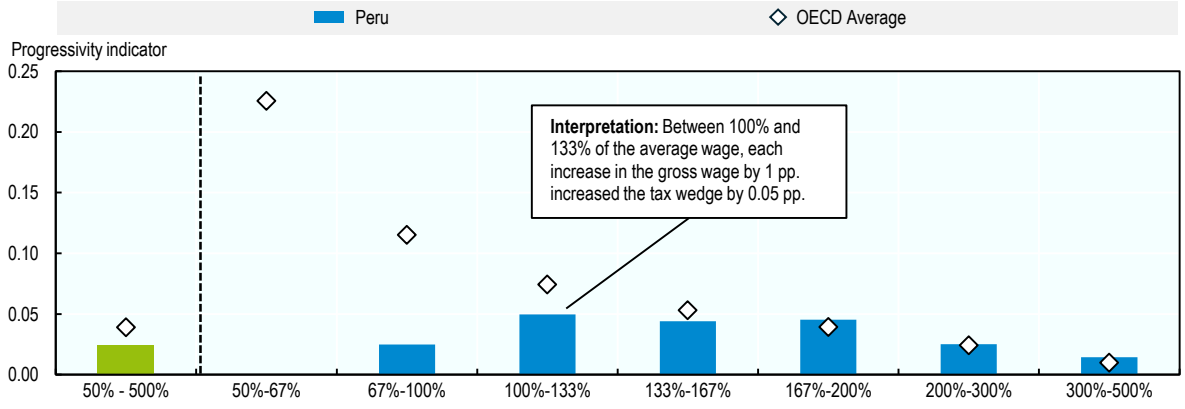


Note: The labour tax wedge measures the ratio between PIT and employee and employer SSCs and the total labour cost faced by the employer. The tax wedge is expressed in % of labour cost and calculated for single taxpayers without children at average earnings. Values refer to 2025 (OECD Members) and 2023 (Brazil). Non-tax compulsory payments (NTCPs) in Peru include contributions to the mandatory severance savings accounts (*CTS*) accounts. Results for Brazil are based on OECD calculations. The calculations focus on a worker affiliated to the public pension system (ONP) in Peru with pension contributions treated as employee SSCs. Workers affiliated to the private pension system (AFP) pay contributions to private funds, which would be classified as NTCPs rather than SSCs. The AFP contribution rate is similar to the 13% ONP rate, so that the NTCP-inclusive tax wedge does not differ significantly between the two systems. The data for Peru refer to the earnings of workers within the formal sector. The average worker's wage was calculated based on microdata from the national household surveys.
Source: OECD (2026[1]), OECD (2026[2]) and OECD Taxing Wages models for Brazil and Peru.

The tax wedge is almost constant between the minimum and average wage, with the highest tax wedge progressivity observed slightly above the average wage. The 7 UIT basic PIT allowance corresponds to roughly 90% of the average wage, which means that workers earning the average wage face almost no PIT liability in Peru. For these workers, the tax wedge is made up entirely of social security

contributions, which are levied at flat contribution rates that do not increase with income. The tax progressivity indicator measures how much a country's tax wedge changes, within a specific earnings interval, for each 1 pp. increase in the gross wage (e.g., from 50% to 51% of the average wage). In OECD countries, the highest labour income tax progressivity can typically be observed significantly below the average wage where earnings start exceeding the PIT exemption bracket (Figure 4.2). In Peru, the highest labour income tax progressivity is found between 100% and 133% of the average wage. In this earnings interval, the labour tax wedge increases by 0.05 pp. for each increase in the gross wage by 1 pp. (e.g., from 110% to 111% of the average wage). For higher earnings levels, labour income tax progressivity in Peru is more similar to the OECD average as the tax burden gradually increases with the progressive PIT rate schedule at incomes that exceed the basic tax allowance. The overall lower progressivity in Peru compared to the OECD average can therefore be explained primarily by the low progressivity of the system below the average wage. This low progressivity results in a muted rate of increase in the tax wedge until relatively high earnings levels. For example, a worker whose income lies at 167% the average wage would face a tax wedge of 21.3% under Peru's regular regime, still close to the tax wedge that applies to an average wage worker (18.1%).

Figure 4.2. Tax wedge progressivity indicator across earnings intervals in Peru



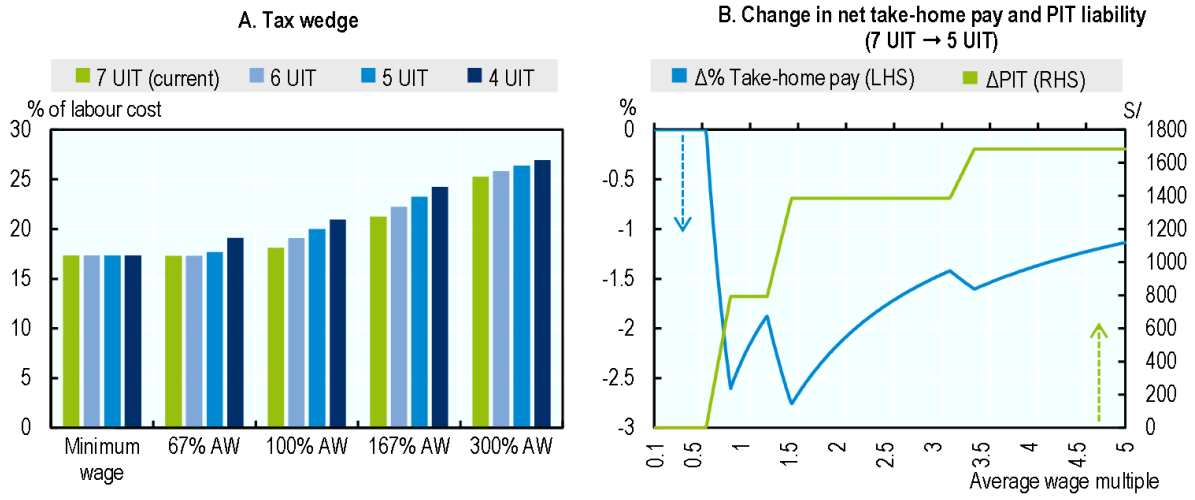
Note: Indicator calculated for a single formal worker without children. Earnings intervals on the x-axis represent gross earnings multiples in % of the average wage. The progressivity indicator defined as the difference between the tax wedge in percentage points at the upper and lower end up the interval, scaled by size of the earnings interval. Estimates refer to 2023 for Peru and 2025 for the OECD average.
Source: OECD (2026[1]) and OECD Taxing Wages models for Peru.

Applying an extended definition of the tax wedge that incorporates non-tax compulsory payments (NTCPs) increases the tax wedge for the average wage formal worker from 18.1% to 23.9%, reflecting the inclusion of the CTS. Nevertheless, this broader measure does not alter the overall assessment that the tax wedge remains relatively moderate in international comparison. NTCPs are sometimes included in the tax wedge to improve the comparability across countries because some countries levy compulsory contributions that are paid to private funds rather than to the government (OECD, 2026[2]). In Chile, Colombia or Mexico, for example, compulsory pension contributions paid to private pension funds are classified as NTCPs.[2] If these payments were included, the labour tax wedge in Peru would rise to 23.9%, remaining lower than the NTCP-inclusive labour tax wedge in Mexico (29.7%) and broadly similar to that observed in Chile (22.7%). Whether the CTS, in its current form, should still be classified as a NTCP may be questioned, given workers can freely withdraw the funds at any time. The OECD defines NTCPs as "requited and unrequited compulsory payments to privately managed funds, welfare agencies or social insurance schemes outside general governments and to public enterprises" (OECD, 2026[2]).

Changes to the basic PIT allowance and the impact on the tax wedge

Lowering the basic PIT allowance from 7 UIT to 5 UIT would raise the tax wedge for an average wage earner by around two percentage points, from 18.1% to 20.0% (Figure 4.3). A reduction in the basic PIT allowance by 2 UIT would effectively shift down all PIT bracket thresholds by the same amount. For example, the 14% marginal PIT rate would apply above an income of 10 UIT instead of 12 UIT. This reform would result in the largest increase in the tax wedge for gross incomes around the average wage, where the income is sufficiently high so that the 2 UIT increase in taxable income would be fully taxed at the 8% marginal rate. The reform would have only a modest effect on workers below the average wage (e.g., at 67% of the average wage), as only a share of their income would exceed the 5 UIT basic tax allowance. For higher income earners, the relative impact would be smaller because the basic PIT allowance accounts for a relatively small share of their taxable income: the increase in PIT liability, as a share of total PIT liability, would be smaller for higher income earners and the additional PIT payment would be divided by a much higher labour cost. The tax wedge of a minimum wage worker would not change at all in the modelled scenarios, as minimum wage income is less than all the assumed exemption thresholds.

Figure 4.3. Simulated impact of basic PIT allowance reforms on the tax wedge by earnings level



Note: Tax wedge in 2023 as % of labour cost for a single taxpayer without children, shown at the minimum wage and at 67%, 100%, 167%, and 300% of the average wage. Simulations reduce the PIT allowance from 7 UIT (current) to lower levels.
Source: OECD Taxing Wages models for Peru.

Even after reducing the basic allowance by 2 UIT, Peru's tax wedge would remain lower than, or similar to, that of other countries in the region. This is particularly the case once mandatory private pension contributions in other LAC countries are taken into account. However, the revenue impact of such a reform could be more limited than a mechanical calculation suggests, as some taxpayers newly liable for PIT would likely start claiming the additional 3 UIT tax deduction for documented expenses on expenditure items such as rent, restaurants, medical services and domestic worker contributions.

The tax wedge alone does not provide an accurate picture of formal labour costs

Focusing narrowly on the tax wedge can misrepresent the full cost of formal employment in Peru. A number of additional mandatory payments can push the cost of hiring a minimum wage worker above 150% of the statutory minimum wage**.** These payments include two bonuses equivalent to one monthly salary each, a family allowance, and mandatory profit sharing for firms above a certain size. Because these payments go directly to the worker rather than to the government or a private fund, they do not enter the tax wedge calculation,[3] but they nonetheless increase the labour cost faced by the employer. In other words, the total cost of hiring in Peru can be similar to that in countries with a significantly higher tax wedge and focusing narrowly on the tax wedge would obscure the impact of these payments on the cost of hiring formal workers. The gap between the statutory minimum wage and the actual labour cost is particularly relevant around the minimum wage, where employers cannot adjust the gross salary to absorb these additional costs. At the minimum wage in Peru, the total cost of all mandatory payments an employer must make in the general regime on top of the base salary amounts to around 33.4% of total labour cost (or 50.2% of the minimum wage, Figure 4.4) while the combined employer-employee tax wedge would only stand at 17.3% of total labour cost (or 22.0% of the minimum wage).

Reducing the total cost of formal employment requires looking beyond the standard SSC and PIT rates and would, very likely, involve changes to certain non-tax labour charges. SSCs cannot easily be reduced because the social protection system in Peru faces significant financing challenges (OECD, 2025[3]; OECD, 2025[4]), which reductions in SSCs would only exacerbate.[4] The PIT is also not available as a lever because most workers at or below the average wage do not pay the tax (Figure 4.1) and, in fact, it would be more desirable to increase the scope of the PIT (see Chapter 5). The remaining policy levers therefore lie in non-wage mandatory benefits for workers, although reducing the generosity of these benefits would in many cases come with reductions in incomes of workers who are already formal and windfall gains for their employers, at least in the short term.

One factor contributing to non-wage, non-tax labour costs in Peru is the requirement for profit sharing. The requirement also creates a disincentive to hire formal workers due to the 20-worker threshold. Firms employing more than 20 workers are required to distribute between 5% and 10% of their pre-tax profits to their workers, with the applicable rate varying across sectors. Because the obligation applies to the entire workforce once the threshold is exceeded, the marginal cost of hiring the 21st formal worker extends beyond that worker's salary and includes the additional profit-sharing payments triggered for all registered employees (Figure 4.7). This makes the 20-employee threshold a significant barrier to firm growth and an incentive to hire workers informally. Available evidence suggests that firms tend to bunch just below the threshold to avoid triggering the obligation, while firms above the threshold reduce investment and substitute permanent workers with temporary workers (Tolentino, 2021[5]). These observations demonstrate that, beyond the cost of formal hiring itself, the way a policy is designed can create significant additional distortions, including incentives to hire informally.

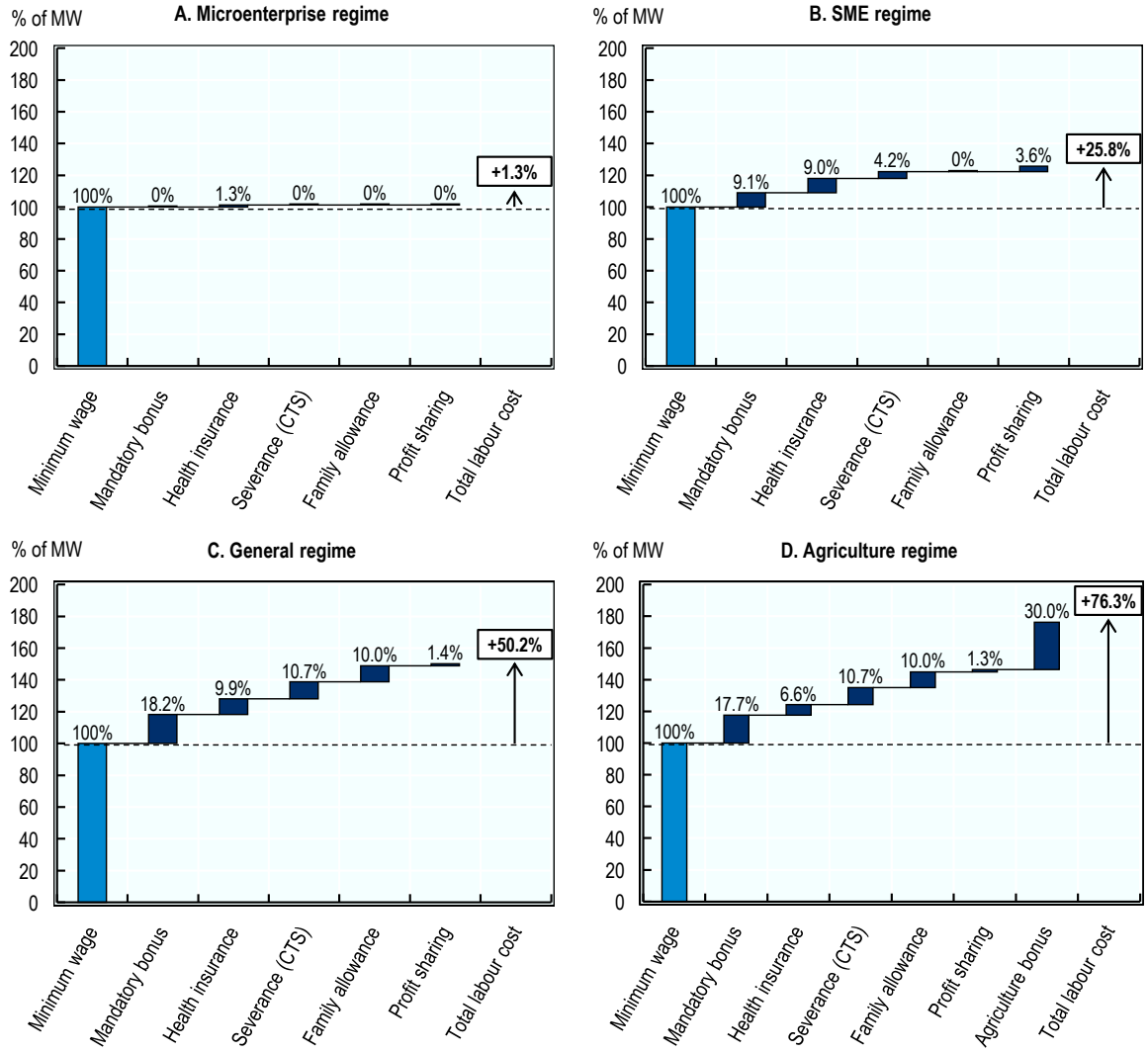
Any reform of Peru's profit-sharing rate must strike a balance between reducing formal hiring disincentives and protecting workers' incomes. The profit-sharing requirement is established in Peru's Constitution, but the applicable rate is determined by Congress and could, in principle, be changed through legislative action. Although a lower rate would reduce the cost of hiring formal employees (especially around the 20-employee threshold), a lower rate would also amount to an income reduction for employees who are currently employed in formal, profitable firms with more than 20 employees. Any lowering of the profit-sharing rate or other benefits that is implemented with the goal to incentivise formal hiring would require, as a pre-condition, better enforcement as firms employing informal workers would otherwise still prefer to hire informally, even if labour costs are lower (see Chapter 1).

Peru could consider an alternative approach, whereby the profit-sharing requirement is determined by a turnover threshold rather than the current threshold of 20 employees. Under a turnover-based threshold, firms would still face increased labour costs as they grow and exceed the threshold. However,

this increase would no longer be directly tied to the number of formal employees, which would reduce the disincentive to hire formal workers.

Another option would be to redesign the system so that the profit-sharing rate gradually increases either with the number of workers or with turnover, depending on the system used. Instead of lowering the profit-sharing rate for all firms, the rate could start at a low initial level and rise progressively to the current rate. This design could reduce the disincentive effects associated with the current design of the profit-sharing requirement.

Figure 4.4. Labour cost of hiring a minimum wage worker in Peru by labour regime in 2026



Note: Micro-enterprise and SME refer to the REMYPE regimes administered by the Ministry of Labour (MTPE). The graphs show SME and general regime estimates for a business with > 20 employees, i.e. the profit-sharing obligation applies. The mandatory profit sharing's contribution to labour cost assumes a 30% payroll-to-revenue ratio (before accounting for contributions and levies), a 20% profit margin (before accounting for contributions and levies) and a business in which all workers earn the minimum wage. A profit-sharing rate of 8% is applied in the first three regimes and a 7.5% rate in the agriculture regime. Estimates with at least one dependent child, i.e., the family allowance must be paid. The family allowance increases the amount on which health contributions and contributions to the severance savings accounts (CTS) need to be paid. Health contributions in the agriculture regime are assumed to be 6% although these are scheduled to increase to 9% in 2029. The higher rate already applies to larger agricultural firms.
Source: OECD based on information submitted by the Ministry of Economy and Finance and the Ministry of Labour of Peru.

Severance account contributions are another labour charge that in practice functions more as a salary component than as an insurance mechanism. The "Compensación por Tiempo de Servicios" (CTS) is a mandatory provision that adds to the cost of formal employment. Employers are required to deposit an amount equivalent to roughly one monthly salary per year into these accounts, which were originally intended to support workers during periods of unemployment. Previously, workers were required to maintain a minimum balance equivalent to four monthly wages in these accounts, but this restriction has since been lifted. As workers can now withdraw the full balance at any time, the CTS effectively operates as a salary component rather than as a precautionary savings scheme. For a minimum wage worker hired under the general regime, the employer contribution to the CTS amounts to 10-11% of the statutory minimum wage (Figure 4.4).

Reforming the CTS is likely to be challenging and may require adjustments to wages, since workers view these payments as an integral part of their regular income. A reduction in the CTS rate without a corresponding adjustment in gross wages would, at least in the short term, reduce the take-home pay of formal workers. At the same time, employers could benefit from a windfall gain. Evidence from Colombia suggests that a large share of severance savings account contributions is effectively borne by workers through lower wages. Kugler (2005[6]) finds that 60-80% of employer contributions were shifted onto employees in this way. If similar labour market dynamics prevail in Peru, a reduction in the CTS would justify an increase in gross wages, consistent with both the Colombian experience and expected medium-term market adjustments. To avoid a short-term decline in take-home pay for existing formal workers, a mechanical adjustment of gross wages could be implemented if the CTS is reduced or phased out. This would help ensure that the reduction in employer labour costs (aimed at stimulating formal hiring) applies primarily to new hires rather than to already formal workers.

There could be scope to broaden the PIT and SSC bases, but the impact of these measures on the tax wedge needs to be carefully assessed

The exemption of the CTS from both PIT and SSCs can be considered a regressive tax expenditure. If the CTS cannot be reformed directly, given its role as a de facto salary component, there are arguments for treating it as regular wage income going forward. Because the CTS is calculated as a percentage of wages, exempting it from taxation results in larger gains, both in absolute and relative terms, for higher earners, i.e., it reduces the PIT base in a regressive manner. The original rationale for its preferential tax treatment was that the CTS provided income support during periods of unemployment, but this rationale no longer holds if workers can access the funds at any time.

If benefits such as the CTS are maintained in their current form, there may be a case for subjecting them to health contributions and, over time, to PIT and pension SSCs to broaden the tax base. At present, only around 73% of total labour cost is subject to SSCs and around 85-87% is subject to PIT under the general regime. The CTS is exempt from both PIT and SSCs, while bonus payments are exempt from SSCs but subject to PIT (Table 4.1). Over the longer term, there is a case for broadening the SSC base to gradually include all payments that are effectively part of an employee's salary, including the biannual bonus and the CTS (Table 4.2). If there is a need to generate additional revenues for financing the social protection system, Peru could consider broadening the SSC base before increasing any statutory rates, such as the 9% contribution rate for health or the 13% rate for pensions.

A possible starting point for base broadening reforms could be to transfer the health contributions on the bi-annual bonus to EsSalud, as well as to levy health contributions on the CTS. Currently, employers pay the health contributions that would otherwise apply to the bi-annual bonus (gratificaciones), amounting to 9% of the bonus, directly to workers as an additional bonus payment rather than to EsSalud (Table 4.1). Redirecting these contributions to EsSalud would increase the tax wedge but not labour costs, as health contributions on the bonus are already paid to workers in the form of an extra bonus. The policy

that health contributions on the bonuses are not transferred to EsSalud had originally been introduced as a temporary measure but has since become permanent. If combined with a reduction in the basic allowance from 7 UIT to 5 UIT and the introduction of health contributions on CTS payments, these three reform measures would increase the tax wedge for an average wage earner in Peru's general regime from 18.1% to 21.6%. (Table 4.2). While these measures would increase the tax wedge, they arguably have a lower impact on formalisation incentives if the additional revenues for EsSalud are used to improve the quality of social protection received by formal workers.

Table 4.1. Tax and contribution treatment of labour cost components (general labour regime)

Labour cost component	Subject to PIT	Subject to pension contributions (employee)	Subject to health contributions (employer)
Monthly salary	✓	✓	✓
incl. pension contributions (employee)	✓	-	-
Health contributions (employer)	-	-	-
Family allowance	✓	✓	✓
Bonus payments (gratificaciones)	✓	✗	✗
Extraordinary bonus*	✓	✗	✗
Severance savings accounts (CTS)	✗	✗	✗
Mandatory profit sharing	✓	✗	✗

Note: *Additional payment received by the worker because employer is exempt from health contributions on bonus payments (gratificaciones).
Source: OECD based on the legal provisions in place in Peru.

Table 4.2. Impact of combined reform scenarios on the tax wedge under the general regime

Scenario	Minimum wage	67% average wage	100% average wage	167% average wage	300% average wage
Current system	**17.3%**	**17.3%**	**18.1%**	**21.3%**	**25.3%**
Lower PIT allowance to 5 UIT	17.3%	17.7%	20.0%	23.2%	26.4%
+ Subject bonuses to health contributions*	18.5%	18.8%	21.1%	24.3%	27.4%
+ Subject CTS to health contributions	19.0%	19.3%	21.6%	24.8%	27.9%
+ Subject CTS to PIT	19.0%	19.9%	22.2%	25.8%	29.0%
+ Subject CTS to pension contributions	20.0%	20.9%	23.2%	26.8%	30.0%
+ Subject bonuses to pension contributions	21.7%	22.6%	24.9%	28.5%	31.7%

Note: Simulations assume that the reforms have no impact on the gross salary. The table presents combined reform scenarios, i.e., the final row corresponds to a scenario in which all reforms are implemented simultaneously. Simulations for a worker affiliated to EsSalud. *The health contributions on the bonus (9% of the bonus) are currently transferred to workers as an additional bonus (Law 30 334, Art. 4). The reform scenario hence does not increase labour cost, but it increases the tax wedge.
Source: OECD Taxing Wages models for Peru.

Any measures designed to broaden the PIT and SSC bases should be implemented in a way that minimises the impact on the tax wedge, total labour costs and, consequently, incentives to hire formal sector workers. Therefore, a gradual implementation of base broadening reforms may be warranted. In the short term, maintaining the exemption of bonus payments and the CTS from pension SSCs could help prevent increases in the tax wedge at lower income levels, particularly if the basic PIT allowance is reduced to 5 UIT (see Table 4.2 and Table 4.3). In the medium term, however, bonus payments and the CTS could be brought within the scope of pension contributions. This would require careful sequencing, as implementing all the discussed measures together would increase the tax wedge from 18.1% to 24.9% (see Table 4.2).

However, there are strong arguments for prioritising base-broadening measures over any increases in PIT and SSC rates. This means that, if there is a need to generate additional financing for the health or pension scheme, the PIT and SSC bases could be broadened through the measures presented in Table 4.2 and Table 4.3 before any changes are made to the rate schedules that are currently in place (e.g., increasing the 9% health contribution rate to 10%).

Table 4.3. Impact of individual reform scenarios on the tax wedge under the general regime

Scenario	Minimum wage	67% average wage	100% average wage	167% average wage	300% average wage
Current system	**17.3%**	**17.3%**	**18.1%**	**21.3%**	**25.3%**
Lower PIT allowance to 5 UIT	17.3%	17.7%	20.0%	23.2%	26.4%
Subject bonuses to health contributions*	18.5%	18.5%	19.2%	22.3%	26.3%
Subject CTS to health contributions	17.9%	17.9%	18.7%	21.8%	25.8%
Subject CTS to PIT	17.3%	17.3%	18.7%	22.3%	26.3%
Subject CTS to pension contributions	18.3%	18.3%	19.1%	22.3%	26.3%
Subject bonuses to pension contributions	19.0%	19.0%	19.8%	23.0%	27.0%

Note: Simulations assume that the reforms have no impact on the gross salary. Each reform scenario is modelled independently, keeping the rest of the system unchanged. Simulations for a worker affiliated to EsSalud. *The health contributions on the bonus (9% of the bonus) are currently transferred to workers as an additional bonus (Law 30 334, Art. 4). The reform scenario hence does not increase labour cost, but it increases the tax wedge.
Source: OECD Taxing Wages models for Peru.

Tax wedge and labour costs for the self-employed and in special regimes

Self-employed workers face a significantly lower tax wedge than dependent employees because pension and health contributions are voluntary rather than compulsory. Income from independent work (fourth category income) is subject to the same progressive PIT rate schedule as dependent employment income; however, self-employed workers benefit from a flat deduction of 20% of gross income before the standard allowance of 7 UIT is applied.[5] While presumptive cost deductions for small self-employed workers are standard practice, the current cap of 24 UIT in Peru (around EUR 33 500) is relatively high. As a result, self-employed workers with actual costs below 20% face a lower tax wedge than the one shown in Figure 4.6. Additionally, there are no mandatory health contributions for the self-employed. Self-employed workers can choose to join the general health insurance scheme (EsSalud) and pay standard contribution rates or, if their income is low, access the subsidised non-contributory scheme (SIS). Pension contributions are also voluntary at present.[6] The tax wedge for self-employed workers therefore remains significantly below that faced by dependent employees at comparable income levels, with implications for both labour market neutrality and the financing of social protection systems.

Peru also offers a number of reduced labour tax regimes for smaller firms that significantly lower non-wage labour costs. Businesses up to a turnover threshold of 150 UIT (around EUR 210 000) can access the micro-enterprise labour regime (i.e., contributions for workers they hire are determined according to the micro-enterprise regime's rules) with significantly reduced social contribution rates and non-wage labour costs (Figure 4.4, Figure 4.6). For example, the regime exempts employers from bonus payments, the CTS and mandatory profit sharing. In addition, the standard employer health contribution of 9% of wages, which gives access to the public health insurance system EsSalud, is replaced by a low presumptive amount, which gives workers access to the SIS health care scheme instead. The small and medium enterprise (SME) labour tax regime levies regular health contributions at 9% of the gross salary but reduces bonus payments to half a monthly salary (from two full salaries per year) and the CTS to 15 daily wages per year (roughly half of the amount that applies under the general regime).

As a result, the total cost of hiring a minimum wage worker varies depending on the labour regime under which a firm operates. It is around 101% of the statutory minimum wage under the micro-enterprise regime, 126% under the SME regime and 150% of the minimum wage under the general regime. The tax wedge for an average wage worker stands at 1.3% in the micro-enterprise regime, compared to 18.1% in the general regime. Because the lower non-wage costs under the SME regime result in lower total labour costs, the tax wedge under the SME regime is higher (19.4%) than under the general regime (Figure 4.6) per unit of labour cost. This can be explained by the lower bonus and CTS payments in the SME regime and the fact that bonuses and CTS are exempt from SSCs. Because total labour costs are lower, the tax and SSC liabilities, which are the same under the SME and general regime, will make up a larger share of the total labour cost, hence leading to a slightly higher tax wedge.

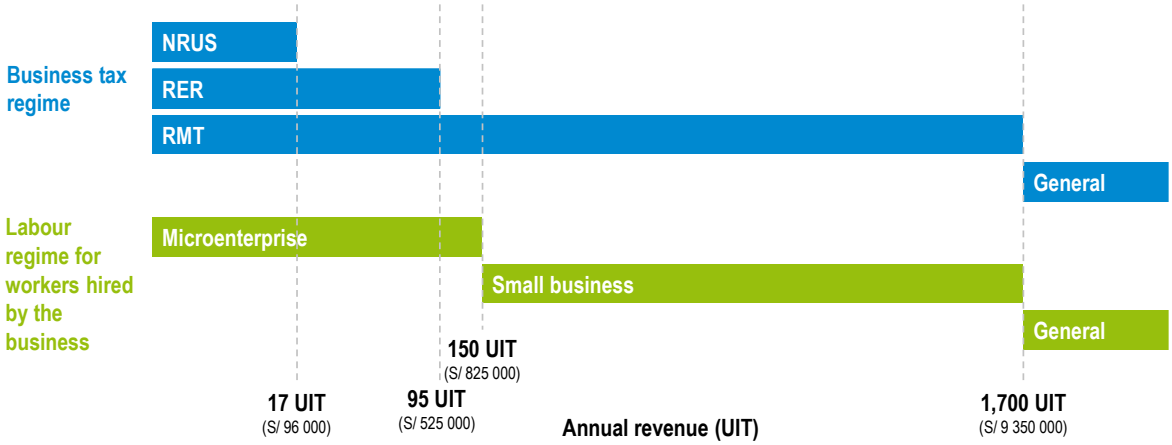
Reduced health contributions apply to employers under Peru's agricultural labour regime. However, employers are required to pay an additional bonus equivalent to 30% of the minimum wage to workers hired under this regime. Until 2028, the agricultural regime reduces health contributions paid by employers in small agricultural firms from 9% to 6%. However, due to the additional bonus payment specific to the agriculture sector, the total labour cost for a minimum wage earner exceeds the labour cost that applies under the general regime (see Figure 4.4). The labour cost of hiring a minimum wage worker under the agricultural regime is more than 76% higher than the statutory minimum wage. At the same time, the tax wedge is lower in the agricultural regime because the mandatory bonus (30% of the minimum wage) is neither a tax nor a social contribution. The mandatory bonus is therefore not included in the numerator of the tax wedge indicator while it does increase labour costs (the denominator). This results in a lower a tax wedge (Figure 4.6). This example further demonstrates why focusing narrowly on the tax wedge does not provide a complete picture of the cost of formal work in Peru.

The fact that labour costs vary significantly with firm size creates disincentives for firms to grow. The large gap in the tax wedge between the micro-enterprise regime and the general and SME regimes could create incentives for firms to operate and hire only partially within the formal economy. A firm crossing the 150 UIT threshold (i.e. moving from the micro-enterprise into the SME regime) that employs formal minimum wage workers can face an immediate increase in the labour cost *per worker* of around 25% of their base salary (Figure 4.7). The large gap in the labour costs between regimes could also encourage firms to operate, at least partially, in the informal economy and/ or pay part of the salary informally. It could have other unintended consequences, such as firms splitting up to continue to qualify for the more favourable regimes (rather than growing a single business) if no rules are in place to prevent such a behaviour.

There is significant scope to streamline the design and administration of the labour and business tax regimes. The business and labour tax regimes (i.e., the regime that applies to the workers hired by the business) are also not aligned in terms of thresholds and in terms of how they are administered (Figure 4.5). Firms who fall under the micro-enterprise regime for labour tax purposes can be taxed for business tax purposes under either the NRUS, RER or RMT regimes. Firms have to apply for the labour and business tax regimes separately as the labour tax regimes are administered by the Ministry of Labour (MTPE) and the business tax regimes are administered by Peru's tax administration (SUNAT). Over the longer term, Peru could aim at one single regime that defines both labour and business tax rules for SMEs.

While the eligibility threshold for the micro-enterprise labour regime seems high, it will likely only be possible to reduce it gradually as part of a longer-term strategy. A longer-term formalisation strategy could include, for example, reforms that mitigate the increase in labour cost when a firm migrates from the micro-enterprise to the SME regime. This could then allow Peru to somewhat reduce the eligibility threshold for the micro-enterprise regime and bring it closer to the threshold that applies for the current RER regime.

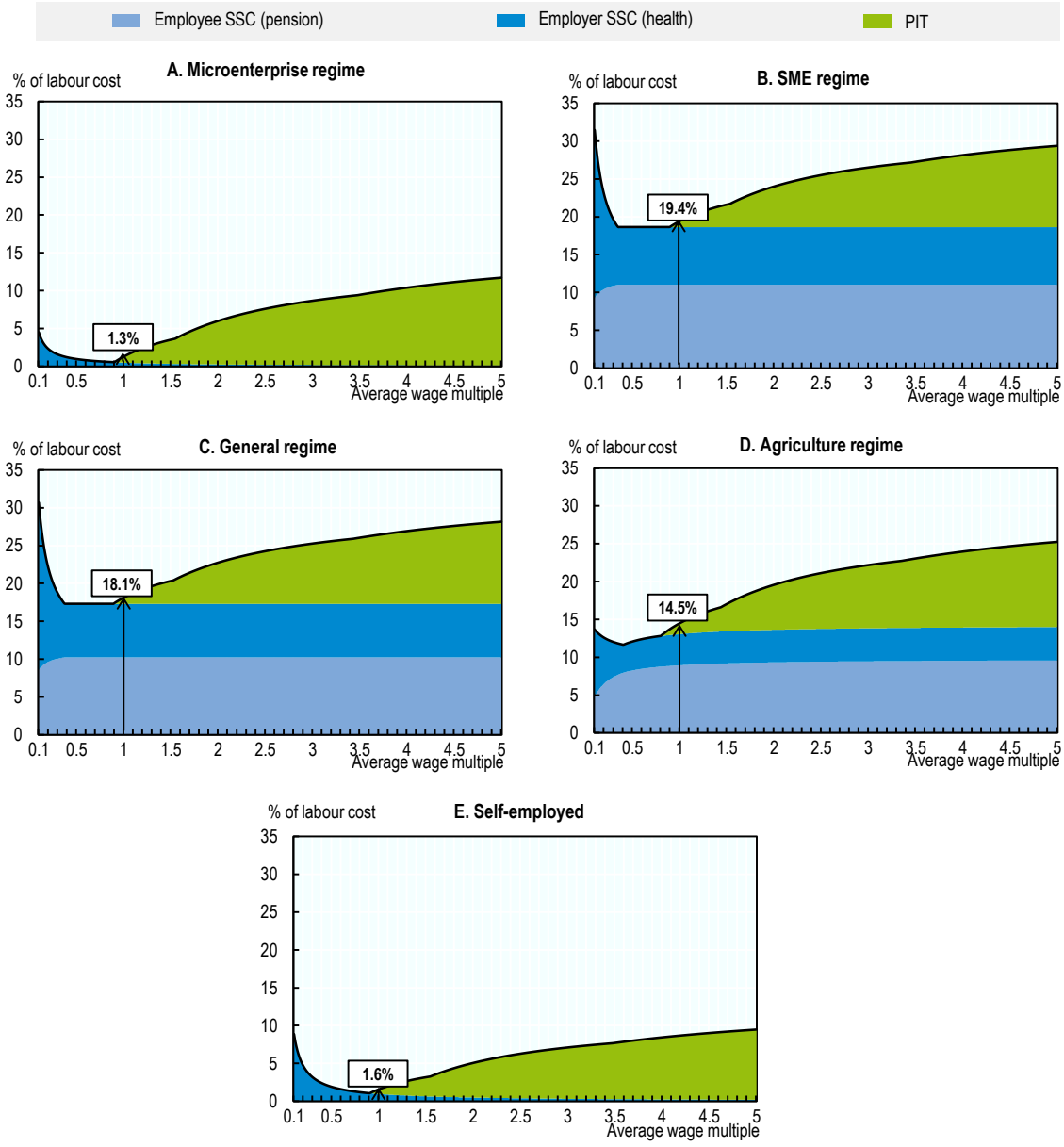
Figure 4.5. Tax and labour regimes in Peru by firm size



Note: The labour tax regimes correspond to the regimes for which the tax wedge is modelled in this chapter. These regimes apply to businesses with turnover below a threshold that hire formal workers. The 150 UIT threshold corresponds to around EUR 210 000 in 2026 exchange rates.
Source: OECD based on tax legislation in Peru.

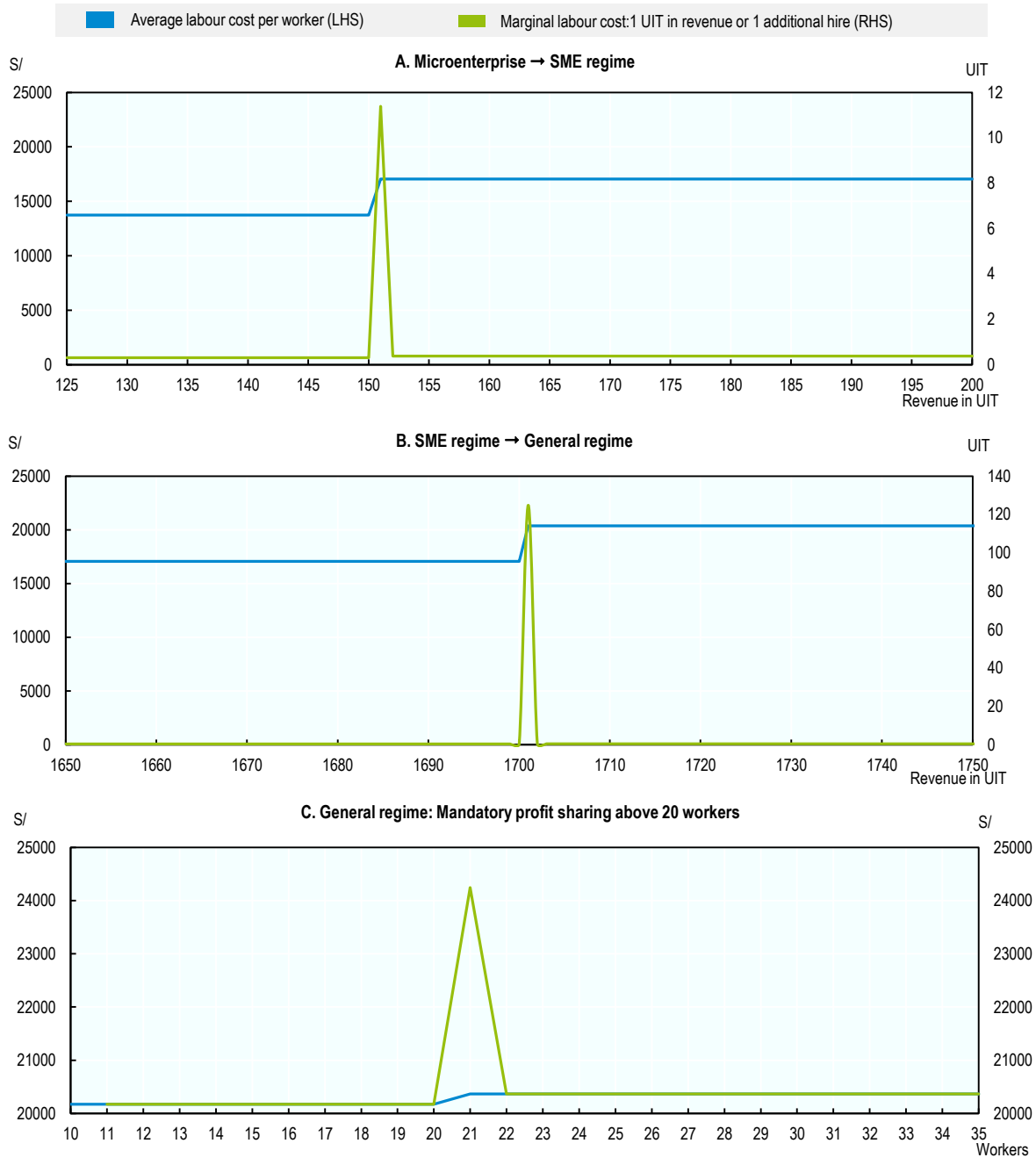
Nonetheless, as highlighted in previous chapters, reducing labour informality requires more than simply lowering the costs of formalisation; it calls for a comprehensive, whole-of-government approach. This strategy needs to also focus on increasing the benefits of operating formally and strengthening the enforcement of both tax and labour regulations. It should also include reforms to boost productivity, supported by strong education and skills systems. Ultimately, success also depends on high institutional quality, respect for the rule of law, and well-functioning public institutions.

Figure 4.6. Tax wedge for a single taxpayer by earnings level and labour regime



Note: Gross earnings are defined such that they are comparable across regimes (i.e., the gross salary including bonuses would be the same across regimes), with the x-axis for the self-employed reflecting the taxable base after the 20% flat cost deduction. The tax wedge increases at very low earnings levels due to the minimum contribution base that is set at the minimum wage (e.g., for EsSalud contributions). The tax wedge is higher in the small business than in the general regime because a larger share of gross earnings is subject to social contributions (*gratificaciones* are smaller). Estimates for the micro-enterprise regime assume no pension payments but the micro-enterprise estimate includes the SIS payments for health. Self-employed workers are assumed to join SIS Independiente voluntarily (recorded as an employer contribution), with no pension contribution. Agriculture uses the reduced 6% health contribution rate applicable to smaller businesses. Non-tax compulsory payments (CTS) are excluded.
Source: OECD based on information submitted by the Ministry of Economy and Finance of Peru and OECD Taxing Wages models for Peru.

Figure 4.7. Change in the labour cost per worker when growing firms transition between regimes



Note: Regimes refer to the REMYPE regimes administered by the Ministry of Labour. The mandatory profit sharing's contribution to labour cost assumes a 30% payroll-to-revenue ratio, an 8% profit margin and a business in which all workers earn the minimum wage. A profit-sharing rate of 8% is applied. SME and general regime estimates for a business with > 20 employees in Panel A and B, i.e. the profit-sharing obligation applies. Estimate for an employee with at least one dependent child. Green lines show the marginal impact on labour costs of increasing revenue by 1 UIT or hiring one additional worker at the minimum wage level. Based on the S/ 12 300 minimum wage that applied in 2023 to ensure comparability with tax wedge calculations.
Source: OECD based on information submitted by the Ministry of Economy and Finance of Peru.

References

Kugler, A. (2005), "Wage-shifting effects of severance payments savings accounts in Colombia", *Journal of Public Economics*, Vol. 89/2-3, pp. 487-500, https://doi.org/10.1016/j.jpubeco.2004.04.006. [6]

OECD (2026), *Taxing Wages 2026 - Non-tax compulsory payments - Accompanying material for the Taxing Wages 2026 publication*, https://www.oecd.org/content/dam/oecd/en/topics/policy-issues/tax-policy/non-tax-compulsory-payments.pdf. [2]

OECD (2026), *Taxing Wages 2026: The Progressivity of Labour Taxation in OECD Countries*, OECD Publishing, Paris, https://doi.org/10.1787/3a5169ef-en. [1]

OECD (2025), *Expanding Social Protection and Addressing Informality in Latin America*, OECD Publishing, Paris, https://doi.org/10.1787/86c1fd38-en. [4]

OECD (2025), *OECD Reviews of Health Systems: Peru 2025*, OECD Reviews of Health Systems, OECD Publishing, Paris, https://doi.org/10.1787/f3ddb6a4-en. [3]

OECD/IDB/CIAT (2016), *Taxing Wages in Latin America and the Caribbean 2016*, OECD Publishing, Paris, https://doi.org/10.1787/9789264262607-en. [7]

Tolentino, E. (2021), "An evaluation of a mandatory profit-sharing reform in Peru, using quasi-experimental methods", *Journal of Industrial and Business Economics*, Vol. 49/2, pp. 313-334, https://doi.org/10.1007/s40812-021-00193-y. [5]

Notes

[1] The tax wedge increased by 0.7 pp. between 2013 and 2023, mainly due to the PIT. It now accounts for 0.8-0.9% of labour costs for the average-wage earner, whereas in 2013 no PIT was due at this income level (OECD/IDB/CIAT, 2016[7]). The basic allowance increased from S/ 25 900 to S/ 34 650 (+ 34%) over the period while the gross wage earnings of the average wage earner increased at a significantly higher rate from S/ 17 034 to S/ 38 452 (+126%).

[2] Mandatory contributions to Peru's private pension system (AFP) for those who opt out of the public system could be viewed as a more conventional NTCP. However, the contribution rate in similar to the 13% that apply in the public system so that the NTCP-inclusive tax wedge would be similar for workers affiliated to the private pension scheme.

[3] In fact, they mechanically reduce the measured tax wedge because some of these payments, such as the two extra monthly salaries, increase the labour cost but are not subject to social security contributions. Non-tax compulsory payments (NTCPs) are defined as: "Requited and unrequited compulsory payments to privately managed funds, welfare agencies or social insurance schemes outside general governments and to public enterprises" (OECD, 2026[2]). Mandatory bonus payments from employers to employees would not fall under that definition.

[4] A recent OECD report found that “[l]imited funding further constrains the system’s ability to improve coverage and benefits" (OECD, 2025[4]).

[5] Customers withhold 8% of gross fees above a threshold as an advance payment for the PIT, which is then credited against the worker’s final tax liability determined through the tax return.

[6] Although the 2024 pension reform (Law 32 123) provided for the gradual introduction of mandatory contributions at rates ranging from 2% to 5% of income, starting in June 2027, these measures have subsequently been repealed through Law 32 445.

5 The schedular design of the personal income tax in Peru

The role of the personal income tax (PIT) in Peru could be strengthened by broadening the tax base. Currently, the effectiveness of the tax is limited by the high exemption threshold of 7 UIT. Deductions for certain expenses further narrow the tax base. There is scope to tax different types of capital income jointly rather than taxing each type of capital income separately. There is also potential to slightly increase the taxation of dividends and capital gains. Over time, Peru could transition to a Dual Progressive Income Tax, whereby labour and capital income would be taxed separately according to different progressive tax rate schedules. This reform would provide an opportunity to align the tax treatment of domestic and foreign-sourced equity income. Greater use of third-party information could help to strengthen compliance.

Comprehensive versus dual PIT systems: general introduction

At the personal level, the range of approaches to taxing personal income can be broadly divided between comprehensive and schedular income tax systems. Comprehensive income taxation involves the taxation of all realised income (e.g. labour and capital income) under the same tax rate schedule after allowable deductions. Comprehensive income tax systems typically apply progressive tax rates. On the other hand, schedular systems tax different types of income at different rates after allowable deductions. The most common type of schedular income taxation is dual income taxation, where labour and pension incomes are usually taxed together at progressive tax rates, and different types of capital income (e.g. dividends, rent) are taxed together, typically at lower flat rates. Income of self-employment tends to be taxed as employment income, where incurred business costs can be deducted from taxable business income, but in some countries, self-employed (business) income is taxed similarly to income from incorporated businesses at flat rates. Some dual income tax systems apply different rate schedules to different types of capital income. Semi-dual systems tax most, but not all, forms of capital income at flat rates and tax other forms of capital income (e.g. imputed rent from owner-occupied property) together with labour income at progressive tax rates.

Among OECD countries, dual income tax systems are the most common approach to taxation at the personal level. In practice, countries rarely operate "pure" tax systems; some forms of income may be excluded from the tax base or subject to a different tax treatment. Still, most countries fall broadly into the categories in Table 5.1 (Hourani et al., 2023[1]). Dual income tax systems, which were first introduced in Scandinavian countries in the early 1990s and have since grown in popularity, apply in 17 of 38 OECD countries (Table 5.1). A smaller number of countries operate semi-dual systems, taxing some forms of capital income (e.g. capital income from non-business sources in Mexico) on a comprehensive basis. Comprehensive income tax systems are also relatively common, applying in eight countries. Six countries have other income tax systems that combine elements of comprehensive and dual income taxation, typically applying a flat tax rate to capital income but allowing taxpayers to choose to include capital income with total income subject to progressive PIT rates.

Overall, dual income tax systems perform favourably in terms of efficiency but not so much in terms of equity. By taxing capital income at lower rates than labour income, dual income tax systems are often seen as encouraging savings and investment. This is particularly the case in countries where capital income would otherwise be subject to high marginal tax rates. However, the evidence is mixed (Hourani and Perret, 2025[2]). Taxing capital income at relatively lower rates than labour income reflects the fact that CIT has already been levied on returns to equity, thereby mitigating the risk of excessive overall taxation. PIT systems usually tax the nominal return to capital, even though the inflation premium just compensates for the erosion of the real value of the assets (OECD, 2018[3]). A lower tax rate on capital income might then offset the higher tax burden as a result of the taxation of the nominal return on savings and investment, an argument which especially holds in countries characterised with regular periods of high inflation. However, taxing individuals with a different mix of capital and labour income differently might be seen as violating horizontal equity if year-to-year income is used as the basis for evaluation. B lower proportional tax rate on capital income might also undermine the tax code's vertical equity, particularly because income from capital tends to be concentrated among middle-income and, in particular, higher-income earners.

Table 5.1. Approaches to taxing personal income in the OECD

Classification of PIT systems in 38 OECD countries, 2022

Type of system	Comprehensive income tax system	Dual income tax system	Semi-dual income tax system	Other
Definition	Taxes all realised income (e.g., from labour, capital) together under the same rate schedule.	Taxes labour and capital income separately. Labour income is usually taxed at progressive rates and capital income is typically taxed at lower flat rates.	Taxes some forms of capital income with labour income and other forms of capital income separately.	Combines elements of comprehensive and dual income taxation.
Countries	Australia, Canada, Chile, Luxembourg[1], New Zealand, Switzerland, United Kingdom[2], United States[3]	Costa Rica, Denmark, Finland, Greece, Hungary, Iceland, Israel[4], Italy, Latvia, Lithuania, Netherlands, Norway, Poland, Slovenia, Spain, Sweden[5], Türkiye	Belgium, Colombia, Czech Republic, Estonia, Ireland, Mexico, Slovak Republic	Austria[6], France[7], Germany[8], Japan[9], Korea[10], Portugal[11]

1. In Luxembourg, recipients of income from corporate bonds can opt for that income to be taxed separately at a 20% final withholding tax rate
2. The United Kingdom taxes income on a comprehensive basis but applies different tax rates to capital gains and dividend income. Separate allowances are available for savings, dividends, capital gains and property.
3. The United States taxes income on a comprehensive basis but applies different tax rates to long-term capital gains and some forms of dividends.
4. Interest income from corporate bonds is taxed at an individual's marginal rate rather than at flat rates, under certain circumstances (e.g. if the individual claims interest expenses as tax deductions, the individual is a material shareholder, an employee or service provider, the individual (lender) is a party that does not operate at arm's length from the entity).
5. Sweden taxes labour income progressively; a tax rate of 32% applies on the municipal level while and an additional tax of 20% applies at the central government level for incomes above SEK 537 200 in 2021. Capital income is taxed at a flat 30% statutory tax rate.
6. Austria applies a flat 27.5% withholding tax rate to capital income, but taxpayers can opt for capital income to be included in total income and taxed under the PIT schedule.
7. France applies a flat 30% tax rate to capital income (excluding rental income), but taxpayers can opt for this to be included in total income and taxed under the PIT schedule. Rental income is included in total income and taxed under the PIT schedule.
8. Germany applies a flat 25% withholding tax rate to capital income, but taxpayers can opt for this to be included in total income and taxed under the PIT schedule.
9. Japan applies a flat 20% tax rate to capital income. Taxpayers can opt for dividend income to be included in total income and taxed under the PIT schedule.
10. Korea applies a dual income tax system for taxpayers whose interest or dividend income does not exceed KRW 50 million per year and applies a comprehensive system above that threshold. Capital gains arising from the sale of listed shares of domestic incorporated firms are tax exempt while capital gains from over-the-counter transactions of listed and unlisted shares are taxed at flat rates.
11. Portugal applies a flat 28% withholding tax rate to capital income, but taxpayers can opt for this to be included in total income and taxed under the PIT schedule.
Source: Hourani, D. et al. (2023[1]) based on OECD Questionnaire on Top Income and Wealth Taxation, 2022.

With the expansion of the Exchange of Financial Account Information between jurisdictions, international tax arguments for low rates on capital income have become less compelling. In countries where tax administrations face difficulties in monitoring the foreign-source income of their residents, implementing a high tax rate on capital income increases the incentives for investing savings abroad, and then not declaring the foreign income earned to the tax administration where the individual is resident for tax purposes, which will lead to lower tax revenues and might reduce the available funds for domestic investment. However, the Automatic Exchange of Financial Account Information between tax administrations (AEOI) and the use of Exchange of Information on Request (EOIR) have significantly reduced this risk and have created an opportunity to strengthen the taxation of capital income at the individual level in countries around the world.

Schedular tax treatment not only has implications for the taxation of income but also for the deduction of costs. Schedular taxation not only entails the separate treatment of income categories, it also implies that, typically, costs and losses from one schedule are generally not deductible against income from another. This ring fencing of tax bases can enhance base protection by limiting opportunities for cross

base cost and loss offsetting and the associated revenue risks. By restricting the allocation of expenses to higher taxed income streams, a schedular approach may therefore reduce certain forms of tax arbitrage related to cost assignments.

Even under a schedular tax system, capital income can be taxed progressively. Progressivity may be introduced through a basic capital income tax allowance that exempts a minimum level of capital income from taxation, in a manner comparable to the use of a basic tax allowances or zero rate bracket in the taxation of labour income. In addition, while capital and labour income are taxed separately under a schedular framework, capital income may be subject to its own progressive tax rate schedule. Such a system could be combined with a tax withholding system. Taxpayers who would face a final tax liability below the amount of tax withheld at source would receive a refund for the excess amount of tax paid. A system combining separate tax bases with a progressive rate structure for labour and capital income separately is commonly referred to as a dual progressive income tax system (DPIT).

Corporate income taxes add to the total tax burden on capital income. Personal level tax provisions that apply to capital income reveal a partial picture of the tax burden on capital owned by individual shareholders. Countries can adjust personal-level taxation to account for corporate-level taxes on distributed profits through different types of integration systems. Dividend imputation systems, for example, explicitly integrate CIT and PIT by providing a tax credit at the shareholder level for income tax paid at the corporate level (Table 5.2). Partial inclusion systems account for taxes paid at the corporate level by exempting a portion of dividend income from PIT or by taxing the returns on equity-financed investment at reduced rates under the PIT. Across OECD countries, the most common approach is the classical system (Hourani et al., 2023[1]), where no explicit adjustment is made to account for CIT and countries tax dividends under the same rules as other capital income (dual income systems) or total income (comprehensive income systems). In some countries, this is in line with a trend toward lower corporate statutory tax rates which has reduced the perceived need to integrate CIT and PIT.

Table 5.2. Interaction between corporate and personal level taxation of dividend income

Type of system	Classical	Dividend imputation	Partial inclusion
Definition	All distributed dividend income is taxable either under the PIT (shareholders remit the tax due) or under final withholding (tax is withheld by the distributing company and no further tax is payable at the shareholder level). There is no tax credit at the personal level for tax paid at the corporate level.	Distributed dividend income is grossed-up to approximate pre-tax corporate income. The tax payable on the grossed-up dividend is reduced by a tax credit that offsets the tax paid at the corporate level. Under partial imputation, the gross-up factor and/or the tax credit may be different from the rate of CIT paid.	A portion of distributed dividend income is tax exempt, and the remainder is taxed under the PIT. There is no tax credit at the personal level for tax paid at the corporate level.

Note: The classical system is the most common among OECD countries. Norway and the Netherlands apply systems that deviates from the three categories shown above.
Source: Hourani, D. et al. (2023[1]).

A too large difference in the tax burden on labour versus capital income will induce entrepreneurs to incorporate their business. A comparison of the tax burden on labour and capital income is not straightforward as it depends on many factors, including social security contributions that are typically levied on labour income only but, in return, entitle individuals to current or future, possibly contingent, benefits. Overall, if the tax burden on self-employed business income that in most countries is taxed under the progressive PIT rate schedule differs significantly from the tax burden on corporate profits that are either distributed and taxed as dividends or are retained and, eventually, realised and taxed as capital gains, the entrepreneur may prefer to incorporate its business. In order to avoid that manager-owners of

closely-held corporations pay themselves a low wage, finance personal consumption through the business (e.g. company car also used for personal purposes, etc.) and distribute dividends if more cash is needed, some countries require manager-owners to pay themselves a minimum amount of salary that is taxed under the PIT and SSCs. To limit arbitrage opportunities, some countries tax self-employed business income broadly aligned with corporate taxation. On the other hand, by creating a differential between the PIT treatment of dependent employment and self-employment, such designs may generate incentives for firms to reclassify employees as self-employed contractors.

Overall, the design of the capital income tax system can follow a number of well-established tax design guidance principles.

- First, the capital income tax system has to integrate, in one way or another, the taxes levied at the corporate and personal level, in particular in countries with a high statutory CIT rate, with the aim to prevent double taxation of profits or, at least, reduce the overall capital income tax burden.
- Second, as interest payments are deductible from taxable corporate profits while the return on equity is not, interest payments should not be taxed less than, and should possibly be taxed at a higher rate, than dividends and capital gains at the individual level. The debt-equity bias can also be reduced by putting limits on the amounts of interest that can be deducted at the corporate level (e.g. aligned with Action 4 of the BEPS project).
- Third, tax systems should include tax base protection measures that prevent individuals who lend money to the corporation they own to make a tax arbitrage gain; interest on this type of loan should be taxed at a sufficiently high rate at the individual level.
- Fourth, the combined corporate and PIT burden on dividends could be aligned with the top statutory PIT rate.
- Fifth, the capital income tax system needs to be designed in ways that are aligned with the data availability and administrative capacity of a country's tax administration. Also, third-party information should be used as much as possible to avoid under-reporting of capital income by individual taxpayers.

The design of the PIT in Peru

The PIT in Peru follows a schedular income tax approach where capital and employment income are taxed separately. First, employment income is taxed under category 5. Income from independent professional services is taxed in category 4; a presumptive cost deduction of 20% of gross income can be deducted after which the net income is added to the net taxable income of category 5. Gross employment income is reduced with a basic tax allowance equal to 7 UIT; certain expenses are tax deductible up to 3 UIT. Total taxable income of categories 4 and 5 are taxed under a progressive tax rate schedule with rates ranging from 8% to 30%.

The capital income tax treatment varies significantly across sources of finance, types of capital and sources of capital income. Income from letting property is taxed in category 1 at a rate of 6.25%; the rate is levied on gross income net of a presumptive cost deduction equal to 20% of gross income; the actual maintenance and financing costs incurred are not deductible from taxable category 1 income. Dividends and capital gains are taxed under category 2 at a rate of 5%. Under the assumption that distributed profits have incurred the statutory CIT rate, the total tax burden on dividends is about 33% (i.e., 29.5% + (1-0.295) * 5%). According to data from SUNAT, the average effective tax rate paid by corporations across the economy in Peru is about 24%, which results in an overall tax burden of dividends of about 28%, which is slightly lower than the top statutory PIT rate of 30%. On the other hand, foreign-source capital income is taxed under category 5 (instead of category 2 for domestic-sourced capital income) at the progressive PIT rate schedule with rates up to 30%. However, income derived from other

Andean Community member states may be exempt from Peruvian tax under Decision 578,[1] which allocates exclusive taxing rights to the source country and requires the country of residence to grant an exemption to prevent double taxation.

The differential tax treatment of domestic-source and foreign-source dividends and capital gains in Peru is notable. Profits distributed by domestic firms are subject to CIT in Peru at a standard rate of 29.5% prior to distribution. By contrast, foreign-source dividends and capital gains are typically derived from profits that have been taxed abroad, often at statutory CIT rates below those applicable in Peru, as the Peruvian statutory CIT rate is not particularly low. In addition, withholding taxes on dividends may be levied by the source jurisdiction upon distribution to a foreign jurisdiction, with applicable rates depending on the existence and terms of a bilateral tax treaty with Peru. Dividends received from Peruvian tax-resident companies constitute Peruvian source income and are subject to the 5% final dividend withholding tax when distributed to resident individuals. By contrast, dividends received from non-resident companies are treated as foreign-source income and must be aggregated with other foreign-source income and taxed under the progressive PIT schedule, with marginal rates ranging from 8% to 30%.

Investment through financial intermediaries does not allow the recharacterization of foreign-source equity income as domestic-source income. Most Peruvian investment funds (fondos de inversión) and mutual funds are treated as fiscally transparent vehicles for income tax purposes. As a result, the fund itself is generally not subject to CIT; instead, income is attributed directly to investors. Accordingly, distributions made by investment funds do not alter the source of the underlying income. Dividends derived from foreign companies continue to be classified as foreign-source income and are taxed in line with the applicable rules for foreign capital income, while dividends derived from Peruvian domiciled companies retain their preferential domestic tax treatment. For funds investing in both domestic and foreign assets, fund administrators are required to separately identify and track Peruvian-source and foreign-source income.

The differential treatment of domestic and foreign-source capital gains derived from the sale of securities is intended to encourage the investment of savings domestically rather than abroad, with some exceptions. While taxing foreign-source capital gains at progressive PIT rates may reduce incentives to invest abroad and, therefore, induce capital owners to save and invest in assets located in Peru, it may also mean that investors miss out on profitable savings opportunities. However, foreign-sourced derived from the sale of securities in the integrated stock exchange (MILA), which comprises the stock exchanges of Chile, Colombia and Mexico, are taxed at a 6.25% rate, in line with Peruvian-sourced capital gains derived from sale of securities. In addition, gains derived from the sale of securities sourced from another member country of the Andean Community are exempt from taxation in Peru in accordance with Decision 578.

The potential benefits of introducing a dividend imputation system in Peru appear limited, at least in the short run. Under a full dividend imputation framework, dividends are grossed up by the amount of (statutory or effective) CIT paid at the company level, with the resulting amount taxed at progressive PIT rates; shareholders are then granted a tax credit for the (statutory or effective) CIT paid on the distributed profits. In the Peruvian context, such a system would likely result in tax refunds for the majority of shareholders, as statutory PIT rates are generally below the CIT rate, with the exception of the top marginal PIT rate, which only marginally exceeds it. This would imply a substantial reduction in the effective tax burden on equity income. Given that dividend and capital income is predominantly earned by individuals in the upper part of the income distribution, the distributional implications of such a reform may raise equity concerns. The introduction of a partial dividend imputation system (under which only a fraction of the CIT paid at source is creditable, as implemented in Chile, for instance) would mitigate these effects to some extent; however, its impact on the overall tax burden on capital income would depend critically on the level of the imputation credit. In addition, dividend imputation systems tend to be administratively complex, particularly where the credit is linked to the effective (rather than the statutory) CIT paid. Their effective

operation requires robust information systems and strong administrative capacity to track corporate level tax payments associated with dividend distributions.

The tax treatment of interest income differs across debt instruments. Interest earned on government bonds is exempt from taxation, which is an approach that can be found in other countries. However, also interest on savings accounts is tax-exempt. Moreover, interest on bonds issued by businesses generating income taxable under category 3 is subject to a reduced rate of only 5%. For legal entities, interest is treated as third-category income and is therefore included in total annual taxable income. The applicable tax rate depends on the company's tax regime (29.5% for entities under the general regime, or 10% under the RMT, provided profits do not exceed 15 UIT).

Tax-induced incentives to incorporate differ across firms, reflecting heterogeneity in profitability and cost structures. The presumptive cost deduction of 20% of income under category 4 is primarily intended for individuals who provide services. Small but highly profitable unincorporated businesses with low operating costs may have limited incentives to incorporate, as PIT rates are lower than the combined statutory CIT and dividend tax rate. This is particularly the case where the presumptive cost deduction of 20% exceeds actual business expenses, resulting in a more favourable tax treatment under the PIT regime than under the CIT, which requires the declaration of actual costs. By contrast, firms with operating costs substantially above the presumptive threshold may face stronger incentives to incorporate and, therefore, being taxed under the RMT or the general CIT regime, as incorporation allows for the deduction of actual expenses. Therefore, assessing whether the 20% presumptive cost deduction under category 4 is appropriately calibrated remains an empirical question, requiring firm-level analysis of the types of businesses that choose to be taxed under either category 3 or 4, including information on cost structures across different types of businesses. Responses to the design of the tax system and the distortions it may create are expected to increase as informality is reduced and compliance levels rise.

The role of income tax withholding and information systems: general introduction

Withholding at source arrangements are generally regarded as the cornerstone of an effective PIT system and, depending on their design, they have been shown to be superior for achieving high levels of tax compliance. As is the case in Peru, the PIT levied on employment income is administered through a PIT withholding system in all OECD countries, except in Switzerland. PIT withholding systems also exist in most major non-OECD countries including China and India. Imposing the obligation on independent third parties such as employers and financial institutions to withhold an amount of tax from payments of income to taxpayers has major advantages (OECD, 2025[4]). PIT withholding enhances tax compliance by significantly reducing or even eliminating the ability of taxpayers to understate (employment and other) income for tax assessment purposes. It also reduces the incidence of unpaid taxes that might otherwise arise where taxpayers correctly report their income but are unable to pay all of the tax assessed. The timely remittance of amounts withheld by third parties to the revenue body also ensures a regular flow of revenue to government and assists budgetary management. Finally, PIT withholding systems are a cost-efficient way for both taxpayers and the revenue body to transact the payment of taxes. There are not only significant compliance-related benefits for individuals, but these systems also reduce administrative and enforcement costs for government.

"Cumulative" tax withholding regimes aim to ensure that, for most employees, the total amount of tax withheld over the course of a fiscal year is equal to their annual PIT liability. If this is achieved, employees are then exempt from the obligation to file an annual tax return. Under this approach, employees must provide their employers with details of any relevant entitlements that can be deducted from their earnings to help them determine the correct amount of tax. In some countries, such as Ireland and the UK, employees provide this information to the tax authority, which then advises the employer of a

code that determines the amount to be deducted from earnings. Employers then withhold tax on income paid, as required, determining the amounts to be withheld on a progressive/cumulative basis over the course of the fiscal year. Under the cumulative approach, employees tend to have few tax expenditures they can claim, either in the form of tax allowances or tax credits, as this enables greater accuracy in calculating the amount of tax withheld over the course of a fiscal year vis-à-vis their end-of year tax liability.

The alternative, as is the case in Peru (see below), is described as "non-cumulative" PIT withholding. This operates on a "pay period" basis for each employee. Under this approach, employers withhold taxes for each pay period, taking into account the employee's gross income and some, but not necessarily all, entitlements that may reduce the amount to be withheld, as well as the applicable withholding rate. When an employee changes jobs, their new employer simply beings the withholding process on the employee's future income, regardless of their previous employment withholdings. However, as this approach involves a less precise form of withholding, the amount deducted for each employee over the course of a fiscal year only approximates their full-year tax liability. In these circumstances, employees are usually required to file annual tax returns to ensure the correct amount of tax is paid, while obtaining a refund of any overpaid tax or are charged an additional tax liability if the amounts withheld are too low, taking into account all categories of assessable income and entitlements (e.g. tax deductions and credits).

The effectiveness of PIT withholding systems depends on a combination of institutional, administrative, and compliance-related factors. The effectiveness of PIT withholding systems requires a high level of employer compliance and administrative capacity, since employers act as tax collectors and must be able to calculate, withhold, report, and remit taxes accurately and on time. The same applies to financial institutions or other agents that withhold PIT on capital income. Secondly, it requires reliable, up to date information flows between tax authorities and withholding agents, particularly where withholding rates depend on household circumstances or the PIT is levied at progressive tax rates. This is important in general, but even more so under cumulative PIT withholding systems. PIT withholding systems work best when the PIT base is broad and the number of tax expenditures is low, ensuring that the taxes withheld closely match the end-of-the-year final tax liability. Finally, effective withholding systems are supported by strong back-end mechanisms. While non-cumulative PIT withholding systems have to be complemented by the requirement to file an end-of-the year tax return by each individual taxpayer, reconciliation through annual tax returns should remain an option for taxpayers also under cumulative PIT withholding systems. Finally, the tax code must also include well-established legal rules that determine the withholding obligations. Moreover, the tax administration will have to monitor the complete and correct application of the withholding requirements and implement strategies to induce withholding agents to comply, including through the use of fines.

While PIT withholding is an important instrument to use in all countries, its effectiveness is inherently constrained by the limited reach of formal employment arrangements in countries with large informal economies. Since PIT withheld from employment income relies on employers acting as collection agents, its coverage is necessarily limited where a significant proportion of workers operate in the informal economy. This reduces the capacity of withholding to ensure broad-based, real-time tax collection and limits its effectiveness in reducing evasion. However, the use of withholding systems remains an important tool to administer the tax system. Nevertheless, in countries where taxpayer trust in public institutions is low, taxpayers may only support tax withholding when the system is perceived as transparent, predictable, and responsive to changes in income and household circumstances. As a result, in economies with high informality, PIT withholding is most effective when embedded within a broader compliance strategy that includes measures to encourage formalisation, strengthen information reporting, and support credible reconciliation and refund mechanisms to sustain taxpayer confidence.

The PIT withholding and information system in Peru

Peru operates a mandatory PIT withholding system, administered by SUNAT, for employment income and, in certain cases, also for other types of income. The employer estimates the employee's annual gross income, deducts the basic tax allowance (the non-taxable amount equal to 7 tax units UIT) and, in case there is any remaining taxable income, applies the progressive PIT rate schedule. The resulting tax liability is shared over the months of the year for which there is an employment contract and remitted on a monthly basis to SUNAT. No PIT is withheld for workers earning less than 7 UITs. The withheld PIT is adjusted if the worker's gross earnings change during the fiscal year. The withheld tax liability qualifies as the final tax for workers that have only one employer. The SUNAT may deduct up to 3 UIT based on information from financial transactions and electronic invoices.

Employees with multiple sources of labour income, as well as those seeking to deduct additional expenses from their taxable personal income, are required to file an annual end-of-the-year PIT return to reconcile their final tax liability. While some sources report that employees with multiple employers can inform the employer paying the highest salary of their other employment income, thereby enabling that employer to adjust the tax withholding accordingly, this arrangement would present significant practical and compliance challenges. In particular, it would mean that other employers could refrain from withholding PIT altogether. However, as employers do not receive verified information from SUNAT regarding their employees' other employment relationships, they are unable to ascertain whether withholding obligations should be waived. Without reliable third-party information and systematic coordination, allowing selected employers to not withhold PIT would create a significant risk of under-withholding and increase opportunities for tax evasion.

Individuals who receive employment income and also earn income from other sources, such as personal services (e.g. consultancy activities), are required to file an annual tax return to declare these additional earnings. Businesses that purchase personal services are required to report these payments to the tax administration. This third-party reporting enables the tax administration to cross-check declared income and assess compliance more effectively. In addition, the paying business withholds a portion of the tax at source and remits it to the tax administration. This withheld tax is a prepayment of the individual's final tax liability, and any excess is refunded upon assessment.

Different withholding tax arrangements apply to domestic-source capital income of tax-resident individuals. No tax is withheld on income from letting property in category 1, but taxpayers have to file a tax return to declare this income. From January 2026 onwards, rental income (first category) will be taxed on a cash basis rather than on an accrual basis. In light of this change, Peru could consider introducing a withholding tax on rental income with real estate agencies and platforms acting as withholding agents. Such a reform would need to be accompanied by additional enforcement measures to prevent that rental contracts are not registered to avoid category 1 tax. Dividend income in category 2, on the other hand, is taxed under the dividend tax in category 2, and this tax is withheld at source. As this is the final tax, dividend income does not have to be declared by the individual who received the dividends. The same applies to r interest income taxed under category 2. However, other category 2 income, such as capital gains realised on the sale of shares, has to be declared. If interest income from government bonds and savings bank deposits were included in the tax base, it would be straightforward for a financial intermediary to levy and remit the withheld tax to SUNAT. However, capital gains from the disposal of immovable property are not subject to withholding tax. Nevertheless, administrative procedures require the tax to be settled before the transfer can be completed.

Although domestic-source dividends distributed to resident individuals are subject to a final withholding tax and, therefore, do not need to be declared in PIT returns, the tax administration still collects information on dividend distributions. In order to strengthen tax compliance and improve income verification, it is important that firms, financial institutions and other financial intermediaries report dividend income received by individuals to the tax administration systematically. Comprehensive third-

party reporting would facilitate cross-checking and risk-based enforcement. It would also enable better tax policy analysis, as the total income of taxpayers could be analysed. A key challenge in this context arises in relation to dividends distributed by non-listed companies, where withholding and reporting obligations may be applied less consistently, thereby limiting the tax administration's ability to detect non-compliance.

Individuals need to declare foreign-source income. Tax-resident individuals are subject to PIT on their foreign-source income. This includes income derived from leasing real estate located abroad, interest earned on bank deposits held with financial institutions outside the country, income obtained from providing services performed abroad, and dividends received from listed and non-publicly traded foreign companies. Capital gains arising from selling shares issued by foreign companies, whether such shares are traded on foreign stock exchanges or the Lima Stock Exchange, are also taxable under the PIT and, therefore, needs to be declared.

The accuracy of the self-declared foreign-source capital income can be verified by cross-checking the data with information that SUNAT receives from foreign tax administrations via the Automatic Exchange of Financial Account Information (AEOI). This exchange operates under the OECD's Common Reporting Standard (CRS), which requires participating jurisdictions to collect information from financial institutions on accounts held by non-residents and automatically transmit that information to the tax administration of the taxpayers' country of tax residence (OECD, 2025[5]). Through the CRS framework, SUNAT gains access to standardised data on foreign bank accounts, investment income, and account balances. This significantly strengthens its ability to detect omissions, under-reporting of foreign-source capital income, or inconsistencies in declarations made by individuals who are resident for tax purposes in Peru.

However, the non-cumulative design of Peru's PIT withholding system poses structural challenges to the effective application of the progressive PIT rate schedule, particularly for individuals with multiple sources of employment income. Since each employer calculates withholding independently and without aggregating income, progressive taxation cannot be fully enforced through withholding alone, and final tax liability must be resolved ex post through annual assessment.

Reform recommendations to strengthen the PIT in Peru

Peru operates a schedular PIT system. Employment (category 5) and self-employed income (category 4) are taxed jointly under a progressive PIT rate schedule. Actual business costs incurred are not deductible but self-employed entrepreneurs can deduct a presumptive deduction instead. At 7 UIT, the PIT exemption threshold for employment income is very high, which weakens the role of the PIT and suggests scope for a reduction. For most taxpayers, the exemption threshold is even higher as taxpayers can claim certain expenses up to 3 UIT. Lowering the threshold would broaden the tax base, but it should remain at a level that does not create significant incentives for tax evasion. If a large share of workers earns income close to the exemption threshold, employers may have incentives to under-declare reported wages to avoid withholding obligations and shift part of compensation into undeclared payments. In the short term, if the threshold is lowered more gradually, this should be accompanied by measures that strengthen reporting requirements and auditing by SUNAT. As currently is the case, employers should be required to report all employee earnings to the tax administration, regardless of income level, to support compliance and promote formalisation.

Capital income is taxed separately but the capital income tax rules vary across sources of finance (debt or equity), types of capital (immovable property or other capital) and sources of capital income (domestic economy, Andean Community or other countries). The PIT in Peru can therefore not be classified as a "Dual Income Tax" (but rather as a "multiple income tax"). There is scope to increase the taxes on dividends and capital gains, taking into account that the statutory and effective CIT rates in Peru are not particularly low. A tax rate of 10% seems feasible. The tax burden on bonds and immovable

property that is let is particularly low. If the tax rate on category 2 income is increased, Peru is advised to also review the special treatment of foreign-source income derived from the sale of securities in the integrated stock exchange (MILA).

In the short term, different reform options could be considered, but it is important that these measures are aligned with the long-term reform direction. For instance, rather than taxing rental income and interest payments jointly with category 5 income, a more preferable reform would be to continue taxing these capital incomes separately, but at rates higher than currently apply. Over time, first and second category income streams could be taxed together.

Over time, Peru could introduce a Dual Progressive Income Tax, which would tax employment and capital income separately under their own progressive tax rate schedule. As part of this reform, the capital income tax burden could be slightly shifted from the corporations to individual shareholders. This would involve a number of reforms. Firstly, the statutory CIT rate could be reduced to the average rate found in OECD countries, while the tax rate on domestic-sourced capital income could be increased. Although a cut in the statutory CIT rate was introduced in 2016, it was reversed in 2018 as the reform did not produce the expected results and reduced tax revenues. This past experience shows that any cut to the statutory CIT rate should form part of a broader reform that strengthens Peru's investment climate. Such a reform would also create an opportunity to align the tax treatment of domestic and foreign-sourced equity income, reducing compliance costs for SUNAT and financial intermediaries alike as it would allow to align the withholding tax treatment. Other types of capital income could be integrated in the equity tax base, including interest payments and, possibly, rental income. This would introduce a genuine Dual Income Tax in Peru. However, the introduction of a comprehensive income tax that would tax labour and capital income jointly under a single progressive tax rate schedule does not seem to be a preferred option, at least in the short term, as it would result in a significant increase in the tax burden on capital income due to the relatively high statutory CIT rate. Furthermore, the introduction of a (partial) dividend imputation system would place a significant burden on SUNAT and taxpayers. In fact, total capital income could be taxed at mildly progressive tax rates under a Dual Progressive Income Tax system. A basic tax allowance of up to 0.5 UIT, for example, could exempt a small amount of capital income from tax, meaning lower-income households would not pay tax on the interest from their savings account. Taxpayers would be incentivised to file a tax return so that they can claim a refund if they have paid more in withholding tax than their final tax liability. Alternatively, financial institutions would only levy withholding tax on interest income above a certain amount.

PIT compliance is supported by a non-cumulative PIT withholding system. Although SUNAT uses various sources of third-party information, there is still room to improve the reporting requirements and the use of information provided by third parties. Moreover, strengthening the information that SUNAT receives about capital income earned by individual taxpayers, both domestically and abroad, will enable the government to broaden capital income tax bases, increase rates, and strengthen tax compliance and overall tax progressivity gradually over time. SUNAT is encouraged to make increased use of AEOI and EOIR to verify the accuracy of taxpayers' declarations of foreign-source income. Furthermore, a withholding tax could be introduced on capital gains from the sale of immovable property, with the notary acting as the withholding agent or, at least, the agent that verifies that the tax has been paid before the transaction is registered.

Although withholding tax on dividends distributed to resident individuals is final and therefore does not need to be declared in the PIT return, systematic information reporting is still important for effective tax administration. Financial intermediaries and businesses that distribute dividends and pay other types of capital income, including currently tax-exempt income such as returns on savings accounts and government bonds, should be required to report these payments to the tax administration, regardless of their final tax treatment. This would enable the tax administration to use the information for compliance and audit purposes, including to verify the origin of funds invested in shares and bonds, and to assess its consistency with other declared income.

Greater use of third-party information would strengthen compliance and improve the accuracy of income reporting. Self-declared rental income, in particular, could be verified more effectively by systematically cross-checking declarations against information from fiscal cadastres and other administrative registers on real estate ownership. Integrating these data sources would enable the tax administration to more easily identify the under-reporting and non-declaration of rental income. Enhanced data matching would also support a more risk-based approach to enforcement. Overall, optimising the use of existing third-party information would contribute to the fairer and more effective taxation of rental and foreign-source income.

The institutional foundations for broader income aggregation are already partially in place and could possibly be further developed by SUNAT. SUNAT uses various sources of information to determine individuals' tax liabilities. While individuals have to declare certain types of income, including foreign-source income, SUNAT also receives third-party information on other types of income. The existence of reporting mechanisms and the taxation of foreign-source income – the accuracy of which needs to be assessed – demonstrate that the institutional foundations for broader income aggregation are already partially in place. This suggests scope for reform towards a dual progressive income tax system that applies a separate but progressive rate schedule to aggregated capital income, including dividends, realised capital gains, interest and rental income. This would enhance equity and internal consistency while remaining compatible with existing administrative constraints.

References

Hourani, D. et al. (2023), "The taxation of labour vs. capital income: A focus on high earners", *OECD Taxation Working Papers*, No. 65, OECD Publishing, Paris, https://doi.org/10.1787/04f8d936-en. [1]

Hourani, D. and S. Perret (2025), "Taxing capital gains: Country experiences and challenges", *OECD Taxation Working Papers*, No. 72, OECD Publishing, Paris, https://doi.org/10.1787/9e33bd2b-en. [2]

OECD (2025), *Consolidated text of the Common Reporting Standard (2025): Standard for Automatic Exchange of Financial Account Information in Tax Matters*, OECD Publishing, Paris, https://doi.org/10.1787/055664b1-en. [5]

OECD (2025), *Tax Administration 2025: Comparative Information on OECD and other Advanced and Emerging Economies*, OECD Publishing, Paris, https://doi.org/10.1787/cc015ce8-en. [4]

OECD (2018), *Taxation of Household Savings*, OECD Tax Policy Studies, No. 25, OECD Publishing, Paris, https://doi.org/10.1787/9789264289536-en. [3]

Note

[1] Decision 578 of the Andean Community.

6 The tax design of special economic zones in Peru and peer countries

Special Economic Zones that provide targeted tax incentives are widely used across Latin America but have so far not played a major role in Peru. The existing SEZ regime was geared more towards addressing domestic issues rather than attracting foreign investment and resulted in only four operational zones with limited economic activity. In 2025, Peru passed a framework law establishing the possibility to create Private Special Economic Zones (ZEEPs) with substantial tax concessions, including a five-year corporate income tax exemption followed by reduced rates for 20 years. Important implementing regulations still need to be defined, which provides a window of opportunity to refine the design of the new ZEEP regime.

International experience with tax incentives could help inform the tax design in Peru's special economic zones (SEZs)

Income-based tax incentives have shown mixed results across countries and come with significant risks (Jenkins et al., 2025[1]; OECD, 2026[2]). Income-based tax incentives[1] often come with sizeable revenue costs if they are poorly targeted or overly generous. They can also result in windfall gains for investors who would have invested even in the absence of the incentive. In light of the empirical evidence, a long-standing recommendation has been for countries to assess whether expenditure-based incentives, such as accelerated depreciation or investment tax credits or allowances, can achieve the intended goals more efficiently and cost-effectively (IMF-OECD-UN-WB, 2015[3]; IMF-OECD-UN-WB, 2025[4]). Under BEPS Action 5, income-based preferential tax regimes that fail to comply with the minimum standard, including any one of the key factors such as ring-fencing, transparency, exchange of information, or the substance requirements, and are expected to have a significant BEPS impact, are also at risk of being classified as "harmful" by the OECD Forum on Harmful Tax Practices (FHTP), in the absence of a commitment to address the identified deficiencies within agreed timelines. Finally, international tax rules, in particular the Global Minimum Tax (GMT), may have reduced the value of certain income-based incentives for large MNEs (OECD, 2022[5]; OECD, 2026[6]), which may lower the cost-effectiveness of income-based tax incentives going forward (i.e., such incentives could result in lower revenues for Peru without reducing the effective tax rate of the investor). Annex A presents an overview of the empirical literature on corporate income tax incentives.

Despite the risks, income-based tax incentives continue to be widely used in SEZs across the LAC region and beyond (OECD, 2025[7]; OECD, 2026[8]). More than a quarter of all identified CIT incentives across ten LAC countries are linked to SEZs, and seven out of ten countries offer at least one CIT incentive within a SEZ (Orozco et al., 2026[9]).[2] Globally, 56 out of 70 developing countries included in the OECD Investment Tax Incentives Database provide tax incentives to investors in SEZs (OECD, 2025[7]).[3] In some countries, such as Costa Rica and the Dominican Republic, significant economic activity takes place in SEZs (OECD, 2025[10]; CNZFE, 2025[11]). However, even where significant activity takes place in SEZs, their benefit to the country will depend on the type of investment that is attracted, the spillovers that the activity in the zone generates for the domestic economy, and how the tax incentives in the zone are designed (Frick and Rodríguez-Pose, 2021[12]; World Bank, 2017[13]). For example, income tax holidays have been found to be especially vulnerable to the risk of providing insufficient value for money (IMF-OECD-UN-WB, 2025[4]). Peru's more limited experience with SEZs means that its tax incentive design can draw on the lessons from other countries in the region, including on where risks have materialised.

Where expenditure-based alternatives are not chosen, a number of principles have been identified in the literature regarding the optimal design of income-based tax incentives (IMF-OECD-UN-WB, 2015[3]; OECD, 2026[2]; IMF-OECD-UN-WB, 2025[4]). Income-based incentives are generally more cost-effective when they are limited in time, when eligibility criteria are transparent (OECD, 2023[14]) and involve little discretion and when the Ministry of Finance and tax administration are closely involved in their design and monitoring. It is also considered good practice to include an estimate of the revenue forgone of each tax incentive in the tax expenditure (TE) report and to conduct regular cost-benefit analysis. This analysis can include an estimate of the economic benefit generated for every unit of tax revenue forgone.

SEZs are not yet a significant feature of Peru's economy

SEZs have so far played only a modest role in attracting investment into Peru. The country's existing regime, with the first zone established in 1989, was designed to stimulate regional development and its four operational zones are all located in remote areas or close to Peru's international borders.[4] The four zones are open to general economic activity[5] and the Zofratacna commercial zone serves the additional

purpose of formalising trade and reduce smuggling at the Peru-Chile border. Economic activity in the zones consists mostly of smaller domestic businesses in logistics, trade, agro-industry and mining support services, and the overall activity in SEZs has remained limited. Fewer than 3 000 workers are employed across the four zones (Figure 6.1). Exports from the zones account for only 0.1% of total exports (AZFA, 2025[15]; AZFA, 2024[16]). This is despite generous tax incentives, including an indefinite exemption from corporate income tax (CIT) and most indirect taxes. Investment from foreign investors in Peru remains meanwhile concentrated in natural resources, finance and communications (European Union Office in Peru, 2022[17]). These sectors are typically not well suited to be developed through SEZ regimes as the expected returns are largely driven by location-specific rents (Klemm, 2010[18]).

Peru is now planning to expand and redefine the role of SEZs and, to this end, passed a framework law in 2025. The law establishes the possibility to create Private Special Economic Zones (ZEEPs) which will come with substantial tax reductions for both the zones' operators and for investors who decide to carry out economic activity in the zone.[6] Unlike the earlier SEZ regime, ZEEPs would be run by *private* operators. Operators may not have any economic link with users (i.e., businesses who invest and operate within the zone). A 0% CIT rate is foreseen to apply to qualifying activities in the first five years of operation, followed by reduced rates for the subsequent 20 years. These income-based incentives will come with significant risks (see above). Firms in the zone are also exempt from most indirect taxes, such as the VAT or the selective consumption tax (see Box 6.1).[7] Two lists define what type of activity can be carried out in ZEEPs and what activity is excluded: one list defines the sectors that cannot enter the zone, and a second (more restrictive) list defines which sectors cannot benefit from the CIT tax incentives. This means that there are certain activities, such as logistics, which can be carried out in a ZEEP and qualify for the tax benefits, including the VAT and excise tax exemptions, but cannot benefit from the CIT incentives. While no zones have yet been set up under the ZEEP regime, there are discussions about establishing the first zone close to the Chancay port (MEF, 2025[19]).

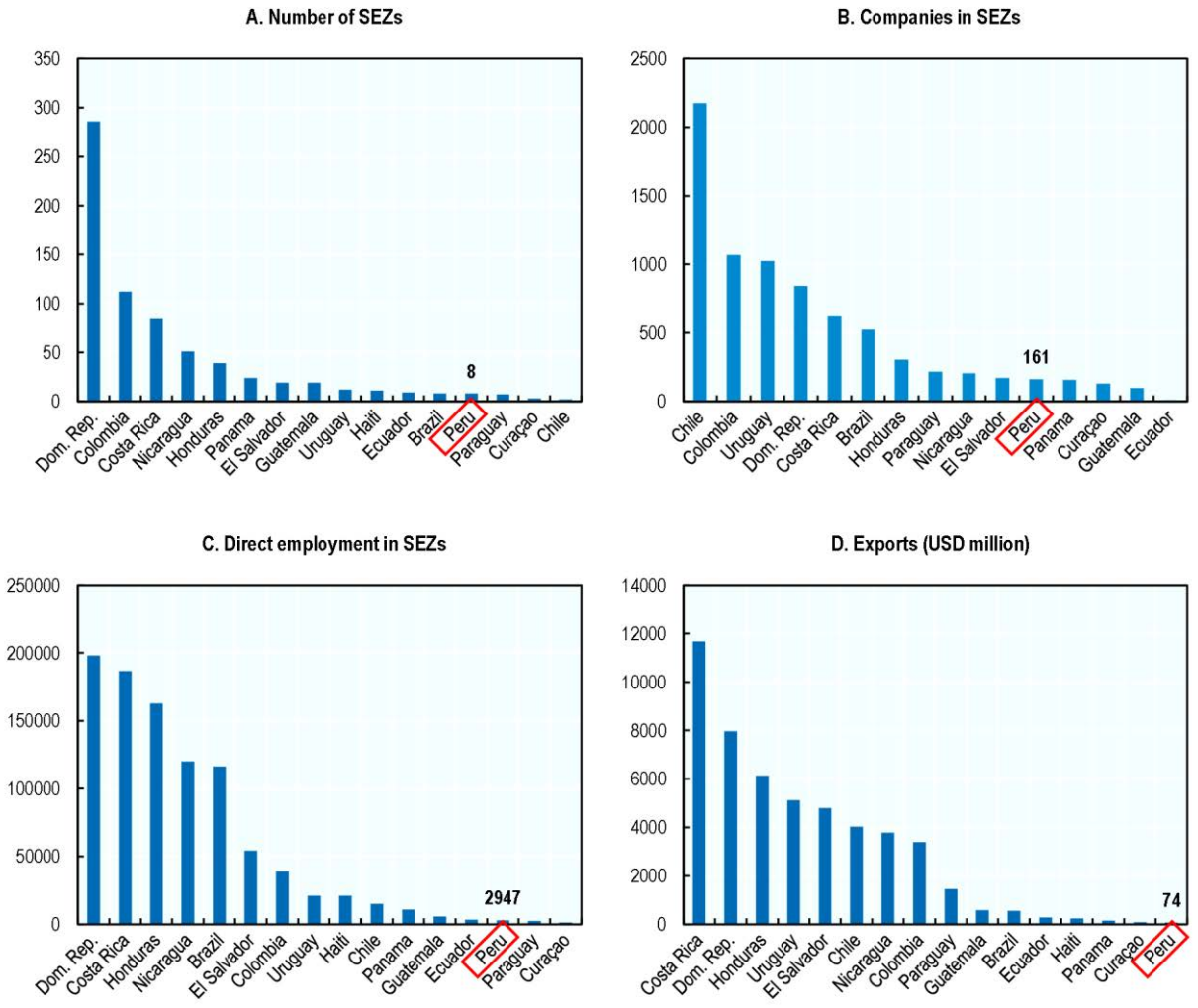
A decree published in April 2026 introduced a minimum size of 90 hectares for ZEEPs, and the regime could be strengthened by allowing authorities to also define the geographical areas in which zones can be established. The 90-hectare minimum size applies across all provinces, except in the Province of Callao, where smaller zones may be created.[8] Including a minimum size requirement constitutes good practice to ensure that each zone can realistically support a cluster of firms that interact positively with the local economy. The minimum size requirement for ZEEPs introduced through the decree could also be sensible in order to ensure substantial activity can take place in each zone and keep the monitoring costs manageable as the monitoring of each zone will likely involve fixed costs.

Important implementing regulations are still being finalised so that some uncertainty remains about the final design of the ZEEP regime. For example, it is not yet clearly specified whether VAT and excise tax exemptions for zone users would cover both goods and services, or whether these exemptions would be restricted to services only. Peru also still has to decide how to implement a provision in the law which foresees that fixed assets in the zone are depreciated for tax purposes starting from their sixth year of operation. Finally, the law specifies that the tax benefit period for both operators and users start when a new ZEEP opens, rather than when a specific investment is being made by a firm. This would mean that a firm investing right after the zone opened would be eligible for a longer tax reduction period than a firm investing in the same zone at a later point in time.[9] Providing clarity on the final design would be crucial to support tax certainty.

The fact that no ZEEPs have so far been established could serve as an opportunity to adjust the foreseen design so that the regime is carefully designed from the start. Once a certain design has been put in place and investors have made decisions to invest, it can become more difficult to change the design (IMF-OECD-UN-WB, 2015[3]). One reason is that it is typically difficult to establish whether or not existing investors would have made the same investment decisions under a slightly modified SEZ regime design. Peru's old SEZ regime illustrates this risk: it was extended until 2042 through Law 30 446 despite having largely been found not to have achieved its objectives (IMF, 2022[20]). The fact that certain

implementing regulations for the ZEEP regime still need to be defined, and no investment decisions have been made until now in ZEEPs, could provide a window of opportunity to refine the design before its rules become entrenched.

Figure 6.1. Economic activity in SEZs in selected Latin American and Caribbean countries



Note: Figures refer to the most recent available year for each country. In Brazil, exports cover the Suframa zone only, while employment figures cover Suframa and ZPE Ceará. In Chile, all data refers to the ZOFRI zone. In Ecuador, data covers the ZF zones only. In Guatemala, export figures cover the ZF only, while employment figures cover ZF, ZDEEP, and ZOLIC zones. In Panama, exports refer to the ZF only, while employment includes Panama Pacífico. In Peru, data covers the four operational zones (Zofratacna, ZED Paita, ZED Matarani, and ZED Ilo); the remaining four (Zona Franca de Cajamarca, ZED Tumbes, ZED Loreto, and ZEE Puno) are included in Panel A but not operational. No ZEEPs have been established in Peru so far.
Source: AZFA (2024[16]), AZFA (2025[15]).

The foreseen CIT rate schedule in ZEEPS and its interactions with the GMT

The 5-year tax holiday in combination with 20 additional years in tax reductions is a too generous design. At 25 years, the duration of the income tax reduction in ZEEPs may be longer than the useful life of some of the investments made in the zones. The regime establishes a tax exemption for 5 years followed

by reduced rates for another 20 years. Even in the final phase of the period, the rate of 15% would be only around half of the standard CIT rate of 29.5%. If the ZEEP design continues to rely primarily on income-based tax incentives in the future, Peru could, at the minimum, consider replacing the CIT holiday in the first five years by a reduced rate. Countries in the region have adopted different approaches to the transition back to the standard rate. Costa Rica applies a stepped approach under which strategic manufacturing firms outside the metropolitan area pay 0% for 6 years, followed by 5% for 6 years and 15% for a further 6 years, before returning to the standard rate of 30%. Colombia, for example, does not use a tax exemption but instead applies a reduced rate of 20% for qualifying SEZ users, instead of its standard rate of 35%. In this context, Peru's combination of an initial zero rate followed by a long period at a rate that remains well below the standard CIT appears generous. The ZEEP regime also far exceeds the time limit for tax incentives defined in Peru's tax code, which foresees a maximum duration of three years, with the possibility of a single extension of up to three additional years subject to an impact evaluation.[10]

The CIT exemption in ZEEPs could be partially ineffective for large MNEs while still carrying significant revenue costs for Peru. The Global Minimum Tax (GMT) establishes a minimum effective tax rate of 15% for in-scope MNEs. This means that in-scope MNEs that benefit from the ZEEPs regime may see the benefits of the 0% tax rate reduced by the application of the GMT. The top-up tax may be collected by other jurisdictions, e.g., by MNEs headquartered in jurisdictions with an Income Inclusion Rule (IIR) or through the UTPR. ZEEP tax benefits can also be reduced by domestic tax provisions from foreign jurisdictions seeking to top-up the low-taxed activities of their subsidiaries abroad. In such cases, Peru could forgo the tax revenue to other jurisdictions without the investor benefiting from a lower overall tax payment. It would therefore be important for Peru to study the impact of these rules on its ZEEP design, which could involve considering introducing a Qualified Domestic Minimum Top-up Tax (QDMTT) or other domestic tax measures that would allow Peru to retain the top-up tax revenue. The extent to which these rules affect individual investors will depend on the size and structure of the MNEs Peru attracts, as well as their economic substance in the country, including how much they invest and how much they spend on salaries, among other factors, as the Global Minimum Tax allows for lower tax outcomes for MNEs that have high economic substance.

It is a positive feature that Peru's ZEEP law does not provide for extending income tax benefits beyond the 25-year concession period. Currently, eligibility is tied to the investing firm, rather than the investment project, and after qualifying once, the same SEZ user cannot qualify again for the tax benefits. If extension rules are introduced in the future, it would be important that the qualifying reinvestment genuinely expands production, rather than simply sustaining existing operations. If the rules for reinvestment make it too easy to requalify, or if significant discretion is involved, there is a risk that these rules gradually erode the time limits and implicitly make the tax benefits significantly more generous than they are specified in the law.

Peru's past experience with tax incentives offers important insights for the design of the ZEEPs

A general lesson from Peru's old SEZ regime is that generous tax incentives alone cannot offset structural investment barriers. The existing SEZ regime failed to attract meaningful investment, in particular from foreign investors, despite its generous tax incentives, including an indefinite CIT exemption. This is consistent with broader evidence that tax incentives cannot compensate for an otherwise weak investment climate (Klemm and Van Parys, 2012[21]; Chai and Goyal, 2008[22]; van Parys and James, 2010[23]). For example, the infrastructure in the existing SEZs in Peru was not adapted to accommodate larger scale investment (MINCETUR, 2025[24]). Due to the remoteness of the zones, connectivity to domestic and international markets remained limited. Certain legal hurdles might have also contributed to the limited success of the previous SEZ regime. For example, one zone is located close to the border while Peru's constitution prohibits foreign investors from leasing or owning property within 50 km from the border

(OECD, 2008[25]). Other structural investment barriers include the types of skills that are available in Peru. A recent OECD report concluded that many students in Peru lack basic competencies and skills relevant for the labour market (OECD, 2026[26]).

It is unlikely that a private operator model alone will overcome the structural barriers that contributed to the limited success of the old SEZ regime. Under the new ZEEP framework, each zone is managed by a private operator responsible for developing and maintaining the zone's infrastructure. The operator is granted a licence to manage the zone and interact with its users, and benefits from the same CIT rate schedule as ZEEP users. The operator's application to establish a new ZEEP is evaluated by the Ministry of Foreign Trade and Tourism (MINCETUR) with a binding opinion from SUNAT, according to the criteria set out in the law,[11] and each zone then requires its own law that is approved by Congress. This model attempts to address one of the weaknesses of the old regime, where publicly managed zones lacked the infrastructure needed to attract firms on a larger scale (MINCETUR, 2025[24]). However, the private infrastructure within ZEEPs will still depend heavily on the public infrastructure outside the zones, including their connectivity to roads and ports, energy supply, or the availability of skilled workers. Even a well-managed private zone is unlikely to attract the intended investment in new economic sectors if the external infrastructure is lacking or of poor quality (e.g., there is no road to a zone that is established in a remote area). At the same time, without further restrictions on where zones can be established (see above), there is a risk that private zones will be located only in areas where infrastructure already exists and where the competition with existing domestic firms will be highest (e.g., close to the capital).

If Peru is successful in attracting advanced manufacturing or service firms into the ZEEPs, these firms will likely absorb some of the most skilled workers in the labour force. During the phase of reduced tax rates, ZEEP firms will contribute less than comparable domestic firms to the financing of infrastructure and education in Peru while benefiting from the country's infrastructure and workers whose skills were developed in the national education system. This can be justified only if the zones generate additional activity with sufficient value-added and positive spillovers for the rest of the economy. It is also important that ZEEP firms do eventually contribute to the financing of infrastructure and skill development in the country (i.e., start paying tax after the tax reduction period is exhausted), and that the tax benefits granted in SEZs are not extended over time to cover, for example, social security contributions or the personal income tax of workers employed in ZEEPs. This is particularly relevant given that Peru already faces a shortage of skilled workers (OECD, 2026[26]).

Peru's experience with the commercial zone within the *Zofratacna* illustrates the risks of trying to use SEZ regimes to achieve goals that could be better addressed through other tools. The Zofratacna is located close to the Peru-Chile border and, in its commercial zone, offers customers the option to purchase imported goods at reduced tax and tariff rates. Until 2027, this includes the sale of alcohol which is exempt from excise taxes. The activities carried out under such a regime are most likely not additional activities – i.e., economic activity that would have not taken place in Peru in the absence of the tax incentive – that create significant value added and spillovers. While a geographically delimited zone can make it easier to monitor and formalise some imports, the businesses would ideally have been brought under the regular tax and tariff system over time. Using a SEZ regime to formalise economic activity and grant tax reductions to certain vendors can create unfair competition for the rest of the economy. It could even induce these competitors to partially import and sell informally in order to compete with the prices offered in the zone. The case for the Zofratacna as a tool for regional development has also weakened because the possibility to purchase tax-reduced goods has been extended to online shopping. This allows consumers anywhere in Peru to order goods remotely from businesses operating in the zone without travelling to the region (Law 31 543). In the context of BEPS Action 5, the Zofratacna regime falls within the scope of the FHTP's work due to the tax benefits it provides to income derived from geographically mobile activities and is currently under review by the FHTP.

The tax revenue forgone from SEZ regimes can be sizable and ultimately depends on the *additionality*[12] of the activity that is created. In 2025, Peru's Fiscal Council warned that zones

established under the new ZEEP regime could result in a "significant and permanent loss of revenue" (Consejo Fiscal del Perú, 2025[27]). Tax expenditure (TE) reports in some countries that rely more extensively on SEZs routinely identify them as one of the largest sources of CIT revenue forgone (Ministerio de Hacienda de Costa Rica, 2025[28]; Ministerio de Hacienda de la República Dominicana, 2024[29]).[13] Across ten LAC countries analysed, SEZs were found to reduce effective CIT rates by 85% on average (Orozco et al., 2026[9]). TE estimates typically use the "revenue forgone method", which assumes that all firms would fall under the standard tax system in the absence of the incentive (OECD, 2010[30]). If firms had invested regardless of the SEZ regime, the revenue forgone would indeed represent a net fiscal cost with no offsetting economic gain. However, if the activity is genuinely additional, in the sense that it would not have occurred without the incentive, even under a reformed standard tax system, the revenue forgone method could also overstate the true revenue loss. While relatively larger tax revenue risks remain whenever income-based tax incentives are used instead of expenditure-based incentives, appropriately targeting the SEZ regime to genuinely additional activity could be one strategy to help contain the tax revenue cost of the ZEEPs regime.

Industry targeting could help support additionality of activity in ZEEPs

Even if success is not guaranteed, the *additionality* of investment generated in ZEEPs may be strengthened if tax benefits within ZEEPs are more strictly limited to selected industrial activities that can be expected not to be developed under Peru's standard tax regime, even if the current CIT would be reformed to be more competitive to stimulate or attract investment. The ZEEP law currently excludes financial, accounting and legal services, extractive activities such as mining and fishing, leasing, insurance and the exploitation of intellectual property rights, among other activities (see Box 6.1).[14] There are good reasons to exclude these activities, but the resulting list of eligible sectors may still be too broad. A safeguard in the law is that a taxpayer can enter the zone only if it is not engaged in the "same economic activity" within the domestic economy, but such a condition will be difficult to define and enforce in practice. It could be preferable to define a whitelist of strategic target sectors that Peru wants to develop and that can benefit from SEZ treatment, rather than listing only those activities that are excluded.[15] Ideally, activities that could develop under a reformed and more competitive CIT system would not be included in that list. Targeting investment tax incentives to specific activities is common across countries (OECD, 2025[7]),[16] but the targeting is often broad in practice, with eligibility extending to the entire manufacturing or agricultural sector rather than more narrowly defined activities (Celani, Dressler and Wermelinger, 2022[31]).

Defining the list of eligible activities is a demanding exercise that would benefit from the involvement of all concerned government entities, including the Ministry of Finance and SUNAT. It could be informed by a technical analysis of the sectors in which Peru already has a comparative advantage. On that basis, it would identify new industrial activities that can be expected not to be developed under the standard tax system, even after a potential tax reform, and that have the largest growth potential, for example because they require skills or inputs close to those already available in Peru. There will be trade-offs to consider in this process: a definition that is too narrow may deter some investment (and create larger economic distortions by "picking winners" in a narrower category). A more extended list would increase the risk that some activity in the ZEEPs is not truly additional and thereby increase revenue cost. It could be useful to establish clear rules on how often, at the maximum, the industrial activity list can be updated if priority activities and other parameters of the ZEEP regime will need to be adapted over time. In general, eligibility criteria should remain stable and avoid frequent changes that create uncertainty, increase complexity, and may deter investors (OECD, 2026[2]). Any change that is being proposed should be validated by the Ministry of Economy and Finance and would ideally have to be codified in the law.

Bringing sectors where Peru is already competitive, such as natural resources, agriculture or tourism, into the ZEEP regime would not be a desirable outcome. If these sectors cannot develop sufficiently under the standard tax system, this would signal an urgent need for reforming the standard tax

system (including of the specific regimes that already exist for these sectors), rather than extending SEZ treatment to these activities. Granting ZEEP benefits to sectors that already have a significant footprint in the domestic economy would also create particular risks of unfair competition.[17] Firms that have already invested outside the zones would be disadvantaged relative to those investing in the zone. Eventually, it could create incentives to locate most new investment in these sectors in ZEEPs, which would threaten the existing tax base. For activities supplemental to the activities developed in the zones, but not eligible for tax incentives (e.g., logistics), one option would be to allow these firms to locate in SEZs without benefiting from the tax incentives to enable linkages with SEZ users. The current regime already foresees a partial version of this, where some activities can enter without benefiting from the CIT incentive. A more consistent treatment would be to also deny the indirect tax benefits (e.g., the VAT exemption) for these activities.

Beyond the arguments discussed above, there are additional reasons to consider using more refined industry targeting in ZEEPs to support additionality. Restricting access to SEZs to foreign firms, implementing export quotas or limiting zone firms' interactions with the domestic economy has been used in the past to prevent new domestic investment from migrating into special tax regimes (FIAS/World Bank, 2008[32]). However, these approaches have become increasingly difficult to sustain as they can violate international agreements. Under the WTO *Agreement on Subsidies and Countervailing Measures*, tax benefits that are contingent on export performance can be considered prohibited subsidies. Under the BEPS Action 5 framework, the "ring-fencing" of tax benefits from the domestic economy is one of the key factors that can lead the OECD Forum on Harmful Tax Practices (FHTP) to characterise a tax regime as "harmful" (OECD, 1998[33]; OECD, 2015[34]). Since the launch of the BEPS Project, the FHTP has reviewed over 330 preferential regimes with almost 40% of those regimes being abolished or amended following a review (OECD, 2026[35]). Several LAC countries adapted their SEZ design to bring their regimes into compliance with these standards (Heitmüller and Mosquera, 2021[36]). Limiting access to foreign investors or imposing export requirements is therefore not a viable alternative to sectoral targeting (and other eligibility criteria that apply to all firms, such as minimum investment amounts) as a means of ensuring that the ZEEP regime attracts genuinely additional investment.

The current ZEEP framework law does not limit access to foreign firms, include export requirements or restrictions on domestic sales. The regime is therefore not ring-fenced. The framework law also meets the other key criteria of the minimum standard, and the FHTP concluded at its November 2025 meeting that the design is "not harmful" under the BEPS Action 5 minimum standard (OECD, 2026[8]).[18] This means that the regime's ability to prevent non-additional investment from locating in the zones will rely on the strength of its sectoral targeting and other eligibility conditions that apply equally to all firms. If the sector targeting is too broad, domestic sectors could start locating most new investment in ZEEPs, even if this investment is not genuinely additional, which could threaten the domestic CIT base over time. If the eligible activities are defined narrowly enough so that only activities that are expected not to be developed under the standard tax system (either by domestic or international investors) qualify, the openness of the zone to domestic firms and domestic sales may be less likely to result in these risks for the domestic tax base. Strengthening the sectoral targeting along the lines discussed above could narrow the scope of eligible activities for both foreign and domestic firms without introducing ring-fencing or export requirements. Any concrete changes to the regime's design as well as any implementing regulations would need to be assessed to ensure continued alignment with the BEPS Action 5 minimum standard.

Investment thresholds and eligibility criteria can complement industry targeting

Besides industry targeting, strict minimum investment amounts are important to concentrate incentives on those firms that invest a significant amount of capital in the country. The minimum investment thresholds in ZEEPs, currently set at 1 500 UIT (approximately EUR 2 million) for operators and 2 000 UIT (approximately EUR 2.8 million) for users, are an important complement to the sector list.

These minimum amounts are not negligible, but the law allows them to be lowered in exceptional cases through a decree endorsed by the Finance and Foreign Trade ministers. Peru's experience with the import tariff drawback regime illustrates the risks of allowing the parameters of tax benefits to be modified by ministerial decree (see Chapter 3).[19] Allowing similar discretion in the ZEEP regime risks undermining the investment thresholds in practice, as they could be adjusted on an individual investor basis, and creating unequal treatment across investors. Fixing the minimum investment requirements in the law itself, rather than leaving them adjustable by decree, would provide more predictability for investors and reduce the risk of discretionary reductions that erode the required minimum investment in practice.

Other eligibility criteria could be considered to complement the investment thresholds and industry list, although this runs the risk of creating its own complexities and distortions. For example, no requirement on the number of jobs created is currently included in the eligibility criteria, as was also highlighted by Peru's Fiscal Council (Consejo Fiscal del Perú, 2025[27]). While additional criteria based on observable outcomes, such as employment or sustainability commitments, could be considered,[20] adding too many conditions comes with its own risks (OECD, 2026[2]). If the criteria are cumulative, there is a risk that the qualifying population of investors becomes too narrow to attract meaningful activity. If instead they are complementary, meaning a firm can qualify by meeting any one of the conditions, there is a risk that too many firms find a way to enter the zone, including from sectors outside the priority areas. Every additional requirement would have to be monitored, both when a firm enters the zone and over time, to verify that the firm actually carries out the promised activity. This means that these criteria need to be linked to indicators that can be observed (number of jobs, level of expenditure on training with a definition of what counts, etc.). Besides, every additional criterion based on observable outcomes would need to be carefully designed so it does not undermine other criteria (e.g., if a relatively low number of jobs would qualify a project for SEZ benefits). A simpler set of criteria, focused on a strict minimum investment threshold and a clearly defined list of eligible industrial activities, may be more effective and easier to enforce.

Tightening the targeting and eligibility criteria of the ZEEP regime could be combined with introducing expenditure-based tax incentives in the general CIT regime. Many of the challenges Peru faces, such as the lack and quality of infrastructure or the need to attract additional investment in sectors that are already present in the domestic economy, would ideally not be addressed through SEZ regimes. For these purposes, expenditure-based tax incentives such as investment tax credits or special deductions for salary costs, available to any firm that makes a qualifying investment in general economy (i.e., outside of SEZs), could be more appropriate instruments. These incentives have the advantage of being linked to the amount of investment or job creation, which means that the potential fiscal cost is proportional to the actual investment made in the country. These incentives can also receive more favourable treatment under the Global Minimum Tax (GMT).

Linkages and spillovers between ZEEPs and the domestic economy

Support activities such as cafeterias and restaurants can operate in ZEEPs without benefiting from the income tax reductions, but they currently still benefit from VAT and excise tax exemptions.[21] Allowing these support activities to establish operations within the zone can help create linkages with domestic firms and contribute to economic activity around ZEEP users, even without extending the CIT benefits to them. A similar treatment could be applied more broadly to suppliers of ZEEP firms, which could be allowed to locate within the zone to benefit from the proximity to ZEEP users without receiving access to the tax incentives. In that sense, extending the indirect tax exemptions to support activities and suppliers may be reconsidered: making them subject to the regular VAT and excise tax rules would allow these businesses to remain within the regular VAT chain and pay excise taxes, for example when SEZ workers purchase goods for final consumption. This is the treatment that applies in Uruguay, for instance.[22] A ZEEP user producing for export that purchases from domestic suppliers would then be able to recover the input

VAT through the regular VAT refund mechanism. More generally, the excise tax exemptions granted to ZEEPs could be reconsidered, especially where they conflict with health and environmental objectives.

More broadly, the VAT treatment in ZEEPs needs to ensure that local suppliers are not disadvantaged while at the same time making it possible to monitor the flows between the zones and the rest of the economy. Under the current design, goods and services supplied from abroad to ZEEP users are exempt from VAT while domestic purchases remain subject to VAT, the municipal promotion tax and excise taxes. If the ZEEP user is not a registered VAT taxpayer and cannot claim input VAT credits, the VAT paid on domestic purchases becomes a permanent cost, making these local inputs more expensive than the equivalent imports. One option would be for all ZEEP users to participate in the regular VAT chain, paying VAT both on imports and on purchases from domestic suppliers, and recovering the VAT upon export. This would not affect the final tax liability because exports are VAT zero-rated and imports into the domestic market are subject to VAT. To reduce the liquidity burden on ZEEP users, the actual remittance of the VAT could be suspended: the tax would be registered but the payment would only become due if the goods enter the domestic market rather than being exported. A similar approach could be followed for import duties. Such a mechanism would preserve the VAT audit trail, remove the current disadvantage for domestic suppliers relative to foreign ones, and ensure that goods that enter the regular economy are properly taxed.

It is not clear whether providing income-based tax incentives to the firm that operates a ZEEP, in addition to the firms investing in the zone, can be justified on the grounds that operators are expected to develop infrastructure. One rationale for the private operator model, and for extending tax benefits to zone operators, is that operators are responsible for developing and maintaining the zone's infrastructure. However, allowing operators to determine the location of zones is likely to result in zones being established in areas where infrastructure already exists and where competition with existing firms is strongest, for example close to the capital region. The decree published in April 2026 sets out additional criteria for determining whether a location qualifies for a ZEEP, which are likely to reinforce this pattern. These criteria prioritise areas with strong connectivity, access to energy, housing, health and education services, proximity to existing economic activity and the availability of skilled labour.[23] While such locations may be best suited to attract investment, this raises the question of whether there remains a sufficiently strong rationale for extending income-based incentives to operators.

Additional observations about the planned tourism development zones

It is not clear whether the planned special tourism development zones in Peru will generate benefits that exceed their costs. Law 32 392 established the possibility to create special tourism development zones (*Zonas Especiales de Desarrollo Turístico, ZEDT*), which provide tax incentives to investors in the tourism sector, including a 5-year CIT exemption and reduced CIT rates for 10 additional years. However, tourism is a sector where Peru has a comparative advantage and where significant activity already exists in the domestic economy (MINCETUR, 2026[37]; OECD, 2024[38]). The risk of diverting future investment into the zones, rather than attracting genuinely new activity, could therefore be higher than for sectors that are not yet present in Peru. Law 32 392 will require an amendment as per a letter sent by Peru's MEF to the Ministry of Tourism (see Chapter 3). This means there is an opportunity to improve the design, for example by ensuring the zones are limited to areas where there is currently little or no tourism activity to reduce the risk of crowding out existing operators. The eligibility criteria could also be narrowed to tourism activities that create significant "quality" investment and linkages with the local economy (OECD, 2018[39]).

Many of the structural barriers that can reduce the effectiveness of tax incentives in Peru more broadly apply equally in the tourism sector. Transportation infrastructure and connectivity remain limited in many regions and security concerns may discourage tourists from visiting the country (OECD, 2025[40]). Rather than (mis-)using the tax system, it would be more effective to tackle these tourism development hurdles at source. Furthermore, a large share of tourism activity is informal (INEI, 2025[41]).

A CIT exemption or lower rate would not be an effective incentive for informal operators, and a better enforcement of the standard tax system could be a precondition for these tax incentives to work. This would be aligned with the finding that the recent temporary VAT reduction for the tourism sector did not achieve its goals and resulted primarily in windfall gains for already formal operators (World Bank, 2025[42]).

Administration, monitoring and transparency

It would be important for the SUNAT and the MEF to remain closely involved in the administration and enforcement and monitoring of the rules that apply to ZEEP businesses. Businesses need to be required to submit sufficient information to allow effective compliance checks, which at the minimum would include annual financial statements. This is also relevant during the period in which the CIT rate is 0%, as the way a business operates in these years will have implications for future years, for example through loss carry-forward or the depreciation of their assets.[24] A key area for enforcement are the transactions between ZEEPs and domestic businesses, to ensure that goods entering the domestic economy are properly taxed under the VAT and applicable import charges and that ZEEPs are not used as a way to circumvent these obligations. Goods that enter the zone from abroad are foreseen to be exempt from VAT, customs duties and excise taxes as long as they remain within the zone. If these goods later exit the zone to the rest of Peru, the applicable VAT, excise taxes and import duties need to be paid, but enforcing this requirement in practice requires that the authorities can track what enters and exits the zone. Otherwise, there is a risk that goods imported tax-free into the zone end up in the domestic market without the applicable taxes being paid. There could also be a heightened risk of personal consumption through the firm in SEZ businesses as the incentives to do so are large (e.g., registering a car as a company car for a SEZ business if this means the car can be imported tax and tariff free).

As foreseen by the law, the ZEEP regime should be subject to regular analysis, and it is important to create transparency about its costs and benefits. It is good practice that the law requires the annual publication of statistics about who uses the zones (investment made, profits, revenues, number of workers employed, export statistics), and that this analysis is compiled by SUNAT and the MEF. The analysis would need to be complemented by an annual estimate of the revenue forgone (covering income tax incentives but, ideally, also other tax reductions and exemptions in ZEEPs) to be included in the tax expenditures (TE) report. Such estimates measure the static revenue forgone of the tax reductions, not accounting for the investment that would not have taken place without them. This is why it is important to include additional elements in the annual assessment so that readers can interpret the revenue forgone figure by evaluating whether the investment made is more likely to be additional or not. Over time, the analysis would also show whether firms in ZEEPs actually start paying CIT after they have surpassed the initial tax exemption period. When a specific ZEEP is established and parliament agrees to its creation, an analysis is required as per the ZEEP regulations (rationale, cost analysis) and this analysis would ideally be made public.

Box 6.1. Private Special Economic Zones (ZEEPs) introduced in 2025 in Peru

Legal basis and institutional framework

Law 32 449, approved by Congress on 16 April 2025 and published on 24 September 2025, establishes the framework for the creation of Private Special Economic Zones (Zonas Económicas Especiales Privadas, ZEEPs). Supreme Decree 005-2026-MINCETUR (SD), published in April 2026, provides further implementing regulations. Each future zone must be created by a separate law (approved by Congress with a two-thirds majority), following an assessment by Ministry of Foreign Trade and Tourism (MINCETUR), which is responsible for the authorisation, supervision, and regulation of the zones (Articles 8 and 12). The tax administration (SUNAT) oversees compliance with the tax and customs provisions (Article 13). The law declares the promotion of at least one ZEEP in each of Peru's 24 departments and the constitutional province of Callao to be of national interest (Sixth Final Supplementary Provision). No ZEEP has been created under the new framework law as of April 2026.

The precise design of the regime is still subject to some uncertainty and will be finalised through implementing regulations.

Private operators

Each ZEEP is managed by a private operator, a legal entity authorised by MINCETUR to promote, construct, administer, and maintain the zone's infrastructure and operations (Article 3.j). Operators may not have any economic link with users (i.e., businesses who invest and operate within the zone) and must commit to a minimum investment of 1 500 UIT (around EUR 2 million in 2026) within two years of signing the contract (Article 42 and Article 9.1.d.4). ZEEPs do not have a fixed end date (Article 10.1). A ZEEP must have a minimum size of 90 hectares, except in the Province of Callao, where smaller zones may be established subject to certain conditions (SD, Title III, Chapter II, Article 14)

Eligibility criteria

Users must be newly incorporated legal entities in Peru, or new branches, agencies, or permanent establishments of foreign companies (Article 3.o and Article 17). However, existing Peruvian entities can also become ZEEP users if they plan to carry out activities they have not engaged in previously in the domestic economy (Article 3.o). Users must make a minimum investment of 2 000 UIT within two years (around EUR 2.8 million in 2026). Upon endorsement from the Minister of Finance and Minister of Foreign Trade, the minimum investment amount can be modified for a specific user (Article 15.j).

Users must carry out their main income-generating activities within the zone, and the activity must account for at least 98% of total annual net income. In other words, only up to 2% of annual income can come from activities other than those for which the access to the zone was granted (Article 15.i). If the 2% threshold is exceeded, the income from auxiliary economic activities becomes subject to standard tax rules. The threshold can be modified upon the endorsement of the Minister of Finance and Minister of Foreign Trade. Businesses who are created by the same shareholders to replace a liquidated or dissolved business with the same activity (or as spin-offs or mergers of an existing firm in the zone) do not qualify for the tax benefits (Article 17). Users benefiting from the ZEEP regime may not simultaneously access other tax incentive regimes (Article 26).

Permitted and excluded activities

Permitted activities cover industrial, assembly, and support service activities that generate added value through the transformation of raw materials, subject to accreditation by MINCETUR and the relevant sectoral ministry (Article 4). The law explicitly excludes a range of activities from accessing the zone and its tax benefits. Users may not engage in mining, hydrocarbon extraction, or basic iron and steel production; banking, leasing and other financial services; arms and ammunition production or marketing; electricity generation; direct retail sales (within the zone) to end consumers; exploitation of intellectual property rights (Articles 5).

Annex 1 of Supreme Decree 005-2026-MINCETUR specifies additional excluded activities, such as the manufacturing of clothing or the processing of metals, but the decree empowers MINCETUR to modify the scope of these exclusions (Title I, Chapter II, Article 5.3-4).

An additional set of activities can enter the zone but would not qualify for the income tax benefits. This includes freights, logistics and warehousing; or fishing, harvesting and hunting. These activities remain eligible for the other tax benefits (and only the CIT incentive is not available), for example exemptions from VAT, excise taxes of import tariffs. Complementary activities are allowed within the ZEEP (e.g. cafeterias run by a separate user) and do not require a minimum investment. They benefit from the VAT and excise tax treatment under Article 23, but they are not eligible for income tax benefits. Logistics services may benefit from the income tax incentive (in addition to the other incentives) if their activities are supplementary to the core business activity (Article 21).

Tax benefits for users and operators

The core tax incentive is a reduced CIT rate schedule which applies for 25 years from the start of the operator's operations (Table 6.1). The timing of the benefit period for each user is determined by the date the operator begins operations, not the user's own start date (Article 14). However, another provision states preferential income tax rates apply from the year in which the full minimum investment is recorded in the Fixed Assets Registry (Article 9.1.e). This means that there is some uncertainty regarding the regime's final design.

Table 6.1. Corporate income tax rates in ZEEPs

Period	Rate
Years 1-5	0%
Years 6-10	7.5%
Years 11-15	10%
Years 16-20	12.5%
Years 21-25	15%

Note: The statutory rate in the regular economy is 29.5% in 2026.
Source: Law 32 449, Article 14.

Other tax benefits include:

- Users may apply accelerated depreciation of up to 25% annually on qualifying fixed assets, effective from the sixth year of the asset's life (Article 19). More clarity is needed about how this would be implemented in practice.

- Goods and services purchased from abroad by ZEEP users are not subject to VAT, excise taxes (ISC), or import duties while the goods remain in the zone (Articles 23.4, 28.1, 34.1.a). However, if foreign goods later exit the ZEEP to the rest of Peru, the applicable tariffs and import taxes need to be paid (Article 31.1).
- Transfers of goods and services between ZEEP users, carried out within the zone for permitted activities, are not subject to VAT or excise taxes (ISC) (Article 23.1).
- Services provided by domestic suppliers to ZEEP users are treated as exports for VAT purposes, allowing the supplier to claim VAT refunds (Article 23.3). Goods purchased from domestic suppliers are not exempt from VAT, excise taxes, or municipal taxes (Article 31.2).
- Domestic goods sold to ZEEP users are treated as exports for customs purposes from the supplier's perspective and require only an invoice, not a customs declaration (Article 34.1.b).
- This crates some uncertainty about the actual VAT regime that will apply in ZEEPs. For example, if goods purchased by firms in SEZs from the domestic economy remain subject to VAT (Article 31.2), it would be not consistent to treat them as exports (as specified in Article 34.

A dedicated customs regime governs the entry and exit of goods in ZEEPs (Article 28.1). Regulatory permits and authorizations normally required for restricted or prohibited goods do not apply within the ZEEP, except for sanitary, animal health, and phytosanitary controls (Article 29.3).

Monitoring, enforcement and transparency

MINCETUR can carry out periodic evaluations to verify compliance with investment, employment, and connectivity commitments (Article 10.1). If a user fails to meet any of the requirements for the income tax benefit, the benefit is lost for that taxable year and all subsequent years, with all income taxed at the standard tax rate (Article 15). SUNAT also has the power to revoke the special treatment in cases of non-compliance (Article 13). Infractions are classified as minor, serious, or very serious, with penalties ranging from fines to cancellation of authorization (Articles 52-55). The law includes a mandate for SUNAT to publish annually the list of beneficiaries, the total value of tax benefits claimed, investment made, and qualified employment generated (Article 60).

Source: Law 32 449, Supreme Decree 005-2026-MINCETUR.

References

AZFA (2025), “Doing Business Zonas Francas 2025”, https://amzn-s3-azfa-strapi.s3.us-east-1.amazonaws.com/Doing_Business_Zonas_Francas_2025_43d4c11ca7.pdf. [15]

AZFA (2024), “Mapa Estadístico de Zonas Francas de Iberoamérica 2024”, https://amzn-s3-azfa-strapi.s3.us-east-1.amazonaws.com/A_MAPA_2024_AZFA_TIRO_48x68cms_23_Diseno_Consolidado_FINAL_2_80bd4520cb.pdf. [16]

Celani, A., L. Dressler and M. Wermelinger (2022), “Building an Investment Tax Incentives database: Methodology and initial findings for 36 developing countries”, *OECD Working Papers on International Investment*, No. 2022/01, OECD Publishing, Paris, https://doi.org/10.1787/62e075a9-en. [31]

Chai, J. and R. Goyal (2008), “Tax Concessions and Foreign Direct Investment in the Eastern Caribbean Currency Union”, *IMF Working Papers*, No. 257, IMF, Washington, DC, https://www.imf.org/external/pubs/ft/wp/2008/wp08257.pdf (accessed on 8 March 2023). [22]

Chavez, J., A. Cusato and M. Pérez León (2019), “Cómo impacta el drawback en el desempeño exportador de las empresas peruanas”, *Revista de investigación economía&sociedad*, Vol. 94, pp. 44-53, https://cies.org.pe/wp-content/uploads/2019/04/como_impacta_el_drawback_en_el_desempeno_exportador_de_las_empresas_peruanas_1.pdf. [44]

CNZFE (2025), “Informe Estadístico 2024”, https://cnzfe.gob.do/wp-content/uploads/2025/08/Informe-Estadistico-2024.pdf. [11]

Consejo Fiscal del Perú (2025), “Comunicado del Consejo Fiscal sobre recientes iniciativas legislativas aprobadas por el Congreso de la República”, *Comunicado N° 02-2025-CF*, https://cf.gob.pe/wp-content/uploads/2025/04/Comunicado-02-InciativasLegislativas-vf.pdf. [27]

European Union Office in Peru (2022), “Invest in Peru - Infocard (based on data from PROINVERSION)”, https://trade.ec.europa.eu/access-to-markets/en/country-assets/pe_investment.pdf. [17]

FIAS/World Bank (2008), “Special Economic Zones: Performance, Lessons Learned, and Implications for Zone Development”, http://documents.worldbank.org/curated/en/343901468330977533. [32]

Frick, S. and A. Rodríguez-Pose (2021), “Special Economic Zones and Sourcing Linkages with the Local Economy: Reality or Pipedream?”, *The European Journal of Development Research*, Vol. 34/2, pp. 655-676, https://doi.org/10.1057/s41287-021-00374-4. [12]

Heitmüller, F. and I. Mosquera (2021), “Special Economic Zones Facing the Challenges of International Taxation: BEPS Action 5, EU Code of Conduct, and the Future”, *Journal of International Economic Law*, Vol. 24/2, pp. 473-490, https://doi.org/10.1093/jiel/jgab019. [36]

IMF (2022), “Peru: Technical Assistance Report-Tax Regime for Small Taxpayers and Special Economic Zones”, *IMF Staff Country Reports*, Vol. 2022/035, p. 1, https://doi.org/10.5089/9798400200533.002. [20]

IMF-OECD-UN-WB (2025), “The Platform for Collaboration on Tax: Tax Incentives Principles”, https://www.tax-platform.org/sites/pct/files/publications/Tax-Incentives-Principles.pdf (accessed on 24 May 2025). [4]

IMF-OECD-UN-WB (2015), “Background paper to the report prepared for the G-20 Development Working Group: Options for Low Income Countries’ Effective and Efficient Use of Tax Incentives for Investment”, https://www.tax-platform.org/sites/pct/files/publications/100756-Tax-incentives-Main-report-options-PUBLIC_0.pdf (accessed on 22 July 2022). [3]

INEI (2025), “Producción y empleo informal en el Perú - Cuenta Satélite de la Economía Informal 2022 - 2024”, https://www.gob.pe/institucion/inei/informes-publicaciones/7564428-produccion-y-empleo-informal-en-el-peru-cuenta-satelite-de-la-economia-informal-2022-2024. [41]

Jenkins, G. et al. (2025), *Systematic Review of Evidence on the Impact of Tax Incentives in Latin American and Caribbean Countries*, Inter-American Development Bank, https://doi.org/10.18235/0013797. [1]

Kimura, Y. (2025), “Zone-based policies as tools for regional development”, *OECD Regional Development Papers*, No. 170, OECD Publishing, Paris, https://doi.org/10.1787/4373e008-en. [43]

Klemm, A. (2010), “Causes, benefits, and risks of business tax incentives”, *International Tax and Public Finance*, Vol. 17/3, pp. 315-336, https://doi.org/10.1007/s10797-010-9135-y. [18]

Klemm, A. and S. Van Parys (2012), “Empirical evidence on the effects of tax incentives”, *International Tax and Public Finance*, Vol. 19/3, pp. 393-423, https://doi.org/10.1007/S10797-011-9194-8/METRICS. [21]

MEF (2025), “Implementar una ZEEP en Chancay creará un corredor logístico industrial capaz de atender a toda Sudamérica”, *Press release*, https://www.gob.pe/institucion/mef/noticias/1299546-mef-implementar-una-zeep-en-chancay-creara-un-corredor-logistico-industrial-capaz-de-atender-a-toda-sudamerica. [19]

MINCETUR (2026), “Perú: Barómetro de Turismo Receptivo y Emisivo - Año 2025”, https://www.gob.pe/institucion/mincetur/informes-publicaciones/7722034-peru-barometro-de-turismo-receptivo-y-emisivo-ano-2025. [37]

MINCETUR (2025), “Resolución Ministerial N.° 377-2025-MINCETUR - Exposición de Motivos”, https://cdn.www.gob.pe/uploads/document/file/9193769/7548113-anexos-rm-377-2025-mincetur.pdf?v=1766498103. [24]

Ministerio de Hacienda de Costa Rica (2025), “Estimación del Gasto Tributario 2023”, https://www.hacienda.go.cr/docs/GASTO_TRIBUTARIO_2023.pdf. [28]

Ministerio de Hacienda de la República Dominicana (2024), “Estimación del Gasto Tributario en República Dominicana 2024-2025”, https://dgii.gov.do/publicacionesOficiales/estudios/Documents/2025/Estimacion-del-Gasto-Tributario-2024-2025.pdf. [29]

OECD (2026), “A Practical Guide to Investment Tax Incentives”, https://doi.org/10.1787/427c66a9-en. [2]

OECD (2026), "BEPS Action 5: jurisdictions make further progress in addressing harmful tax practices and strengthening transparency", *OECD Announcement*, https://www.oecd.org/en/about/news/announcements/2026/02/beps-action-5-jurisdictions-make-further-progress-in-addressing-harmful-tax-practices-and-strengthening-transparency.html. [35]

OECD (2026), *Education and Skills in Peru*, Reviews of National Policies for Education, OECD Publishing, Paris, https://doi.org/10.1787/7d430d1b-en. [26]

OECD (2026), "Harmful Tax Practices - Peer Review Results - Update (as of February 2026)", https://www.oecd.org/content/dam/oecd/en/topics/policy-sub-issues/harmful-tax-practices/harmful-tax-practices-peer-review-results-on-preferential-regimes.pdf. [8]

OECD (2026), "Tax Challenges Arising from the Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two), Side-by-Side Package: Inclusive Framework on BEPS", https://www.oecd.org/content/dam/oecd/en/topics/policy-sub-issues/global-minimum-tax/side-by-side-package.pdf. [6]

OECD (2025), *OECD Economic Surveys: Costa Rica 2025*, OECD Publishing, Paris, https://doi.org/10.1787/048cf07b-en. [10]

OECD (2025), *OECD Economic Surveys: Peru 2025*, OECD Publishing, Paris, https://doi.org/10.1787/76f6eb73-en. [40]

OECD (2025), "OECD Investment Tax Incentives Database 2024 update: Corporate income tax incentives in emerging and developing economies", *OECD Business and Finance Policy Papers*, Vol. 79, https://doi.org/10.1787/b0de19dc-en. [7]

OECD (2024), *OECD Tourism Trends and Policies 2024*, OECD Publishing, Paris, https://doi.org/10.1787/80885d8b-en. [38]

OECD (2023), "Improving transparency of incentives for investment facilitation", *OECD Business and Finance Policy Papers*, No. 35, OECD, Paris, https://doi.org/10.1787/ab40a2f1-en. [14]

OECD (2022), *Tax Incentives and the Global Minimum Corporate Tax: Reconsidering Tax Incentives after the GloBE Rules*, OECD Publishing, Paris, https://doi.org/10.1787/25d30b96-en. [5]

OECD (2018), "Effective policy approaches for quality investment in tourism", *OECD Tourism Papers*, No. 2018/03, OECD Publishing, Paris, https://doi.org/10.1787/88ea780c-en. [39]

OECD (2015), *Countering Harmful Tax Practices More Effectively, Taking into Account Transparency and Substance, Action 5 - 2015 Final Report*, OECD/G20 Base Erosion and Profit Shifting Project, OECD Publishing, Paris, https://doi.org/10.1787/9789264241190-en. [34]

OECD (2010), *Tax Expenditures in OECD Countries*, OECD Publishing, Paris, https://doi.org/10.1787/9789264076907-en. [30]

OECD (2008), *OECD Investment Policy Reviews: Peru 2008*, OECD Investment Policy Reviews, OECD Publishing, Paris, https://doi.org/10.1787/9789264053755-en. [25]

OECD (1998), *Harmful Tax Competition: An Emerging Global Issue*, OECD Publishing, Paris, https://doi.org/10.1787/9789264162945-en. [33]

Orozco, J. et al. (2026), "Investment tax incentives in Latin America and the Caribbean: An analysis using effective tax rates", *OECD Taxation Working Papers*, No. 76, OECD Publishing, Paris, https://doi.org/10.1787/45b5f9a1-en. [9]

van Parys, S. and S. James (2010), "The effectiveness of tax incentives in attracting investment: panel data evidence from the CFA Franc zone", *International Tax and Public Finance*, Vol. 17/4, pp. 400-429, https://doi.org/10.1007/S10797-010-9140-1. [23]

World Bank (2025), "Peru Public Finance Review: Mobilizing Resources for Service Delivery and Growth", https://hdl.handle.net/10986/44070. [42]

World Bank (2017), "Special Economic Zones in the Dominican Republic: Policy Considerations for a More Competitive and Inclusive Sector", *Trade and Competitiveness Global Practice*, https://documents1.worldbank.org/curated/en/184001487332346268/pdf/112878-REVISED-PUBLIC-GVC-and-SEZ-in-DR-P152202-output-final-clean-new-title.pdf. [13]

Notes

[1] Lower CIT rates or CIT exemptions are referred to as income-based incentives because their tax benefit depends on profit, rather than the investment or expenditure made by a firm.

[2] These countries include Argentina, Brazil, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Paraguay, Peru and Uruguay.

[3] SEZs are common in other OECD countries as well but tend to serve different purposes. In OECD countries outside the LAC region, they often function as logistics hubs, rather than as tools for building new manufacturing capacity, although some countries such as Korea and Japan have established specialised zones targeting high-technology sectors, while others (such as *Enterprise Zones* in the UK) use SEZs to revitalise regions (Kimura, 2025[43]).

[4] See, for example, Supreme Decree 005-2019-MINCETUR, which refers to Legislative Decree 842, declaring "the development of the southern region of the country to be a matter of priority interest through the promotion of private investment in productive and service activity infrastructure, and for this purpose established the Export, Processing, Industry, Marketing and Services Centers (CETICOS) of Tacna, Ilo and Matarani".

[5] Three zones are referred to as Special Development Zones (ZEDs). They include the ZEDs Paita, Matarani, and Ilo. Besides, there is the Free Trade Zone and Commercial Zone of Tacna (Zofratacna).

[6] Law 32 449. ZEEP stands for *Zonas Económicas Especiales Privadas* or *Private Special Economic Zones*. The creation of each new zone will have to be validated by Congress with a two-thirds majority.

[7] According to the current version of the law, the tax reduction period would start from the date the zone starts to operate, rather than the date when a specific firm makes its investment in the zone.

[8] Supreme Decree 005-2026-MINCETUR, Article 14.2.

[9] Yet another article in the law stipulates that the tax benefit period would start when the qualifying investment has been recorded in the national fixed assets registry, which would suggest that the tax benefit starts when a particular user has made the investment.

[10] Norm VII in the ”Título Preliminar” of Peru’s Tax Code, modified by Legislative Decree 1 521.

[11] Law 32 449 and Supreme Decree 005-2026-MINCETUR.

[12] In this chapter, additional investment (or additionality) is defined as investment that would not have occurred in the absence of the SEZ regime, even under a reformed standard tax system. This means that if the SEZ regime attracts investment that could have been brought into Peru's standard economy under a reformed CIT (along the lines of the recommendations made in this report), the investment would not be considered additional.

[13] In other countries, the measured revenue forgone from SEZs can be lower because companies benefit from these incentives *on top* of other tax incentives or because the benchmark that is chosen to calculate revenue forgone is not the general regime but another special regime that is more widely available (e.g., trading companies in Uruguay).

[14] An additional list of activities is excluded from SEZ treatment through a decree law published in April 2026 (Supreme Decree 005-2026-MINCETUR). The list excludes, for example, the production of clothing or the processing of metals, but the list can be modified at any time, according to Chapter II, Articles 5.3-5.4 in the Decree.

[15] Article 4 in Law 32 499 defines broadly what type of activities are permitted, but it does not include a detailed list of sectors (e.g., which type of manufacturing would be permitted).

[16] Among the 70 emerging and developing countries analysed in the *OECD Investment Tax Incentives Database*, 96% have in place at least one tax incentive that applies to a specific economic sector (OECD, 2025[7]).

[17] This could affect, for example, the domestic logistics sector or firms specialised in importing goods from abroad and re-selling them to the domestic market.

[18] As certain implementing regulations concerning the ZEEP regime have not yet been issued, these regulations will have to ensure that the regime’s final design remains in compliance with the BEPS Action 5 standard.

[19] The drawback rate was adjusted repeatedly over the last two decades and evaluations have found that the benefits were concentrated among a small number of large firms (Chavez, Cusato and Pérez León, 2019[44]).

[20] According to the 2024 update to the *OECD Investment Tax Incentives Database*, 58% of all tax incentives across 70 countries combine multiple eligibility conditions (OECD, 2025[7])

[21] Law 32 449, Article 6.

[22] Decree 309/018, Article 56.

[23] Supreme Decree 005-2026-MINCETUR, Annex 2.

[24] If firms accumulate tax losses during the 0% period, they could carry these losses forward to offset income in years when the rate increases. This also implies that transfer pricing rules need to be enforced during the 0% tax period so that firms do not accumulate excessive losses through transfer mispricing.

Annex A. Empirical evidence on tax incentives

Most developing countries use tax incentives (OECD, 2025[1]), but the evidence on their effectiveness and efficiency as a policy tool is mixed and depends on country context and the type of incentive used (OECD, 2026[2]).[1] A recent literature review concludes that roughly 50% of econometric analysis finds no impact of investment tax incentives on the targeted investment, and an additional 30% find that positive impacts do not outweigh the costs, such as those in terms of tax revenue forgone (Jenkins et al., 2025[3]). At the same time, tax incentives effectively stimulated economic activity in some countries (Jenkins et al., 2025[3]).

Income-based tax incentives

Income-based tax incentives, including measures that tax profits at a zero rate for a number of years, remain the most widely used CIT incentive across many low- and middle-income economies (OECD, 2025[1]).

- There is evidence that income-based incentives do not increase investment in jurisdictions with otherwise weaker investment climates (Klemm and Van Parys, 2012[4]; Chai and Goyal, 2008[5]; van Parys and James, 2010[6]).
- Investor surveys consistently show that tax holidays and similar measures rank low on investors' priority factors for selecting an investment location and can change investment decisions only if the overall investment climate is already attractive (Andersen, Kett and von Uexkull, 2017[7]; Ghazanchyan, Klemm and Zhou, 2018[8]; Kinda, 2014[9]) (James, 2013[10]).
- Compared to other types of tax incentives, income-based incentives are more likely to benefit investment that would have occurred even in the absence of the tax incentive, i.e., investment that is not truly additional (CIAT/UN-DESA, 2018[11]). Income-based tax incentives are not well suited to support increases in additional investment particularly where investment is risky (González Cabral et al., 2023[12]). In general, income-based incentives tend to disproportionately benefit investors and projects that are already profitable.
- Income-based tax incentives can pose particular risks when used for natural resources where investors would likely invest without the incentive (James, 2013[10]).
- Income-based tax incentives can crowd out domestic investment (Klemm, 2009[13]; Botman, Klemm and Baqir, 2008[14]). They can also result in a reallocation of investment across jurisdictions and sectors rather than in an increase in overall investment (Knoll et al., 2021[15]).
- Income-based incentives can potentially exacerbate profit-shifting, in particular if they include weak substance requirements (Ghazanchyan, Klemm and Zhou, 2018[8]; Pecho et al., 2024[16]; Zee, Stotsky and Ley, 2002[17]; IMF, 2021[18]).
- Tax holidays and other income-based tax incentives can be more affected than expenditure-based incentives by international agreements, such as the Global Minimum Tax (OECD, 2026[19]). This in turn can reduce the effectiveness of income-based tax incentives for certain investors and may motivate a shift towards other instruments (OECD, 2022[20]).
- Income-based tax incentives may be easier to administer than certain expenditure-based incentives, such as accelerated tax depreciation (Andersen, Kett and von Uexkull, 2017[7]).

- There is evidence that special economic zones (SEZs), which tend to include income-based tax incentives, had a positive impact on economic outcomes in some countries. For example, local GDP, investment and employment increased in China (Alder, Shao and Zilibotti, 2016[21]; Wang, 2013[22]) and positive effects have also been identified in India (Chaurey, 2017[23]) or Vietnam (Tafese, Lay and Tran, 2025[24]). A key limitation of these studies is that SEZs rarely provide tax incentives in isolation and typically come with a package of complementary measures, such as providing market access or property rights (Abramovsky et al., 2026[25]), which makes it difficult to isolate the effect of the tax incentive. The country contexts where positive outcomes have been identified also contrast with a large number of other examples where SEZs have been unable to produce the intended benefits (Farole, 2011[26]; Rothenberg, Wang and Chari, 2025[27]).

Expenditure-based tax incentives

Expenditure-based tax incentives, including accelerated tax depreciation allowances, other tax allowances and credits, provide tax relief in relation to capital investment (e.g. investment in machinery) or current expenses (e.g. for training).

- Expenditure-based tax incentives can offer greater value for money than income-based incentives, if properly designed. There is evidence that expenditure-based incentives can be associated with increases in investment, employment, and productivity in the empirical literature (OECD, 2024[28]; IMF-OECD-UN-WB, 2025[29]; Jenkins et al., 2025[3]).
- Studies in high-income countries have found expenditure-based tax incentives to be effective at promoting additional investment (House and Shapiro, 2008[30]; Zwick and Mahon, 2017[31]; Rodgers and Hambur, 2018[32]; Maffini, Xing and Devereux, 2019[33]; Ohrn, 2019[34]; Guceri and Liu, 2017[35]; Hall, 2019[36]; OECD, 2023[37]). Expenditure-based tax incentives have led to sizable increases in tourism employment in Brazil (Garsous et al., 2017[38]) and on firms' rate of investment in Uruguay (Llambí et al., 2018[39]).
- There is strong evidence that tax credits for investment in R&D have been effective at generating additional investment, including for firms making first-time R&D investments (Appelt et al., 2025[40]).
- There is evidence that accelerated tax depreciation allowances supported employment in the United States (Garrett, Ohrn and Suárez Serrato, 2020[41]; Curtis et al., 2021[42]). Curtis et al. (2021[42]) found accelerated tax depreciation allowances led to growth in investment and employment in manufacturing, but not wage or productivity growth. Loss-making firms, or investments with delayed returns, are also less likely to respond to accelerated tax depreciation allowances (Knittel, 2007[43]; Klemm, 2009[13]), although the impact could depend on loss carry-over provisions.
- Expenditure-based incentives can reduce the cost of capital and can also improve firm cashflow. Cashflow relief can be particularly beneficial for firms with financing constraints, if they have taxable income, by lowering the financing required to undertake the investment (Rodgers and Hambur, 2018[32]).

Evidence on other tax design choices

Aside from the instrument choice (e.g., whether to use income or expenditure-based tax incentives), countries have to make choices regarding the targeting, generosity and other limiting parameters of the tax incentive (OECD, 2026[2]). Together, these influence the effectiveness and efficiency of the measure.[2]

- Evidence suggests that firm responses can be more or less sensitive to changes in the CIT depending on age, sector, investment financing structure, liquidity constraints, market power, tax planning possibilities, and profitability (Hanappi, Millot and Turban, 2023[44]).

- Many countries combine income-based tax incentives with specific eligibility conditions to induce a certain behaviour (OECD, 2025[1]). These "outcome" conditions can require companies to achieve specific performance results to qualify for or maintain eligibility for a tax incentive, such as the creation of a minimum number of new jobs. This can improve the link between income-based tax incentives and firms' expenditures. Very narrow targeting can introduce complexity for investors, especially smaller investors, which can deter the investment sought (Cui, Hicks and Xing, 2022[45]).
- Unclear eligibility conditions can create room for firms to bargain with the government, generate perception of unfairness or corruption and give rise to disputes over eligibility (OECD, 2023[46]). For example, some countries grant incentives based on loosely defined or non-quantifiable performance criteria, such as projects that have a "high impact on economic growth" (OECD, 2023[47]) (OECD, 2025[1]).
- The length of the benefit can depend on the policy objective. According to data collected for 70 economies, more than 40% of temporary reduced rates (out of 58 temporarily reduced rates) and around one-third of temporary exemptions (out of 220 temporary CIT exemptions) apply for 10 years or more (OECD, 2025[1]). Where incentives are specifically designed to be counter-cyclical, temporary tax incentives can encourage investors to act quickly to enjoy the benefit (Wen, 2020[48]; US Department of the Treasury, 2010[49]).
- Tax incentives also need to be designed to limit unintended side-effects, which could include economic distortions, including for competition and beyond. For example, incentivising the use a particular type of skilled worker or technology might increase their wage or price, which could reduce the effectiveness of the tax incentive and possibly result in significant distributional effects (IMF-OECD-UN-WB, 2025[29]).
- Political economy dynamics can result in a setup where ineffective or inefficient tax incentives are kept in place once they have been implemented (Ghazanchyan, Klemm and Zhou, 2018[8]).

Conclusions for tax policy

In light of this and other empirical evidence, the Platform for Collaboration on Tax (PCT) has set out a number of principles to guide the design of tax incentives (IMF-OECD-UN-WB, 2025[29]).

- In general terms, tax incentives can be justified only where the activity they promote generates benefits to society beyond the private gain of the recipients (IMF-OECD-UN-WB, 2025[29]).
- Income-based incentives, including reduced tax rates and tax holidays, are especially vulnerable to the risk of forgoing substantial revenue while providing incentives that are not sufficiently targeted to the desired outcomes. For this reason, it has long been recommended that countries consider whether expenditure-based instruments, such as accelerated tax depreciation or investment tax credits, can achieve the same objective more efficiently (OECD, 2026[2]) (IMF-OECD-UN-World Bank, 2015[50]).
- Where expenditure-based tax incentives are not feasible, the risks attached to income-based tax incentives can be reduced through the specific design choices. This includes limiting length of benefits, reducing generosity or eligible investors, linking to economic substance, and targeting through clear and transparent eligibility criteria (OECD, 2023[46]) with little discretion.
- The close involvement of the Ministry of Finance in the design and monitoring of the regime is generally recommended (IMF, 2024[51])
- Tax incentives are sometimes used in an attempt to substitute for reforming the standard tax regime (Perret and Brys, 2015[52]), but they cannot compensate for deficiencies in the general tax system or the broader investment climate on their own, and will only be effective where those underlying issues are also addressed (James, 2013[10]).

References

Abramovsky, L. et al. (2026), *Are corporate tax incentives for investment fit for purpose? Revisiting economic principles and evidence from low- and middle-income countries*, The IFS, https://doi.org/10.1920/re.ifs.2018.0142. [25]

Alder, S., L. Shao and F. Zilibotti (2016), "Economic reforms and industrial policy in a panel of Chinese cities", *Journal of Economic Growth*, Vol. 21/4, pp. 305-349, https://doi.org/10.1007/s10887-016-9131-x. [21]

Andersen, M., B. Kett and E. von Uexkull (2017), "Corporate tax incentives and FDI in developing countries", in *2017/2018 Global Investment Competitiveness Report: Foreign Investor Perspectives and Policy Implications*, World Bank Group. [7]

Appelt, S. et al. (2025), "How effective are R&D tax incentives? Reconciling micro and macro evidence", *CEP Discussion Papers*, https://ideas.repec.org/p/cep/cepdps/dp2071.html (accessed on 5 February 2025). [40]

Botman, D., A. Klemm and R. Baqir (2008), "Investment Incentives and Effective Tax Rates in the Philippines: A Comparison With Neighboring Countries", *IMF Working Papers*, No. 207, IMF, Washington, DC, https://www.imf.org/external/pubs/ft/wp/2008/wp08207.pdf (accessed on 7 January 2025). [14]

Chai, J. and R. Goyal (2008), "Tax Concessions and Foreign Direct Investment in the Eastern Caribbean Currency Union", *IMF Working Papers*, No. 257, IMF, Washington, DC, https://www.imf.org/external/pubs/ft/wp/2008/wp08257.pdf (accessed on 8 March 2023). [5]

Chaurey, R. (2017), "Location-based tax incentives: Evidence from India", *Journal of Public Economics*, Vol. 156, pp. 101-120, https://doi.org/10.1016/j.jpubeco.2016.08.013. [23]

CIAT/UN-DESA (2018), *Diseño y evaluación de los incentivos tributarios en países en desarrollo: Temas seleccionados y un estudio país*, Inter-American Center of Tax Administrations / United Nations Department of Economic and Social Affairs. [11]

Cui, W., J. Hicks and J. Xing (2022), "Cash on the table? Imperfect take-up of tax incentives and firm investment behavior", *Journal of Public Economics*, Vol. 208, https://doi.org/10.1016/J.JPUBECO.2022.104632 (accessed on 18 October 2024). [45]

Curtis, E. et al. (2021), *Capital Investment and Labor Demand*, National Bureau of Economic Research, Cambridge, MA, https://doi.org/10.3386/w29485. [42]

Farole, T. (2011), *Special Economic Zones in Africa*, World Bank, https://doi.org/10.1596/978-0-8213-8638-5. [26]

Garrett, D., E. Ohrn and J. Suárez Serrato (2020), "Tax Policy and Local Labor Market Behavior", *American Economic Review: Insights*, Vol. 2/1, pp. 83-100, https://doi.org/10.1257/aeri.20190041. [41]

Garsous, G. et al. (2017), "Tax Incentives and Job Creation in the Tourism Sector of Brazil's SUDENE Area", *World Development*, Vol. 96, pp. 87-101. [38]

Ghazanchyan, M., A. Klemm and Y. Zhou (2018), "Tax Incentives in Cambodia", *IMF Working Papers*, Vol. 2018/071, https://doi.org/10.5089/9781484347522.001.A001. [8]

González Cabral, A. et al. (2023), "Effective tax rates for R&D intangibles", *OECD Taxation Working Papers*, No. 63, OECD Publishing, Paris, https://doi.org/10.1787/191dad43-en. [12]

Guceri, I. and L. Liu (2017), "Effectiveness of Fiscal Incentives for R&D: Quasi-Experimental Evidence", *IMF Working Papers*, Vol. 17/84, p. 1, https://doi.org/10.5089/9781475591170.001. [35]

Hall, B. (2019), *Tax Policy for Innovation*, National Bureau of Economic Research, Cambridge, MA, https://doi.org/10.3386/w25773. [36]

Hanappi, T., V. Millot and S. Turban (2023), "How does corporate taxation affect business investment?: Evidence from aggregate and firm-level data", *OECD Economics Department Working Papers*, No. 1765, OECD Publishing, Paris, https://doi.org/10.1787/04e682d7-en. [44]

House, C. and M. Shapiro (2008), "Temporary Investment Tax Incentives: Theory with Evidence from Bonus Depreciation", *American Economic Review*, Vol. 98/3, pp. 737-768, https://doi.org/10.1257/aer.98.3.737. [30]

IMF (2024), "Managing Tax Incentives in Developing Countries", *IMF Technical Notes and Manuals 2024/07*, https://www.imf.org/-/media/files/publications/tnm/2024/english/tnmea2024007.pdf. [51]

IMF (2021), "Tax Avoidance in Sub-Saharan Africa's Mining Sector", *Departmental Paper*, No. 2021/022, IMF, Washington, DC, https://www.imf.org/en/Publications/Departmental-Papers-Policy- Papers/Issues/2021/09/27/Tax-Avoidance-in-Sub-Saharan-Africas-Mining-Sector-464850 (accessed on 14 November 2024). [18]

IMF-OECD-UN-WB (2025), *Tax Incentive Principles*, https://www.tax-platform.org/sites/default/files/publications/Tax-Incentives-Principles.pdf. [29]

IMF-OECD-UN-World Bank (2015), *Options for Low Income Countries' Effective and Efficient Use of Tax Incentives for Investment*, A report prepared for the G-20 Development Working Group by the IMF, OECD, UN and World Bank., https://www.oecd.org/tax/options-for-low-income-countries-effective-and-efficient-use-of-tax-incentives-for-investment.htm. [50]

James, S. (2013), "Effectiveness of Tax and Non-Tax Incentives and Investments: Evidence and Policy Implications", *SSRN Electronic Journal*, http://dx.doi.org/10.2139/ssrn.2401905. [10]

Jenkins, G. et al. (2025), *Systematic Review of Evidence on the Impact of Tax Incentives in Latin American and Caribbean Countries*, Inter-American Development Bank, https://doi.org/10.18235/0013797. [3]

Kinda, T. (2014), *The Quest for Non-Resource-Based FDI: Do Taxes Matter?*, International Monetary Fund. [9]

Klemm, A. (2009), "Causes, Benefits, and Risks of Business Tax Incentives", *IMF Working Paper*, No. 2009/021, IMF, Washington, DC, https://www.imf.org/en/Publications/WP/Issues/2016/12/31/Causes-Benefits-and-Risks-of-Business-Tax-Incentives-22628 (accessed on 1 March 2023). [13]

Klemm, A. and S. Van Parys (2012), "Empirical evidence on the effects of tax incentives", *International Tax and Public Finance*, Vol. 19/3, pp. 393-423, https://doi.org/10.1007/S10797-011-9194-8/METRICS. [4]

Knittel, M. (2007), "Corporate response to accelerated tax depreciation: bonus depreciation for tax years 2002–2004", *OTA Working Paper*, No. 98, Office of Tax Analysis, US Department of Treasury, https://home.treasury.gov/system/files/131/WP-98.pdf (accessed on 24 October 2024). [43]

Knoll, B. et al. (2021), "Cross-border effects of R&D tax incentives", *Research Policy*, Vol. 50/9, p. 104326, https://doi.org/10.1016/j.respol.2021.104326. [15]

Llambí, C. et al. (2018), "Are Tax Credits Effective in Developing Countries? The Recent Uruguayan Experience", *Economía*, Vol. 18/2, pp. 25-58, https://doi.org/10.31389/eco.58. [39]

Maffini, G., J. Xing and M. Devereux (2019), "The Impact of Investment Incentives: Evidence from UK Corporation Tax Returns", *American Economic Journal: Economic Policy*, Vol. 11/3, pp. 361-389, https://doi.org/10.1257/pol.20170254. [33]

OECD (2026), *A Practical Guide to Investment Tax Incentives*, OECD Publishing, Paris, https://doi.org/10.1787/427c66a9-en. [2]

OECD (2026), *Tax Challenges Arising from the Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two), Side-by-Side Package: Inclusive Framework on BEPS*, OECD, Paris, https://www.oecd.org/content/dam/oecd/en/topics/policy-sub-issues/global-minimum-tax/side-by-side-package.pdf. [19]

OECD (2025), "OECD Investment Tax Incentives Database 2024 update: Corporate income tax incentives in emerging and developing economies", *OECD Business and Finance Policy Papers*, No. 79, OECD Publishing, Paris, https://doi.org/10.1787/b0de19dc-en. [1]

OECD (2024), *The Role of Incentives in Investment Promotion: Trends and Practices in OECD Member Countries*, OECD Publishing, Paris, https://doi.org/10.1787/e3338264-en. [28]

OECD (2023), "Improving transparency of incentives for investment facilitation", *OECD Business and Finance Policy Papers*, No. 35, OECD Publishing, Paris, https://doi.org/10.1787/ab40a2f1-en. [47]

OECD (2023), "Improving transparency of incentives for investment facilitation", *OECD Business and Finance Policy Papers*, No. 35, OECD Publishing, Paris, https://doi.org/10.1787/ab40a2f1-en. [46]

OECD (2023), "The Impact of R&D tax incentives: Results from the OECD microBeRD+ project", *OECD Science, Technology and Industry Policy Papers*, No. 159, OECD Publishing, Paris, https://doi.org/10.1787/1937ac6b-en. [37]

OECD (2022), *Tax Incentives and the Global Minimum Corporate Tax: Reconsidering Tax Incentives after the GloBE Rules*, OECD Publishing, Paris, https://doi.org/10.1787/25d30b96-en. [20]

Ohrn, E. (2019), "The effect of tax incentives on U.S. manufacturing: Evidence from state accelerated depreciation policies", *Journal of Public Economics*, Vol. 180, p. 104084, https://doi.org/10.1016/j.jpubeco.2019.104084. [34]

Pecho, M. et al. (2024), "Managing Tax Incentives in Developing Countries", *IMF Technical Notes and Manuals*, Vol. 2024/007, https://doi.org/10.5089/9798400289590.005.A001. [16]

Perret, S. and B. Brys (2015), "Taxation and Investment in Colombia", *OECD Economics Department Working Papers*, No. 1204, OECD Publishing, Paris, https://doi.org/10.1787/5js1pz3d0j8r-en. [52]

Rodgers, D. and J. Hambur (2018), "The GFC Investment Tax Break", *RBA Research Discussion Papers*, No. 07, Reserve Bank of Australia, https://ideas.repec.org/p/rba/rbardp/rdp2018-07.html (accessed on 23 October 2024). [32]

Rothenberg, A., Y. Wang and A. Chari (2025), "When regional policies fail: An evaluation of Indonesia's Integrated Economic Development Zones", *Journal of Development Economics*, Vol. 176, p. 103503, https://doi.org/10.1016/j.jdeveco.2025.103503. [27]

Tafese, T., J. Lay and V. Tran (2025), "From fields to factories: Special economic zones, foreign direct investment, and labour markets in Vietnam", *Journal of Development Economics*, Vol. 174, p. 103467, https://doi.org/10.1016/j.jdeveco.2025.103467. [24]

US Department of the Treasury (2010), *The Case for Temporary 100 Percent Expensing: Encouraging Business to Expand Now By Lowering the Cost of Investment*, US Department of the Treasury Office of Tax Policy, Washington, DC, https://home.treasury.gov/system/files/131/Report-Temporary-100percent-Expensing-2010.pdf (accessed on 1 March 2023). [49]

van Parys, S. and S. James (2010), "The effectiveness of tax incentives in attracting investment: panel data evidence from the CFA Franc zone", *International Tax and Public Finance*, Vol. 17/4, pp. 400-429, https://doi.org/10.1007/S10797-010-9140-1. [6]

Wang, J. (2013), "The economic impact of Special Economic Zones: Evidence from Chinese municipalities", *Journal of Development Economics*, Vol. 101, pp. 133-147, https://doi.org/10.1016/j.jdeveco.2012.10.009. [22]

Wen, J. (2020), *IMF Fiscal Affairs Special Series on COVID-19: Temporary Investment Incentives*, IMF, Washington, DC, https://www.imf.org/en/Publications/SPROLLs/covid19-special-notes (accessed on 1 March 2023). [48]

Zee, H., J. Stotsky and E. Ley (2002), "Tax Incentives for Business Investment: A Primer for Policy Makers in Developing Countries", *World Development*, Vol. 30/9, pp. 1497-1516, https://doi.org/10.1016/S0305-750X(02)00050-5. [17]

Zwick, E. and J. Mahon (2017), "Tax Policy and Heterogeneous Investment Behavior", *American Economic Review*, Vol. 107/1, pp. 217-48, https://www.aeaweb.org/articles?id=10.1257/aer.20140855 (accessed on 18 October 2024). [31]

Notes

[1] This section draws on *A Practical Guide to Investment Tax Incentives* (OECD, 2026[2]), which provides more details on some of the literature and findings mentioned.

[2] Effectiveness refers to whether tax incentives achieve intended objectives. Efficiency refers to whether objectives are reached at low social costs, including revenue losses for government (IMF-OECD-UN-World Bank, 2015[50]).

OECD Tax Policy Reviews: Peru 2026

This report examines the key challenges facing Peru's tax system and presents options for reform. It highlights the need to gradually raise Peru's low tax-to-GDP ratio, which has not increased sustainably despite years of economic growth even as expenditure requirements and fiscal pressures continue to grow. The report outlines how to strengthen public revenues by addressing persistently high levels of informality and non-compliance, while broadening the tax base, including through the rationalisation of tax expenditures. It also identifies opportunities to improve tax design and proposes targeted increases in selected taxes.

Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Confederation

Federal Department of Economic Affairs,
Education and Research EAER
State Secretariat for Economic Affairs SECO

PRINT ISBN 978-92-64-51520-8
PDF ISBN 978-92-64-71482-3