



# Doing Business

A guide for Central America  
and the Dominican Republic

2026





## Preface

**Welcome to the edition 2026 of the Doing Business Guide for Central America and the Dominican Republic, an annual publication prepared by PwC Interamericas. The purpose of this publication is to provide the investors a high-level overview of Central America and the Dominican Republic.**

Certainly, like every country, there are challenges, many of which are being addressed as the Government seeks to simplify regulatory framework, market-friendly policies, and improve the overall ease of doing business.

This guide only provides an overview of existing opportunities. Credible advice is at the heart of decision-making, so this information should lead to a

more detailed and personalized analysis of the local markets, economic environment, political climate and legislative processes that suit your type of investment. If you need more information, the PwC Interamericas team will be delighted to assist you on an individual basis and walk with you on this journey to explore the opportunities for investments in this territory.

# Costa Rica

In many ways, the culture of Costa Rica reflects its ethnic diversity with a predominant European and North American influence, along with some Creole and indigenous affinity traits.



Costa Rica was discovered by the Spanish around the year 1502 and subsequently became part of the Spanish Empire.

In 1821, Costa Rica gained independence from Spain, and after some attempts to join the rest of Central America in a union called the “Central American Federation,” it declared itself a sovereign and independent republic under the leadership of the first president, José María Castro Madriz, in 1848.

Costa Rica is located in Central America, bordered on the north by Nicaragua, on the south by Panama, on the east by the Caribbean Sea, and on the west by the Pacific Ocean.

# Why invest in Costa Rica?

## **The Government's attitude toward foreign investment:**

According to the National Development Plan of the Ministry of National Planning and Economic Policy for the period 2019-2022, Costa Rica aims to attract US \$10.5 billion in direct foreign investment. Foreign investment in Costa Rica is growing more and more due to various factors. Among these, Costa Rica stands out as the country with the oldest and one of the most robust democracies in Latin America, providing strong political stability. Another important aspect that makes the country attractive is its high educational levels. Many multinational companies investing in the country seek a young, bilingual, and talented workforce.

The country has signed free trade agreements with various countries, including Mexico, Canada, Chile, the Dominican Republic, Trinidad and Tobago, Panama, Caribbean countries, China, etc. Additionally, Costa Rica has signed Double Taxation Avoidance Treaties; currently, there are four treaties signed with Spain, Germany, Mexico, and the United Arab Emirates.

Costa Rica became a member of the Organization for Economic Cooperation and Development (OECD) in 2021, becoming the fourth country in the Latin America and Caribbean region to join the OECD. To become an OECD member, Costa Rica had to undergo

various processes to be invited to join the organization. Once a member, the country has been required to meet the highest demanding global standards. This enhances confidence among both domestic and international investors.

## **Free Trade Zone:**

The free trade zone program offers a series of incentives and benefits granted by the Costa Rican government to companies making new investments in the country. This program allows these companies to enjoy attractive tax exemptions on income tax, value-added tax (VAT), taxes on remittances abroad, export and import duties,, etc. To qualify under the Free Trade Zone (FTZ) Program, the applicant must meet various requirements stipulated in the Free Trade Zone Program Law and its regulations.

## **Digital Nomads:**

For individuals providing services outside of Costa Rica, it is also attractive to come and work in Costa Rica. In 2021, Costa Rica enacted Law No. 10008, the "Law to Attract Workers and Remote Providers of International Character Services" or the Digital Nomads Law. As the name suggests, it aims to position Costa Rica as a country for foreign investment. Some of the benefits offered by this law are:

## **Exemption from profit tax.**

- Immigration benefit for up to one year, extendable for an additional year.
- Duty-free import of any equipment necessary for work.
- The driver's license issued in the applicant's home country will be valid in Costa Rica.

To be considered a digital nomad in Costa Rica, the requirements are minimal:

- Be a foreigner coming to work in Costa Rica.
- Demonstrate income exceeding \$3,000 per month, and if traveling with family, a minimum of \$4,000.
- Obtain a health services policy that covers the applicant for the entire duration of the applicant's stay in the country. All family members must also be covered.
- Make a one-time payment for the issuance of a non- resident visa as a Worker or Remote Service Provider.

# Content



**06**

**Overview Of The Country**



**08**

**Political And Legal System**



**09**

**The Economy**



**10**

**Doing Business In Costa Rica**



**13**

**Banking System**



**14**

**Labor And Social Security**



**17**

**Accounting And Audit Requirements  
And Practices**



**18**

**Tax System**

# Overview of the country



## Climate

Costa Rica, due to its geographical location, has a tropical climate that is pleasant and relatively stable, with its main changes being a rainy season and a dry season. It has an average temperature of 22°C, which increases considerably in coastal areas. In San Jose (the capital city), temperatures range from 14°C to 24°C in December and from 17°C to 27°C in May. The Caribbean coast has an average of 21°C at night and around 30°C during the day. The Pacific coast is hotter than the Caribbean, although less humid.

### Population, form of government, language, currency:

<b>Area</b>	51,100 km <sup>2</sup>
<b>Population (*)</b>	5,044,197 millones (al 19-6-23)
<b>Population growth</b>	1,04% (2023)
<b>Political system</b>	Democratic Republic
<b>Form of government</b>	Republican system with 3 independent branches (legislative, executive and judicial)
<b>Language</b>	Spanish
<b>Currency</b>	Colon (¢)
<b>Administrative division</b>	7 provinces
<b>Religion</b>	Roman Catholic
<b>Capital city</b>	San José
<b>Religion</b>	Católica
<b>Ciudad capital</b>	San José

Source: Banco Mundial e INEC: <http://www.inec.go.cr/sites/default/files/documentos-biblioteca-virtual/recostaricaencifras2018.pdf>

## Education

The country has a 97.80% literacy rate. In Costa Rica, preschool, basic general, and diversified education are compulsory, public, free, and funded by the nation.

In state education, including higher education, public expenditure, by constitutional mandate, cannot be less than eight percent (8.00%) of the annual gross domestic product.

The state must provide technological access at all levels of education, as well as the continuation of higher education for those lacking financial resources. The allocation of scholarships and assistance is the responsibility of the Ministry of Public Education.

Many of the country's forefathers, such as the first president, José María Castro, were former teachers who cared deeply about education in Costa Rica. In 1869, the country became one of the pioneers in the world by making primary education free and mandatory, partly financed by the large coffee oligarchy. In those days, only 10.00% of Costa Ricans could read and write. By 1920, 50.00% of the population was educated, and by 1970, 89.00% could read and write.

In the last 20 years, there has been a significant growth in educational standards. Virtually all public schools and secondary schools in the country offer English classes, and one of the major efforts that the Ministry of Education has been undertaking in recent years is to provide students with the opportunity to have more and better tools in the field of technology. This

initiative aims to enable children and young people to develop their skills in handling these tools while they are in the classrooms. The educational program seeks to implement a comprehensive platform that includes the necessary infrastructure for the interconnection of equipment, as well as the ongoing training of teachers.

In Costa Rica, it is possible to find primary and secondary schools in every community. Students do not have to pay to attend school; however, there is a voluntary fee of \$25 per year for registration (approximately).

Primary school has 6 grades or levels, while secondary education has 5 grades or levels. Each is divided into two cycles, and each time students pass a cycle, they must complete tests in all subjects studied during those cycles.

There are also so-called “Technical” or “Vocational Schools,” where students are educated in technical areas that better enable them to enter the job market. Many of these schools are crucial for their connection to foreign investment.

The most notable exams are conducted in secondary school, known as “bachillerato exams.” Starting in 2019, the Ministry of Public Education (MEP) implemented a comprehensive evaluation system called “Fortalecimiento de Aprendizajes para la Renovación de Oportunidades” (FARO) in Primary and Secondary education, which are currently known as Standardized Tests.

Costa Rican education aligns the assessment system with the study programs approved by the Higher Council of Education. It also provides information

about classroom learning processes, identifies areas for improvement for each student and educational institution, and establishes the necessary actions to make corrections.

In Costa Rica, the first University, Santo Tomás, was founded in 1843, but closed in 1888. Later, the University of Costa Rica was established in 1941, and now the country has 5 established state universities and a specific group of private universities whose number has increased in the last decade due to the difficulty of admission to state universities. Additionally, there are numerous opportunities for adults to obtain primary and secondary diplomas, providing them access to higher education. The University of Costa Rica (UCR) is the oldest, state-owned, and most prestigious institution in the country. In the year 2022, it welcomed 46,000 students, the majority of whom study with scholarships. However, even for those paying the full tuition, the amount rarely exceeds \$500 per semester.

The main campus is located in the northeast of San Jose, in the community of San Pedro. The University of Costa Rica (the main national university center) also has regional centers in Alajuela, Turrialba, Puntarenas, and Cartago.

Another important state university is the National University (UNA) in Heredia, which offers a diverse range of programs in liberal arts, sciences, and professional studies. In Cartago, the Costa Rican Institute of Technology (ITCR) specializes in science and technology, aiming to train individuals in areas

such as engineering, systems, agriculture, industry, and mining. The State Distance University, founded in 1977 following the model of the Open University of Great Britain, has 38 regional centers offering 58 university majors in health, education, business administration, engineering, computer science, and liberal arts. As its name suggests, it specializes in long-distance courses and training. In 2008, the Technical National University was founded to address the need for the emergence of quality technical education to provide the scope of a higher university level through effective linkage to the labor market.

On the other hand, in Costa Rica, there is also the INCAE Business School, which has been considered the second-best business school in Latin America according to the QS Global World University Ranking. It is among the top 100 business schools in the world.

Additionally, there are many other private institutions such as the Autonomous University of Central America, EARTH University, and the University for Peace, the latter sponsored by the United Nations, which offers master’s programs in Communications for Peace.

# Political and legal system



## Legal framework

Costa Rica’s legal and political framework consists of three primary branches: Legislative, Executive and Legal. They are exercised as follows:

	Executive	Legislative	Judicial
<b>Exercised by:</b>	The president and the ministers.	Only Congress.	Supreme Court of Justice.
<b>Comprised of:</b>	The president and the ministers.	57 members of Congress	The Supreme Court of Justice is comprised of 22 magistrates.
<b>Elected or appointed by:</b>	Elected by direct vote every 4 years.	Elected by direct vote every 4 years.	The Magistrates are appointed by Congress for a re-electable period of 8 years.

The Costa Rican legal system is based on Civil Law and is primarily derived from the Napoleonic Code.

According to the latest information from the Supreme Electoral Tribunal, there were 34 different political parties registered at the national level as of the first quarter of 2023. It is worth noting that, for provincial and cantonal purposes, there are also other registered organizations, totaling nearly 130 additional groups.

Presidential elections are held in Costa Rica every four years. The last national elections took place in April 2022, when Mr. Rodrigo Chaves Robles of the Progressive Social Democratic Party was elected as the current President of the Republic.

Since his political campaign, the current president has emphasized the need to combat corruption, address luxury pensions, tackle the fiscal deficit, and enhance the efficiency of the state apparatus.

In the previous administration of President Carlos Alvarado Quesada, there was a perceived urgency for fiscal reform to address the fiscal deficit issue. In December 2018, Law No. 9635, the “Public Finances Strengthening Law,” was enacted. This law introduced a value-added tax, expanding the base of the previous general sales tax.

The law also imposed taxes on income and capital gains, introduced reforms to the public employment program, and implemented a fiscal rule designed to increase the restriction on the growth of current spending as the debt-to-GDP ratio rises.

In the second half of 2023, legislation was approved to exclude Costa Rica from the European Union’s blacklist, on which it was included in March. In this political context, regulatory changes were made that impact considerations related to taxable income, which will be covered in the tax section later on.

# The Economy <sup>1, 2</sup>



The Central Bank of Costa Rica (BCCR) had reported an economic growth projection for 2023 of 5%, and for 2024, it projects

# 4.3%

Since 2020, the global economy has been facing the serious effects of the COVID-19 pandemic. And, while still dealing with the consequences of this shock, such as inflationary pressures and disruptions in global supply chains, since February 24, 2022, the world has been facing new political and military shocks generated by the armed conflict between Russia and Ukraine and Israel and Hamas.

Despite this unfavorable external environment, economic recovery continued in Costa Rica in 2022 and 2023. During the first quarter, the GDP showed a year-on-year growth rate of 4.2%.

This is in terms of expenditure components, household consumption, private sector credit, as well as the reduction in unemployment and improvement in available income.

All of this is despite the negative repercussions for growth stemming from the severe deterioration in the terms of trade due to the increase in the prices of imported goods.

Government spending, on the other hand, showed a slow growth rate, combining increased spending on public health to address the COVID-19 pandemic with decreased expenses in public administration and education.

## External Demand

In relation to external demand, the growth of exports of goods and services stands out, driven by the sales of manufactured goods under special and definitive programs. This is along with the increased influx of

tourists to the country. The volume of imports has also continued to grow due to the good performance of economic activity it projects 4.3%. and the increase in purchases of supplies (especially hydrocarbons), capital goods, vehicles, and food products, as well as outbound tourism.

## Unemployment

Within the context of economic recovery, the labor market also shows improvements, although at a slower pace. As of July 2023, the unemployment rate stood at 9.6%. For the third quarter of 2024, a considerable drop in the unemployment rate was recorded, with the most recent figure being 6.59%.

## Balance of Payments

Regarding the balance of payments, during the second semester of 2023, it showed a current account deficit equivalent to 2.6% of GDP, lower than the figures recorded in the year 2022.

## Inflation

As in most countries worldwide, in Costa Rica, general inflation and underlying inflation indicators have continued to rise due to strong external pressures.

In October 2023, the year-on-year variation of the Consumer Price Index (CPI) reached 2.24%.

## Exchange Rate

Under a managed floating exchange rate program and in line with its Organic Law, the Central Bank acts in

the foreign exchange market for three purposes:

- a) To manage the foreign exchange requirements of the National Public Sector (SPNB).
- b) To limit abrupt movements in the exchange rate but not change the trend of this macro-price (these interventions (are called stabilization operations)
- c) To meet its foreign exchange requirements during reserve expansion programs.

Over the course of 2023, the BCCR has participated in the foreign exchange market primarily to address the first purpose and to a lesser extent, the second. Regarding managing foreign exchange for the SPNB, the BCCR must meet these requirements with its international reserves and replenish them through Foreign Exchange Market (Monex) purchases, depending on the prevailing conditions in the private exchange market.

In 2023, the oil bill increased considerably compared to the previous year. Additionally, there was an increase in the demand for foreign exchange by institutional savers, particularly pension fund operators, who, for portfolio diversification reasons, have increased their holdings of foreign currency assets.

1 BCCR. (2023 Economic Indicators. Available at: <https://www.bccr.fi.cr/seccion-indicadores-economicos/>

1 BCCR (2023). Review of the Macroeconomic Program 2019-2020. Available at: [https://activos.bccr.fi.cr/sitios/bccr/publicaciones/ DocPoliticaMonetariaInflacin/Programa\\_Macroeconomico\\_2019-2020.pdf](https://activos.bccr.fi.cr/sitios/bccr/publicaciones/DocPoliticaMonetariaInflacin/Programa_Macroeconomico_2019-2020.pdf)

2 World Bank(2023). Data by country. Available at: <https://datos.bancomundial.org/country/CR>

# Doing business in Costa Rica



Costa Rica has distinguished itself throughout its contemporary history with economic, political, and social stability, making it one of the country's most important strengths for successfully attracting foreign investors. Over two decades ago, the Government established a Free Trade Zone Program under Law No. 7210, commonly known as "The Free Trade Zone Law," which has been refined over time. Additionally, fiscal incentives, including substantial tax exemptions of up to 100% for varying periods, are available to companies that meet the requirements related to strategic, investment, and employment sectors stipulated in the law.

## Free Trade Zone Treaty and other agreements<sup>3</sup>

Costa Rica is a member of the World Trade Organization and has various preferential trade agreements. Particularly noteworthy is the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR), which Costa Rica approved in 2007.

Costa Rica actively participates in the multilateral trading system and plays a significant role in strengthening the process related to Central American economic integration. According to the official website of the Ministry of Foreign Trade, the country has 16 Free Trade Agreements (FTAs) that govern its trade with 50 trading partners. These partners include 27 European Union countries, Iceland, Liechtenstein, Norway, and Switzerland (EFTA), the United States, Canada, Mexico, Chile, China, Peru, Singapore, etc.

Costa Rica has been internationally acknowledged as the most innovative country in Latin America, as evidenced by the dynamism of its industrial sector. The country's industrial sector is highly competitive, particularly in terms of quality in various diverse subsectors. They include medical devices, jewelry, and personal care products, interior and exterior paints, and metal-mechanics as some of the main sectors in which the country develops. The key industries include e-commerce, home, office, and decor, plastics, electronics, packaging, the Aero-Aerospace cluster, fertilizers and agrochemicals, fashion, wood, metals, industrial services, and construction.

## Foreign Investment:

For the year 2022, Costa Rica scored 12.7 according to the Greenfield FDI Performance Index developed by fDi Intelligence, indicating that it attracts 12.7 times more projects than would be suggested by the size of its GDP.

Costa Rica's goods exports grew by 17% compared to the first 9 months of 2022, and in terms of service exports, there was a 22% growth for the same period.

Currently, the country is negotiating the Pacific Alliance, Environmental Goods Agreement (EGA), and Climate Change, Trade, and Sustainability Agreement (ACCTS) treaties.

From January to September 2023, goods exports amounted to 13.633 billion dollars.

Official figures state that the precision and medical equipment sector remains the country's main exporter, with a 34% share.

The agricultural sector remains the second most important, thanks to the good and consistent performance of products such as coffee, cassava, and melon.

The food industry recorded a growth of 4%, the chemical- pharmaceutical sector 17%; electrical and electronic 22%; metal- mechanical 13%; plastic 9%; and livestock and fishing 2%.

So far in 2023, several companies have announced the opening or expansion of operations in the Costa Rican territory: Databricks, OnProcess Technology, Service First, Zimworx, Active Campaign,

Boss Tech, Cigniti Technologies Inc., Headstorm, Hitachi Solutions, Johnson & Johnson (Medtech), Sysdig, Transunion, Intricon, and Zuora Inc. are among the firms that have announced the opening of new locations and the hiring of local talent.

The Monthly Index of Economic Activity (IMAE) shows that special programs maintain double-digit growth rates, while the recovery in the production of companies under the definitive program continues to consolidate.

Although not all companies are located in special programs (free trade zones), they all ensure that the conditions applicable to the national talent and the country made it possible for them to execute their investment plans.

## Foreign Investment Incentives

The Costa Rican government has introduced several

<sup>3</sup> CINDE. (2019). FAQ. Available at <https://www.ict.go.cr/es/documentos-institucionales/atraci%C3%B3n-de-inversiones/1048-inversiones-en-costa-rica-preguntas-frecuentes/file.html>.

Companies wishing to assemble products in Costa Rica and re-export the finished products to other countries can import all their capital machinery and raw materials, including the parts that will be re-assembled, free of all import taxes.

incentives to encourage foreign investment. The most important incentives are:

The Export Promotion Law, No. 5162, of 1972 encouraged the establishment of assembly plants in Costa Rica.

“Companies wishing to assemble products in Costa Rica and re-export finished products to other markets may import all their capital machinery and raw materials, including parts to be reassembled, free of all import duties. The final product that is re-exported is not subject to any income tax on profits.”

**Free Trade Zones are known as Export Processing Zones and regulated by the Free Trade Zone Regime Law.**

Companies wishing to assemble products in Costa Rica and re-export the finished products to other countries can import all their capital machinery and raw materials, including the parts that will be re-assembled, free of all import taxes. The final product that is re-exported is not taxed with any income tax on profits.

Free Trade Zones, known as Export Processing Zones and regulated by the Free Trade Zone Regime Law and more recently the Law to Strengthen Territorial Competitiveness to promote the Attraction of Investments Outside the Greater Metropolitan Area (GAM), No. 10234 of May 4, 2022).

It is also important to point out that Costa Rica also offers: Proven track record, skilled workforce, strategic location, excellent business climate, robust infrastructure and a high quality of life.

**Establishing a business in Costa Rica:**

Companies in Costa Rica are regulated by the Commercial Code (CC), Law No. 3284, enacted on April 30, 1964.

- Commercial Companies
- General Partnership.
- Limited Partnership.
- Limited Liability Company (LLC).
- Corporation (Anonymous Society, .A.).

**Creation procedure:**

- Overall, the incorporation of any commercial entity follows the steps described below. It is noteworthy to point out that each one has specific requirements that must be met to properly incorporate the desired entity, and a subsequent consultation should be carried out with the legal specialist for each case. The founders engage the services of a Notary Public and prepare draft of the Articles of incorporation, which will include the new company bylaws and the appointment of administrators.
- Shares are issued according to the contributions of the shareholders.
- Registration taxes are paid (based on the company's capital), and the articles of incorporation are submitted to the Public Registry.
- Once the Articles of incorporation are registered, The Public Registry will assign an identification number to the new Entity.

**Closure Procedure:**

- In accordance with the Commercial Code, a Company is dissolved for the following reasons:
- Shareholders' agreement.
- Completion of the term of the company.
- Inability to achieve the purpose of the company.
- Definitive loss of more than 50.00% of its capital (if not restored by the shareholders or there has been a proportional decrease).

If the shareholders agree to dissolve and liquidate the company, they must register such an agreement in the National Registry, publish a notice in the official gazette, and appoint a liquidator to liquidate assets, pay the company's debts, and distribute the remaining balance to the shareholders according to their contributions.

**Branch and/or Commercial Establishment:**

Any foreign entity may register a branch in Costa Rica.

In addition, it should be considered that there is a specific tax in Costa Rica for legal entities. It must be paid within a maximum period of 30 days after the entity was created.

**Registration procedure:**

The foreign entity may register a branch in Costa Rica by filing a document issued by a Costa Rican Notary Public, a Consul, or a Foreign Notary in the National Registry of Costa Rica, which must include:

- The appointment of a legal representative in the country for all company affairs.



- Purpose, capital, and relevant information about the company's directors.
- An explicit declaration of submission to Costa Rican law.

All documents are validated by the Costa Rican consulate in the country of origin and registered in Costa Rica to obtain the local corporate identification number.

#### **De Facto Companies:**

A de facto company pertains to a contract between two or more individuals classified as merchants with an interest in one or more specific and transitional business operations. These operations must be managed by one of them under their sole name and personal credit, with the responsibility to account for and share profits or losses with the shareholders in the stipulated proportion.

De Facto Companies are not expressly included in Costa Rican legislation, but they are accepted as valid for business association.

#### **Shareholder registration:**

Since 2019, by Law No. 9416, "Law to Improve the Fight against Tax Fraud," it was established the obligation of providing information for the creation of a shareholder and ultimate beneficiary registry for active or inactive companies. Compliance with this obligation started on September 1, 2019, and involves providing information about shareholders representing at least 15% of the company's share capital. The goal of the law is to identify the ultimate beneficiary, the owner of the company's capital, whether is an individual residing in domestic or foreign territory. The information must be provided by the company's Legal Representative or by an attorney who must have a digital signature. The Shareholder Registry is administered by the Central Bank of Costa Rica.

# Banking system



## Central Bank:

The BCCR is an autonomous public institution and a legal entity. It has its own assets, which is part of the National Banking System. Its main objectives include maintaining the internal and external stability of the national currency and ensuring its conversion to other currencies. Additionally, it is responsible for promoting the development of the Costa Rican economy to achieve full employment of the nation's productive resources, seeking to avoid or moderate inflationary or deflationary trends that may occur in the monetary and credit markets. The BCCR also oversees the proper use of the nation's international monetary reserves to achieve general economic stability, promotes the efficiency of the internal and external payment system, maintains its normal operation, and encourages a stable, efficient, and competitive financial brokerage system. The bank was created on April 23, 1953, and is currently governed by Law No. 7558 dated November 3, 1995.

## Commercial banks:

The Organic Law of the Central Bank of Costa Rica (No. 7558), in effect since November 27, 1995, declared the oversight of financial institutions to be a matter of public interest and established the Superintendency of Financial Institutions (SUGEF). This entity operates under a legal framework of maximum decentralization, equipped with administrative autonomy through the establishment of its own Board of Directors.

The General Superintendency of Financial Institutions (SUGEF) is the entity responsible for ensuring the stability, strength, and operational efficiency of the National Financial System by strictly adhering to regulatory and legal provisions. It oversees compliance with regulations, guidelines, and rules issued by the institution itself, safeguarding the public interest. SUGEF supervises the activities within its control and the operations of entities authorized by the Central Bank of Costa Rica (BCCR) participating in the exchange rate market.

Among its powers, SUGEF has the authority to issue general standards for establishing banking practices, provide guidelines to promote the stability, solvency, and transparency of any supervised entities' operations, and to establish categories of financial brokers based on type, size, and risk level.

The legal framework applicable to this field is extensive. Some of the laws regulating this activity include the Organic Law of the Central Bank of Costa Rica, Organic Law, Law on the Banking System for Development, Law on the Modernization of the Financial System of the Republic, Law Regulating Non-Banking Companies, Law on Narcotics, Psychotropic Substances, Money Laundering, and Financing of Terrorism.

## List of financial institutions supervised by SUGEF

### Public Banks

- Banco Nacional de Costa Rica;
- Banco de Costa Rica.
- Banco Hipotecario de la Vivienda.
- Banco Popular y de Desarrollo Comunal.

### Private Banks

- Banco BAC San José, S.A
- Banco BCT S.A.
- Banco Cathay de Costa Rica S.A.
- Banco CMB (Costa Rica) S.A.
- Banco Davivienda (Costa Rica) S.A.
- Banco General (Costa Rica) S.A.
- Banco Improsa S.A.
- Banco Lafise S.A.
- Banco Promérica de Costa Rica S.A.
- Prival Bank (Costa Rica) S.A.
- Scotiabank de Costa Rica S.A.

# Labor and social security



## Job supply

The Costa Rican work force is distributed as follows:

Gender	Total for Quarter III 2024	Work force	
		Employees	Unemployed
Male	1.446.729	1.352.134	94.595
Female	939.122	867.304	71.818

Source: Instituto Nacional Costarricense de Estadísticas.

## Labor law requirements

Social Security Charges/Taxes on Salary.

### A. Cost of Employer Obligations as Temporary Withholding Agent:

1. **Income Tax Law:** According to the Costa Rican Income Tax Law, the employer is obligated to withhold income tax on the employee’s salary based on a progressive table (whose highest marginal rate is 25.00%). The withheld amount must be declared and paid by the employer to the Tax Authorities within the first 15 calendar days of the month following the date on which the salary payment was made.

For the purposes of a company’s income tax return, amounts paid as salary may be treated as a deductible expense, provided that all salary taxes and social security contributions have been properly paid and are shown to be necessary for the production of the taxable income.

2. **Social Costs:** The Labor Law of Costa Rica introduces the concept of social costs, commonly known in the local language as “cargas sociales” (employment benefits). These are a series of items that cover all employees’ social needs (medical and create a pension fund for workers). Both the employee and the

Social costs are paid by both the employee and the employer. Unlike the employee’s portion, where the employer acts strictly as a withholding agent, the employer’s share must be paid directly by the employer at any state bank (there are 4 of them)

employer contribute to these costs. The amount paid by the employee is deducted from the employee’s salary by the employer (similar to the income tax described earlier) and then transferred to the Costa Rican Social Security Fund (C.C.S.S.) and other relevant public institutions.

The percentage of this cost that must be paid by the employee and withheld by the employer is 10.67% of the worker’s salary and includes the following items:

Social Costs	Percentage paid by the employee
Health and maternity benefits	5,50%
Disability, old age, and death benefits	4,17%
Banco Popular y de Desarrollo Comunal	1,00%
<b>Total amount paid</b>	<b>10,67%</b>

**B. Obligations – Direct Cost to Employer:**

1. **Social costs:** As mentioned earlier, social costs are paid by both the employee and the employer. Unlike the employee’s portion, where the employer acts strictly as a withholding agent, the employer’s share must be paid directly by the employer at any state bank (there are 4 of them). This add up to 26.67% of the worker’s salary and includes the following areas:

Employer contributions to the Costa Rican Social Security Fund	
Item	Employer
SEM	9,25%
IVM	5,42%
<b>TOTAL CCSS</b>	<b>14,67%</b>

Collection for other institutions	
Institution	Employer
Employer payment Banco Popular	0,25%
Family payments	5,00%
IMAS	0,50%
INA	1,50%
<b>TOTAL OTHER INSTITUTIONS</b>	<b>7,25%</b>

Employee Protection Law (LPT)	
Item	Employer
Employer payment Banco Popular	0,25%
Labor Capitalization Fund	1,50%
Complementary Pension Fund	2,00%
INS	1,00%
<b>TOTAL LPT</b>	<b>4,75%</b>
<b>Total</b>	<b>Patrono</b>
<b>TOTAL PERCENTAGES</b>	<b>26,67%</b>

2. **Cost of Mandatory Occupational Insurance:** Insurance called “Occupational Risks Insurance” is established as mandatory by the Costa Rican Labor Code. The employer is bound to pay this insurance to the National Insurance Institute (State Insurance Institution) according to the different rates established by the worker’s position or job. The rates increase according to the level of risk associated with the line of work.

**C. Other Costs:**

1. **Vacation Time:** The Costa Rican Labor Code describes a benefit established as two weeks of vacation for every fifty weeks worked for the same

employer. When the employment relationship ends before the fifty weeks, the employee has the right to one paid vacation day for each month worked before leaving the company.

Additionally, when the employment relationship ends for any reason (including justified dismissal), the worker has the right to receive their vacation benefit in cash proportionally.

2. **“Aguinaldo” or “Year-End Bonus”:** Consists in a payment of an extra month’s salary, which is paid in the month of December. This amount is calculated by averaging the salaries received over the last twelve months (from December of the previous year to November of the current year).

This amount is not subject to income tax or social security charges, but any excess over its calculation is. This benefit must be paid within the first 20 days of December. If the employment relationship ends before December, the employee is entitled to receive a proportional amount of the “aguinaldo,” calculated by adding up the salaries received in the current year and dividing the result by twelve.

Note: Both items, “vacation time” and the “Aguinaldo” (Year-End Bonus) are constitutional labor rights. In Costa Rican law, each employee has the right to receive them even when the employment relationship ends due to causes that may be attributed to the employee.

3. **Pre-notice:** When an employee or employer decides to end the labor relationship, the responsible party must notify the other party in relation to the following terms:

If the relationship lasted fewer than 3 months.	No pre-notice required.
If the relationship lasted more than 3 months but fewer than 6 months.	One week of pre-notice required.
If the relationship lasted more than 6 months but less than 1 year.	15 days of pre-notice required.
If the relationship lasted more than 1 year.	One month of pre-notice required.

This benefit may be cashed out if either of the parties pays the other party the amount of one day of salary for every day included in the terms mentioned in the previous table.

The employer must provide one free day per week during the timelines established above so the employee may find another job.

4. **Unemployment aid or severance pay:** This is known in Costa Rican law as “aid severance payment” and it is a benefit that is only paid when the labor relationship ends due to causes that may not be attributed to the employee.

The severance pay is due according to the following terms

If the relationship lasted fewer than 3 months.	No payment required.
If the relationship lasted more than 3 months but fewer than 6 months.	Payment 7 days of salary
If the relationship lasted more than 6 months but less than 1 year.	Payment 14 days of salary
If the relationship lasted more than 1 year.	Payment of 19.5 to 22 days for each year worked, depending on the number of years of service, with a cap of 8 years (the calculation is based on a table established in Article 29 of the Labor Code).

# Accounting, requirements, and auditing practices



## Accounting

The Board of Directors of the College of Public Accountants has adopted the International Financial Reporting Standards for the preparation and presentation of Financial Statements, as well as standards for certification work and standards for related services.

Any modification to the current standards, as well as new standards that will be issued in the future by the International Federation of Accountants, will be considered automatically incorporated for mandatory application in Costa Rica. This is without prejudice to the Audit and Accounting Standards Commission of the Costa Rican Association of Public Accountants conducting a complete or partial evaluation and recommendation for their specific application in the country, without undermining potential changes.

## Books and records

- The accounting records must be kept in the Spanish language, as specifically required by the Commercial Code.
- The accounting records should include: a Journal, a Ledger, and an inventory and balance book. Similarly, commercial companies must maintain a book of minutes of the Shareholders' Meeting and a Share Registry. Limited liability companies must also keep the aforementioned books.
- The books must be written in Spanish, in a clear manner, in a progressive order by date, without blank spaces, and without strikeouts or interlineations.

## Accounting profession:

In Costa Rica, an authorized public accountant must hold a Bachelor's degree in Public Accounting or its equivalent from a University whose curriculum is duly certified by CONESUP or CONARE, as applicable. Due to academic educational requirements for professionals in public accounting and the continuous professional updating that Authorized Public Accountants are obligated to receive, these professionals are capable of working in one or several professional areas, such as

financial audits, compliance audits, evaluations of internal control systems, and acting as internal auditors, among others.

## Rules for filing Financial Statements:

Since 2001, the IFRS has been adopted as a mandatory accounting framework for the preparation of financial statements for public and private companies (excluding banks, financial institutions, and government entities). This requirement also applies to companies considered to be Large Territorial Contributors, including companies in Free Trade Zones that have been classified as large contributors or large territorial contributors.



# Tax system



Such taxes will be collected and managed by the Costa Rican Government through the General Taxation Directorate, which is an entity belonging to the Ministry of Finance.

## Income tax on companies

### Tax on Profits:

The profit tax applies to individuals, legal entities, and collective entities with no legal status when they are residing in the country and engaged in lucrative activities from Costa Rican sources.

The triggering event for the profit tax is the receipt or accrual of income in money or in kind, whether continuous or occasional, derived from lucrative activities from Costa Rican sources. This includes any other income or benefit from Costa Rican sources not exempted by law. Income, earnings, or benefits from Costa Rican sources are understood to be those generated exclusively within the national territory, in accordance with the definition of territorial space. Therefore, the national territory should be interpreted based on the geographical limits established in Articles 5 and 6 of the Political Constitution. These sources include services rendered, located assets, invested capital, and rights used that are received during the fiscal period.

It is important to note that Costa Rica recently approved dispositions that impact the concept of income from Costa Rican sources, which is the basis for the imposition of the main taxes. In this sense, the dispositions tend to delimit the scope of the taxing power, restricting it to a purely

Costa Rica's Political Constitution authorizes the Legislative Assembly to define taxes.



geographical matter, by indicating that the following are generators of income from Costa Rican sources: services provided, assets located, capital invested and rights used, all within the limits of the national territory.

The above ignores the extensive the stance that the Tax Administration had been applying, which had been endorsed at the judicial level and even at the highest level, by the Constitutional Court.

The profit tax is levied against the net income received by taxpayers and allows as deductible expenses those directly linked to the generation of taxable income with this tax, provided they are properly documented with electronic receipts and subject to withholdings of other taxes established in the Income Tax Law.

In general terms, a limit is set on the deduction of non-banking interest at 20.00% of profit before interest, tax, depreciation, and amortization for each tax period. Expenses exceeding this percentage can be deducted in subsequent tax periods until the difference is exhausted. There are transitional rules allowing a maximum deduction of 30.00% for FY 2021 (In this regard, refer to Official Document DGT-1212-2021 dated November 2, 2021), gradually decreasing by 2 percentage points until reaching 20% in the fiscal year 2027. The deductibility limit applicable for the year 2025 will be up to 24%.

The amortization of losses from companies is allowed over the next three fiscal periods. In the case of agricultural companies, this deduction can be made over the following five periods.

For entities whose gross income exceeds ₡119,629,000.00, a rate of 30% of gross income will be applied.

For entities whose gross income does not reach this amount, the tax will be levied according to the following graduated rate:

**Income tax calculation for legal entities**

<b>Net Income</b>	<b>Rate (applicable to the net income)</b>
Up to ₡5.642.000,00	5%
On the excess of five million six hundred forty-two thousand colones (₡5,642,000.00) and up to eight million four hundred sixty-five thousand colones (₡8,465,000.00) of annual net income.	10%
On the excess of eight million four hundred sixty-five thousand colones (₡8,465,000.00) and up to eleven million two hundred eighty-six thousand colones (₡11,286,000.00) of annual net income.	15%
On the excess of eleven million two hundred eighty-six thousand colones (₡11,286,000.00) of annual net income	20%

The previous tax brackets are adjusted annually and apply throughout the fiscal period. One of the recent modifications to the Income Tax Law is that the fiscal period for income tax has been aligned with the calendar year (from January 1 to December 31), previously being from October 1 to September 30.

There is a differentiated fee scale for micro and small businesses registered with the Ministry of Economy, Industry and Commerce or the Ministry of Agriculture and Livestock.

**Tax on profits and capital gains:**

Income and capital gains are subject to a tax rate of 15%. The Tax on Capital Income and Gains and Losses of Capital (RCGPC) applies to income from Costa Rican sources, whether in money or in kind, derived from capital, and capital gains or losses arising from assets or rights owned by the taxpayer. This also includes exchange rate differences originating in assets or liabilities resulting between the time of the transaction and the receipt of income or payment of the liability. This is provided they come from assets or rights not affected by their owner to obtain income subject to the aforementioned profit tax.

In the event that said capital gain or income corresponds to or comes from assets or rights related to a lucrative activity of the taxpayer, the withholding of this tax will be integrated into the income tax as a payment on account, as explained in the previous section.

**Qualified entities:**

This concept is defined in article 2 bis of the Income Tax Law, which details that these are those taxpayers with an adequate economic substance in Costa Rican territory, during the fiscal period. It is determined whether it is a qualified entity based on each taxed passive income that comes from assets located or rights used economically outside the national territory.

**Non-qualified entities:**

There are passive incomes from foreign sources that will exceptionally be taxed, coming from assets located or rights used economically outside the national territory, when it is an entity that is part of a multinational group that obtains it and that, in addition, is considered as a non-qualified entity in accordance with the provisions of article 1 of this Income Tax Law.

- a) dividends;    b) interest;    c) royalties;  
 d) capital gains;    e) real estate capital income;  
 f) other personal capital income.

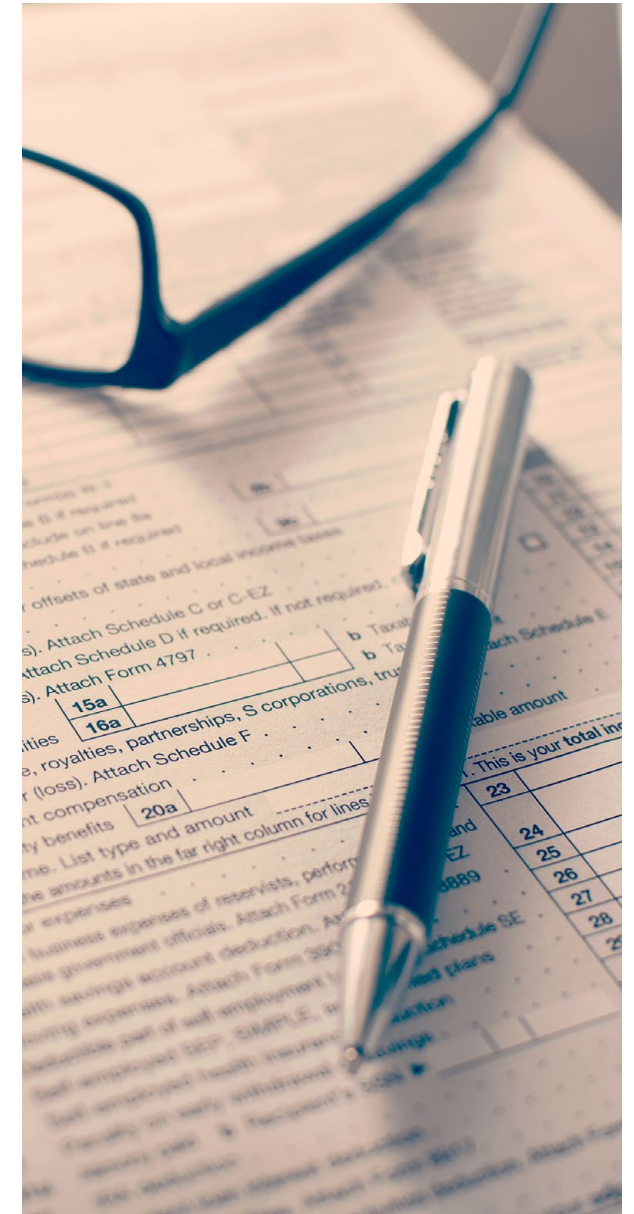
Capital income is classified as follows and includes the following items:

- Real estate capital income: Income from leases, subleases, creation and transfer of rights or rights of use or enjoyment of real estate.
- Personal capital income: Includes the payment of interest, leases and subleases of rights of use of personal property, royalties, rights of use, key rights or other intellectual property rights or other

intangibles, contributions to mandatory pension scheme benefit plans, labor capitalization fund and the payment of dividends. The distribution of dividends is exempt when the distribution is made in registered shares or in social quotas of the company that pays them.

- Likewise, dividends are exempt when the partner receiving them is another capital company domiciled in Costa Rica and carries out an economic activity subject to income tax, or is a holding company of a financial group regulated by a superintendency attached to the National Council for the Supervision of the Financial System (CONASSIF).
- Capital Gains and Losses: Capital gains and losses are considered to be those generated by changes in the value of the taxpayer's assets. According to the Law, there is no change in assets in the cases of location of rights, distributions of joint property, contributions to guarantee or testamentary trusts and capital reductions (except when said reduction has as its object the return of the contribution, in which case the part corresponding to undistributed accumulated profits will be considered income from movable capital).

If the contribution was recorded in the accounts, the returns will not be subject to this tax. In the case of capital gains, there is the possibility of opting for a differentiated rate of 2.25% applicable to the entire transaction in the event that two conditions are met: that the asset or right subject to the transaction from



For interest, commissions and other financial expenses paid or credited by entities subject to the supervision and inspection of the General Superintendence of Financial Entities to entities abroad that are subject to supervision and inspection in their corresponding jurisdictions, a fee of

**5.5%**

of the amount paid or credited will be paid

which the gain arises was acquired prior to July 2019; and, in addition, that it is the first sale of the same after that date.

**Tax withholding on remittances abroad:**

In relation to the following payments to non-domiciled individuals or legal entities, the following tax withholdings must be made:

1. Dividends – 15% Interest, commissions and other financial expenses, as well as the leasing of capital goods paid or credited by individuals or legal entities domiciled in Costa Rica to entities or individuals abroad, a fee of 15% of the amount paid or credited will be paid.
2. For interest, commissions and other financial expenses paid or credited by entities subject to the supervision and inspection of the General Superintendence of Financial Entities to entities abroad that are subject to supervision and inspection in their corresponding jurisdictions, a fee of 5.5% of the amount paid or credited will be paid. Interest, commissions, and other financial expenses arising from loans granted by multilateral development banks and multilateral or bilateral development agencies, as well as non-profit organizations that are exempt from the tax or are not subject to the tax according to current legislation, are exempt from this tax.
3. Technical-financial or other types of advice, as well as payments related to the use of patents, formula supplies, trademarks, privileges, franchises and royalties, are subject to a 25% rate.

4. Pensions, retirement, salaries and any other remuneration paid for personal work performed in an employment relationship, are subject to a 10% withholding.
5. Fees, commissions, allowances and other personal services performed without an employment relationship, are subject to a 25% withholding.
6. Transportation and communication services are subject to a 8.5% withholding.

These withholdings may vary under the application of any of the agreements to avoid double taxation that Costa Rica has.

**Tax on Legal Entities:**

The Tax on Legal Entities is a tax that must be paid by all commercial entities, as well as any branch of a foreign company or its representative and individual limited liability companies, which are registered or register in the Registry of Legal Entities of the National Registry.

The fiscal period is one year, from January 1 to December 31 of the same year, and the accrual of the tax occurs on January 1 of each year. For new companies, it happens at the time of filing the incorporation deed to the National Registry, paying the tax proportionally.

The annually established rates are:

- a) 15% of a monthly base salary for legal entities that are not registered with the Single Tax Registry of the General Taxation Directorate or are in the

registration process with the Corporate Registry of the National Registry

- b) 15% of a monthly base salary, based on the proportion of the time remaining between the date of the company's registration with the Corporate Registry of the National Registry and the end of the period, for legal entities established and registered during the fiscal period.
- c) 25% of a monthly base salary for Income Tax contributors whose income tax declaration for the immediately preceding period recorded gross income less than 120 base salaries.
- d) 30% of a monthly base salary for Income Tax contributors whose income tax declaration for the immediately preceding period recorded gross income in a range from 120 base salaries to less than 280 base salaries.
- e) 50% of a monthly base salary for Income Tax contributors whose income tax declaration for the immediately preceding period recorded gross income of more than 280 base salaries or more.

The Superior Council of the Judiciary establishes the applicable base salary for each period through a flyer published in the Judicial Bulletin, La Gaceta. This item is used as a parameter to establish penalties and some taxes, such as in this case. Currently, this amount is set at CRC 462,200 (four hundred sixty-two thousand two hundred colones). By 2025, a new base salary amount is expected to be established by the Ministry of Finance.

With this base salary parameter, it is possible to set the payable amounts for this tax, both for existing companies and for new companies that are submitted for registration during the current year.

#### **Fiscal Domicile:**

In most cases, the place where a company is incorporated is referred to by Costa Rican tax authorities as the “fiscal domicile”. However, any company that carries out industrial, agricultural, or commercial activities in Costa Rica is subject to local income tax in the same way as a registered business, regardless of the place of its incorporation. Such companies that do business in Costa Rica are subject to the permanent establishment (PE) rules.

#### **Transfer Pricing:**

The Code of Standards and Tax Procedures of Costa Rica (Law 4755), enacted on May 3, 1971, established in Article 12 the Agreement between Individuals, stating that agreements related to tax matters entered into between individuals are not admissible against the Tax Administration.

On June 10, 2003, Interpretative Guideline No. 20-03 was approved, titled Fiscal Treatment of Transfer Prices, according to the Normal Market Value.

In this guideline, the application of the Comparable Uncontrolled Price (CUP) method in the Full Competition market for related-party transactions was explained. This method is generally based on comparing the conditions of a related-party

transaction with those transactions carried out by independent companies. In other words, these prices should be equivalent to those of similar transactions between independent companies.

In this guideline, the Tax Administration was granted the authority to assess transactions between related persons or entities when the agreed valuation results in a lower tax than that derived from the application of the normal market value. In such cases, adjustments must be made accordingly.

By September 10, 2012, through Law 9069, Article 12 of the Tax Standards and Procedures Code was modified, establishing that elements of the tax obligation, such as defining the taxpayer, the triggering event, and others, which cannot be altered by acts or agreements of individuals, and which will have no effect in relation to the Administration, without prejudice to their legal-private consequences.

However, none of the aforementioned laws covered important issues related to application of Transfer Pricing, such as:

- Application of Transfer Pricing rules;
- Applicable analysis methods;
- OECD guidelines; and
- Advance Pricing Agreements (APA).

Subsequent to the aforementioned, on September 13, 2013, the Ministry of Finance issued General Decree No. 37898-H to regulate transactions between related parties to govern the provisions related to the application of Guideline 20-03.

With the issuance of this Decree, taxpayers were obliged to evaluate the prices agreed upon in transactions involving goods or services sold to related companies locally and abroad, considering the prices that would be agreed upon between independent parties, in accordance with the Principle of Free Competition.

- This Decree applies to any operation or transaction carried out by companies’ resident in the country with:
- Local and foreign related parties;
- Individuals or companies’ resident or domiciled in low-tax jurisdictions or havens; and
- Related parties who are members of the Free Trade Zone Program.

On September 13, 2016, Ruling DGT-R-44-2016 was published in the official journal La Gaceta, Supplement No. 182, pertaining to the Transfer Pricing Information Declaration. In this regard, taxpayers must submit the transfer pricing declaration on the last business day of June each year, covering all transactions carried out during the taxpayer’s income tax period. However, in Ruling No. DGT-R-28-2017, its submission was suspended, and so far a specific date for its submission has not been defined.

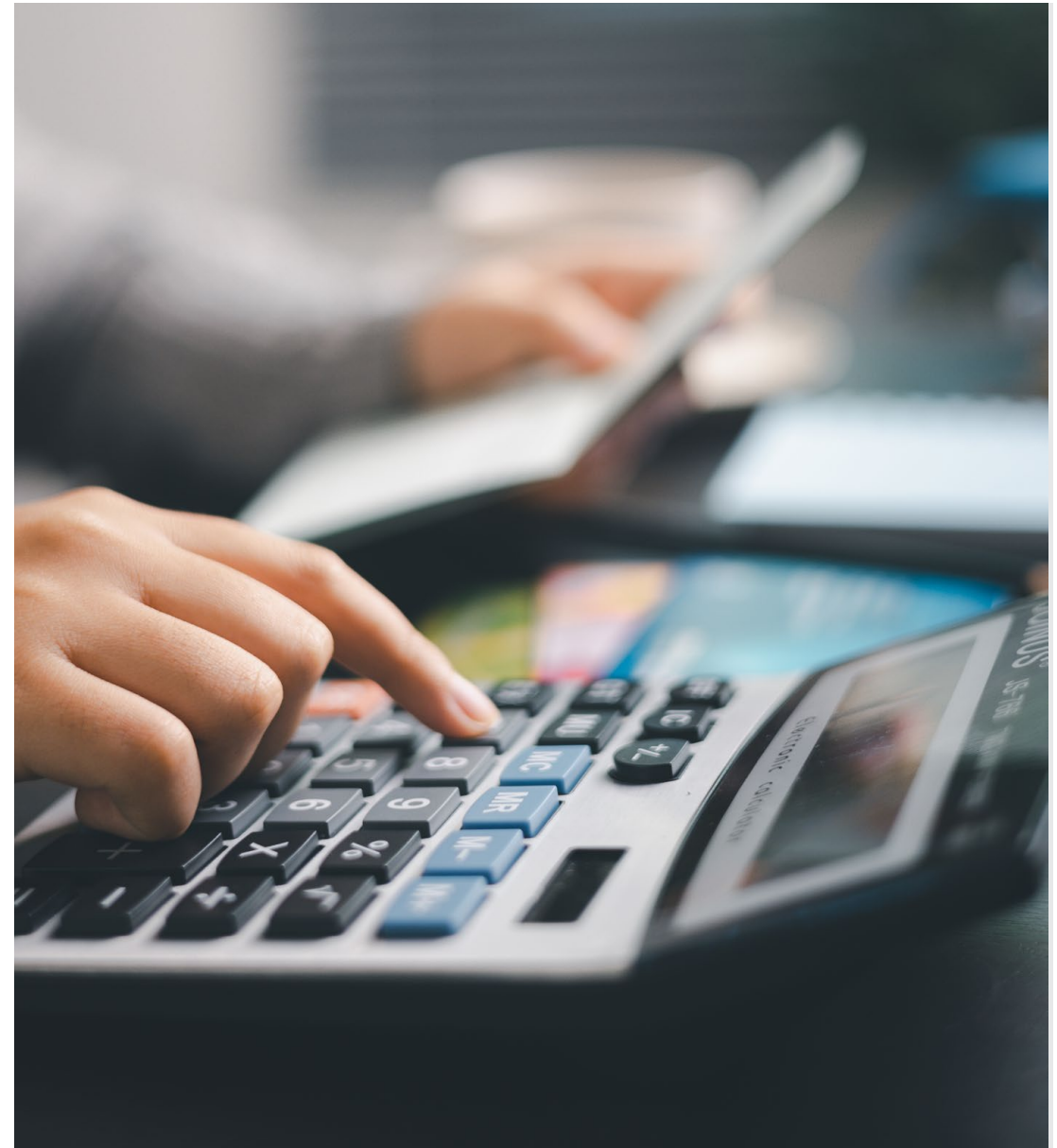
On April 21, 2017, Ruling DGT-R-16-2017 was published in the official journal La Gaceta, Supplement No.75, pertaining to the documentation of transfer prices. This document indicates that the information must be available to the Tax Administration to be whenever it is requested.

Ruling No. DGT-R-001-2018, dated January 11, 2018, defined the obligation to submit the country-by-country report (CbC) to all resident parent companies whose global revenue may amount to more than 750 million euros. Taxpayers subject to this documentation requirement were required to submit the first declaration no later than December 31, 2018, for transactions related to the 2017 period.

In 2019, the regulatory history for transfer pricing in Costa Rica underwent a transformation. On December 4, 2018, Law No. 9635 Strengthening Public Finances was published in Supplement 202 of the official journal La Gaceta. This law added a new Chapter XXXI, incorporating a new Article 81 bis to Title V, General Provisions, of Law No. 7092, the Income Tax Law.

Subsequently, on June 26, 2019, Supplement 145 of the official journal La Gaceta published Decree No. 41818-H titled “Modifications and Additions to the Regulation of the Income Tax Law, Executive Decree No. 18445-H of September 9, 1988, and Its Amendments.” This decree regulates the practice of transfer pricing described in the aforementioned Article 81 bis, repealing the previous executive decree 37898-H.

On November 13, 2019, the General Taxation Directorate published ruling DGT-R-49-2019, establishing new guidelines for Transfer Pricing documentation, thereby repealing Ruling DGT-R-16-2017. In general terms, the ruling emphasizes that all taxpayers engaged in transactions with related companies must retain, for the period stipulated in Article 109 of the Code of Tax Standards and Procedures, documentation supporting how transfer prices conform to prices charged between independent operators. In this case, the information must be made available to the Tax Administration upon request.



**The Convention on Mutual Administrative Assistance in Tax Matters (MAAC):**

Through Law 9118 in 2013, Costa Rica adhered to and approved in all its parts the Convention on Mutual Administrative Assistance in Tax Matters. The purpose of this treaty is, in a multilateral manner, to assist the signatory countries in improving their tax systems and in the application of these.

**Information Exchange for Tax Matters :**

<b>Contracting Country</b>	<b>Status</b>	<b>Effective Date</b>
Argentina	Law 9007	November 10, 2011
Australia	Law 9075	July 1, 2011
Canada	Law 9045	August 11, 2011
South Korea	Law 9611	September 18, 2018
Denmark	Law 9202	November 23, 2009
Ecuador	Law 9360	June 4, 2013
United States	Law 9449	November 12, 2019
Finland	Law 9197	June 29, 2011
France	Law 9012	November 10, 2011
Greenland	Law 9200	December 18, 2013
Guernsey	Law 9551	May 9, 2018
Italy	Law 9664	February 19, 2019
Mexico	Law 9033	April 19, 2012
Norway	Law 9201	December 18, 2013
Netherlands	Law 9040	May 13, 2012
South Africa	Law 9413	December 7, 2016
Sweden	Law 9203	January 29, 2014

## There is no taxation of transfers of real estate and vehicles.

### Corporate Fiscal Compliance

#### Statements:

The deadline for filing the income tax return is March 15 of each year when it is a business day, or the following business day in a regular period. The taxpayer may request a special tax period.

#### Partial Tax Payments:

Taxpayers are required to make partial payments as income tax in each fiscal period, according to the following general rules:

- a) The basis for calculating the partial payment installments is the tax determined in the immediately previous year or the arithmetic average for the last three fiscal periods, whichever is higher.
- b) For taxpayers who, for any reason, have not filed a declaration in the three previous fiscal periods, the basis for calculating the partial payments will be determined using the declarations they have submitted. If it is the first period, it will be based on a founded estimate provided to the Tax Administration. Once the amount of the on-account payment is determined, 75% of that amount should be divided into three equal installments, which must be paid successively no later than the last business day of the months of June, September, and December each year (considering that the regular fiscal period is equal to the calendar year from January 1st to December 31st).

- c) From the total tax determined when filing the tax return, the partial payments pertaining to that fiscal period must be deducted. The resulting balance must be paid within the two months and fifteen natural days following the end of the respective fiscal period.

#### Value Added Tax:

As of July 2019, Value Added Tax (VAT) came into effect in Costa Rica, replacing the previously applicable General Sales Tax. The main characteristic of this tax is that it expanded the base of the former tax, applying a widespread tax not only to the sale of goods but also to the provision of services, rights, and intangible assets. The applicable rate remains at 13%, except for certain services and goods that were taxed at reduced rates. For example: a 1% tariff for basic basket products, agricultural inputs and their machinery, veterinary products, products and inputs for non-sport fishing, sales, imports or internationalization of sun protection products registered with the Ministry of Health, which do not contain chemical components toxic to coral reefs. A 2% rate for medicines and their raw materials, machinery, and equipment for their production, private education services, personal insurance, and the purchase and sale of goods and services for public universities. A 4% rate for airline tickets and health services, among other special rates.

Temporarily, some services have been given a differentiated treatment during the initial years of the law's enforcement. However, it is anticipated that

the rates will gradually increase, in most cases, until reaching 13%.

There is no taxation of transfers of real estate and vehicles.

As a general rule, the law allows for the application of tax credits for Value Added Tax incurred in the acquisition of taxed goods and services directly and exclusively related to taxable and non-exempt transactions. Deduction or accreditation is also allowed for taxpayers who have engaged in transactions with institutions related to the state or public or private entities that, due to the special law have an exemption.

Similarly, tax credits are allowed when they are related to the tax paid on the acquisition of goods and services used in operations related to exports.

#### The Law taxes the provision of cross-border digital services.

The taxpayer's main obligations to the Tax Administration regarding the Value Added Tax (VAT) are:

1. Register as taxpayers with the Tax Administration and declare their monetary activity(ies) subject to the Value Added Tax, as well as modify relevant tax information and deregister when necessary.
2. Self-assess, declare, and pay the Value Added Tax according to the means provided by the Tax Administration. The declaration of the Value Added Tax must be submitted every month, even if there is no tax to pay in that month.

3. Have, according to the provisions set by the Tax Administration, electronic means that allow the issuance of electronic receipts authorized by it to support the transactions carried out.
4. Issue electronic receipts according to the provisions set by the Tax Administration.

In Costa Rica, the reverse charge mechanism exists, which is applied when taxpayers acquire services provided by non-resident suppliers.

#### **Use of Electronic Receipts:**

In Costa Rica, the use of electronic receipts is in effect, which involves the issuance of electronic invoices, electronic debit notes, electronic credit notes, and electronic tickets to support all transactions. Previously, there was a general requirement for confirmation or acceptance of the electronic receipt; currently, such confirmation is only required in specific cases.

Electronic receipts must meet certain formal requirements, as well as technical specifications established by law and through regulations.

Decree No. 44.479 and its amendments regulate this matter, outlining exceptions to the obligation to issue electronic receipts, provided that goods are not sold or services subject to the Value Added Tax are not provided.

These exceptions include:

- The state, municipalities, and autonomous or semi-autonomous state institutions.

- Political parties.
- Unions
- The Life Insurance Society of the National Teachers' Union, Savings and Loan Association of the National Teachers' Association, and the Multiple Services Corporation of the National Teachers' Union.
- Individuals or legal entities engaged in the paid transportation of people, holding a permit or concession granted by the State, and whose fare is regulated by the Public Services Regulatory Authority.

#### **Selective Consumption Tax:**

The selective consumption tax is a tax imposed on the importation or domestic manufacturing of the goods detailed in the Appendix to Law No. 4961, Consolidation Law of the Selective Consumption Tax and its amendments.

This is a tax levied on importing and transferring ownership of specific goods by manufacturers. The rates are variable and selective, ranging up to 100%, and are typically applied to products considered non-essential.

The tax base is the cost, insurance, and freight (CIF) plus import taxes for imported items, or the selling price of items produced in Costa Rica. The tax is applied in a single stage during the sale of goods. Payment of the tax is required at the time of importation or, for items produced in Costa Rica,

within 15 days following the month of sale. The fiscal period is monthly.

Additionally, in Costa Rica, there are some specific consumption taxes.

#### **Property Tax on Real Estate:**

Each local municipal government is responsible for the assessment of real estate located within its jurisdiction. The property tax applied throughout the Costa Rican territory is 0.25% of the assessed value registered in the respective municipality when the tax obligation arises.

Depending on the municipality or region, the local government may grant an exemption from property tax if the taxpayer is an individual who owns only one property within the country.

#### **Property Transfer Tax:**

The property transfer tax is 1.50% of the sale price of the property or its fiscal value, whichever is higher.

#### **Determining Income and the Corporate Deduction**

##### **Inventory appraisal:**

Inventories are generally recorded at cost and can be valued using the weighted average cost method, FIFO (first in, first out), specific identification method, or detailed method. Since all entities must maintain legal records, any adjustment resulting from the different inventory valuation methods for tax and financial purposes must be recorded.

**Territoriality principle:**

Income from foreign sources is not taxable.

**Deductions**

**Depreciation and Amortization:**

Linear and sum-of-the-years-digits depreciation methods are allowed.

Class	Years
Buildings	50
Machinery and equipment	10
Furniture and devices	10
Vehicles	10
Agriculture	2 a 10

The Tax Administration, according to the request of the taxpayer, may adopt special depreciation methods that are technically acceptable and justified by the taxpayer. Additionally, the Tax Administration may authorize, through a general ruling, an accelerated depreciation method for new assets acquired by companies engaged in monetary activities that require constant technology updates, increased installed production capacity, and productive restructuring processes to maintain and strengthen their competitive advantages.

**Payments to the headquarters:**

When the aforementioned payments or credits are to parent companies of subsidiaries, branches, agencies,

or permanent establishments located in the country, the total deduction for the specified items may not exceed 10% of the gross sales obtained during the pertinent fiscal period. To do so, the withholdings of the tax established in this Law must have been made.

**Tax Deductions:**

Except for the Value Added Tax, selective tax, tax on legal entities, specific consumption taxes, and special taxes on them as established by law, penalties and interest paid on any other obligation, and the income tax itself, all other taxes related to the usual line of business and income-generating production are deductible expenses when determining the taxable base for calculating the income tax, unless otherwise provided by law.

**Fiscal incentives:**

Entities established in a Free Trade Zone will receive exemptions from export tax on goods, income tax in various modes (ranging from 0% to 15% depending on the activity, location within the national territory, and the number of years the benefit has been applied), value-added tax, export tax, selective consumption tax, property transfer tax, and withholding on payments abroad. They will also have the free possession and management of currencies related to their local operations. However, these incentives for manufacturing export activities have been affected by the rules established by the World Trade Organization, effective from 2015, so these benefits will only be available for certain manufacturing operations in

accordance with the Law that regulates the Free Trade Zone Program and its stipulations. The requirements and benefits of the Free Trade Zone for service sector companies have not undergone any changes.

Other tax refund programs apply to industries that import materials that have been semi-finished for assembly in Costa Rica, importation, and exportation of finished products.

The benefits include duty-free imports of raw materials for subsequent export as manufactured products. Machinery for these industries can also be imported duty-free.

**Tourism Development:**

The Law of Incentives for Tourism Development provides various tax benefits. These benefits include exemptions from tariffs on certain goods related to tourism services and property tax exemptions for tourism-related businesses, but only for those with a signed Tourism agreement.

**Double Taxation Treaties:**

**Costa Rica – Spain:** This agreement was approved by Law number 8888, to avoid double taxation and tax evasion on income and goods.

**Costa Rica – Germany:** This agreement was approved by Law number 9345, to avoid double taxation on income and assets.

**Costa Rica – Mexico:** This agreement was approved by Law number 9644, to avoid double taxation and prevent tax evasion on income.

**Costa Rica - United Arab Emirates:** This agreement was approved by Law number 9963, for the elimination of double taxation on income and capital gains and the prevention of tax evasion and avoidance, including its protocol.

**Tax on Individuals:**

Individuals engaging in profitable activities in Costa Rica are subject to the income tax on the same terms mentioned earlier.

Foreign citizens will be subject to income tax on their Costa Rican income from a Costa Rican source regardless of where they receive payment for their work in Costa Rica.

Resident individuals with independent profitable activities (i.e., non-salaried) are taxed at graduated rates ranging from 0% to 25%.

**Fiscal Compliance for Individuals:**

Declarations: Individual taxpayers must file their tax returns on the same dates as corporate income taxpayers. Additionally, they are obligated to keep records and are allowed to apply the same deductions

**Income tax on wages and other payments for personal services:**

Employers are required to withhold tax on salary, wages, bonuses, and other income derived from dependent personal work, retirement or pension, and other compensation for personal services. The tax is applied using a progressive table with defined tax brackets.



The year-end bonus (up to an amount not exceeding the twelfth part of the salaries earned in the year or the proportion pertaining to a shorter period worked), social security contributions, severance pay, and severance payments received in accordance with the Labor Code are not subject to income tax.

**Current individual income tax rates:**

Income tax for individuals with independent profitable activities:

<b>Tax on independent profit-making activities (annually):</b>		
Up to ₡4.094.000	Not subject	0%
From ₡4.094.000	Up to ₡6.115.000,	10%
From ₡6.115.000	Up to ₡10.200.000	15%
From ₡10.200.000	Up to ₡20.442.000	20%
Above ₡20.442.000		25%
Tax credits (annually):		
For each child		₡20.640
For the spouse		₡31.200
Salary tax:		
Up to ₡922.000	Exempt	0%
From ₡922.000	Up to ₡1.352.000	10%
From ₡1.352.000	Up to ₡2.373.000	15%
From ₡2.373.000	Up to ₡4.745.000	20%
Above ₡4.745.000		25%
Tax credits::		
For each child		₡1.720
For the spouse		₡2.600



# Contact

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# El Salvador

El Salvador is the former site of the ancient Pipil civilization and was conquered in 1524 by Spain, under whose rule Diego de Holguín and Gonzalo de Alvarado founded the capital city of San Salvador in 1525. El Salvador declared independence from Spain on September 15, 1821.



**In 1839, the Central American Federation (United Provinces of Central America) was dissolved.**

El Salvador achieved political stability and notable economic growth in the 1990s. The political system is based on a partisan democracy, in which different thoughts and ideologies converge, electing its main officials through the free and equal suffrage of its citizens.

# Why invest in El Salvador?

**El Salvador has important investment attraction expectations for the year 2026; up next we will discuss some useful perspectives when considering investing in El Salvador.**

## **Technology industry and cryptocurrencies**

In this sense, the “Law to Promote Innovation and Technology Manufacturing” approved in 2023 by the legislature aims to contribute to economic growth and the sustainable development of the country by strengthening competitiveness through the promotion of innovation and the manufacture of technology developed in the national territory.

## **Infrastructure**

On the other hand, El Salvador aims to develop in the near future, important infrastructure projects consisting of the construction of highways, wastewater treatment plants, lighting and video surveillance, the creation of a logistics economic zone at the country’s main airport, among others that are expected to be developed under the Public-Private Partnership modality, all of which are expected to generate important investment opportunities for our clients in the infrastructure sector.

## **Tourism**

It is expected that the investment in infrastructure will have a great impact on the coastal zone of the country where tourism investors and their clients will be able to have access to the beautiful Salvadoran beaches, as well as to the tax benefits offered through the Tourism Law mentioned earlier in this document; it is important to mention that the benefits of the Tourism Law are not restricted to the coastal zone of El Salvador.

In addition to the aforementioned, it is important to notice that the Executive Branch is promoting the construction of a new airport in the eastern part of the country, as well as the construction of a railroad connecting San Salvador with the Port of Acajutla, both projects are in the analysis and design stage, according to official sources.

## **Energy**

The energy sector in El Salvador is one of the most important for the country, which has a great projection

especially regarding the generation of electricity from renewable sources such as hydroelectric, geothermal, wind, solar, marine, biogas and biomass, which have significant tax incentives as established in the Law of Fiscal Incentives for the Promotion of Renewable Energy in Electricity Generation, these benefits make El Salvador really interesting on the eyes of the participants of the energy sector.

## **International trade**

In this context, it is important to highlight that El Salvador has trade agreements with Central America, Chile, Taiwan, Colombia, South Korea, Cuba, Ecuador, the United States, Mexico, Panama, Peru, the Dominican Republic and Venezuela, which undoubtedly represent an incentive for foreign investment in El Salvador.

# Content



**34**

**Overview Of The Country**



**35**

**Political And Legal System**



**36**

**The Economy**



**37**

**Doing Business In El Salvador**



**43**

**Banking System**



**45**

**Labor And Social Security**



**48**

**Accounting And Audit Requirements  
And Practices**



**50**

**Tax System**

# Overview of the country



## Climate

El Salvador has a tropical climate with two distinct seasons: the rainy season (May to October) and the dry season (November to April).

### Population, form of government, language, currency, others

<b>Area</b>	21,041 km <sup>2</sup>
<b>Population</b>	6,029,976 millions of inhabitants (2024)
<b>Population per km2</b>	287 inhabitants for km <sup>2</sup>
<b>Population growth</b>	0.4 % (2023)
<b>Urban population</b>	61.6% (2023)
<b>Political system</b>	Republican Democracy and Representatives
<b>Form of government</b>	Presidencial
<b>Language</b>	Spanish
<b>Currency</b>	United States dollar (US\$) and Bitcoin (Btc)
<b>Administrative Division</b>	262 Districts, 44 Municipalities and 14 Departments
<b>Religion</b>	Catholic
<b>Capital Ciy</b>	San Salvador

Source: Dirección General de Estadística y Censos, [www.digestyc.gob.sv](http://www.digestyc.gob.sv).

## Education

The Salvadoran public education system consists of the following levels:

- Initial level for children up to 6 years old).
- Basic level – Elementary (starts after initial level is finished and lasts 9 years).
- Middle level – High school/Certificate of completion of the grade (starts after basic level is finished and lasts 2 - 3 years).
- Superior level – University or College (starts after the middle level is finished and last 5 years).

Education through high school is officially free. The school year begins at the end of January and ends in Mid November.

The Ministry of Education, Science and Technology regulates all educational institutions and directs the public school system. There is a wide range of private educational institutions that are also regulated and must meet certain requirements established by the aforementioned Ministry.

There are approximately 50 public and private higher education institutions, of which 25 are universities, technological institutes and specialized institutes.

Most of these institutions offer graduates courses and master's degrees, as well as information technology courses which continue to add new professionals to the country's existing skilled labor pool every year.

# Political and legal system



## Legal framework

The legal structure of El Salvador is composed of three main powers – Legislative, Executive and Judicial – organized as follows:

Political and legal framework			
	Executive	Legislative	Judicial
<b>Exercised by the:</b>	The President	Congress	Supreme Court of Justice
<b>Composed of:</b>	The President and the Ministries council	Single Chamber (84 Congressmen) Chosen by direct vote for a three year period, with the possibility of reelection for a second term	The Supreme Court of Justice is composed of 15 magistrates
<b>Elected or appointed by:</b>	The President and Vice-President are elected by direct vote every 5 years	The Deputies are elected by direct vote every 3 years	Elected by the Congress for a period of 9 years.  The Chief Magistrate is also President of the Constitutional Court.

The legal system is based on Napoleonic Code.

In the elections of February 28, 2021, the congressman/woman to the Central American Parliament (Parlacen), the Legislative Assembly and members of the municipal councils of the Republic of El Salvador were elected.

## Main political parties

- Republican Nationalist Alliance (Alianza Republicana Nacionalista) ARENA
- Frente Farabundo Martí for National Liberation (Frente Farabundo Martí para la Liberación Nacional) FMLN
- Grand Alliance of National Unity (Gran Alianza por la Unidad Nacional) GANA
- National Conciliation Party (Partido de Concertación Nacional) PCN
- Christian Democratic Party (Partido Demócrata Cristiano) PDC
- Partido Vamos VAMOS
- Partido Nuevas Ideas NI
- Partido Nuestro Tiempo NT

# The Economy



## Inflation

According to the Consumer Price Bulletin No. 23 of the Consumer Price Index (CPI) for September 2024 of the National Statistics and Census Office (ONEC) the accumulated inflation is

# 0.83%

Source: <https://www.bcr.gob.sv/documental/Inicio/vista/5df878fb11d3ed184893b5bf0df128a7.pdf>

El Salvador has one of the most stable integrated economies in Latin America. Its attractive and dynamic business environment is the result of a policy-driven strategy that has focused on building sound macroeconomic fundamentals and strong institutions, promoting competition and international integration, and creating a fair, more equitable society in which all citizens benefit from economic development.

## PIB (US\$ millones)

	2020	2021	2022	2023
<b>GDP</b>				
Nominal GDP (US\$ m)	24,930.09	29,451.25	32,488.72	34,015.62
Real GDP growth (%)	7.26%	18.14%	10.31%	6.34%
<b>Prices and financial indicators</b>				
Exchange rate SVC US\$ (end-period)	8.75	8.75	8.75	8.75
Lending interest rate (avg.%)	6.6%	6.2%	6.4%	7.53%
<b>Current account (US\$ m)</b>				
Trade goods balance	-5,082.44	-8,222.53	-9,992.91	-9,150.25
Goods: exports FOB	4,805.45	6,394.89	7,115.11	6,498.09
Goods: imports cif	9,887.88	14,617.42	17,108.01	15,648.34
<b>Unemployment</b>				
Unemployment (k employees)	200.9	185.8	151.35	161.40

Source: Prepared by PwC SV based on data published by the BCR.

## GDP 2023 by sector is made up of the following way:

Agriculture, forestry and fishing	4.74%
Manufacturing industries	-0.96%
Other service activities	6.18%

Source: <https://estadisticas.bcr.gob.sv/serie/producto-interno-bruto-produccion-gasto-e-ingreso-a-precios-corrientes>

# Doing business in El Salvador



## Government attitude toward foreign investment

Government policies have been friendly toward foreign private investment. The country provides tax incentives to attract foreign investment and new commercial and industrial development. These benefits are regulated by the Investment Law, the Industrial and Commercial Free-Zones Law, the International Services Law, Tax Incentives for the Promotion of Renewable Energy Law, the Law for Reactivation of Exports, Special Law on Public Private Partnerships and the Investment Funds Law, and the Special Provisions for the Promotion and Granting of Tax Incentives for the Promotion of the Development of High-Rise Real Estate Projects.

Foreign direct investment has been playing a vital role in driving El Salvador's rapid modernization. It has not only helped sustain economic growth but has also brought improvements in social conditions and in overall development indicators.

## Free trade agreement and other agreements

El Salvador's open economy, coupled with the bilateral, regional and multilateral trade agreements it has entered into, has led to increased sustainability of international trade and has helped the country become internationally competitive.

Agreements and treaties such as CAFTA are in place with other Central American countries and the United States for purposes of easing and fostering free trade among member countries. In addition, El Salvador is party to a common market, under a broad treaty whose

main objectives are the free exchange of products originating in the member states and a common customs tariff on products imported outside the area.

El Salvador is part of the association agreement that Central America signed with the European Union, which entered into force on October 2013. Likewise, El Salvador is part of the association agreement with the United Kingdom of Great Britain and Northern Ireland, which entered into force in January 2021.

## Forms of foreign investment

After recognizing the variety of opportunities El Salvador offers, international companies have been steadily making their way into different sectors of the economy. Moreover, due to El Salvador's growing network of free trade agreements, they not only target the domestic market, but also enjoy privileged access to almost 500 million consumers in the Americas. The country offers a variety of services, including embroidery, industrial laundry, dyeing and finishing, cutting and packaging.

Many companies outsource their production and rely on the work ethic of Salvadorans to compete in today's crowded marketplace. Many companies outsource their production and rely on the work ethic of Salvadorans to compete in today's saturated market.

The Salvadoran government has two entities that play an important role in matters related to foreign investment. One of them is the Agency for the Promotion of Investments and Exports of El Salvador (INVEST), which is in charge of issuing the resolutions

that determine access to the regime established in the Law of Legal Stability for investments; that is, to issue a resolution to investors so that they enjoy guarantees of tax stability in internal (excluding indirect taxes), municipal, customs, among other benefits. On the other hand, there is the National Investment Directorate (DNI), in charge of facilitating, centralizing, and coordinating the government procedures that national and foreign investors must follow for the execution of their various economic, commercial, fiscal, immigration, and security obligations, any other nature. El Salvador has already signed trade agreements with Central America, Chile, Taiwan, Colombia, South Korea, Cuba, Ecuador, the United States, Mexico, Panama, Peru, the Dominican Republic and Venezuela.

## Restrictions on foreign investment

The Article 7 of the Investment Law establishes that foreign investments shall be limited to the following activities:

- Small-scale trade, industry and services, as well as coastal fishing, under the terms established by law, are the exclusive property of Salvadorans by birth and of Central Americans.
- The subsoil belongs to the State, which may grant concessions for its exploitation..
- Rural real estate cannot be acquired by foreigners whose home countries do not have equivalent rights for Salvadorans, except in the case of land for industrial establishments.

It is important to note that there are no limitations regarding the nationality of the founder shareholders. If the shareholders are foreigners, they may grant a Special Power of Attorney (authorized by a Notary Public and bearing an Apostille seal where applicable) to avoid traveling to El Salvador to sign the Public Deed of Incorporation.

- State permission is required for the operation of docks, railways, canals and other works of public use.
- Investments made in shares of banks, financial institutions and currency exchange offices are subject to the limitations stated in the laws governing such institutions.
- The maximum amount of rural land belonging to the same person or entity may not exceed 245 hectares. This limitation shall not apply to cooperative associations or communal farms, which are subject to special rules.
- The state has the power to regulate and monitor public services provided by private companies as well as approve their fees, except those established in accordance with international treaties or conventions.
- State authorization is required for the operation of docks, railways, canals and other works for public use.
- Investments made in shares of banks, financial institutions and exchange houses are subject to the limitations established in the laws that govern these types of institutions.

#### Establishing business in El Salvador

The Commercial Code of El Salvador, which came into force in 1970 and has been amended and supplemented by subsequent laws, regulates commercial activities, including business structures.

Companies may be established in the name of individuals and in the name of entities that are classified by law as legal entities. Companies in El Salvador are divided into personal companies and capital companies, which may have either fixed capital or variable capital.

#### Incorporation process

- Signing a Deed of Incorporation before a Salvadoran Notary Public incorporates the company. In the case of Simplified Stock Companies (hereinafter “SAS – Sociedades por Acciones Simplificada in Spanish”), they are established using the forms issued by the Commercial Registration.
- For the Public Deed of Incorporation to be granted, at least two(2) persons must appear as founder shareholders, which can be individuals or companies. In the case of SAS only one shareholder is necessary.
- The Public Deed shall be registered at the Registry of Commerce in order to obtain legal status (juridical person or entity).
- The stock capital of the company must be at least US \$2,000.00. At incorporation, at least 5% of the capital must be paid. In the case of SAS the share capital could be at least \$1.00
- The company’s administration may be entrusted either to a Board of Directors or to a Sole Administrator, and their respective Alternates must also be appointed. The Directors or Sole

Administrator may remain in their positions from one to seven years, and may be reelected.

- The company must also request a Business and Commercial License from the Registry of Commerce. Said license must be renewed every year, with the relevant fees due during the same month the company was originally incorporated.
- The initial balance must be registered at the Registry of Commerce.
- The company must be registered at the local City Hall of the city where it will be operating and the National Census Office (ONEC - Oficina Nacional de Estadísticas y Censos).

It is important to note that there are no limitations regarding the nationality of the founder shareholders. If the shareholders are foreigners, they may grant a Special Power of Attorney (authorized by a Notary Public and bearing an Apostille seal where applicable) to avoid traveling to El Salvador to sign the Public Deed of Incorporation.

#### Branch and/or permanent establishment

For tax and commercial purposes the branch is a domiciled entity, having the same rights and obligations as local companies. A branch of a foreign company is subject to Salvadoran law.

Regarding the capital required by law to establish a branch in El Salvador, the commercial law does specify a minimum capital, and establishes that the branch should register the capital necessary to perform



its commercial activity, with said investment initially registered at the National Investments Office (ONI – Oficina Nacional de Inversiones) of the Ministry of Economy, before filing the entity’s registration with the Registry of Commerce.

In addition, the branch must be registered in El Salvador at the following local authorities/ entities:

- Ministry of Finance– General Directorate of Internal Revenue (DGII) – Dirección General de Impuestos Internos.
- ONEC
- Ministry of Labor.
- Local Municipality.
- Salvadoran Social Security Institute (ISSS).
- Pension Fund Administrator (AFP).

The minimum capital to establish a branch is US\$12,000

A branch in El Salvador must be registered with the Commercial Registry.

The following documentation must be submitted:

- A certified copy of Articles of Incorporation (By-laws) of the foreign company that will establish the branch. If the Articles of Incorporation are in a language other than Spanish, the documentation must be translated into Spanish before a Salvadoran Notary Public.
- Agreement issued by the company’s administration (i.e. Shareholders Meeting, Board of Directors) approving: (i) the establishment/opening of the

branch in El Salvador, and (ii) the designation of the legal representative.

- Power of Attorney granted by the company to a domiciled local person or to a foreigner residing permanently in El Salvador, to act as the legal representative of the branch and to carry out the registration process with the relevant authorities.
- The minimum capital must enter the country through a transfer of funds to a bank of the local financial system, in order to obtain the document ‘Proof of foreign currency income’ (“Comprobante de ingreso de divisas”) required to register such investment at the ONI.

#### **De facto partnerships**

In El Salvador, de facto partnerships are the union of two or more people with the same objective or interest to develop a commercial activity.

#### **Free Zone Law**

The Industrial and Commercial Free Zone Law No. 405 dated September 3, 1998 grants companies the following incentives:

- Income tax exemptions.
- VAT exemptions.
- Municipal exemptions from real estate transfer tax when land is intended for productive activities.
- Exemptions from duties on imports of machinery, raw material, equipment and intermediate goods used for production.

## Investment funds are exempt from income tax and VAT and any other kind of taxes, fees and special contributions.

- Option to sell merchandise or services linked to international trade produced in the free zone in the Salvadoran market is permitted as long as companies pay the corresponding import tax, income tax, VAT, and municipal taxes on the final goods admitted.

Any foreign company may establish and function in a free zone if they are engaged in production, assembly, manufacturing, processing, transformation, or commercialization of goods and services, and/or rendering of services linked to international or regional trade, such as gathering, packaging and repackaging, cargo consolidation, distribution of merchandise and other activities connected or complementary to them. The International Services Law No. 431 dated October 11, 2007 grants the same benefits as the Free Zone Law, but the beneficiaries are companies operating in Service Centers especially created by this law and dedicated to international services as defined therein.

### **Tourism Law**

Companies engaged in tourism that start operations or carry out reinvestments, in both cases for amounts equal to or greater than USD 25,000.00 are eligible to be declared as of “National Touristic Interest” with applicable benefits such as full exemption from income tax for a period of ten years, full exemption from taxes on the transfer of real-estate property, exemption from customs duties on imports of goods, equipment, accessories and machinery and partial exemption from municipal taxes (up to 50%) for a period of five years.

### **The Renewable Energy Incentives Law**

This Law benefits companies dedicated to the exploitation of renewable resources (hydraulic geothermal, wind, solar, marine, biogas and biomass), with the following benefits: exemption from income tax for a period of five years for projects above the 10MW and ten years for projects under the 10MW or less, exemption from customs duties on imports of machinery, equipment and materials for the first ten years and the total tax exemption on the proceeds from the sale of Emission Reduction Certificates, when certain requirements are met.

### **Public Private Partnerships Law**

Its objective is to guarantee legal certainty in customs, tax and immigration areas, through the conclusion of Legal Stability Contracts. Companies that undertake the commitment to invest an amount equal to or greater than 45 thousand times the minimum wage in fixed assets may apply, ie approximately US \$ 13.6 million, extending the benefits to a term of up to 40 years.

### **Legal Stability Law for Investments**

Its objective is to guarantee legal security in customs, tax and immigration areas, through the celebration of Legal Stability Contracts. Companies that commit to investing in fixed assets an amount equal to or greater than 4,222 times the minimum wage, or approximately US\$1.2 million, with benefits extending to a period of up to 20 years.

### **Investment Funds Law**

This law establishes that investment funds can be formed by the contributions of different investors-called participants- and administered by a limited company called the administrator, at the expense and risk of investors, the supervision framework of the Investment Funds, their quotas, the companies that administer them, etc.

There are two types of investment funds: i. Open: These funds do not have a defined duration time and the participants can withdraw their participations in any given time the total or partial amount.

The open funds must have a minimum capital of USD\$ 350,000 and at least 50 participants, or 10 participants if one of these is an institutional investor. ii. Closed: These funds have a defined duration of time and the participants will only receive the corresponding amount to their shares at the end of the fixed period, Close funds should have a minimum capital of USD\$350,000 and at least 10 participants, or 2 participants if one of these is an institutional investor. Investment funds are exempt from income tax and VAT and any other kind of taxes, fees and special contributions. Likewise, natural persons who invest in the funds will be exempt from the payment of Income Tax on the proceeds from their participation quotas, for the first 5 years following the establishment of the first investment fund. Natural persons or legal entities not domiciled in the country will enjoy a reduced rate of 3% withholding income tax.



### Investment Law

Legislative Decree No. 732, dated October 14, 1999, promulgates the Investment Law; which aims to encourage investment in general and foreign investment in particular, to contribute to the economic and social development of the country. Its benefits can be:

- Streamlining procedures.
- Equality for investors, both foreign and domestic, having the same rights and obligations.
- Freedom to make investments.
- Transfer of funds abroad.
- Protection of property and security.

### Construction Projects Procedure Streamlining Law

The purpose of this law is to streamline procedures and administrative procedures carried out by the Executive Branch, autonomous entities and municipalities, for the granting of permits and authorizations for the development of construction and subdivision projects.

### Electronic Signature Law

Approved in October 2015 and through Legislative Decree No. 133, this law equates the simple electronic signature and the certified electronic signature with the handwritten signature. In addition, it recognizes the legal value of the certified electronic signature, the data messages and all information in electronic format that are subscribed with a certified electronic

signature, regardless of its material support. Also, it regulates and controls matters related to electronic certification service providers, electronic certificates and electronic document storage service providers.

### Law to promote innovation and technology manufacturing”

Approved in April 2023 through Legislative Decree No. 722, which aims to contribute to the economic growth and sustainable development of the country by strengthening competitiveness through the promotion of innovation and the manufacture of technology developed in the national territory, promoting the growth of the workforce trained to generate advanced technological products and services, also strengthening participation in supply chains essential for the development of the technological industry globally.

### Bitcoin law

In June 2021, the Legislative Assembly of El Salvador approved the “Bitcoin Law”, on this same date the Bitcoin Law was published in the Official Gazette No. 110, Volume 431, the aforementioned law entered into force on September 7, 2021. The purpose of the Bitcoin Law is to regulate bitcoin as an unrestricted legal tender with unlimited liberating power in any transaction and in any capacity that public or private individuals or legal entities require to carry out.

According to the law in question, the exchange rate with respect to the Dollar of the United States

of America (“USD”) will be freely established by the market; additionally, it is established that all prices may be expressed in bitcoin; additionally, it establishes that the obligations in money expressed in USD prior to the entry into force of this law may be paid in bitcoin. The Bitcoin Law establishes that all economic agents must accept bitcoin as a form of payment when required by someone who acquires goods or services. Excluded from the obligation to accept bitcoin as a form of payment are those who, due to well-known facts and in an evident way, do not have access to the technologies that allow executing transactions in bitcoin. Bitcoin can be used to pay all tax obligations; additionally, it is established that “exchanges” in bitcoin will not be subject to capital gains tax; and regarding accounting, it is established that the USD will continue to be used as the reference currency.

It is also established that the state must provide alternatives that allow users to carry out transactions in bitcoin, as well as have automatic and instant convertibility from bitcoin to USD, when required, subject to the regulations issued by the Central Reserve Bank and the Superintendence of the Financial System. Additionally, the State will guarantee, through a trust in the Development Bank of El Salvador (BANDESAL), the automatic and instant convertibility of bitcoin to USD.

On January 30, 2025, the Legislative Assembly of the Republic of El Salvador, through Decree No.199, determined the need to reform the Bitcoin Law, with

the following modifications being the most relevant:

- The law aims to regulate Bitcoin, defined by its unlimited liberating power, with voluntary acceptance by individuals or private entities, in any transaction and for any purpose they may need to carry out.
- Only individuals or private legal entities may accept Bitcoin as a form of payment when offered by someone acquiring a good or service or for the payment of any monetary obligation.

The aforementioned Decree will enter into force 90 days after its publication in the Official Gazette.

Special Provisions for the Promotion and Granting of Tax Incentives for the Promotion of the Development of Real Estate Projects

Approved in September 2024, by means of the Legislative Decree, its purpose is to establish special provisions to promote the realization of investments and economic activities in high-rise real estate development projects; as well as the granting of tax incentives in the area of Income Tax, in respect of the same. The benefits referred to in the Special Provisions are: i) Exemption from Income Tax from the year in which profits and income begin to be obtained; ii) the income obtained is not subject to the application of Capital Gains; iii) withholding at source in the distribution of dividends, this provision will be applicable both to the entity that owns the project and to its immediate shareholders; and iv) the income obtained will not be subject to the advance payment of

Income Tax. These incentives will be valid for 15 years from the year in which profits and income begin to be obtained.

### **Intellectual Property Law**

Establishes the legal framework for the protection and observance of intellectual property rights and other industrial rights and privileges, as well as for the protection of innovation and creativity, facilitating the dissemination of information, knowledge, technology, culture and arts, thereby promoting the development of economic and sustainable growth in El Salvador.

# Banking system



## Central bank

El Salvador's financial sector is regulated by the Banco Central de Reserva (BCR), which is supported by the Superintendent of Banks (SSF), Superintendent of Pensions (SP), Superintendent of Securities (SV) and the Institute of Guarantees and Deposits (IGD).

The BCR is the authority responsible for exchange controls. The enactment of Law No. 746, dated April 12, 1991, empowers the Central Bank to promote and maintain the monetary, exchange and financial conditions that most benefit the stability of the national economy.

## Commercial banks

Thanks to El Salvador's continuous reforms in the financial sector, it has established a strong banking community, with positive tax laws that attract foreign investment. In 1990, the Superintendent of Banks, an independent regulatory body that supervises the banking sector according to the Basle Committee recommendations, was established to develop the Salvadoran banking sector in line with international standards.

## Law against Money Laundering and Assets

Dated December 2, 1998, this law is intended to prevent, detect, punish and eradicate the crime of money laundering and assets laundering, as well as the withholding of information.

## Law for the Insurance Companies

Dated October 10, 1996. This law has the purpose of regulating the constitution and operation of insurance companies, as well as, the participation of insurance intermediaries, in order to protect the public's rights and facilitate the development of insurance activity.

## Law of Banks

Dated September 2, 1999. The banks law is intended to regulate financial intermediation and other bank operations, fostering a transparent, reliable and agile service that contributes to the nation's development.





### Law of Monetary Integration

Dated November 30, 2000. This law establishes that the legal exchange rate between the colón and the U.S. dollar is fixed and unalterable, at 8.75 colones per U.S. dollar, from the date of the law's enactment.

### Law for the Creation of the Development Bank

Development Bank No. 847 dated September 22, 2011. The law created the Development Bank as a public institution for credit. The bank's objective is to promote the development of investment projects in the private sector in order to:

- Promote the growth and development of all productive sectors.
- Promote the development and establishment of businesses.
- Foster the development of micro and small businesses.
- Generate jobs.

### Improve education and health services.

Foreign Banks: According to Article 31 of the Banks Law No. 697, a foreign bank operating in El Salvador shall have the same rights and obligations as Salvadoran banks. Foreign banks will operate in the country through branches, which must obtain prior authorization from the Superintendent of Banks (SSF). In addition, they will be subject to the same laws and regulations as national banks, and under the supervision of the aforementioned Superintendent.

### List of banks

Central bank  
Central Bank of El Salvador.

### Government-owned banks

Banco de Fomento Agropecuario.  
Banco Hipotecario.  
Development Bank of El Salvador (Bandesal, Banco de Desarrollo de El Salvador).

### Private banks

Banco Agrícola, S.A.  
Banco Cuscatlán de El Salvador S.A.  
Banco Davivienda Salvadoreño, S.A.  
Banco Promérica, S.A.  
Banco de América Central, S.A.  
Banco Atlántida de El Salvador, S.A.  
Banco ABANK, S.A.  
Banco Industrial El Salvador, S.A.  
Banco Azul El Salvador, S.A.  
Banco Apoyo Integral, S.A.

### Branch of foreign Banks

Citibank N.A. El Salvador branch

There are also Cooperative Banks and Savings and Credit Associations that complement the financial system.

# Labor and social security



## Labor supply

Below are the employment statistics according to the Multiple Purpose Household Survey published by the Central Reserve Bank for the year 2022, for which an average sample of 19,968 homes is taken annually; with which information is obtained at the national level, of the urban and rural area:

### Employed population, by branch of economic activity

	2021	2022	2023
<b>Commerce, hotels and restaurants</b>	31.7%	31.3%	22.0%
<b>Agriculture, livestock, hunting and forestry</b>	14.2%	14.3%	20.5%
<b>Manufacturing industries</b>	15.1%	14.6%	12.7%
<b>Community social and health services</b>	6.2%	6.3%	4.1%
<b>Financial intermediation, real estate</b>	6.4%	6.4%	7.9%
<b>Households with domestic services</b>	5.4%	5.8%	1.3%
<b>Construction</b>	7.7%	7.9%	14.4%
<b>Transport, storage and communications</b>	4.9%	5.0%	7.6%
<b>Public administration and defense</b>	4.2%	4.3%	5.5%
<b>Teaching</b>	2.6%	2.7%	1.7%

Source: Multiple Purpose Household Survey from 2021 to 2023 EHPM “Encuesta de Hogares de Propósitos Múltiple”, and National Statistics and Census Office and EHPM Central Reserve Bank

Termination of the contract without legal liability and without legal intervention can be done by mutual consent or by the employee's resignation.

#### **Labor law requirements**

The most important requirements set by the Salvadoran Labor Code are the following:

#### **Wages and salaries**

In July 2021, the National Minimum Wage Council approved Executive Decree No. 10 "Minimum wage rates for people who work in the areas of commerce, services, industry, textile and clothing maquila, sugar mills, coffee mills and other activities of agribusiness, as well as for home workers who work in these areas", said decree entered into force on August 1, 2021, in which the minimum monthly salary equivalent to USD \$365.00 was established for the commerce and service sector. This was determined from the basic daily salary of \$12.00 and multiplying it by 365 days of the year, the product divided by 12 months, resulting in the monthly salary to be paid to the worker regardless of the month in which he is being paid.

#### **Profit sharing**

Although it is not mandatory but a bonus may be paid according to agreements with the employer and/or goals achieved by the employee.

#### **Christmas bonus**

This bonus applies according to seniority:

- As approved by Congress employees with more than 1 year but less than 3 years with a company receive 15 days of basic salary.
- As approved by the Congress workers with more than 3 years but less than 10 years with a company receive 19 days of basic salary.
- As approved by Congress employees with more than 10 years of employment with the same company receive 21 days of basic salary. For income tax purposes, the Christmas bonus is considered as exempt income up to 2 monthly minimum wages in the commerce and services sector.

#### **Fringe benefits**

Non-cash compensation given to employees (benefits in kind) for services rendered in the country is considered taxable income for the employee.

#### **Hours worked**

Maximum working hours are 8 hours daily, and should not exceed 44 hours a week. The work week must end at noon on Saturday. Any modification in the end of a workweek to a different time has to be approved by Ministry of Labor.

#### **Paid holidays and vacations**

After a year of continuous work in the same company, workers will be entitled to a vacation period of 15 days, which will be paid with a benefit equivalent to the ordinary salary corresponding to said period plus 30% of it.

#### **Termination of employment**

Sections 48-54 of the Salvadoran Labor Code establish the causes for termination of contracts. An employment contract can be terminated with or without legal liability for both parties and can be done with or without legal intervention.

Termination of the contract without legal liability and without legal intervention can be done by mutual consent or by the employee's resignation.

#### **Severance payment for voluntary resignation**

In January 2015 the severance payment for voluntary resignation came into force in El Salvador. Therefore, any employee with more than 2 years with the same company, has the right to request a Severance payment for voluntary resignation of 15 days of basic salary for each year of work. For purposes of calculating the Severance payment for voluntary resignation, the salary should not exceed twice the legal minimum daily wage.

**Technical education tax**

An employer contribution of 1% is imposed on the total monthly payroll of employees applicable to those employers with more than 10 employees. This contribution is intended to finance programs for the instruction and technical training of workers, managed by the National Institute for Training and Professional Development (INCAF - Instituto Nacional de Capacitación y Formación Profesional).

The purpose of INCAF is to strengthen the skills and competencies of Salvadoran human talent by training competitive profiles.

**Foreign personnel**

Normally, foreign personnel intending to work in El Salvador require work permits along with a temporary residence in the country. Contracting the services of a foreign worker requires prior authorization from the Ministry of Labor.

Authorization is given for one year, provided the company employs and trains an equal number of Salvadorans in the field. This authorization may be extended for similar periods. Taxation of foreign personnel is on equal footing with nationals, as described under Taxation.

**Social security**

Law No. 1263 of the Social Security system in El Salvador was enacted on December 3, 1953, and was last reformed in 1994. The law is also complemented by several regulations on social security issues. Article 186 of the Salvadoran Constitution establishes social security as an institution necessary to the public interest.

**The social security system contemplates: Health/ maternity benefits**

For illness, the employer pays the first three days, and after the third day, social security covers 75% of salary.

For maternity, social security covers 100% (Maximum salary is \$1000) of the monthly salary and the employer grants a 16-week period for maternity care.

**Disability**

For one year or less of disability, a percentage of the salary is paid by social security, and for over a year pension funds will recognize a percentage of the salary depending on the level of disability.

**Old age/retirement**

After working 30 years, men can retire at age 60 and women at 55.

**Death**

Pension funds will pay the victim’s family an allowance depending on the victim’s amount of savings.

**Pension Fund (AFP)**

Savings are obligatory through pension funds managed by private Pension Fund Administrators, (AFP .Administradores de Fondos de Pensiones).

Monthly salary US\$	Rate %
<b>Social security contribution</b>	
Up to 1,000 (August 2015)	Employer: 7.50   Employee: 3
<b>Pension fund (AFP)</b>	
No maximum quotable salary (From January 2023)	Employer: 7.50   Employee: 3
<b>Payroll tax (for 10 employees and above)</b>	
Up to 1,000 (from august 2015)	Employer: 1.00   Employee: 0

# Accounting, audit requirements and practices



## Accounting

On October 7, 2009, the Supervisory Board of the Public Accounting and Auditing Profession (CVPCPA) issued a resolution by which, as of January 1, 2011, the financial statements of those entities whose shares or instruments of debt that are not traded in a public market or that do not have public

accountability must be prepared based on the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs). The financial statements of the entities whose shares or debt instruments are traded in a public market must be prepared based on the international standards of the International Financial Reporting Standard in its full version (IFRS-Full).



### Statutory audit requirements

In El Salvador, all local companies and branches operating in the country are required by law to appoint an external auditor. Financial statements prepared for companies and partnerships engaged in commercial, services or industrial businesses are also required to be audited by public accountants licensed in El Salvador, which must be appointed by the entity as the external auditor for a one- year period that can be renewed indefinitely.

Under the Salvadoran Tax Code, the appointment of an external auditor to verify compliance of taxes is mandatory for:

- Entities having total assets exceeding US\$1,142,857.14.
- Entities with income exceeding 4,817 minimum wage of commercial and services sector
- Entities resulting from a merger or transformation process, and
- Companies undergoing a liquidation process.

In El Salvador the same person or entity may provide external audit services.

### Books and records

- Financial Statements Book.
- Diary book.
- Ledger.
- Shareholders or Partners Registry Book.
- Book of Minutes of the General Meeting of Shareholders or Partners.
- Book of Minutes of the Board of Directors or Sole Administrator.
- Capital Increases and Decrease Book (for companies with Variable Capital Regime).
- Book of Purchases to Taxpayers.
- Book of Sales to Taxpayers.

- Final Consumer Sales Book.
- Special export annex.
- Detail of Exports attached to the Book of Sales to Final Consumer.

These books must be authorized by the external auditor, and each page must be numbered and stamped with the seal of the public accountant. According to the Commercial Code, all records must be in Spanish, and all accounts recorded in colones or in US dollars.

The books must be located and the accounting kept in El Salvador, even for branches, agencies or subsidiaries of foreign companies.

### Accounting profession

Licenses to practice as a Certified Public Accountant (Contador Publico Autorizado, CPA) are issued by the Supervisory Board of Public Accounting and Auditing (Consejo de Vigilancia de la Profesion de Contaduria Publica y Auditoria).

They may be authorized to practice accounting who obtained a degree in accounting from an authorized Salvadoran university or a similar degree from a university abroad, and must have fulfilled the process established by the Ministry of Education for certification in the country.

### Standard for the Assurance of Compliance with Tax Obligations (NACOT)

On April 18, 2018, the Supervisory Board of the Public Accounting and Auditing Profession issued the Regulation for the 2016 Assurance Tax Obligations, published in the Official Journal 72, Volume 419, dated April 20, 2018. This NACOT applies to assurance engagements on compliance with tax obligations for the fiscal year, starting on January 1, 2018. According to this reform, paragraph 4.1 1 establishes: the requirement of independence for the auditor, that is to say that it forbids a firm, to provide the companies with Tax Audit services and the preparation of the Transfer Pricing Study or other services for the same fis.

# Tax system



The Salvadoran Congress creates national taxes, duties and other special contributions on all types of goods, services and income, while local governments (Municipalities) may draw up specific regulations on taxes and contributions and submit them to the Congress for approval.

## Tax on corporate income

The current income tax rate is 30% except for entities whose taxable income is less than or equal to USD \$150,000.00 in which case, the applicable rate is 25%.

Taxable income is net after deducting costs and expenses considered necessary for generating and maintaining the related source of income, and other deductions allowed by law. Gross income, on the other hand, comprises income or profits collected or accrued, either in cash or in kind, from any sources such as business, capital and all types of products, gains, benefits or profits, whatever their origin, as well as condoned debts. Legal entities are required to follow the accrual method of accounting, which means that income is reported although not collected, and costs and expenses are reported when incurred into and not when paid for.

For tax purposes, income is computed for 12-month periods, also known as taxable periods, and the tax period for legal entities begins on January 1st and ends on December 31st of each year.

## Income tax advance payments

A 1.75% tax rate is applied to gross revenues obtained, and paid monthly as advance payments which are applied against the CIT and the end of the year.

## Income tax on profit distribution

The profits distributed to shareholders, partners, trustees, participants, investors or beneficiaries will be subject to withholdings of 5% (25% for distribution to beneficiaries located in Tax Havens).

## Tax on branch income

In El Salvador tax rates on branch profits are the same as for domestic corporations. No tax is withheld on transfer of profits to the head office, provided the entity distributing them reports and pays the corresponding income tax thereon.

Administrative offices: the law does not provide for separate treatment of administrative offices located in El Salvador. The general regulations indicate that branches, agencies and/ or permanent establishments operating in the country, with owned or leased installed infrastructure, employing domestic staff, and conducting business in a material and public manner in the country, are subject to the same taxes as companies duly incorporated.

## Excise tax

An ad valorem tax is applied on simple or sugary soft drinks at a rate of 10% on the retail price suggested to the public by the manufacturer, importer or distributor, not including VAT or taxes on returnable bottles

## Capital income, products or profits excluded from the concept of income

In March 2024, the reform that excluded from the concept of income the values received, obtained abroad, whether or not generated by the investment of national or foreign capital from any kind of source abroad, came into force.

## Tax on the production and import of alcohol and spirits

A specific tax of US\$0.09 to US\$0.16 is levied on domestically produced or imported alcohol and spirits for each 1% volume of alcohol per liter or in proportion. Spirits and alcohol are also subject to an ad valorem tax at a rate of 8% on the suggested retail price, not including VAT.

## Tax on tobacco products

A tax of USD 0.005 applies per cigarette, cigar, small cigarette or other tobacco product. In addition, an ad valorem tax is applied at a rate of 39% on the suggested retail price to the consumer, not including VAT.

## Tax on stimulated drinks

A specific tax of USD \$0.20 per liter of stimulated or energy drinks will be applied. In the event that the aforementioned beverages are packaged in volumes greater or less than one liter, the calculation of the tax will be applied in proportion to their volume. In addition, a 5% ad valorem tax will be applied on the suggested retail price.”

## Tax on the Transfer of Movable Property and the Provision of Services (VAT)

VAT is levied at a rate of 13% on the taxable amount. As a general rule, the taxable amount is the price or remuneration agreed upon by the parties.

For imports, the taxable amount is the customs value.

The following transactions are subject to VAT when performed within Salvadoran territory:

- Transfer/sale of tangible movable goods.
- Withdrawal of tangible movable goods from the inventory made by the company for selfconsumption by its shareholders, directors or personnel.
- Import of goods and services.
- The supply of services of any type whether permanent, regular, continuous or periodic; technical advice and project designs; lease and sublease agreement over tangible goods; lease/ sublease agreements over real estate for commercial purposes; lease of services in general; construction of real estate properties or building contracts; auctions; freight, whether inland, air or maritime; lease/ sublease and any form of use regarding trademarks.

The following imports are exempt from VAT:

- Imports made by diplomats and Consulate representatives of foreign nations with presence in the country according to international agreements adopted by El Salvador.
- Imports made by international organizations to which El Salvador is a party.
- Travelers' luggage according to customs regulations.
- Donations to non-profit organizations.
- Imports made by municipalities, if the goods imported are for the public benefit of the community.

- Imports of machinery by a taxpayer duly registered for this purpose which will be part of the taxpayer's fixed assets.
- Vehicles for public transportation, which can only be transferred after five years. The following services shall be exempt of VAT:
- Health services rendered by public institutions.
- Lease and sublease of real estate properties for housing.
- Services rendered under an employment relationship, and those rendered by public and municipal employer.
- Public cultural performances authorized by the relevant authorities.
- Educational services rendered by authorized entities, (i.e. the Ministry of Education, "Ministerio de Educacion").
- Interest on deposits and loans, provided by local financial institutions or entities registered at the Salvadoran Central Bank (BCR).
- Interest on securities issued by the government and/or private entities traded through a stock exchange.
- Water supply by public institutions.
- Public transportation.
- Insurance premium covering individuals, and reinsurance in general. Exports are levied at 0% VAT. Foreign source income is not subject to VAT.

VAT taxes paid by a registered taxpayer company on its purchases (tax credits) are credited against VAT taxes charged to its customers (tax debits), on a monthly basis.

**Capital gains tax**

Capital gains are taxed at a flat rate of 10% of net profits, except when profits are earned within 12 months from the date of purchase, in which case they are taxed as ordinary income. Capital gains on securities are also subject to capital gains tax, however the 12-month rule described above does not apply to them. Capital losses can only be offset with capital gains. Whenever capital losses exceed capital gains, the remaining balance can be transferred to future capital gains within a period of five years.

**Annual business tax**

Companies are required to register with the Registry of Commerce and pay an annual business license fee assessed on the company's assets, as follows:

From US\$ 2,000 to US\$ 57,150	USD\$ 91.43
From US\$ 57,151 to US\$ 114,286	USD\$ 137.14
From US\$ 114,287 to US\$ 228,572	USD\$ 228.57
An additional charge for each office, branch or proprietary agency of a company	USD\$ 34.29

If the assets exceed the amount of US\$ 228,572, there is an additional duty of US\$ 11.43 for each US\$ 100,000 or fraction thereof. In any case, the relevant duties are limited to US\$ 11,428.57.

### Municipal taxes

Municipal taxes are assessed according to a progressive tariff issued by each municipality, applicable to the company's assets located in each municipality. Taxes are paid on a monthly basis. The tariff list is applied separately to the commercial, industrial and financial sectors.

### Real estate transfer tax

Transfers on real estate holdings are taxed according to the value of the real estate, at a rate of 3% applicable on amounts exceeding US\$ 28,571.43.

### Other tax regime

Simplified regime for casino and slot machines. No special regime exists for casino, slot machines or betting games. In fact, legal limitations have been issued by local authorities in various municipalities prohibiting the operation of these activities.

## Corporate Deduction

### Allowed deductions

All business expenses considered necessary to produce taxable income and/or maintain the income source (including freight, marketing, power, telecommunications, water, salaries, lease contracts, merchandise and transport insurance, fuel, interest paid on loans used by incomegenerating sources and similar expenses) are deductible for income tax purposes.

### Interest

Interest paid on loans invested to produce taxable incomes or maintain the income source. Also, if the loan was made by a foreign company or bank that is not registered with the Central Bank or if the loan is between related parties, income tax is withheld at 20%. If the foreign bank was registered with the Central Bank by 2010, then 10% income tax will be withheld.



Penalties and interest charges on unpaid taxes on income, VAT, real estate transfers, state and municipal taxes are not deductible.

**Taxes**

Penalties and interest charges on unpaid taxes on income, VAT, real estate transfers, state and municipal taxes are not deductible.

**Depreciation**

Depreciation allowances on fixed assets are determined by the straight line method at the following rates:

Type	%
Buildings	5
Machinery	20
Vehicles	25
Other movable assets	50

**Depletion**

Amortization of the cost of acquisition or production of computer programs used for the production of taxable income or conservation is deductible from its source, applying a fixed and constant percentage of a maximum of 25% annually on the cost of production or acquisition.

**Payments to foreign affiliates**

Remittance of royalties, interest income and service fees to foreign affiliates are deductible, provided proper contracts are in place and withholding tax of 20% is applied and if these services have actually been

received. Payments to entities located in tax havens are subject to a withholding tax rate of 25%.

**Other significant issues**

The deductibility of charitable donations is limited to 20% of the donor’s net income in the respective tax period, minus the amount of the donation.

Amortization of goodwill, trademarks and other similar intangible assets are not deductible for income tax purposes.

**Net operating losses**

Operating losses cannot be carried forward to future years. Salvadoran legislation does not allow for the carry back of losses except for capital losses.

**Withholding tax (WHT)**

Payments or amounts credited to non-residents arising from income obtained in El Salvador are subject to a 20% WHT. Income earned in El Salvador covers income from assets located in the country, and from any activities performed or capital invested in the country, and from services rendered or used in the national territory, regardless of whether they are provided or paid for outside the country. Income from services used in the country is income earned in El Salvador by the service provider, irrespective of whether the relevant income-generating activities are performed abroad. Payments to foreign entities located in tax havens are subject to a withholding tax rate of 25%. Certain transactions are subject to a reduced

withholding of 5%, such as the following:

- Dividends (see Income tax on the distribution of profits section).
- International transport services paid to non-residents.
- Insurance, reinsurance and bond services paid to non-residents.
- Payments for the transfer of intangible assets or use of rights on intangible and tangible assets related to films, music discs, cable television, satellite, etc.

In addition, there is a treaty to avoid double taxation between El Salvador and Spain, this treaty established a reduced withholding, such as the following:

- 12% withholding (or 5% since the local rate is more favorable to the taxpayer) to dividend payments. The payment is exempt from withholding if the dividend is paid by a local entity to a Spanish company that owns 50% or more of the capital of the local entity.
- 10% withholding of interest payments.
- 10% withholding made to the rent and payments of royalties.
- 10% withholding on payments for services.

Payments to individuals domiciled, regarding to services rendered that are not the result of an employment relationship is subject to a 10% WHT. The acquisition of intangible goods among domiciled entities in the country is subject to a 5% if it is a company or 10% WHT if it is an individual.

### Transfer pricing ruling

In El Salvador, the entities should undertake transactions with related parties or with entities based in tax havens according to the rules of market prices.

Local tax authorities can establish the value of the operations according to market prices rules if, in their view, these operations have not been undertaken according to the arm's length principle.

Section 62 of the Salvadoran Tax Code establishes that for tax purposes, any taxpayers conducting transactions during a tax period with related parties shall be required to determine both prices and amounts of the relevant transactions, by considering their market price with respect to goods or services of the same kind sold among wholly independent parties.

Likewise, taxpayers shall determine at market prices the value of any transactions they conduct with taxpayers residing or organized or located in countries, states, or territories with preferred tax systems, or low or zero taxation or tax havens.

Moreover, Section 199-B of the Tax Code states that domestic transactions' market prices shall be understood to be the selling prices of movables or services charged by companies or concerns, located in the country and unrelated to the taxpayer, and which trade movables or services of the same kind.

For sales of movables or services made or rendered abroad, the related market prices shall be the prices which concerns other than the taxpayer and unrelated to it might have charged on sales of movables or

services of the same kind, made or rendered from El Salvador to the same country of destination.

As for importations, market prices shall be the price of movables or services of the same kind charged by companies or concerns, unrelated to the taxpayer, and located in the country where said movables may have been purchased or services contracted, plus freight costs, as appropriate. For determining market prices, in the event that more than three movables or service vendors are supplying them, price data shall be sufficient and an average thereof shall be adopted to that end.

Whenever for any reason no market prices can be determined, the tax office shall determine them based on the prices or amounts charged by the taxpayer to unrelated purchasers of movables or services other than those to which movables or services might have been sold at lower or higher market prices.

On September 2022, the General Directorate of Internal Revenue ("Dirección General de Impuestos Internos" or "DGII") issued the "Orientation Guide MH.UVI.DGII 006.006/2022" whose main objective is to provide taxpayers with guidance on the proper tax treatment of related party transactions or transactions with parties domiciled in tax havens. Orientation Guide MH.UVI.DGII 006.006/2022 generally adheres to the arm's length principle and is in line with the guidelines issued by the Organization for Economic Cooperation and Development ("OECD"). which it entered into force as of January 1, 2023.

### Corporate Tax Compliance

Tax authorities: National taxes, fees and other contributions on all type of goods, services and income in El Salvador are levied by the National Congress, with local government (municipalities) permitted to suggest contribution rates and propose their approval to the National Congress by way of specific law.

Ministry of Finance ("Ministerio de Hacienda"): The Ministry controls the state's finances and defines and guides the government's financial policy, and also coordinates, directs and implements its policies on taxation, through the following agencies:

- General Directorate of Internal Revenue ("Dirección General de Impuestos Internos" or DGII) created by Law No. 451, dated February 22, 1990, replacing the former Direct
- Revenues Services and charged with managing and collecting the country's main internal revenues.
- General Directorate of Customs ("Dirección General de Aduanas" or DGA), created by Law No. 903 dated December 14, 2005, replacing the former Customs Revenues
- Services. Its main function is the exercise of its customs powers to facilitate and control international trade within its domain, and monitor and collect duties and taxes imposed upon merchandise entering and existing the territory.

### Returns

VAT returns are filed on a monthly basis within the

first ten (10) working days of each month following the period under taxation. In addition, public and private juridical entities other than farm and cattle concerns, domiciled in the country for tax purposes, are required to make income tax advance payments at 1.75% of gross revenues.

These advance payments are due, together with the corresponding return, within ten (10) working days following the corresponding calendar month.

CIT annual returns must be filed each year no later than April 30, following the end of the year under taxation. In El Salvador the fiscal year is from January 1st to December 31st. These formal requirements are mandatory regardless of whether no tax is ultimately payable.

#### **Payment of tax**

Taxes are due on the date established for filing the tax returns, and paid at banks of the local financial system.

Year-end dates established by the tax code The year-end is established at December 31.

#### **Individual taxation summary**

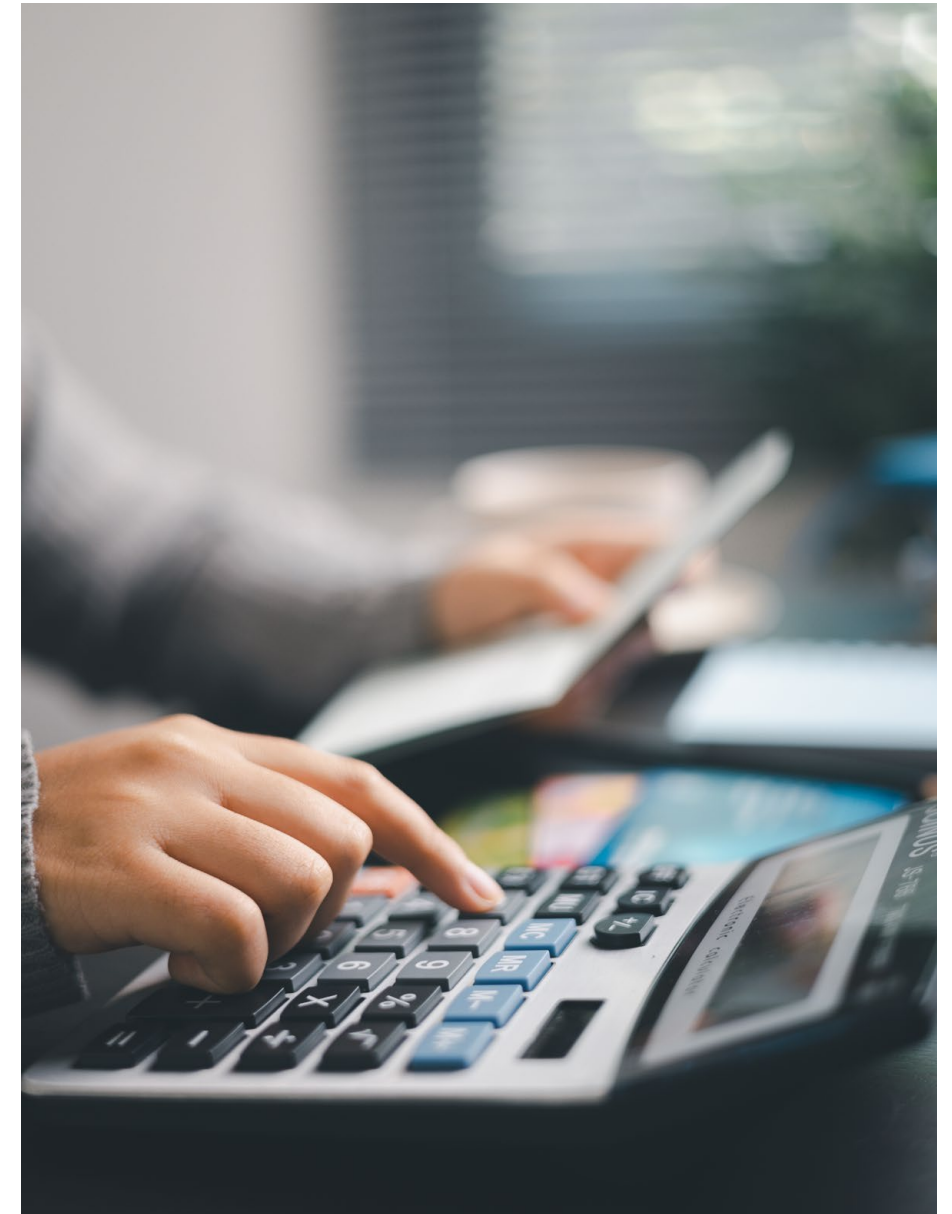
El Salvador taxes its citizens and all residents on their income earned in the country, and on any Salvadoran source income.

Taxable compensation of employees covers all types of income whether in cash or in kind, such as salaries, bonuses, overtime, paid vacations, housing and car allowances, reimbursement for tax and children's educational expenses, and other benefits in-kind.

According to the income tax law, domiciled individuals shall compute their income taxes by applying to their net income the tax rate table indicated therein.

#### **Gross income**

Broadly, the entire remuneration for personal services rendered in the El Salvador is subject to income tax. Taxable compensation of employees covers all types



Broadly, the entire remuneration for personal services rendered in the El Salvador is subject to income tax.

of income whether in cash or in kind, such as salaries, bonuses, overtime, paid vacations, housing and car allowances, reimbursement for tax and children’s educational expenses, and other benefits in kind.

**Individual Deduction**

**Current deductions / credits**

The personal deductions allowed include:

- Yearly exemption of AFP Pension fund contributions.
- Deduction of Social Security contributions.
- Deduction of educational expenses (personal, of spouse or of direct dependents under 25 years of age). These expenses include education at basic, medium, technical and college levels within the country. The deduction is limited to US\$ 800 per year.
- Deduction of medical expenses (personal, of spouse or of direct dependents under 25 years of age). These expenses include doctor fees, medicines and hospitalization within the country. The deduction is limited to US\$ 800 per year.
- The individuals earning US\$9,100.00 a year or less are entitled to a fixed deduction of US\$1,600 and are not required to file returns and submit tax payments.

The individuals whose income comes exclusively from wages/ salaries and other compensations and who have been subject to income tax withholdings, will not be required to file tax returns, except those with incomes greater than US\$ 60,000 annually as well as those individuals whose income was not subject to income tax withholdings, according to the table included in section 37.

**Individual Tax Compliance Returns**

Returns are filed individually. Spouses are required to file separate income tax returns covering their respective income. Income tax returns and real estate returns are due in April of each year corresponding to the previous fiscal year.

**Tax payment**

Employers are required to withhold income tax on salaries, wages and bonuses. Christmas bonuses, Social Security contributions, severance and termination payments are not subject to income tax, according to the Labor Code.

**Current tax rates**

<b>Withholding tax scale for employees</b>	
<b>Monthly wage</b>	<b>Rate</b>
Up to US\$ 472.00	Exempt
From US\$ 472.01 to US\$ 895.24	10% over US\$ 472.00 plus US\$ 17.67
From US\$ 895.25 to US\$ 2,038.10	20% over US\$ 895.24 plus US\$ 60.00
From US\$ 2,038.11 and above	30% over US\$ 2,038.10 plus US\$ 288.57

Individuals domiciled will calculate their income tax by applying to their net income the rate according to the following table:

<b>Annual tax scale for employees</b>	
<b>Annual Income</b>	<b>Rate</b>
Up to US\$ 4,064.00	Exempt
US\$ 4,064.01 to US\$ 9,142.86	10% of the amount exceeding US\$4,064.00 plus US \$212.12
US \$ 9,142.87 a US \$22,857.14	20% of the amount exceeding \$9,142.86 plus US \$720.00
US\$22,857.15 and above	30% of the amount exceeding US\$22,857.14 plus US\$3,462.86



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# Guatemala

The former site of the ancient Mayan civilization, whose ruins may be seen in the jungles of Petén and the neighboring Yucatán peninsula of Mexico; Guatemala was conquered by Spaniards in 1524, under whose rule the capital city was eventually established at Antigua Guatemala.



It achieved a certain magnificence, and the major towns acquired some aspects of the Spanish culture, but the outlying areas were only slightly affected. When Antigua was razed by an earthquake in 1773, the capital was moved by royal order to the site of modern Guatemala City.

Guatemala became independent from Spain in 1821, as a republic.

Following its independence, Guatemala was the political center of the Central American federation, comprising Costa Rica, El Salvador, Honduras, and Nicaragua which were united with Mexico for the following two years.

# Content



**60**

**Overview Of The Country**



**61**

**Political And Legal System**



**62**

**The Economy**



**65**

**Doing Business In Guatemala**



**68**

**Banking System**



**70**

**Labor And Social Security**



**73**

**Accounting And Audit Requirements  
And Practices**



**74**

**Tax System**

# Overview of the country



## Climate

Guatemala is located in the Tropics zone, but temperate seas and an irregular terrain provide a diversity of climates. At sea level, annual temperatures range between 25° and 30°C. In temperate zones, located at an altitude of 610 and 1,830 meters temperatures are 17°C in the higher altitudes. At altitudes over 1,830 meters, temperatures may be as low as 13°C.

There are two climate seasons throughout the year. The rainy season lasts from about the middle of May through October; the rest of the year is the dry season. On the Atlantic (Caribbean) coast, however, where the winds blow during the whole year from warm Caribbean waters, there is hardly any dry season.

### Population, form of government, language, currency, others:

Area	108,890 km <sup>2</sup>
Population (*)	17.6 million inhabitants
Population per km2	131.15 hab. /km <sup>2</sup>
Population growth	2.11 % (est. 2010)
Urban population	21 %
Political system	Republican democracy
Form of government	Presidential
Language	Spanish
Currency	Quetzal (Q)
Administrative division	22 departments and 340 municipalities
Religion	Roman Catholic
Capital city	Guatemala City

## Education

The Guatemalan educational system consists of the following levels:

- Initial level (for children up to 6 years of age).

- Basic level – Elementary (starts after initial level is finished and lasts 9 years).
- Middle level – High School (starts after basic level is finished and lasts 2-3 years).
- Superior level (starts after the middle level is finished and last 4-5 years).

For initial and basic levels, there are free government Official Schools, apart from private paid schools. The initial and the basic levels are mandatory.

Superior Level (College) is not mandatory but people can apply for admission into the National University of Guatemala “San Carlos of Guatemala University” or in any of the private universities available:

- Francisco Marroquín
- Rafael Landivar
- Del Istmo
- Panamericana
- San Pablo de Guatemala
- Da Vinci de Guatemala
- Galileo
- Mariano Gálvez
- Mesoamericana
- Del Valle de Guatemala
- Rural de Guatemala
- InterNaciones
- De Occidente
- Regional de Guatemala

**Notice:** Other universities are currently in the process of incorporation.

# Political and legal system



## Legal framework

Guatemala’s political and legal structure is comprised of three main branches: Legislative, Executive and Judicial exercised and composed as follows:

### Estructura legal y política

	Executive	Legislative	Judicial
<b>Exercised by:</b>	The President of the Republic.	The Congress of the Republic.	<ul style="list-style-type: none"> <li>• Supreme Court of Justice. (*)</li> <li>• Courts of appeal.</li> <li>• Ordinary courts.</li> <li>• Small claims courts.</li> </ul> (*) The highest judicial body.
<b>Composed of:</b>	The President of the Republic. Vice-president of the Republic. 14 Ministers.	158 Deputies (1 deputy elected for every 80,000 inhabitants).	The Supreme court of justice is composed of 13 judges. The number of courts of appeals, ordinary courts and small claim courts and the number of judges that will compose them, will be determined by law.
<b>Elected or appointed by:</b>	The President and Vice-President are elected by direct vote every 4 years.	The deputies are elected by direct vote every 4 years.	Judges of the Supreme Court are elected by the Congress of the Republic for a period of five years. Judges are elected from among the lawyers who are eligible candidates established by law. Ordinary Judges are elected by the Supreme Court of Justice.

## Main political parties

- Encuentro por Guatemala (EG).
- Partido de Avanzada Nacional (PAN).
- Unidad Nacional de la Esperanza (UNE).
- Unión del Cambio Nacionalista (UCN).
- Partido Unionista (PU).
- Frente de Convergencia Nacional
- Vamos
- Valor
- Semilla
- Visión con Valores

The next Presidential and Congressional elections will be held in 2027.

# The Economy



Guatemala is the most populous of the Central American countries with a Gross Domestic Product (GDP) per capita of roughly one-half that of Brazil, Argentina and Chile. The agricultural sector accounts for about one-fourth of GDP, two-fifths of exports, and half of the labor force. Coffee, sugar, and bananas are the main products.

The 1996 signing of peace accords, which ended 36 years of civil war, removed a major obstacle to foreign investments and Guatemala since then has pursued important reforms and macroeconomic stabilization. The Central American Free Trade Agreement (CAFTA) entered into force in July 2006 and has since spurred increased investment in the export sector. The distribution of income remains highly unequal with more than half of the population below the national poverty line. Other ongoing challenges include increasing government expenses, negotiating further assistance from international donors and narrowing the trade deficit. Given Guatemala's large expatriate community in the United States, it is the top remittance recipient in Central America, with inflows serving as a primary source of foreign income equivalent to nearly two-thirds of exports. Economic growth slowed down in 2009 as export demand from US and other Central American markets drop and foreign investments slowed amid the global slowdown.

Guatemala has the largest economic market in Central America, with a US\$77 billion GDP, representing 30.6% of the region's total GDP. The latest studies on investment banking highlights Guatemala's great economic stability throughout its history.

According to the estimates of Bank of Guatemala for 2018, the growth of the national economic activity, measured by the Gross Domestic Product (GDP) in real terms, is estimated to close between 3.0% and 3.8%, slightly higher than that observed in the previous year (2.8%).

Regarding the measurement of GDP by the origin of production, highlights the behavior registered by the activities of wholesale and retail trade stands out; financial intermediation, insurance and auxiliary activities; agriculture, livestock, hunting, forestry and fishing; and manufact.





**Annual Gross Domestic Product | Volumes valued in millions of Quetzales, Period: 2014- 2022**

	2014	2015	2016	2017	2018	2019	2020	2021	2022 <sup>p/</sup>
<b>GDP</b>	447326.3	476022.8	502001.7	526507.4	551368	593972	600122	668860	740968
<b>Annual Variation %</b>	7.4	6.4	5.5	4.9	4.7	7.7	1.0	11.5	10.8

Source: Banco de Guatemala

p/ Preliminary figures

**Inflation**

According to the Consumer Price Index (CPI) compiled by the National Institute of Statistics and the Bank of Guatemala, the levels of inflation sustained by Guatemala are as follows:

**Inflationary rhythm, Years 2018 - 2023 | Percentages**

Period	2018	2019	2020	2021	2022	2023	2024
<b>January</b>	4.71	4.10	1.78	5.24	2.87	9.69	3.82
<b>Febuary</b>	4.15	4.46	1.24	6.00	2.98	9.92	3.30
<b>March</b>	4.14	4.17	1.77	5.84	4.17	8.71	3.24
<b>Aapril</b>	3.92	4.75	1.88	5.20	4.62	8.32	3.36
<b>May</b>	4.09	4.54	1.80	5.17	5.82	6.54	3.76
<b>June</b>	3.79	4.80	2.39	3.91	7.55	4.93	3.62
<b>July</b>	2.61	4.37	2.88	3.82	8.36	4.53	3.78
<b>August</b>	3.36	3.01	4.19	3.62	8.87	4.47	3.07
<b>Septiember</b>	4.55	1.80	4.97	3.67	9.03	4.69	2.11
<b>October</b>	4.34	2.17	5.34	2.96	9.70	4.98	1.16
<b>November</b>	3.15	2.92	5.46	2.89	9.17	4.30	1.66
<b>December</b>	2.31	3.41	4.82	3.07	9.24	4.18	

Source: Instituto Nacional de Estadística (INE).

### Exports

The total amount of General Trade exports stood at US\$12,200.4 million, US\$227.3 million (1.9%) higher than the amount recorded in October 2023 (US\$11,973.1 million). The most important products according to their share in the total export value were Clothing articles with US\$1,358.5 million (11.1%); Coffee with US\$868.7 million (7.1%);

Bananas with US\$810.5 million (6.6%); Sugar with US\$619.9 million (5.1%); Edible fats and oils with US\$599.7 million (4.9%); and Plastic materials and their manufactures with US\$494.0 million (4.0%). These products represented 38.9% of the total exported. The main export destinations according to their share were: Central America with US\$4,443.0 million (36.4%); United States of America with US\$3,853.3

million (31.6%); Eurozone with US\$920.8 million (7.5%); Mexico with US\$616.3 million (5.1%); and Panama with US\$277.7 million (2.3%); countries and regions that together accounted for 82.9% of the total.

### Imports

The total amount of imports was US\$27,102.6 million, US\$1,915.6 million (7.6%) higher than that registered in October 2023 (US\$25,187.0 million). The increase in imports was mainly influenced by the positive variation observed in non-durable consumer goods with an increase of US\$516.5 million (10.8%) and raw materials for industry with US\$396.2 million (6.0%). Imports came, according to their share, mainly from the United States of America with US\$8,819.5 million (32.5%); People's Republic of China with US\$3,846.0 million (14.2%); Central America with US\$3,141.8 million (11.6%); Mexico with US\$2,886.0 million (10.6%); and the Eurozone with US\$1,664.3 million (6.1%); countries and regions that together accounted for 75.1% of the Source: Bank of Guatemala.



# Doing business in Guatemala



## Government views toward foreign investment

The official attitude of the government has been friendly towards foreign investments, particularly well-received are those participating with local capital. As for foreign interest activities, the law does not restricts operation of foreigners.

## Free trade agreement and other agreements

Guatemala has been a member of the World Trade Organization since July 21, 1995.

DR-CAFTA (FTA between the US, Central American Countries and Dominican Republic) was signed and implemented in March 1, 2007. As of 2011 Guatemala has specific Free Trade Agreements with: Chile, Colombia, Mexico, Panama, Dominican Republic and Taiwan.

The coverage of these agreements sheltered 82.0% of exports and 67.5% of imports. Except for trade with the United States, for the rest of the countries mentioned above, the amount of exports during the first half of 2010 was 1,639.9 million, higher at 16.9% than in the same period of 2009.

As of December 01, 2013, section 77 through 351 of the Free Trade Agreement with the European Union, on external Commerce, is in force in Guatemala; all other sections are still under negotiation.

**The Free Trade Agreement with Canada is still under negotiation.**

## Foreign investment

In accordance with the Constitution of the Republic of Guatemala, the State has the basic obligation to protect the formation of capital, savings and investment, and to establish satisfactory conditions for promoting the investment of both Guatemalan and foreign capital.

In 1998, Guatemala passed the Foreign Investment Law, reducing the barriers to foreign investment; but investment was still restricted to a minority ownership of domestic airlines and ground transport. Incentives are available for the forestry, mining, tourism, and petroleum sectors. There are also thirteen free trade zones.

Foreign investment must be developed and promoted so that it becomes a source for the transfer of technology, the creation of jobs, and the promotion of the country's economic growth and diversification, with a view to developing all of Guatemala's productive sectors and reinforcing national investment.

Guatemala stimulates and promotes foreign investment. Foreign investors and their investment are mainly regulated by the stipulations of Foreign Investment Law. When foreign investment occurs in a sector of the economy governed by a law of a special nature, the investor must also be guided by the precepts of the latter. Likewise, the foreign investor is subject to all the precepts of general application in the territory of the republic and can enjoy the same rights and the same means of application of the law that are given to domestic investors.

## Forms of foreign investment

In accordance to Article 1, numeral 2 of the Investment Law of the Decree 9-98 of the Congress of the Republic, a "foreign investment" is:

**"Any kind of investment that involves all sorts of capital transfer to the Republic of Guatemala made by a foreign investors. Also within this concept is the foreign reinvestment in Guatemalan territory of any income or capital generated in Guatemala through its investment".**

According to the Foreign Investment Law, foreign investors have the same rights as Guatemalan investors.

## Restrictions on foreign investment

As to foreign interest activities, the law does not restrict operation of foreigners.

## Establishing a business in Guatemala

### Commercial entities

Commercial companies in Guatemala are governed

## The differences between the various types of business organizations relate mainly to registration procedures and financial liability of the participants.

by the Commercial Code. Accordingly, the following forms of business organizations are the most frequent:

### **General partnership**

An entity that exists under a given social name and in which all partners are liable in a subsidiary, unlimited and severally form of social obligations.

### **Limited partnership**

Limited partnership is composed of one or more general partners who respond to subsidiary, unlimited and joint social obligations, and one or more limited partners who have limited responsibility to the amount of their contribution. Contributions cannot be represented by securities or shares.

### **Limited liability company**

A limited liability company is comprised of several partners (20 max.) who are only required to pay their contributions. For the social obligations, only the assets of the company responds and where appropriate, the sum over the contributions agreed upon by the charter. The capital is divided into contributions that cannot be joined with any titles or called shares.

### **Joint-stock partnership**

It is composed of two types of shareholders, the partners who respond subsidiary, jointly and severally and the limited partners who are responsible for their contribution. The Partners must be the shareholders

and the name of the entity shall be the full name of one of the partners or the surname of two or more partners plus the legend “and Joint-stock partnership” or “and Company S.C.A”.

### **Entrepreneurship company**

With the approval of Decree Number 20-2018 of the Congress of the Republic, as of January 28, 2019, Entrepreneurship Companies may be constituted, which is formed with one or more physical persons that are only required to pay their contributions represented in shares, forming a legal entity distinct from that of its shareholders. The total annual income of an entrepreneurial company may not exceed five million Quetzals (Q.5,000,000.00 = USD 670,000.00).

The denomination will be formed freely, but different from those of any other company and always followed by the words “Entrepreneurship Company” or its abbreviation “S.E.”. They will be constituted by means of an own procedure, exempting it from the obligation to be constituted by means of public deed, in the same way its modifications consisting in the increase or reduction of capital, extension and change of denomination.

### **Stock company or corporation**

A corporation is the entity with its capital divided and represented by shares. The liability of each shareholder is limited to the payment of the shares that each of them have signed.

As of February 2018, the companies may be constituted with a minimum paid capital of Q.

200.00 (USD 30.00) which will not require the opening of a bank account. If the initial paid-in capital is greater than Q. 2,000.00 (USD 275.00 approx.), this amount must be deposited in a bank account in the name of the entity.

The differences between the various types of business organizations relate mainly to registration procedures and financial liability of the participants. Generally, financial liability is limited to capital contributions except in the case of partners of general or limited liability partnerships.

As of June 2011, no bearer shares are permitted.

### **Formation procedure**

Business organizations must execute an Article of Incorporation (except the entrepreneurship company) which is registered in the Commercial Registry of Guatemala. In addition, notice of formation of the entity must be published electronically by the means that the Commercial Registry implements. Any change or extension of the original Article of Incorporation must also be effected by public instrument and be registered.

### **Closing procedure**

Liquidation or dissolution of a company in Guatemala is ruled by the Commerce Law, Congress Decree number 2-70 of the Congress of the Republic, which states in sections 237 to 255 the procedure to close the entity in the Commercial Registry and before the Tax Administration.

**Branch and/or permanent establishment**

The requirements for establishing a branch do not substantially differ from those for establishing a local company, but requires the parent company to guarantee branch operations with its world-wide assets and a USD50,000 guarantee bond is required as well.

**Joint venture**

This atypical commercial contract is held by a group of people either individuals or corporations, domestic or foreign, which made up of contributions of diverse species, which does not imply loss of identity and individuality as a legal entity for a business in common; be it from creation of goods to the provision of services. In Guatemala as in any country, this contract has been used to combine efforts for various projects, such as, real estate development and renewable energy projects, amongst others.

**Registration Procedure**

**Legal Form: “Sociedad Anónima (SA)” – Corporation; City: Guatemala City**

No:	Procedure	Time to complete	Cost in days
1	Check the proposed company name at the Commercial Registry	1	GTQ 30 charge per name
2	Obtain letter from a Guatemalan notary public to open bank account. If necessary	1	No charge
3	Deposit the subscribed capital in a bank and obtain a receipt. If necessary	1	No charge
4	A notary public draws the article of incorporation.	1	GTQ 6,800 (USD 930.00 approx.) average notarial fees + tax.
5	The notary purchases the fiscal stamps and issues a certified copy of the article of incorporation for filing with the commercial register.	1	GTQ1,000.00 (USD 340.00 approx.) stamp tax
6	File notarized unique registration form and documents with the Commercial Registry.	1	In addition to the above
7	Provisional registration and tax ID are issued	5	Additionally from the above
8	Publishing of notice	3	GTQ 600.00 (USD 90.00 approx.)
9	Final registration trading license	10	In addition to the above
10*	Present accounting books and books of minutes to the Commercial Registry for its authorization.	1	GTQ 0.80 (USD 0.15 approx.) per sheet.
11*	Obtain the authorization of a book of salaries by the Inspection of the Department of Labor.	1	GTQ 0.50 (US\$0.10 approx.) per sheet.

# Banking system



## Central bank

The banking system in Guatemala is conservative and heavily regulated. The system is controlled by the Central Bank of Guatemala (“Banco de Guatemala, BG”). The BG does not conduct commercial activities and only receives obligatory deposits (reserve deposits “encaje bancario”) from other system members.

The BG has the responsibility to:

- Supervise (through the Superintendence of Banks) the member banks and enforce banking laws.
- Set forth interest rates as guidance for the private banking system.
- Enforce the exchange controls and similar regulations, when necessary.

## Commercial banks

Guatemala has a very solid financial system, excellent international reserve levels and the lowest foreign debt in the region.

The Guatemalan financial system is integrated by 18 banks, 13 financial institutions, 14 bonded warehouses, 28 insurance companies, 3 foreign exchange entities, 4 off shore entities, 10 stock brokers, among other institutions supervised by the Office of the Banks Superintendent (OBS). These institutions offer the investor a variety of financial services with the highest standards of quality and security.

Both companies and the population, in general, have for many years, benefited from a highly competitive

sector with different participants in the market. In recent years, strong mergers and acquisitions have led to the creation of much larger banks, capable of satisfying the demands of larger clients.

Parallel to the consolidation of the sector, small and medium size banks have specialized in tending to specific market niches. Actually, Guatemala has financial entities that provide world-class services in specialized areas such as factoring, international commerce, specialized investments, and microcredits, among others.

**Monetary reserves international net YEARS: 2020 - 2024 (Millions of US dollars)**

Month	2019	2020	2021	2022	2023
January	14,895.40	18,253.30	20,813.40	20,139.40	21,227.3
February	15,203.20	18,374.40	20,835.90	20,047.10	20,714.7
March	15,337.70	18,699.80	20,763.50	20,343.70	21,106.3
April	16,549.40	18,812.20	20,843.70	20,173.60	21,222.7
May	16,708.10	18,929.70	20,986.70	20,044.00	21,671.3
June	16,991.80	18,748.80	19,875.60	21,160.50	21,412.4
July	17,398.10	19,167.10	20,808.20	20,969.80	22,139.3
August	17,623.00	19,810.40	21,106.30	20,661.80	23,993.2
September	17,611.20	19,827.20	20,427.50	20,292.00	24,233.1
October	18,314.80	20,663.20	20,138.00	21,067.4	24,216.4
November	18,249.40	20,701.80	20,398.80	21,038.5	24,150.5
December	18,468.20	20,939.60	20,019.80	21,319.4	4.18

Source: Banco de Guatemala

The non-observance of the provisions related to banking secrecy can be considered by the Tax Authority as Resistance to the audit action, which can lead from an administrative penalty or fine to a criminal action.

Most of the banks and financial institutions operate with several correspondents in the USA, Panamá, México, Switzerland, among other countries. In addition, some foreign banks operate directly in Guatemala such as Citibank, BAC, Banco Azteca, among others.

The law for the free Negotiation of Foreign Exchange allows the legal use of foreign currency, therefore in many cases the dollar is used as a basis for contracts and international transactions. Any individual can open accounts in Quetzales, Dollars or Euros.

#### **Banking secrecy**

In accordance with Decree 37-2016, of the Congress of the Republic” Law for the Strengthening Fiscal Transparency and Governance of the Tax Administration “, which entered into force on February 22, 2017, establishes that the Tax Authority may have access to the banking information of taxpayers by means of a resolution of the competent Judge; In addition to the foregoing, the obligation to record all bank accounts and investments in the accounting books is established, regardless of whether they are opened or carried out inside or outside of Guatemala.

The non-observance of the provisions related to banking secrecy can be considered by the Tax

Authority as Resistance to the audit action, which can lead from an administrative penalty or fine to a criminal action.

1. Administrative Penalty: Fine equivalent to one percent (1%) of the gross income obtained by the taxpayer during the last monthly, quarterly or annual period declared in the tax regime to be audited. When the resistance is of those that constitute immediately, the sanction will double.
2. Criminal action: Offense of resistance to the tax inspection action of the Tax Administration, which is regulated in the Criminal Code as follows:

Commits the offense of resistance to the tax inspection action of the Tax Administration who, after having been required by said Administration, with the intervention of a competent judge, prevents the actions and diligences necessary for the inspection and determination of its obligation, refuses to provide books , records or other accounting documents necessary to establish the tax base of taxes; or prevent access to the computer system in relation to the recording of its accounting operations.

#### **List of banks**

##### **Central bank**

- Banco de Guatemala

##### **Bancos de propiedad parcial del gobierno**

- De Desarrollo Rural (Banrural)
- Crédito Hipotecario Nacional
- De los Trabajadores

##### **Private owned banks**

- G&T Continental
- Agromercantil
- De Antigua
- Vivibanco
- De Crédito
- Industrial
- De América Central
- Internacional
- Inmobiliario
- INV

##### **Foreign banks**

- Citibank N.A. Sucursal Guatemala
- Promerica
- Azteca
- Ficohsa

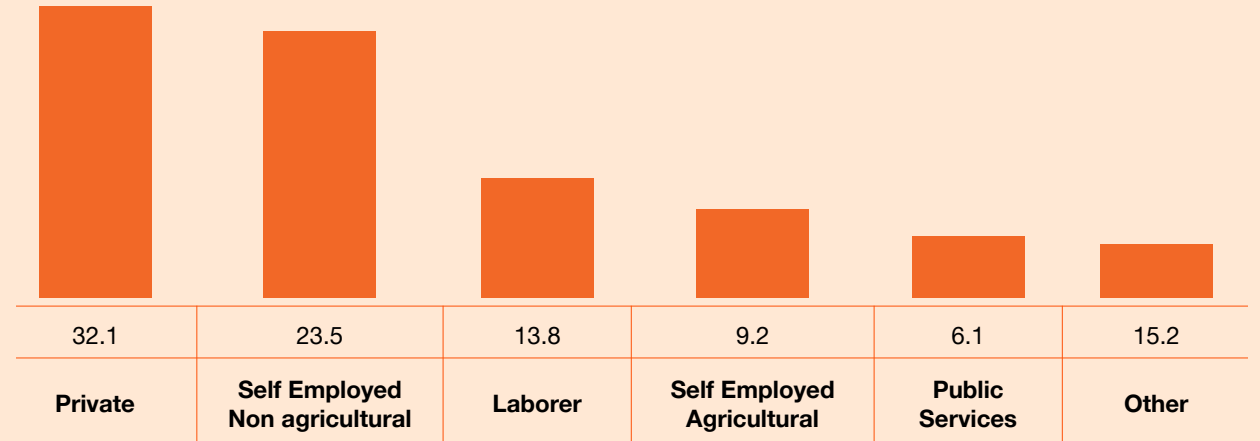
# Labor and social security



## Labor supply

Indicators of the labor market, according to the last National Survey of Workforce, are on the following:

### Employed population according to main economic activities



Fuente: Instituto Nacional de Estadística

## Labor law requirements

Employer-employee relations are governed by the Labor Code of Guatemala.

Collective Labor Conditions Treaty is specifically recognized by the Labor Code; however, unions are not organized on a national, regional or industry basis, but rather are generally limited to the employees of an individual company. Although the union movement has received greater attention in recent years, it is not strong and where unions have been established, membership is not obligatory. Collective labor agreements are normally negotiated in the presence of, or with the assistance of a representative of the Ministry of Labor and extend for two to three years.



The following is a summary of Guatemala's Labor Code requirements:

### **Wages and salaries**

The government is empowered to set the minimum wage. As of January 1, 2024, the minimum wage has been set for the department of Guatemala at USD 450.08 (Q.3,516.86) for the agricultural sector, USD 465.98 (Q.3,634.59) for the non-agricultural sector and USD 428.60 (3,343.01) for the export and maquila sector.

For the rest of the departments except for the department of Guatemala, USD 432.62 (Q.3,374.42) for agricultural work, for non-agricultural work USD 445.88 (Q.3,477.82) and for the export and maquila sector USD 406.66 (Q.3,171.90)

### **Profit sharing**

In Guatemala there is no regulation that states an obligation for paying shares or participations to employees, although this practice is not prohibited and could be set up between both parties of the work relationship.

### **Annual bonus**

In Guatemala it is mandatory to pay an annual bonus (bono 14) equal to a month's salary and it is payable in the month of July.

### **Christmas bonus**

The employer is obliged to pay the worker a Christmas bonus in the month of December, consisting of one

month's salary, (one twelfth of the ordinary salary earned by the worker in the calendar year).

### **Hours worked**

Maximum Labor hours are eight (8) hours daily, and should not exceed 44 hours a week.

### **Paid holidays and vacation**

Legal holidays established by law add up to 10 days per year. Vacation are granted for a period of fifteen (15) labor days, after a year of uninterrupted service.

### **Labor union**

The Labor Code provides that unions may be established. Although the union movement is increasing, at present, it is still limited in comparison to the total labor force.

### **Termination of employment**

The termination of employment contracts occur when one or both parts of the employment relationship will conclude it, either by the will of one of them, mutual consent, reasons attributable to the other, or disposal of the law, in which circumstances, cancelling the rights and obligations under such contracts.

If the employment contract concluded for an indefinite period after the probationary period because of unjustified dismissal of workers, or one of the causes under Article 79, the employer must pay the employee compensation for time served equivalent to one month's

salary for each year of continuous service or the services do not reach a year, in proportion to time worked.

**Severance payment**

The severance payment is generally payable in case of unjustified dismissal (or to the employee’s family in the event of death) at one month’s salary per year of uninterrupted service. The law specifies causes of “just” dismissal.

**Foreign personnel**

Normally at least 90% of the labor force must be Guatemalan and collect 85% of the total payroll. Managers or administrators should be excluded from the calculations. The limitations can be modified by the Ministry of Labor only by a justified cause.

Foreign personnel must have a work permit and a temporary residence in Guatemala.

**Social security**

Generally the system is designed to cover the total labor force gainfully employed. All contributions are withheld by the employer from the monthly payrolls.

The Guatemalan social security plan is designed to include all inhabitants of the country who take an active part in industry, commerce and agriculture, and to cover work accidents, occupational illness, maternity, sickness, disability, orphanage,

widowhood, old age and death and burial expenses. Participation is mandatory for employers with three or more employees. However, at present, the plan operates only for work accidents and occupational diseases in most parts of the country, and as to disability, old age and survival.

**Maternity benefits are extended to wives of covered employees.**

Premiums for this coverage are paid by employers, employees (both male and female) and the Government at the following percentage of each employee’s wages (with no upper limits or maximum salaries for the purposes of applying these percentages):

**Percentage contributed by**

Employer	12.67% (1)
Employee	4.83%

(1) Employers 12.67% contribution includes 1% to fund the activities of the Worker’s Recreational Institute (IRTRA) and 1% for the Professional Training Institute (INTECAP).

# Accounting and audit requirements and practices



## Accounting

On June 29, 2010, an Extraordinary General Association of Accountants and Auditors of Guatemala, resolved to adopt the “IFRS for SMEs” as part of the Generally Accepted Accounting Principles referred to the Code of Commerce of Guatemala.

## Statutory audit requirements

The fiscal law requires that companies registered under the Optional Income Tax system submit audited financial statements signed by an independent Certified Public Accountant, along with their annual tax return.

## Books and records

The Commercial code prescribes the principal books of account to be maintained by companies. The books required by law are:

- General ledger.
- Journal book.
- Inventory book (merchandise, fixed assets and bank accounts).
- Financial statements.

## Monthly register of purchase and sales.

Generally, these books are bound and each must be authorized by the local tax authorities and approved by the Commerce Registry.

Loose-pages and computerized systems shall also be authorized.

## Accounting profession

To practice in Guatemala the profession of Certified Public Accountant and Auditor, professionals must obtain a degree in one of the country’s universities or submit to approval certificate obtained abroad before the University of San Carlos of Guatemala.

Professionals must also register at the College of Public Accountants and Auditors and obtain a registration number before the Tax Administration.

## Auditing standards

Guatemala follows the International Auditing Standards issued by the International Auditing and Assurance Standards Board.



# Tax system



The place where it is established determines the residence of the company. Any entity that is organized in accordance with the laws of Guatemala is obliged to establish its fiscal and business domicile in Guatemalan territory.

The Customs Bureau (Dirección General de Aduanas) agency, supervised by the Tax Administration Office (SAT), controls the customs offices which assigns and collects duties, fees and VAT on imports.

## Tax on corporate income

There are two tax regimes in Guatemala are:

- Simplified Optional Regime on Income from Lucrative Activities
- Regime on Earnings from Lucrative Activities
- Simplified Optional Regime on Income from Lucrative Activities

Onwards a rate of 5% on gross revenue is applicable to juridical entities and individuals performing mercantile and non-mercantile activities, domiciled in Guatemala on the first GTQ 30,000.00 and 7% on the excess.

The tax is payable under flat tax withholdings (the tax is to be retained by either the customer or the recipient of services) or by direct remittances to the tax office made monthly within the first 10 working days of the month following the invoice date.

## Regime on Earnings from Lucrative Activities

A rate of 25% is applicable to a company's taxable

Guatemala has a territorial taxation system and the Tax Administration Office (SAT) has overall responsibility for tax administration. The municipalities of the Republic of Guatemala are autonomous agencies and some of them are in charge of the collection of real estate taxes.

income from Guatemala sources. The rate is applicable on net income of individuals or juridical entities domiciled in Guatemala.

The annual final tax liquidation period begins on January 1st and ends December 31st of each year.

Under this system, the tax is payable with advanced quarterly payments that must be made immediately after the end of that month. The tax is determined and paid upon presentation of the corresponding tax return, not later than March 31 of the year following the end of the fiscal period. The advanced quarterly payments are applied to the tax that is determined at the end of the final period.

The Income Tax return shall be accompanied by the documents required by the regulations, which might include:

- A balance sheet.
- A profit and loss statement.
- A statement of cash flow.
- A statement of cost of production (manufacturing companies).

The income tax return and exhibits thereto shall be signed by the taxpayers, their agent or their legal representative or by any other responsible person so determined by law.

## Tax on interest income

Interest income earned by domiciled persons other than banks is subject to a flat withholding tax rate of

10%. The interest taxed must be included by taxpayers in their income tax returns as non-taxable income.

## Corporate residence

The place where it is established determines the residence of the company. Any entity that is organized in accordance with the laws of Guatemala is obliged to establish its fiscal and business domicile in Guatemalan territory.

As of January 2013, the Income Tax Law of Guatemala incorporated regulations on the permanent establishment figure.

## Tax on branch income

Foreign-source income received by a domestic corporation is generally not considered to be from Guatemalan sources for Income Tax purpose. In Guatemala, individuals and business enterprises are taxed on their income derived primarily from national sources. Expenses incurred abroad by non-resident in connection with income earned from Guatemalan sources cannot be deducted from Income Tax purposes by merely having the supporting receipts, as the regulations to the law does not permit such a deduction for these purposes.

## Value-added tax (VAT)

A 12% (VAT) is levied on the sale or transfer of merchandise and on non-personal services rendered or executed in Guatemala. The tax is payable to the government by way of invoice method, whereby the

tax charged to the customers is offset with the VAT paid over purchases, and the government collects the net resulting amount.

The circulation of credit titles is VAT-exempt.

- Sale of goods

The taxable amount on the sale of goods includes the sales price minus any discounts provided under commercial practices plus other charges shown on the invoice.

The VAT rate is applicable to the first sale of the real estate and the subsequent sales are subject to the Tax Stamp Tax with a 3% rate.

- Services

The taxable amount of services includes the price of the services, minus any discounts provided under commercial practices, plus financial charges and products used to render the services.

- Other issues

Imports: The tax base is the value declared for VAT and import duties' computation purposes.

Leases of movable or immovable property: The tax base is the value of the lease.

- Exempted sale and services

- Incorporation made by:

1. Cooperatives legally constituted as registered on imported machinery, equipment, and other goods relating to the activity or services of the cooperative; and

2. Diplomatic and consular missions accredited before the Guatemalan government.

### **Banking institutions services and their agents.**

The issuance, circulations and transfer of credit bonds, value bond and stock of any kind.

Interest accrued by credit bonds and other obligations issued by mercantile partnership, negotiated through an authorized stock exchange.

### **Exports of goods and services.**

Contributions and donations to educational, cultural, assistance or security service partnership, constituted as not-for-profit entities.

### **Real estate taxes**

Real estate taxes are assessed annually at GTQ 2 per thousand on declared property values from GTQ 2,000 to GTQ 20,000, at GTQ 6 per thousand on values from GTQ 20,000 to GTQ 70,000, and at GTQ 9 per thousand on value in excess of GTQ 70,000 (e.g., property valued at GTQ 1,000,000 will pay real estate taxes of GTQ 9,000).

VAT rate is applicable to the first sale of a real estate property; subsequent sales are subject to a 3% stamp tax.

### **Stamp tax**

Other than sales invoices, contracts and documents subject to VAT and other minor exemptions, a stamp tax must be paid on all documents covering commercial and legal transactions.

This tax is also assessed on documents issued abroad, other than drafts or credit bonds involving international transfers of funds are generally exempt from stamp taxes. The current tax rate is 3% and is calculated on the face value of the documents or on the gross value of the related transaction.

### **Inheritance and Donation Tax**

Recipients of inheritance, legacies and gifts of personal property, real estate or other rights in Guatemala are subject to inheritance taxes. Inheritance, legacies, or gifts of personal property located abroad, but publicly deeded in Guatemala, and debt waivers executed in Guatemala, are also taxable. The tax is levied at progressively higher rates on amounts up to GTQ 50,000 at 1% to 9% when the recipients are related to the donor (at least 12%) and at 6% to 14% on amounts of excess of GTQ 500,000 (up to 25% for nonrelated recipients).

### **Solidarity tax (ISO)**

An ISO tax rate of 1% should be paid on the fourth quarter of net assets of a corporation, or on the fourth quarter of gross income, whichever is higher, and there is no limit on the amount to be paid.

Tax paid may be credited against the corporation's income tax. If the annual business tax exceeds the income tax, no reimbursement is possible.

The tax that is paid can be credited to the income tax of the company and is applied only to the taxpayers that are governed by the regime on profits of lucrative

activities and it is paid each quarter on the basis of the Income Tax annual tax return of the immediately previous period.

**Deductions  
Allowed deductions**

Deductions are only permitted under Regime on Earnings from Lucrative Activities.

**Interest**

The deduction for this concept cannot exceed the result of multiplying the interest rate referred to in the following paragraphs by three times the average net total assets reported by the taxpayer in the corresponding annual tax returns.

The interest rate over quetzales-expressed credits or loans may not exceed the maximum simple annual rate determined by the Monetary Board for tax purposes within the first 15 days of January and July of each year for the respective semester, taking as a basis thereof the weighted banking rate charged during the preceding semester. As for loans obtained abroad, the related contracts shall be executed with banking or financial entities registered and monitored by the respective State surveillance body and authorized for intermediation purposes in the country where the loan is provided. In this case, the interest rate over foreign currency loans may not exceed the maximum simple annual rate determined by the Monetary Board, as described in the preceding paragraph, minus any interannual variation of the quetzales exchange rate vis- a-vis the currency in which the loan contract is expressed during the period the annual income tax return may pertain to.

For purposes of this section, the average net total assets shall be understood to be the sum of closing net total assets of the preceding year and the closing net total assets of the current year, as reported in the income tax returns pertaining to each tax period divided by two. Total net assets shall reflect the carrying value of all assets effectively owned by the taxpayer.

The limitation provided by this section shall not apply to banking and financial entities subject to surveillance and inspection by the Superintendence of Banks, neither to legally authorized cooperatives.

**Taxes**

All taxes other than income tax and VAT are deductible.

**Depreciation and depletion**

Depreciation is generally computed on a straight-line basis. Upon request by the taxpayer, the tax authorities may authorize other depreciation methods.

<b>Class</b>	<b>Rate %</b>
Buildings, constructions and installations attached to the property and their improvements	5
Machinery and equipment	20
Tools	25
Trees and vegetable plants	15
Computer equipment and software	33.33
Installations not affixed to properties, furniture, office equipment, vessels, and maritime rolling stock, fluvial or lacustrine.	20
Livestock used as pack or working animals, machinery, vehicles in general, cranes, air planes, excluding rail road stock.	20
Breed reproducers, males and females, depreciation is calculated on the cost value of such animals less their value as common cattle.	25
Any other depreciable asset.	10

**Payments to foreign affiliates**

Deduction for royalties, professional fees and technical services are allowed up to 5% of gross income.

**Employee pension/retirement funds**

The deduction of royalties is allowed up to 5% of the gross income. Charges for fees, commissions and advice are deductible up to 5% of gross income.

**Severance compensation payments**

Severance compensation payments are allowed as deductible expenses according to the provisions of the Labor Code or the corresponding collective agreement or limited allocations (not to exceed 8.33% of total annual salaries) to a reserve, for severance compensation.

**Donations**

Duly proven donations made to the government, the municipalities and their agencies, as well as to duly authorized not-for-profit welfare, social service and scientific associations foundations, universities, political parties, and guild entities, are deductible. The maximum deductible amount for income tax purposes of each period shall not exceed 5% of the donor's gross income up to the maximum of GTQ 500,000 per year.

**Net operating losses**

Operating losses may not be carried forward for deduction from otherwise taxable profits.

**Group taxation**

No consolidation for tax purposes is permitted as each group entity is treated as an independent taxpayer, which shall file its own tax return of Income Tax.

**Transfer pricing ruling**

As of January 2013, the new Income Tax Law is in force, which introduces Arm's Length ruling within related parties domiciled abroad (Transfer Pricing ruling).

Transfer pricing ruling is based on OECD guides.



**Withholding tax (WHT)**

On payments to non-domiciled foreign corporations or individuals:

Class	%
Dividends	5
Interest	10
Commissions, salaries, royalties, professional fees and technical, financial, economic, scientific counseling	15
Others	25

**End of year date provided by the Income Tax Law**

The annual tax settlement period begins on January 1 and ends on December 31 of each year and must be equal to the taxpayer’s accounting period.

In the case of taxpayers who carry out temporary activities in less than one year, the Tax Authority, at the request of those, may authorize special dates for the tax to be paid, which begins and ends on the dates on which those activities are initiated and ceased.

**Individual tax summary**

All individuals can deduct from their net income:

- Up to Q.60, 000.00, out of which Q.48, 000.00 are to be used by way of personal deductions with no further proof to the contrary, and Q.12, 000.00 by way of VAT tax credits over personal purchases or services made during the period. These credits shall

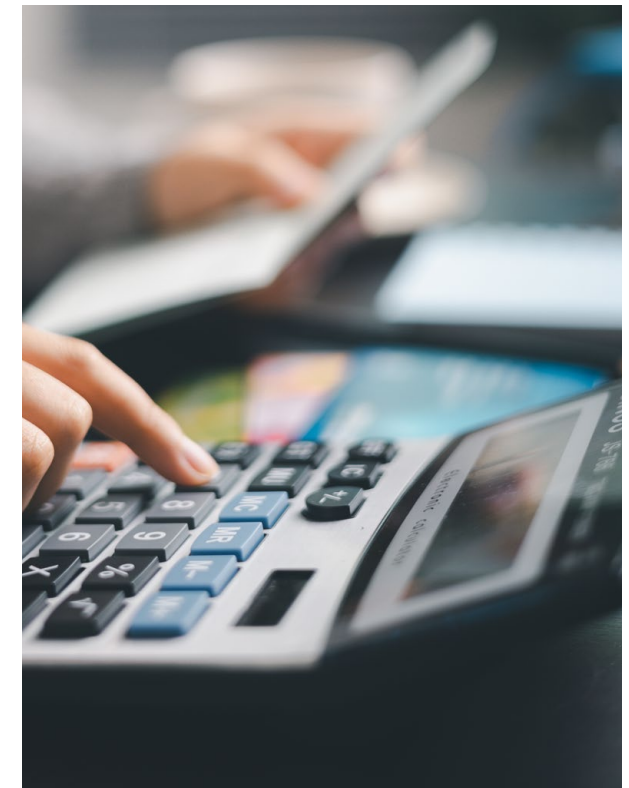
be supported by a listing of the pertinent vouchers, which shall be subject to Tax Administration Office (SAT) audit. This listing shall be presented to Tax Administration Office (SAT) within the first 10 working days of January of each year, and the employer shall reconcile any income tax withheld during the period to the final income tax return.

- Donations demonstrably given to the Government, the Municipalities and their agencies, to universities and cultural and scientific entities. Donations given to not-for-profit social service associations and foundations, as well as to churches, and to political parties, which in any event shall be duly organized, authorized, and enrolled as provided by law, and are provided by the Tax Administration Office (SAT) with tax solvency certificated for the period the donations may pertain to.
- The donations maximum deductible amount for each period shall not exceed 5% of the donor’s net income.
- Contributions paid to both the Social Security Institute and the Military Welfare Institute to account for pensions and retirement plans, and Government pension plans.
- Life insurance premiums that cover only the death of employees, provided that the insurance contract does not accrue any amount for the concept of return.

Individuals, who obtain income from personal services as an employee, must calculate the tax on their taxable income, according to the following sliding scale of rates:

Renta imponible	Importe fijo	% sobre el exceso del límite
Q.0.01 a Q.300,000.00	Q.0.00	5%
Q.300,000.01 en adelante	Q.15,000.00	7% sobre el exceso de Q.300,000.00.

Tax rates on taxable income for individuals on an employee relationship shall be taxed with a 5% and 7% as the taxable income tier might be.





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# Honduras

Honduras, the heart of Central America, welcomes investors from around the world. This country is driven by the work and talent of its inhabitants, with one of the youngest labor forces in the region.



Honduras protects and promotes foreign investment through various tax and legal incentives for companies. This country has various trade agreements, which offer direct access to the main world markets, thus increasing competitiveness, access to a diversity of products and services.

As detailed in our Constitution, Honduras is constituted as a free, democratic and independent republic, where justice, freedom, culture and the economic and social well-being of its inhabitants are sought and ensured.

# Content



**82**

**Overview Of The Country**



**83**

**Political And Legal System**



**84**

**The Economy**



**86**

**Doing Business In Honduras**



**89**

**Banking System**



**90**

**Labor And Social Security**



**93**

**Accounting And Audit Requirements  
And Practices**



**94**

**Tax System**

# Overview of the country



## Climate

The climate in Honduras varies from tropical in the lowlands to temperate in the mountains. The mean annual temperature in the interior is about 21.1° C (70°F). The low-lying coastal regions, however, are warmer, and the humidity is oppressive; the mean annual temperature there averages 30° C (86°F). The dry season lasts from November to May; the average annual rainfall ranges from 1,016 mm (40 inches) in some mountain valleys to 2,540 mm (100 inches) along the northern coast.

### Population, form of government, language, currency, others:

<b>Territorial area</b>	112,492 km <sup>2</sup>
<b>Population</b>	9,892,632 million (July 2024)
<b>Population by km2</b>	87,71 hab. /km <sup>2</sup>
<b>Relative Population Increase</b>	1.47% (approx. 2024)
<b>Urban Population</b>	57.9% (2024)
<b>Political System</b>	Republican Democrat
<b>Type of Government</b>	Presidential
<b>Language</b>	Spanish
<b>Currency</b>	Lempira (L)
<b>Political Division</b>	18 departamentos
<b>Religion</b>	Roman Catholic
<b>Capital City</b>	Tegucigalpa

Source: Dirección General de Estadística y Censos, [www.digestyc.gob.sv](http://www.digestyc.gob.sv).

## Education

The Honduran education system follows the European model of centralized control through the Ministry of Public Education, and consists of the following levels:

- Initial level (for children up to 5 years old).
- Basic level – Elementary (starts after initial level is finished and lasts 9 years).
- Middle level – High School (starts after basic level is finished and lasts from 2 to 3 years, according to the educational modality).
- Superior level (starts after the middle level is finished and last 4-5 years).

Basic and middle levels are officially free. All years of the basic level are mandatory. At the superior level (i.e. college) the National Autonomous University of Honduras (Universidad Autónoma de Honduras), the country's national public university, is the leading institution.

Likewise, there are private schools and colleges and 12 private universities nationwide. It is important to note that in the northern region there are approximately 310 bilingual schools.

# Political and legal system



## Legal framework

The political and legal structure of Honduras comprises three main branches – Legislative, Executive and Judicial – organized as follows:

### Political and Legal Framework

	Executive	Legislative	Judicial
<b>Exercised by the</b>	President	Unicameral Congress	Supreme Court of Justice (*) Courts of appeal District courts Small claims courts (*) The highest of all judicial bodies
<b>Composed of:</b>	The President and the Presidential appointees	Chamber of deputies 128 deputies (1 deputy elected for every 64,000 inhabitants).	The Supreme Court of Justice is composed of 15 permanent magistrates and 6 substitutes. The number of Courts of Appeal, District Courts and Small Claims Courts, and the number of judges sitting on them are determined by law.
<b>Elected or appointed by:</b>	The President is elected by direct vote every 4 years, and the Presidential Appointees are designated by the President	The deputies are elected by direct vote every 4 years.	The magistrated are appointed by the National Congress with a period of 7 years.

## Main political parties

The last presidential and congressional elections were held on November 2021 and the representative of the Freedom and Refoundation Party, Xiomara Castro, was elected as president. The next elections will be held in November of year 2025.

- National Party  
Partido Nacional de Honduras PNH
- Liberal Party  
Partido Liberal de Honduras PLH
- Social Democrats  
Partido Innovación y Unidad-Social Demócrata PINU-SD).
- Social Christians  
Partido Demócrata-Cristiano de Honduras DC
- Democratic Unification  
Partido Unificación Democrática UD
- Anti-Corruption Party  
Partido Anti Corrupción PAC
- Patriotic Alliance  
Alianza Patriótica AP
- Broad Front Political Electoral in Resistance  
Frente Amplio Político Electoral en Resistencia FAPER
- Go Solidarity Movement  
Vá Movimiento Solidario VAMOS
- Freedom and Refoundation Party LIBRE
- New Route Party of Honduras  
Partido Nueva Ruta de Honduras
- Salvador Party of Honduras  
Partido Salvador de Honduras
- Democratic Liberation Party of Honduras  
Liberación Democrático de Honduras
- We Are All Honduras  
Todos somos Honduras

# The Economy



The economy in Honduras has continued to grow slowly. The national economy shows an accumulated growth of 4.7% in the first semester of 2024, and 3.2% year-on-year.. Honduras is banking on expanded trade under the US-Central America Free Trade Agreement (CAFTA) and on debt relief under the Heavily Indebted Poor Countries (HIPC) initiative.

Honduras is the fastest growing remittance destination in the region with inflows representing more than a quarter of its Gross Domestic Product (GDP), equivalent to twice the exports. The economy relies heavily on a narrow range of exports, notably bananas and coffee, making it vulnerable to natural disasters and shifts in commodity prices. However, investments in the maquila industry and non-traditional export sectors are diversifying the economy. There has been an increased in foreign investments due to the establishment of Call Center companies in Honduras.

Growth remains dependent on the economy of the U.S., its largest trading partner, and on a reduction in the high crime rate and maintaining investment.



## Inflation

For October 2024, the Consumer Price Index (CPI) obtained a monthly variation of -0.05% showing a monthly reduction for the first time since August 2022. With this result, interannual inflation stood at 4.05%; meanwhile, accumulated inflation so far this year reached

# 3.29%

In the first month of 2023, national production grew 0.9%, according to the Monthly Index of Economic Activity (IMAE), -in its original series- when compared to the same month of 2022. The production performance was explained -in terms of contribution-, mainly due to the activities of: financial intermediation, telecommunications, hotels and restaurants, trade, private construction, agriculture, livestock, forestry, fishing, transport and storage.

	2018	2019	2020	2021	2022	2023
<b>GDP (US\$ m)</b>						
Nominal GDP (US\$ m)	24,021(*)	25.09(*)	23.83(*)	28.45(*)	31.69(*)	34.30(*)
Real GDP growth (%)	3.5	2.7	-9.0	12.5	4	3.6%
<b>Prices and financial indicators</b>						
Exchange rate Ps: US\$ (end-period)	24.51	24.82	24.32	24.18	24.63	24.72
<b>Current account (US\$ m)</b>						
Goods: exports fob	8,643.6	8,787.8	7,683.4	10,216	12,172	5,816.8
Goods: imports fob	12,461.5	12,148.6	10,241.3	15,072.6	17,583.1	16,040.2
Family Remittances in Balance Transfer (US\$ m)	4,759.9	5,384.5	5,573.1	7,184.4	8,464.9	8,946.3
Current account Deficit in the Balance of Payments	-1,581.8	-223.9	161.5	-308.9	170.5	45.3

Source: Central Bank of Honduras (\*) Approximate figure.

# Doing business in Honduras



## Government attitude toward foreign investment

Government policies have been friendly towards foreign private investment. The government is emphasizing the promotion of tourism and has implemented laws in order to attract foreign investment to the sector.

Foreign investment is generally accorded the same rights as domestic investment. Government authorization is required for foreign investment in sectors such as basic health services, telecommunications, air transport, fishing and hunting, exploration for and exploitation of minerals, forestry, and private education.

The current government promotes a tax reform project that seeks to create two new tax exemption regimes aimed at developing the national industry and attracting foreign investment, designed under the criteria of best international practices.

Including the change in the principle of land rent to world rent.

## Free trade agreement and other agreements

CAFTA is a regional trade agreement signed by the U.S. and five Central American countries: Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica. The Dominican Republic (in the Caribbean) has also joined the agreement. The comprehensive agreement maintains the general principle of duty-free, quota-free access for farm commodities and addresses other trade measures in both the region and the U.S.

The agreement should help foster economic growth, improve living standards, and create higher paying jobs in the U.S. and CAFTA countries by reducing and eliminating regional barriers to trade and investment. The agreement creates improved market opportunities for U.S. commodities and other goods and services.

CAFTA is expected to expand a two-way trade relationship in, textiles, farm, food, and fishery products, among other sectors. CAFTA will provide U.S. agro-exporters the same or better access to CAFTA consumers as its competitors, providing promising new opportunities to a regional market where U.S. exports currently total nearly US\$1.5 billion.

**Tariffs:** Under the agreement, over half of U.S. farm goods presently exported to the four CAFTA countries were protected by duty-free treatment immediately upon implementation. Tariffs on other products were to be phased out over the course of 5, 10, 12, or 15 years (18 years in the case of rice and chicken parts, and 20 years in the case of dairy products).

In most cases, eliminating these tariffs will create preferences (or equal footing) for U.S. exporters over third country suppliers, helping to expand the U.S. market share. Certain sensitive products will be subject to tools and mechanisms provided for by CAFTA, including tariff-rate quotas, long-term tariff phase-outs, nonlinear tariff reductions, and the application of import safeguards.

## Exports

Exports of goods totaled USD11,348.2 million,

showing a year-on-year drop of USD898.7 million (7.3%). This behavior is mainly explained by the 12.0% drop in exports of goods produced in the manufacturing industry (maquila), linked to the drop in international demand for textile products.

As of the second quarter of 2024, total exports reached US\$5,755.8 million (a 5.3% year-on-year decrease), while imports totaled US\$9,665.5 million (an increase of 2.4%). Thus, the trade balance registered a deficit of US\$3,909.7 million, which represented an increase of 16.1% compared to the same period in 2023.

The main exports consist of: coffee, shrimp, bananas, palm oil, fruit, lobster and wood.

## Imports

Honduras is highly dependent on imports of machinery and transportation equipment, industrial raw materials, chemicals, fuels, and food. The country's main trading partners are the US, Guatemala, Mexico and Colombia.

CIF imports of goods totaled USD19,327.4 million in 2023, registering a decrease of USD1,372.0 million (6.6%) compared to the figure reported at the end of 2022. This decrease is mainly attributed to the drop of USD1,170.5 million (26.7%) in imports of goods destined for transformation (maquila), mainly textile materials. Likewise, a contraction of USD201.4 million (1.2%) is observed in imports of general merchandise, especially industrial supplies and fuels.

Regarding the accumulated CIF imports of goods, it totaled US\$9,665.5 million as of June 2024,

Direct Foreign Investment has been focused on telecommunications, the manufacturing industry, maquila, services and recently, production of energy with renewable resources.

US\$223.8 million (2.4%) higher than that observed in June 2023; This trend is explained by the 2.5% increase in purchases of general merchandise – mainly transportation equipment and fuels – as well as goods for transformation (maquila) by 1.6%.

Purchases of general merchandise totaled US\$8,020.4 million as of June 2024, revealing a 2.5% increase compared to the figure obtained a year ago; as a result of the year-on-year increase of US\$170.9 million in imports of transportation equipment, its parts and accessories.

#### Other free trade agreements currently in effect

- Free Trade Agreement with United States of Mexico and the Republics of Honduras, El Salvador and Guatemala.
- Free Trade Agreement between Central America and the Dominican Republic.
- Free Trade Agreement between Central America and Chile.
- Free Trade Agreement between Central America and Panamá.
- Free Trade Agreement CE3 (Honduras, El Salvador and Guatemala) and Colombia.
- Free Trade Agreement with Peru and Canada.
- Free Trade Agreement with the European Union.

For industrial and commercial real estate investments, most foreign investment is in San Pedro Sula, considered the industrial capital of Honduras.

With the same objective of promoting foreign investment, local Government made some amendments to Law for Promotion of Electricity Generation with Renewable Resources through decree 138-2013 dated July 1st, 2013 and published on August 1st, 2013 in the Official newspaper “La Gaceta”.

#### Direct Access to Key Markets

- An Association Agreement with the European Union.
- Observer member of the Pacific Alliance.
- Honduras applied for official inclusion in the Trans-Pacific Partnership.
- Negotiations for a free trade agreement with Korea.
- Negotiations for a free trade agreement with China.
- Through DR-CAFTA, with: the United States, Costa Rica, El Salvador, Nicaragua, Guatemala and the Dominican Republic.

#### Destination of foreign investment

Direct Foreign Investment has been focused on telecommunications, the manufacturing industry, maquila, services and recently, production of energy with renewable resources.

#### Restrictions on foreign investment

There are only a few constraints, common in most countries:

- Disposal of toxic, dangerous and radioactive garbage not produced in the country.

- Activities affecting public health and the country’s environmental equilibrium.
- Production of materials and equipment directly linked to national defense and security, except with the express authorization of the Chief Executive.

#### Establishing business in Honduras

Business structures

- General partnership (sociedad en nombre colectivo).
- Ordinary limited partnership (sociedad en comandita simple).
- Joint-stock company (sociedad en comandita por acciones).
- Limited liability Company (sociedad de responsabilidad limitada (-S.DE R.L.-)).
- Stock company (sociedad anónima (-S.A.-)).
- Cooperative company (sociedad cooperativa).
- Unipersonal company (sociedad unipersonal)

Foreign investors may establish their businesses through any of the legal forms contemplated by domestic legislation. Local companies with foreign capital can access domestic credit with the same rights and under the same conditions as local companies with domestic capital.

The Limited Liability Company and the Stock Company are the models most frequently used by both locals and foreigners, other than the branch.



**Formation procedure**

- Celebration of incorporation in a public instrument before a notary public or through the website [empresaaenlinea.org](http://empresaaenlinea.org)
- Publication of the notice of incorporation in a newspaper with the largest circulation.
- Registration of the instrument in the Mercantile

Registry and the corresponding Chamber of Commerce and Industry.

- Processing of the National Tax Registry (RTN).
- Processing of the municipal operating permit.

**Branch and/or permanent establishment**

After a legal reform issued on 15 July 2011 by

Decree 51-2011, a company established abroad can incorporate a branch in Honduras once its existence in the country of origin is certified before the Public Registry of Commerce. This can be accomplished by filing the following documentation:

- Apostilled copy of the certificate of registration in the country of origin.
- Shareholder’s Agreement appointing a permanent Honduras resident to be the company’s legal representative.
- Incorporation statutes, if any.

Once all the documentation is filed, the Public Registry of Commerce should proceed to the incorporation of a branch issuing a resolution within a week.

The branch’s business is directed by the person appointed by the parent company who must be a Honduras resident, to which powers of attorney are granted and registered in the Public Registry. Such power may be revoked only by the parent company or by the holder of an overriding power of attorney in Honduras.

The scope of the representative’s power of attorney may vary according to the parent company’s policy but should be sufficiently extensive to allow for adequate representation in Honduras. It is advisable to permit delegation of certain powers, such as the signing of checks.

There is no regulation requiring filing of the parent company’s financial statements in Honduras, but there are tax information exchange treaties.

# Banking system



## Central Bank

The banking system is controlled by the Honduras Central Bank (Banco Central de Honduras). International banks operate through branches or special purpose offices. The Central Bank is responsible for supervision through the National Banking and Insurance Commission (Comisión Nacional de Banca y Seguros) of the member banks and enforcement of the respective banking laws.

Generally, the central bank is responsible for setting interest rates as guidance for the private banking system and enforcing exchange controls and similar regulations.

## Commercial banks

The banking system in Honduras is well developed, composed of a number of private institutions that are regulated by the Central Bank and by the superintendence of banks.

## List of banks

### Central bank

- Banco Central de Honduras

### Commercial banks

- Banco de Honduras, S.A.
- Banco Atlántida, S.A.
- Banco de Occidente, S.A.
- Banco de los Trabajadores, S.A.

- Banco Financiera Centroamericana, S.A.

- Banco Hondureño del Café, S.A.

- Banco del País, S.A.

- Banco Financiera Comercial Hondureña, S.A.

- Banco Lafise Honduras, Sociedad Anónima

- Banco Davivienda Honduras, Sociedad Anónima

- Banco Promerica, S.A.

- Banco de Desarrollo Rural Honduras, S.A.

- Banco Azteca de Honduras, S.A.

- Banco Popular, S.A.

- Banco de América Central Honduras, S.A.

## State banks

- Banco Nacional de Desarrollo Agrícola

- Banca de Segundo Piso

- Banco Hondureño para la Producción y la Vivienda (BANHPROVI)



# Labor and social security



## Labor supply

Employment statistics, according to the last National Survey of Workforce:

### Economically active population and unemployment

Year	Total	Employed	Unemployed
2015	3,935,335	3,647,600	287,735
2016	3,944,800	3,653,800	291,000
2017	4,093,474	3,819,978	273,496
2018	4,336,378	4,089,204	247,174
2019	8,200,056	7,959,523	240,533
2020	8,427,028	8,181,302	245,726
2021	9,500,257	9,151,399	348,858
2022	9,597,739	9,241,311	356,428
2023	9,701,532	9,419,548	281,984

Source: Instituto Nacional de Estadística (INE) Encuesta Permanente de Hogares de propósitos múltiples.

## Labor law requirements

Labor relations between an employer and employee in Honduras are regulated by the Honduran Labor Code, which applies to all companies operating in Honduran territory. Consequently, companies operating under special laws like the Export Processing Zones, Free Zones and RIT are also regulated by this Code.

The Honduran Institute of Social Security is the government agency responsible for controlling and monitoring the social benefits that assist the Honduran employee: Disability, Old Age and Death (IVM) and Sickness and Maternity (EM).

Below there is a summary of the most important requirements of the Labor Code.

#### **Wages and salaries**

Minimum wage is the lowest salary that can be agreed upon in an employment contract. Minimum wages are established by the government every year..

#### **Christmas bonus**

The employer is obliged to pay the worker in the month of December a Christmas bonus consisting of one ordinary monthly salary earned by the worker in the calendar year.

#### **14th Month bonus**

The employer is obliged to pay the worker in the month of June a bonus consisting of one ordinary monthly salary earned by the worker in the calendar year.

#### **Fringe benefits**

The employer has the option to provide some fringe benefits to its employees and executives; in general, these types of benefits will be taxed for income tax purposes, with some exceptions.

#### **Hours worked**

Maximum Labor hours are 8 hours daily and should not exceed 44 hours a week. There are other special shift arrangements allowed by the labor law.

#### **Vacations time**

Vacations are determined as follows:

- After 1 year of continuous service, 10 consecutive working days.
- After 2 years of continuous service, 12 consecutive working days.
- After 3 years of continuous service, 15 consecutive working days.
- After 4 or more years of continuous service, 20 consecutive working days.

#### **Notice of termination of employment**

In case of termination of employment, employers must provide a notice of dismissal one month in advance when the employee has served between one and two years; two months when he or she has served more than two years.

#### **Severance payment**

Severance pay is generally payable in the event of unfair dismissal, corresponding to one month's salary for each year of uninterrupted service up to 25 years.

However, the employee will be entitled to 35% severance pay after fifteen years of continuous employment or more, when the employee voluntarily decides to terminate an employment contract.

#### **Technical education contribution**

A payroll-based contribution is imposed on employers toward the financing of a program for the technical instruction and training of workers. The contribution

for employers is 1% of total monthly payroll; employees do not contribute.

#### **Foreign personnel**

Other things being equal, Honduran workers will have preference over foreign workers. Prohibiting employers from employing less than 90% of Honduran workers and paying them less than 85% of the total salaries earned in their respective companies.

Both proportions are modifiable in exceptional cases determined by law.

#### **Social security**

The Honduran Institute of Social Security is the government agency responsible for controlling and monitoring the social benefits that assist the Honduran employee: Disability, Old Age and Death (IVM) and Sickness and Maternity (EM).

The contribution ceiling is L11,336. for IVM and L11,109.30 for Sickness and maternity. The employee pays 2.5% of each regime and the employer pays 5% for sickness and maternity, 3.5% for IVM and 0.20% for professional risk.

The provisions provide that for the calculation of these percentages must be considered the first HNL 11,109.30 monthly wages of each employee.

The payments are made by the company monthly and must be withheld from the employees' salary weekly, bi-monthly or monthly depending on the way employees are paid.

The National Training Institute (INFOP) and Social Housing Fund (RAP) are also public institutions in charge of training programs for employees and housing finance. Employees pay 1.5 % of gross salary to RAP, which must be deducted from the monthly salary. The employer's contribution is 1.5% of each employee's gross salary. The contribution to the INFOP represents 1% of the total company's payroll and is paid only by the company.



# Accounting and audit requirements and practices



## Accounting

The Law of the Accounting and Audit Rules (Decree Number 189- 2004) creates the regulatory framework for the adoption and implementation of these international principles (IFRS or IAS), in order to obtain adequate preparation, presentation, review and certification of accounting and financial information that will guarantee the transparency and comparability, thereby generating the necessary national and international confidence in this information.

All of the above is aimed at Honduras' adoption and proper application of the International Financial Reporting Standards (IFRS) and International Auditing Standards (IAS).

The amounts and notes of the financial statements will be expressed in the local currency (Lempira). However, for financial situations and results of operations, companies may have alternative records adjusted to another currency.

The financial statements must be prepared annually and in a similar way to that of the previous period.

## Statutory audit requirements

Only financial institutions are required to prepare audited consolidated financial statements that must be published. In addition, they are required to publish their annual financial statements and submit to the regulators a semi- annual financial statement accompanied by a review.

## Books and records

Accounting records should be kept in Spanish and Lempiras. By specific requirement of the Honduran Accounting Law, they should include three bound books of account, a General Ledger, a Daily Ledger and an inventory and balance ledger. These books must be stamped annually, and records kept for at least five years. In practice, records are kept in a variety of ways, both computerized and in hard copy. These methods meet the Honduran Accounting law formal requirements.

## Accounting profession

Licenses to practice as a Certified Public Accountant (Contador Público Autorizado - CPA) are issued by the Public Accountants Board. Candidates must have obtained a degree in accounting, auditing or finance from a Honduran university.

## Auditing standards

The International Auditing Standards issued by the International Auditing and Assurance Standards Board are followed in Honduras.



# Tax system



Such taxes will be recollected and administered by the Honduran Government through the tax authority (known as Servicio de Administración de Rentas-SAR, before Dirección Ejecutiva de Ingresos-DEI), which was approved by the Executive Power under Executive Decree number PCM-084-2015, published in the Official Newspaper La Gaceta, on February 27 2016.

## Tax on corporate income

The corporate income tax rate for residents is 25% of the net income of the fiscal period of the company, plus a surtax of 5% called solidarity contribution applicable to the excess of HNL 1 million of the net taxable income.

Likewise, there is a 1.0% rate applicable to individuals or companies whose gross income is higher than ONE THOUSAND MILLION HNL (L 1,000,000,000.00). This 1.0% applicable to the income is compared with the result of applying the 25% rate to the net taxable income, and the greater amount must be paid as income tax. The rate will be reduced to 0.50% for the following sectors: production, distribution or sale of cement, steel and its derivatives for construction, which does not include the sale of scrap or the activity of the mining industry; public services provided by state companies; medicines and pharmaceutical products for human use, at the producer, importer or marketer level; and production, marketing or export of coffee.

The Honduran Constitution states that the National Congress is the only body empowered to levy taxes.

According to the publication of the new Honduras Tax Code (Decree 170-2016) in La Gaceta on 28 December 2016, Honduras is governed by the principle of territorial income, which is why company's resident in Honduras are taxed for their territorial income. For their part, non-resident companies are subject to income tax only on income derived from Honduran sources.

## Corporate residence

The place of incorporation is regarded by Honduran authorities as the corporate residence. Non-resident companies are those incorporated/registered outside of Honduras. However, income taxes on corporations are levied on local income regardless of the place of incorporation. In addition, any person or company resident in Honduras is subject to tax on both local and foreign income.

## Net assets tax

It is a tax of 1% of the net value of the assets of the company. The values paid under this concept, will constitute a credit against the value of the Income Tax to be paid. If, in the taxable year to which the payment corresponds, the legal person has learned an amount equal to or greater than the tax to be paid in concept of total net assets as Income Tax, the obligation derived from the latter shall be understood as fulfilled. In the event that the amount paid for Income Tax is less than the amount to be paid for tax on net assets, the difference will be the tax to be paid on total net assets.

## Capital gain tax

A 10% tax is applied on capital gains, regardless of whether or not you are a resident. The rate is reduced to 4% when the company operates within the free tourist zone (ZOLITUR).

In the event that the sale of goods or property rights and securities is carried out by a non-resident, the purchaser must proceed to withhold 4% of the value of the transfer of the property on account of the capital gains tax with the order to pay within the following ten days of the transaction.

## Sales tax

The sales tax is charged on all purchase and sale transactions of goods and services carried out in Honduran territory. The tax rate is 15%. It applies to most goods and services, with the exception of machinery and equipment, basic grains, pharmaceutical products, raw materials for the production of non-taxable goods, petroleum products and school supplies.

The import and sale of beer, other alcoholic beverages, cigarettes and other tobacco products are subject to 18% sales tax.

There is an 18% tax rate levied on first and business class airline tickets.

## Municipal taxes

Companies that operate in Honduras are also subject to the rules and regulations of the corresponding

municipality. Municipal tax obligations are regulated by the Municipalities Law and the “Municipal Excise Plan”. These include:

- Industry, commerce and service tax – Based on sales volume per year.
- Personal municipality tax – (individual tax).
- Public service tax – Tax paid for services such as waste management.
- Real estate – Tax on asset and asset gains.
- Sign tax – Taxation on public advertising.

**National Security Regulation**

The Regulation of the Population Security Law determines the application of the norms established in the Population Security Law. The application of special tax and contribution rates were established as described below:

- Special tax levied on the financial system for bank accounts transactions and renewal of credit cards memberships;
- Special contribution on cell phone companies taxed with a 1% rate on monthly gross income (i.e. air time);
- Special contribution on the mining sector taxed with a 2% rate on the FOB value for exports;
- Special contribution on food and beverage companies taxed with a 0.5% rate on their monthly gross income;

- Special contribution on casinos and slot machine companies taxed with a 1% rate on their monthly gross income; and,
- Special contribution on the cooperative sector taxed with a 3.6% rate on their net annual surplus.

**The following table summarizes other significant taxes**

Type of taxes	Rate %
Customs duties	1% to 20%
Payroll taxes or contributions, paid by employers	Social security 8.7% with a ceiling cap of HNL 11,336.32
	INFOP 1% RAP/FOSOFI 1.5%
<b>Municipal Taxes:</b>	
Real estate tax; imposed on companies and individuals owning real estate	HNL 1.50 to HNL 5.00 for every thousand calculated on the cadastral value (consult the corresponding Municipal Tax Plan).
Industrial trade and municipal service taxes payable monthly for income from business operations; rates vary according to annual production, income or sales.	Various
Up to HNL 500,000	0.0003%
From HNL 500,001 to HNL 10,000,000	0.0004%
From HNL 10,000,001.00 to HNL 20,000,000.00	0.0003%
From HNL 20,000,001.00 to HNL 30,000,000.00	0.0002%
Over HNL 30,000,000.00	0.00015%



### Corporate deduction

#### Allowed deductions

The net taxable income of an enterprise is determined by deducting all the ordinary and necessary expenses incurred in the creation of income, including amortization and depreciation; municipal taxes; donations made in favor of the State, the Central District, the Municipalities, and legally recognized educational institutions, charities and sporting facilities; mandatory employer-employee contributions to the social security system; and “reasonable” charges for royalties and management services.

There are some expenses that should be considered “non-deductible”, even if they have been perfected by generating income, for example: a) interest paid to owners or shareholders; b) capital losses.

Inventories are generally valued using the first-in, first-out (FIFO), last-in, first-out (LIFO) and weighted-average cost method. However, after the adoption of the International Financial Reporting Standards on 2012, the only two methods accepted will be the FIFO and weighted-average cost method.

Provisions for contingent liabilities, such as severance pay, are not deductible for tax purposes; actual payments for those liabilities are considered to be deductible expenses.

#### Depreciation and depletion

Depreciation may be calculated using the straight-line method. Businesses can also obtain authorization from the tax authorities to use other depreciation methods. However, after a company selects a depreciation method, it must apply it consistently thereafter. The following are the applicable straight-line method rates for some common assets:

Class	Rate %
Buildings	2.5 to 10
Plant and machinery	10
Vehicles	10 to 33
Furniture and office equipment	10
Tools	25

Companies engaged in agriculture, manufacturing, mining and tourism may carry forward losses from three years if the tax authority so authorizes. Losses may not be carried back. Some restrictions apply.

Capital losses are not deductible to determine the net taxable income. Capital losses can only be netted against capital gains. Capital gains are subject to a tax rate of

**10%**

With the exception of the solidarity tax, net asset taxes, income tax and sales tax, taxes and contributions paid to district or municipalities are deductible expenses when determining taxable income.

Capital losses are not deductible to determine the net taxable income. Capital losses can only be netted against capital gains. Capital gains are subject to a tax rate of 10%.

**Net operating losses**

The carry forward of losses of individuals or legal entities engaged with agricultural, agro- industrial, manufacturing, mining and tourism activities, can be used to offset profits up to the third period following the period in which the losses were generated, with a maximum amortization of 50% in each period.

**Group taxation**

No provisions exist for group taxation.

**Withholding tax (WHT)**

The WHT on income obtained from Honduran source by non-residents are detailed as follows:

<b>Class</b>	<b>Rate %</b>
Income from Movable Property and Real Estate.	25
Royalties from mining operations and other natural resources.	25
Salaries, commissions, or any other remuneration for rendering services within national territory or abroad.	25
Income or obtained profits by foreign companies through subsidiaries, affiliates, agencies.	10
Income, profits, dividends or any other profit sharing, of individuals or companies.	10
Royalties.	25
Interest on commercial operations, bonds, credit instrument and other type of obligations.	10
Income from operations of airplanes, ships and vehicles	10
Income from operations of telecommunication companies	10
Insurance and bonds premium	10
Income obtained from public shows	25
Films and video tapes for cinema, TV, video clubs and cable TV	25
Any other income not mentioned previously	10

### Tax incentives

Companies operating under a special tax regime are exempted from income tax, sales tax, customs duties and some municipal taxes. These special tax regimens are:

- Free Trade Zones.
- Temporary Import Regime (“Regimen de Importación Temporal” (RIT)).
- Companies under the Tourism Incentive Law.
- Companies established in Bay Islands and under the Law of the Free Tourism Zone of the Bay Islands. (“Ley de la Zona Libre Turística de las Islas de la Bahía”).
- Law promoting the generation of electric energy with renewable resources. (“Ley de Promoción de la Generación de Energía Eléctrica con Recursos Renovables”). There are tax exemptions for projects generating 50MW and over.

The fiscal year runs from January 1 to December 31. However, taxpayers may request authorization from the SAR to opt for a special fiscal year. Companies must declare and pay annual income tax. Additionally, mandatory partial advance payments are payable every quarter, determined based on the income tax paid in the previous fiscal year.

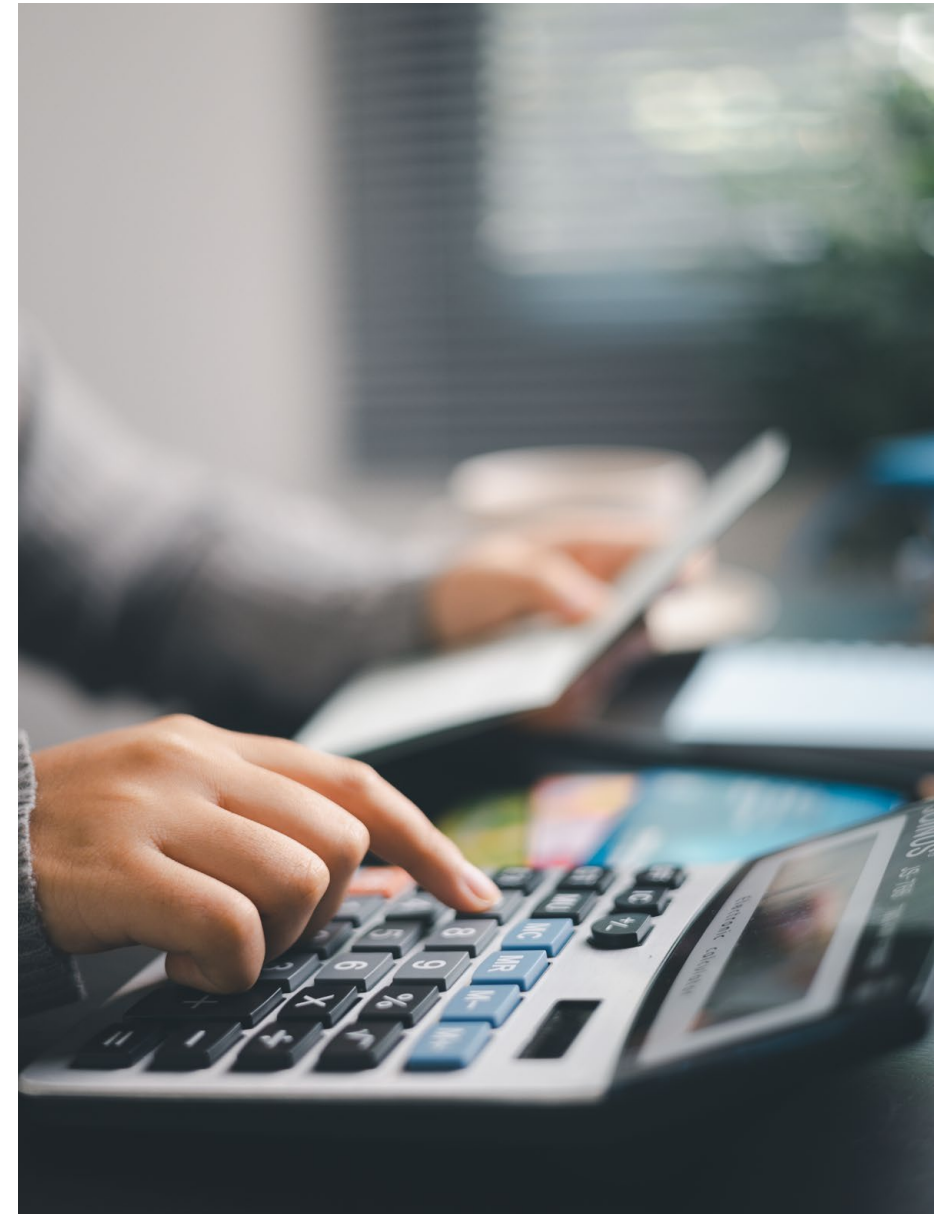
### Income Tax Declaration

Companies must declare and pay income tax on April 30 of each year. In the case of a special fiscal year notified to the SAR, the declaration and payment is made 3 months after the fiscal closing. Tax affidavits are based on self-assessment and can be submitted in electronic forms or paper forms provided by the Tax Administration.

### Payment of taxes

As of January 1, 2017, Honduras is governed under the principle of territorial income for the determination of the tax base of income tax, that is, Honduran citizens are subject to income tax on their income, from Honduran source only.

In addition, foreign citizens are subject to income tax on their Honduran source



Individuals are entitled to an annual deduction for medical expenses of L 40,000.00.

income. For tax purposes, a person will be considered a resident of Honduras, if he/she stays more than 90 days in the country during a fiscal year, continuously or not.

**Individual deductions**

**Current deductions/credits**

Donations to legally recognized state, municipal, educational, and sports institutions are allowable deductions.

**Tax obligations of individuals**

**Declarations**

The spouses are obliged to present separate income tax declarations, covering their respective income. Individuals are required to submit a statement when wages, salaries and bonuses come from different sources (where the employer makes the corresponding tax withholding) or when they are not included in the local payroll.

**Tax Payment**

Employers are required to withhold tax on wages, salaries, and bonuses. The Christmas bonus and the fourteenth salary are exempt when they do not exceed 10 minimum wages. In accordance with the Honduran labor code, contributions to Social Security, severance pay and severance pay are not subject to income tax.

**Current tax rates**

Individuals who earn salaries equal to or less than L 20,780.80 per month will not pay Income Tax during the 2024 tax period.

The following table is in force and effect:

**Progressive Income Tax Scale (acronym in Spanish - ISR)**

From	Up to	Rate%
L. 0.01	L. 199,039.47	Exempt
L. 199,039.48	L. 303,499.90	15%
L. 303,499.91	L. 705,813.76	20%
L. 705,813.77	Onward	25%

**Transfer pricing**

The Transfer Pricing Law is in force in Honduras as of January 1, 2014 through Decree 232-2011, establishing as its scope of application all transactions of natural or legal persons residing in Honduras with related natural or legal persons residing in the abroad or within a special regime. Additionally, the regulation published in La Gaceta on September 18, 2015 in Agreement 027-2015, expanded the application of the regulation to transactions between related companies residing in Honduras.

Additionally, an interpretation of Article 113 of the Honduran Tax Code was published, excluding entities covered by special regimes, since they enjoy tax benefits within operations that determine tax obligations related to transfer pricing.



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# Nicaragua

Nicaragua takes its name from Nicarao, chief of the indigenous tribe that lived in time of the Spanish conquerors. In 1524, Hernandez de Cordoba founded the first permanent Spanish towns, Granada, on Lake Nicaragua, and León.



Nicaragua gained independence from Spain in 1821, becoming a part of the Mexican Empire. After separating from Mexico, in 1823 Nicaragua joined a federation of independent Central American provinces with other Central American countries. In 1838, Nicaragua separated from the federation, which dissolved a month later. In 1845, three years after trying to form a union, Nicaragua went to war with Honduras and El Salvador.

In 1847 there was a new attempt to unite. The history of Nicaragua is marked by tensions between the parties, conservatives and liberals.

The Constitution was ratified in 1858 (to be in effect for 35 years) and Managua was established as the capital city. On November 5, 2006, the presidential election was won by Daniel Ortega of the Sandinista National Liberation Front (FSLN), Current government.

# Why invest in Nicaragua?

**The foreign investment landscape in the country has been recovering gradually since 2019, even after the pandemic entered the international scene, Nicaragua began to be seen as a desirable destination for foreigners due to the flexible measures of mobilization in the country and the absence of the mandatory isolation experienced in Europe and other countries in the region.**

Nicaragua continues constantly improving its infrastructure, with the aim of boosting national and international tourism and creating conditions that encourage and facilitate trade.

For instance, in mid-August 2024, the expansion and modernization works of the Punta Huete International Airport in San Francisco, Managua, officially began. In addition to this, during this same year, multiple road improvement projects, pedestrian bridges, schools, among others, have been carried out.

A characteristic that continues to be attractive for investment is the territorial tax system, which promotes tax incentives for new business initiatives and key industries in the country such as tourism, energy generation, production in Free Zones and innovative businesses that can gain public interest.

The possibility of acquiring properties whether residents or not, is another attraction for investment in Nicaragua. The real estate market has seen a drop in its prices, which in turn has become an incentive for international real estate investors. Private property has the same protection for nationals and foreigners and the registration of real estate in the country is a process of medium complexity and very accessible, provided, of course, that you have the appropriate legal counseling.

If you have considered exploring investment options in Nicaragua, you will be interested to know that the local culture is friendly to foreign initiatives and that the country has a skilled labor force for developing industries such as back-office services (call centers), tourism and construction.

A fact that should not be lost sight of is the legal minimum wage in the country, which compared with the rest of the region is highly competitive. The average monthly minimum wage is US\$235, being the lowest of the Central American countries, followed by Guatemala, which has a monthly minimum wage of US\$440.

Additionally, in 2023 the average salary earned by workers signed on with the social security was approximately US\$382.

It is worth mentioning that employability costs are also accessible due to factors such as the economic opening to the importation and local production of food, which allows Nicaraguans greater purchasing power with fewer resources.

It is expected that during 2023 the local and regional strategy will focus on a more articulated effort by the public and private sectors to achieve social and environmentally sustainable economic revitalization, with the aim to allow the country to enter the new digital and carbon-neutral world.

Furthermore, the latest Report of the Monthly Economic Activity Index issued by the Central Bank of Nicaragua (BCN), reflects an accumulated growth of 3.9 percent, so the growth goal for this year 2024 is between 3.5 and 4.5 percent.

#### Consulted sources:

<https://www.sica.int/iniciativas/resiliencia>

<http://www.marena.gob.ni/2021/11/09/mensaje-del-gobierno-de-reconciliacion-y-unidad-nacional-de-nicaragua-en-la-cop26/#>

[https://www.bcn.gob.ni/sites/default/files/estadisticas/sector\\_real/mercado\\_laboral/3-6B06.htm](https://www.bcn.gob.ni/sites/default/files/estadisticas/sector_real/mercado_laboral/3-6B06.htm)

<https://www.bcn.gob.ni/publicaciones/informe-anual-2022>

Ley 822 Ley de Concertación Tributaria y Ley 987 de Reformas y adiciones a la Ley de Concertación Tributaria.

# Content



**104**

**Overview Of The Country**



**105**

**Political And Legal System**



**106**

**The Economy**



**107**

**Doing Business In Nicaragua**



**110**

**Banking System**



**111**

**Labor And Social Security**



**114**

**Accounting And Audit Requirements  
And Practices**



**115**

**Tax System**

# Country Overview



## Climate

Nicaragua has a predominantly tropical climate, alternating between two seasons: rainy and dry (winter and summer). This is the result of its geographic location between 11 and 15 degrees latitude north and the humidity from both the Atlantic and Pacific oceans, which give it a fairly stable season.

In the central region the rainy season lasts from May to October. The dry season occurs from November through April. During December the weather is more temperate. The warmest months are March, April and May, Nicaragua's "beach season."

The climate along the Caribbean Coast has the highest temperatures and humidity. The temperatures in this region are similar to those in tropical jungles, ranging above 89° F.

### Population, form of government, language, currency, others:

<b>Area</b>	130,373 km <sup>2</sup>
<b>Population</b>	6.916 million inhabitants (2024, ECLAC estimate)
<b>Population per km<sup>2</sup></b>	49 hab. /km <sup>2</sup>
<b>Population Growth</b>	1.36 % (est. 2024)
<b>Urban Population</b>	57.6%
<b>Political System</b>	Republican democracy
<b>Form of Government</b>	Presidential
<b>Language</b>	Spanish
<b>Currency</b>	Córdoba (NIO)
<b>Administrative division</b>	15 departments, 2 autonomous regions, and 153 Municipalities
<b>Religion</b>	No official religion (Predominant religion is Roman Catholic)
<b>Capital City</b>	Managua

Source: Banco Central de Nicaragua (BCN), ProNicaragua..

## Education

Currently, 70.9% of the population is younger than 40 years, according to figures from the Central Bank of Nicaragua. Elementary, high school, and university education are mandatory, the first two being free. There is one Nicaraguan branch of a US University that has been accredited by Southern Association of Colleges and Schools (SACS). The Nicaraguan government is increasing funding to improve educational opportunities in the country, and has promoted increased enrollment for both grammar and high school, as well as for universities.

All schools, including elementary, high school and university, are under the general supervision and regulation of the National Ministry of Education.

# Political and legal system



## Legal framework

The political and legal framework of Nicaragua is composed of four main branches organized as follow: Executive, • Legislative, • Electoral, and • Judicial

### POLITICAL AND LEGAL FRAMEWORK

	Executive	Legislative	Judicial	Electoral
<b>Exercised by the:</b>	The President	National Assembly	Supreme Court of Justice	Supreme Electoral Council
<b>Composed of:</b>	The President	Chamber of 90 Deputies (20 national deputies and 70 departmental deputies) plus 2 more deputies: the former President and the Presidential Candidate who obtained the second place in the previous elections.	16 Judges	7 members, and 3 alternates.
<b>Elected or appointed by:</b>	The President and Vice-President are elected by direct vote every 5 years.	The deputies are elected by direct vote every 5 years.	The judges are appointed by the National Assembly every 5 years.	The judges are appointed by the National Assembly every 5 years.

The Nicaraguan civil framework is based on Napoleonic Code.

The last presidential elections were held in November 2021 and the last Municipal elections were held in November 2022.

### Main political parties

The recent trend has been toward fewer political parties participating in the presidential election, as evidenced by the last two elections.

Currently, the four major political parties are:

Constitutional Liberal Party

(14 seats in the National Assembly).

Nicaraguan Liberal Alliance (2 seats).

National Liberation Sandinist Front (71 seats).

Independent Liberal Party (2 seats).

There are also a number of other small parties which have been in existence for some time and a few that are still relatively young. Attempts to create new political parties are often largely unsuccessful due to the strengths of the larger parties.

# The Economy



## Gross Domestic Product (GDP)

Despite the effects caused by the COVID 19 sanitary crisis, investments in Nicaragua have managed to establish a recovery process since the first quarter of 2021, maintaining the policies of stimulating private investments and exports, that year there was a notable increase in FDI.

During 2023, FDI inflows were US\$1,230.1 million, which resulted in an increase of US\$716 million compared to the same period of 2021 (US\$ 577.8 million), these inflows were mainly led by new investments in the Energy and Mining sector.

The development of the energy and mining sectors and free trade zones have contributed significantly to increasing the country's productive capacity and boosting the economy.

Nicaragua obtuvo en 2023 un índice de IED como porcentaje del PIB de

# 14.2%

## Inflation

As of December 2023, the Consumer Price Index (CPI) recorded an annual inflation of 5.6 percent (11.6% in December 2022).

<b>GDP (US\$ m)</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
Nominal GDP (US\$ m)	12,621.2	12,621.2	13,883	15,671.6	17,829.2
Real GDP growth (%)	(2)	(2)	9.9	3.8	4.6
<b>Prices and financial indicators</b>					
Exchange rate: US\$ (end-period)	34.82	34.82	35.48	36.23	36.62
Lending interest rate (avg;%)	11.18	11.18	10	10.3	11.3
<b>Current account ( US\$ m)</b>					
Trade balance	(1,559.9)	(1,559.9)	(1,022.8)	(2,790.8)	(2,691.9)
Goods: exports FOB	2,852.0	2,852.0	5,150.3	6,309.7	6,688.3
Goods: imports FOB	4,411.9	4,411.9	6,173.1	(9,100.5)	(9,380.2)
<b>Unemployment</b>					
Unemployment (avg; %)	5.9	4.8	4.3	3.5	3.4

Source: Banco Central de Nicaragua/INIDE.

## Economic Data - Year 2023

<b>GDP)</b>	<b>US\$ 17,829.2 millions</b>
Real GDP Growth	4.6%
GDP per capita	US\$ 2,620
Total Export	US\$ 6,688 millions
Foreign Direct Investments (FDI)	US\$ 1,230.1 millions
Foreign Direct Investments (FDI) as GDP percentage	14.2 %
Annual Inflation	5.6 %
Stable Currency	Fixed devaluation of Cordoba with respect to USD equivalent to 1% per year (2022).
International Reserves	US\$ 5,447 millions

# Doing business in Nicaragua



Foreign investment legislation grants foreign investors the same rights and responsibilities as domestic investors.

The legal framework for the promotion of foreign investment is composed in principle and in general terms of the following laws:

- Foreign Investment Promotion Law (Law 344 of April 27, 2000)
- Temporary Admission Law for inward processing of export facilitation (Law 382 of April 16, 2001)
- Export Free Zone Law (Law 917 of October 8, 2007)

There are numerous laws, instruments and legal provisions that allow the creation and strengthening of businesses depending on the area of business to be carried out.

## Free Trade Agreements and other agreements

Nicaragua, as a member of the World Trade Organization (WTO), has always been present in multilateral, regional and bilateral negotiations (free trade agreements) in order to obtain tariffs and preferential transactions that in turn have become a characteristic and an important component in the liberalization and fluidity of trade by region.

Through a wide range of trade agreements, Nicaragua has achieved preferential access to the world's most important markets, allowing companies operating in the country to establish an export platform for key markets in North, Central and South America, Europe and Asia.

Among the agreements signed by Nicaragua are:

- Central American Common Market (CACM) December 13, 1960: Nicaragua, Honduras, El Salvador and Guatemala have signed an agreement to integrate their economies in order to achieve greater competitiveness in the world market. The union has created a common customs territory between countries that will lead to the free movement of all products, regardless of their origin, and the elimination of customs requirements between countries.
- Free Trade Agreement between Central America - Dominican Republic (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua) April 16, 1998:
  - The objective of this treaty is to stimulate the expansion and diversification of trade in goods and services between parties, promote conditions of free competition within the free trade zone, reciprocally eliminate barriers to trade in originating goods and services.
- Free Trade Agreement between Central America - Dominican Republic (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua) April 16, 1998: The objective of this treaty is to stimulate the expansion and diversification of trade in goods and services between parties, promote conditions of free competition within the free trade zone, reciprocally eliminate barriers to trade in originating goods and services.
- Central America-Panama Free Trade Agreement (Costa Rica, Guatemala, El Salvador, Honduras and Nicaragua) March 6, 2002: The objective of this agreement is to attract investment and open agro-industrial markets.
- Free Trade Agreement with the United States (DR-CAFTA) August 05, 2004: Nicaragua, together with the other four Central American nations and the Dominican Republic, signed a Free Trade Agreement with the United States of America. The implementation of this treaty eliminates duties on most Central American exports to the United States and helps to integrate the Central American economies into a single trading bloc.
- The implementation of this treaty eliminates duties on most Central American exports to the United States and helps to integrate the Central American economies into a single trading bloc.
- Generalized System of Preferences (GSP): The Generalized System of Preferences (GSP) originated with a worldwide effort by industrialized countries to grant preferential market access to developing countries. The GSP grants unilateral tariff preferences to imports from developing countries. Nicaragua benefits from the GSP with Japan, Colombia, the European Union and Canada.
- Preferential Trade Agreement with Venezuela August 15, 1986: The purpose of this bilateral agreement is the granting of tariff preferences and the elimination or reduction of non-tariff

Many transactions are freely and fully conducted in U.S. dollars. Remittances of investment capital, earnings, loans and lease repayments are freely allowed through the private foreign exchange market operated by local financial institutions.

restrictions to strengthen and dynamize their trade flows, in a manner compatible with their respective economic policies, contributing to the consolidation of the Latin American integration process.

- Preferential Commercial Agreement with Colombia August 15, 1986: The purpose of this agreement is to grant tariff and non-tariff preferences that Colombia will grant to Nicaragua, foreseeing that in the future Nicaragua may, when conditions permit, grant preferences to Colombia.
- Partial Scope Agreement between Cuba and Nicaragua March 13, 2014: The purpose is to promote tariff preferences and the elimination of non-tariff restrictions in bilateral trade, with the objective of creating and increasing trade opportunities between the Parties, on a predictable, transparent and permanent basis, through cooperation, complementarity and solidarity.

On November 17, 2023, the Free Trade Agreement between the Government of the People's Republic of China and Nicaragua (FTA) was published in La Gaceta Diario Oficial, No. 209, which is expected to result in new investments and an increase in job creation. This FTA would come into force in 2024.

#### **Foreign investment**

The foreign investment law has the objective of facilitating the establishment and placement of foreign capital in Nicaragua, in such a way that foreigners may enjoy tax benefits, banking opportunities and access to all transactions and formalities that allow them to

operate as if they were a nationalized entity.

The law for the promotion of foreign investment establishes equal treatment for local and foreign investors, the elimination of restrictions on the ways in which foreign capital enters the country and the recognition of the right of foreign investors to own and use their property without limitations.

The law also stipulates, among many other provisions:

- Free currency convertibility.
- Free realization of: Foreign investors are guaranteed the enjoyment of related transfers of funds abroad, remission of profits, dividends, profits, payments for foreign debts, income, among others.
- No minimum or maximum investment amount (except for free zones)
- 100% international ownership allowed. There is no discrimination against foreign investors, both for owners and shareholders.
- Accelerated depreciation of capital assets
- Equitable treatment for local and foreign investors
- Access to financing available in local banks, according to their terms and conditions of approval.
- Protection of Property and Security: Nicaraguan law recognizes and guarantees the rights of the national and foreign investor, the protection of their property and the right to free disposal of assets, capital and profits.

#### **Destination of foreign investment**

Foreign investments have been centralized on Telecommunications, Energy, Manufacturing, Tourism and Services.

#### **Restrictions of foreign investment**

There are no restrictions in Nicaragua on converting or transferring funds associated with investments.

Many transactions are freely and fully conducted in U.S. dollars. Remittances of investment capital, earnings, loans and lease repayments are freely allowed through the private foreign exchange market operated by local financial institutions.

#### **Temporary Admission Law:**

In Nicaragua the Law of Temporary Admission for the Temporary Admission of Improvement of Assets to facilitate exports, promotes regulating the facilities required in the temporary admission for inward processing, as well as those required for the re-export of compensating products outside the national territory, including sales to the Industrial Free Zones of Exports in their different modalities.

#### **Law of Free Zones:**

The Law of Export Free Zones, aims to establish the legal regime of the export free zones, with the purpose of maintaining and attracting foreign direct investment that complements the national investment effort and promotes exports, to achieve the social and economic development of the country.

### Establishing a business

Business activities, as well as the forms of incorporation of a company in Nicaragua are governed as a general rule by the Commercial Code and the Civil Code. Its regulation is established by entities such as:

Public Registry of Real Estate and Mercantile Property.

#### National Directorate of Public Registries

Centralizing General Directorate of Information and Prevention.

#### Ministry of Industry and Commerce

On the other hand, financial trading companies are subject on regulation of Prevention of Money Laundering, Financing of Terrorism and Financing of the Proliferation of Weapons of Mass Destruction therefore they must submit periodic reports to governmental entities such as:

- Superintendency of Banks and other financial institutions (SIBOIF).
- National Microfinance Commission (CONAMI)
- Financial Analysis Unit (UAF)

The classification of legal entities does not exclude the operation and functioning of atypical entities or social contracts. As is the following case:

#### Joint venture (Partnership in fact).

This type of business structure is regulated in articles 329 to 332 of the Code of Commerce. Basically, the terms and clauses must be negotiated in the Joint Venture Agreement.

### Registration procedure

In order to register a branch the following documentation must be filed before authorities.

- Name of the entity establishing the branch and the mailing address of its main office; country or state of organization or incorporation; business to be conducted by the branch; certificate from appropriate agency of the country or state of organization or incorporation, indicating it is duly registered and authorized to do business; copy of articles of incorporation or equivalent on file with the authorities of the country or state as applicable.
- Certified copy of the resolution of the appropriate body approving the incorporation of a branch in Nicaragua and also granting a local representative power to obtain the authorized domicile, as it is mandatory to appoint a local representative to file the request.

However, in addition to the requirements listed above, in 2019 the General Directorate for Centralization of Information and Prevention was created, whose purpose is to regulate, supervise and train nationwide the Lawyers and Notaries Public as Regulated Entities, in relation to their obligations of prevention, detection and reporting of activities potentially related to Money Laundering, Financing of Terrorism and Financing of the Proliferation of Weapons of Mass Destruction and predicate offenses associated with Money Laundering. This new regulation has a direct impact on the operation of commercial companies, since it obliges them to comply with a fundamental requirement to allow registration traffic

and to be able to carry out transactions in a transparent manner before other state institutions:

#### Declaration of the Ultimate Business Owner (UBO)

The Supreme Court and the National Directorate of Public Registries has been in charge of formulating and implementing regulations, which specifically demand compliance with these diligences for the prevention of regulation of prevention of money laundering, financing of terrorism and proliferation of weapons of mass destruction.

The circulars issued by the DNR in relation to this matter have been:

- Circular 008-2021: Instructs to perform corporate information update and beneficial owner registration for commercial companies. (establishes deadlines)
- Circular 009-2021: Establishes the regulation to declare the beneficial owner of corporations whose shareholders are national or foreign companies.
- Circular 014-2021: Establishes the period for the registration of the beneficial owner.
- Circular 020-2021: Establishes the call for registration and penalties for non-compliance (corporations whose corporate name begins with the letter “A” through “H”).
- Circular 021-2021: Establishes the call for registration and penalties for non-compliance (companies whose corporate name begins with the letter “I” through “Z”).

# Banking system



## Central Bank of Nicaragua

Banco Central de Nicaragua (the Central Bank of Nicaragua) was created by Article 148 section 19 of the Constitution of 1950 through legislative decree no. 525 dated July 28, 1960.

It began operations on January 1, 1961 as a government institution with operational autonomy, indefinite duration, independent funding and legal identity. It is governed by Article 99 of the current Constitution, which establishes that “The Central Bank is the regulator of the monetary system of Nicaragua”.

In 2010, the legal framework of the bank was

modernized through Law 732 “Organic Law of the Central Bank of Nicaragua”, which defines it as an autonomous, decentralized institution of the Government, technical in nature, of indefinite duration, legal identity, independent funding and complete capacity to enter into legal contracts. The bank’s main office is in the city of Managua.

On December 13, 2024, the BCN published on its website the “Circular for the application of the provisions on payments in the national currency, the cordoba”, which will come into force on January 1, 2025. This circular states that all agents offering their goods and services in Nicaraguan territory must indicate prices in national currency. In turn, it details the goods and services that must be expressed and paid for in cordobas and those that may be expressed in foreign currency, with the option of payment in foreign currency or in cordobas.

## Commercial banks

Banking entities established in Nicaragua provide a full range of services that include, among others, credit cards; loans for the purchase of vehicles; loans for personal expenses; leasing operations; mortgage loans; saving accounts; checking accounts; investments through deposit certificates; short and long term loans; management of letters of credit; document collections; industrial credit; factoring; and sale and purchase of foreign currency. The Superintendent of Banks and Other Financial Institutions (SIBOIF) is the public entity that supervises banks, and financial and insurance entities.

## List of banks

- The Central Bank of Nicaragua.(BCN)
- Banco Avanz, S.A. (AVANZ).
- Banco de la Producción, S.A. (BANPRO).
- Banco FICOHSA Nicaragua, S.A. (FICOHSA)
- Banco LAFISE Bancentro, S.A. (LAFISE BANCENTRO).
- Banco de América Central, S.A. (BAC).
- Banco de Finanzas, S.A. (BDF).
- Banco de Fomento a la Producción (Banco PRODUZCAMOS)
- Banco Atlántida Nicaragua, S. A. (BANCO ATLANTIDA). Authorized as of September 2019.

## Representation offices of foreign banks

- Banco de Desarrollo Económico y Social de Venezuela (BANDES).
- Tower Bank International, Inc.
- LAAD Americas N.V
- Banco Centroamericano de Integración Económica (BCIE)



# Labor and social security



## Unemployment rate as of December 31 for the years 2019 - 2023

	2019	2020	2021	2022	2023
<b>Unemployment rate</b>	6.2	5.9	4.8	4.3	3.5

Source: Código del Trabajo de Nicaragua y de la Seguridad Social

## Labor law requirements

The regulation of the Nicaraguan work relationships are based on the country’s labor code, the highest law regarding employment matters. This law is intended to protect employees and employers and specifies their rights and obligations.

## Profit sharing

Under the Nicaraguan Labor Code, profit sharing is not mandatory for companies.

Below is a summary of the most important requirements of the Labor Law:

## Wages and salaries

The minimum wage in force in 2024 (captured in Cordoba C\$) applicable as of March 2024, which is shown below, is derived from the resolution issued by the National Minimum Wage Commission of the Ministry of Labor on February 29, 2024:

Industry	Monthly C\$	USD Equivalent
Agriculture *	5,721	156
Fishing	8,699	238
Mining	10,275	281
Manufacturing	7,693	210
Micro and small craft Industries and national tourism	8,746	239
Industry subject to fiscal regime	6,028	165
Electricity, gas and water, commerce, restaurants and hotels, transportation, warehousing and communications	10,494	287
Construction, Insurance and Financial Institutions	12,803	350
Community, social and personal services	8,020	219
Central and municipal government	7,135	195

**Christmas bonus**

At the end of each calendar year, the employee is entitled to an additional month of salary (bonus). If the worker has not completed a year of continuous work, the additional month of salary is calculated proportionally to the months worked during the year. Payment is due within the first ten days of December.

**Complementary benefits**

<b>Costs for the Employer</b>	<b>% of Ordinary Gross Salary</b>
Vacations	8.33%
Christmas Bonus – 13th Month	8.33%
Severance Payment	8.33%
Holidays	3.05%
Social Security	21.5% (employers with 50 or less employees) 22.5% (employers with more than 50 employees) effective February 2019.
INATEC (National Technological Institute)	2.00%
Total	51.54% (employers with 50 or less employees) 52.54% (employers with more than 50 employees)

Source: Código del Trabajo de Nicaragua y de la Seguridad Social



### Vacations

After each continuously worked year, employees are entitled to thirty days of paid vacation.

### Severance payment

Whatever the cause may be for the termination of a contract, the employer is obliged by law to pay the employee the proportional part of his benefits, such as vacation, Christmas bonus and work compensation. Also, when the employer rescinds an open-ended contract without just cause, he must pay the employee the equivalent of the following:

- One month of salary for each of the first three years of work,
- 20 days of salary from year four through six.

In no case shall the payment be less than one month or greater than five months. Any fractions of years will be compensated proportionally.

### Technical education tax

National Technological Institute (INATEC): Employers must pay the equivalent of 2% of the employee's monthly gross salary. This fund is available for training for workers from the contributing company.

### Foreign personnel

Under Nicaraguan Labor Code, Section 14, all companies are required to employ a workforce that is at least 90% from Nicaraguan citizens, with a maximum 10% of foreign personnel. As an exception

and for technical reasons only, the Ministry of Labor can approve a higher percentage to hire foreign personnel.

### Social Security

The Nicaraguan Social Security System is conducted and regulated by the Nicaraguan Institute of Social Security (INSS) according to Decrees 974 and 975, Decree 06-2019 on Reforms to the Social Security Law.

The Social Security regime, as stated in the before mentioned law, is composed of four insurance systems:

- Disability.
- Retirement age.
- Death.
- Occupational Hazard Insurance.

For Social Security taxes, the employer social security contribution from February 1st, 2019 is 21.5% (employers with 50 or less employees) or 22.5% (employers with more than 50 employees) calculated on the employees gross salary, and the employee social security contribution is 7% of its gross salary. From February 2019 the taxable salary is the whole compensation paid, in 2018 was up the amount of C\$ 88,005.78 (approximately USD 2,722).

# Accounting and audit requirements and practices



## Accounting

The Institute of Public Accountants of Nicaragua (CCPN) is the regulatory body of the accounting profession. On May 10, 2010, this Institute established mandatory adoption of International Financial Reporting Standards (IFRS) or International Financial Reporting Standards for the Small and Medium Size Entities (IFRS for SME) for accounting periods beginning on or after July 1, 2011.

Financial institutions, regulated by the Superintendence of Banks of Nicaragua, must use as accounting framework The Unique Accounting Manual. This manual, along with additional regulatory standards are issued by Superintendence of Banks of Nicaragua.

## Statutory audit requirements

According to the income tax law (Law 822), the accounting period should be calendar year, except for companies, that due to the nature of their operating cycle requests to and obtain from the Fiscal Authorities a special tax period.

Statutory audit is not required in Nicaragua. However, regulations by Superintendence of Banks of Nicaragua requires financial institutions to obtain audited financial statements from debtors for loans greater than US\$750,000.

Financial institutions regulated by the Superintendence of Banks must have audited financial statements, which should be submitted to such Superintendence 90 days after calendar year

end. Additionally, financial institutions are required to publish in newspapers of national distribution its annual audited financial statements at least 120 days after calendar year end. With reference to Microfinance Institutions (MFI), they must have the reports available to CONAMI within ninety days following the close of each fiscal year. The audited financial statements approved by the Board of Directors of the MFI must be published on the MFI website.

## Books and records

Under Nicaragua's Code of Commerce, Section 28, companies are required to:

- Keep an inventories ledger and balance sheets (not used in practice).
- Keep Journal and General Ledgers.
- Keep a Corporate Stock Ledger.
- Keep a ledger for letters and telegrams (not used in practice).

All ledgers must be kept in Spanish except the ledger of letters and telegrams. If there is any legal ledger in a foreign language, this should be translated it into Spanish. The books also need to be bound and each page must bear the stamp of the Nicaraguan Department of Commerce registration office.

## Accounting profession

The accounting profession is regulated by Law No. 6, Accounting Public Exercise Law, issued in the official

newspaper: La Gaceta No. 94 of April 30, 1959. The Society of Public Accountants of Nicaragua (CCPN) is the regulatory body of the accounting profession.

## Auditing Standard

CCPN has established The International Auditing Standards (ISA) as the auditing standards for Nicaragua. Superintendence of Banks also requests such standards to audit financial institutions. The SIBOIF and CONAMI request the use of these standards for the external audit of Financial Institutions (CD-SIBOIF-1129-2-SEP10-2019) and Microfinance (CD-CONAMI-008-02APR15-2013).

# Tax system



Nicaraguan Tax System is regulated by the Law 562 “Nicaraguan Tax Code”, Law 822 “Tax Law” and reforms from 2014 and February 2019, Decree 01-2013 “Law 822

## Regulation” and reforms from March 2019.

Law 822, effective as of January 1, 2013, establishes among other important aspects, the following:

- Tax resident definition.

- Tax haven definition.
- Rules of permanent establishment (PE).
- Transfer pricing rules.
- Introduction of a dual tax system, segregating the taxation of personal income, economic activities, and capital gain or losses.

Nicaragua has a territorial tax regime. The four major sources for tax and social security collection are administered by the following government agencies:

- General Incomes Services - DGI (Dirección General de Ingresos).
- General Customs Services - DGA (Dirección General de Servicios Aduaneros).
- Nicaraguan Social Security Institute - INSS (Instituto Nicaragüense de Seguridad Social).
- Municipalities – Alcaldías Municipales.

## Tax on corporate income

Income taxes are levied only on domestic-sourced income at whichever is higher of the following rates:

- 30%, applied to net taxable income (gross taxable income less allowed deductions by law);
- Definitive Income Tax payment based on the gross income obtained during the fiscal year, as follow:
  - 3% for taxpayers with higher annual incomes than 160 millions Cordobas (approximately US\$4.95 millions), classified as large taxpayers by the tax administration.

- 2% for taxpayers with annual incomes between 60 and 160 million Cordobas (approximately US\$1.86 and US\$ 4.95 millions), classified as principal taxpayers by the tax administration.
- 1% for other taxpayers, whose annual incomes are less than 60 million Cordobas (approximately US\$1.86 millions).

The law establishes exceptions to the definitive minimum tax, regulated as follows:

- During the first three fiscal periods of recently incorporated entities.
- Taxpayers whose sales are controlled by Government.
- Taxpayers that ceased operations by ‘force majeure’.

The fiscal year shall be January 1 to December 31 of each year, notwithstanding, taxpayers may request a different fiscal year to the Tax Administration according to their economic activity among others.

## Excise tax

Goods that are deemed non-essential, as well as sugar, cement, phosphorus, among others, are subject to excise tax, which is an indirect tax applicable on imports and first local sale. Between this non-essential products are:

- Rum, wine, beer, and other alcoholic drinks. These products are subject to the excise tax rate according to the tariff lines stated in Appendix II of the Law 822 and its reforms, plus a flat fee of 60 cordobas per liter of alcohol from 2023.



- Soda, juice, energetic drinks, tobacco, cigar, and cigarettes. These products are subject to the tax rate according with the tariff lines stated in Appendix I and II of the Law 822 and its reform.

The taxable base of the aforementioned products are:

Product	Taxable base on imports and first local sale
Alcohol beverages, wines and beers	Retail price for the ad-valorem of Annex I of Law 822 and Reforms, and a flat fee of C\$60 for each liter of alcohol
Soda, Juice and energetic drinks Cigarettes	Retail price. Millar or its equivalent per unit.
Cigars and tobacco	Weight in Kilograms
Sugar	Producer or manufacturer selling price (*)
Cement	CIF value
Phosphorus	CIF value
Other taxed products	CIF value

(\*) In practice, taxable base on imports is CIF value.

**Tax on branch income**

Income received is subject to corporate income tax.

**Free Trade Zone tax**

The Free Trade Zone Law – Law 917, relates to export-oriented industries, manufacturing, agribusiness and contact centers.

According to international agreements with World Trade Organization (WTO) members (Doha Article VII), Nicaragua will be one of the few countries in the region able to provide free zone and other tax incentives to exporters after 2008.

In August of 2004, as part of the incentive for DR-CAFTA (Dominican Republic and Central America Free Trade Agreement), Nicaragua was granted a special one-for-one provision (to a limit of 50,000 square meters of fabric) for free trade zone companies. This benefit, known as Tariff Preference Levels (TPL), was granted for a ten- year period that ended on December, 2014.

The tax benefits and exemptions provided by the Free Trade Zone are:

- Tax exemption on corporate income and property taxes.
- Tax exemption on municipal taxes.
- Tax exemption on customs taxes for the importation of capital goods such as machinery, equipment and raw material, and transport and support services for the Free Trade Zones.
- Tax exemption on value-added tax.
- Export Processing Zone Tenant shall be entitle to: 10 years exemption of corporate income regulated as follow:
  - 100% exemption for the first ten years, renewable for another ten years prior approval of the National Free Trade Zone Commission (CNZF by its acronym in Spanish).
  - 60% exemption from the eleventh year onwards.

**Tax on dividend**

Natural person, corporate and economic unit, resident or not in the country, will be subject to a withholding tax of 15%; this tax rate is effective from March 1st, 2019.

**Tax on Capital Gain**

As general rule, capital gains are subject to a 15% definitive withholding tax rate. In addition, in case of the capital gain arising from the sale of property, which is

subject to annotation before the public registry office, the Capital Gain tax will be paid through a withholding tax, which will be calculated on the sales price according the following tax rates:

Equivalent in Cordobas of the value of the property in Dollars	Applicable rate	
	To	Rate
0.01	0.01	1%
50,001.00	50,001.00	2%
100,001.00	100,001.00	3%
200,001.00	200,001.00	4%
300,001.00	300,001.00	5%
400,001.00	400,001.00	6%
500,001.00	onward	7%

**Municipal sales and service tax**

A monthly 1% tax is levied on all sales of the month of goods and provision of services payable to the municipalities of the city in which the service is provided or the goods are sold. Exemption applies to exports of goods and services, as well as the following sells of goods and services: livestock, eggs, milk, cheese and meat (unprocessed), and financial services.



VAT credits are applicable or allowed when related to goods/services subject to VAT. VAT paid on transactions to generate non-taxable income for VAT purposes are not allowed as VAT credits but may be proportionally applied.

#### **Municipal registration tax**

An annual 2% tax is levied on the average gross income received during the last trimester. In the case of the incorporation of new establishment or enterprise, municipal registration tax is 1% of the capital invested.

#### **Property Tax**

This annual tax is levied at a rate of 1% on 80% of cadastral/surveyed value, as recorded by the government.

#### **Value-added tax (VAT)**

VAT is imposed at 15% general rate on the:

- Supplies of goods;
- Supplies of services;
- Importations of goods

Export of goods and services are subject to a 0% VAT rate.

VAT liquidation is determined by subtracting, VAT debit (sales of goods or provision of services), from VAT credit paid on transactions needed to generate taxable income for VAT purposes. VAT credits are applicable or allowed when related to goods/services subject to VAT. VAT paid on transactions to generate non-taxable income for VAT purposes are not allowed as VAT credits but may be proportionally applied.

VAT exceptions include:

- Medicine and medical equipment.

- Real estate transfer.
- Sales of used goods.
- Basic food products.
- Financial instruments.
- Education services.
- Textbooks and educational supplies.
- Crude oil, partially refined oil.

#### **Other tax regimens**

##### **Tourism Investment Incentives Law (Law 1211)**

Tourism is a very dynamic industry in Nicaragua, due to the country's plentiful breathtaking natural resources and the fiscal incentives offered to investments in this industry.

This law regulates the tax incentives to be granted, on a one-time basis, to natural and legal persons who carry out tourism development projects that meet a minimum investment. Qualified tourism projects may receive the following exemptions as tax benefits:

- CIT (up to 10 years)
- Property tax (up to 10 years)

Exemption from VAT and import taxes on the import of construction materials, furniture and equipment, and fixed building accessories and other equipment, during the investment stage, from the beginning to the completion of new infrastructure works.

- VAT on local purchases of goods and related services, including professional services.

##### **Forestry Incentives Law (Law 462)**

The Forestry Incentive Law of August 2003 provides significant tax incentives for forestry plantations:

The Forest Incentive Law of August 2003 offers generous tax incentives for forest plantations:

1. Tax exemption until 2023:
  - 50 percent of municipal sales taxes.
  - 50 percent of the profits derived from the use of the plantation; 50 percent of the investment expense and up to 100 percent of the IR payment.
  - For the payment of taxes on real estate of forest plantations and areas under forest management.
2. Companies that invest in forest plantations can reduce 50 percent of the amount invested as costs.
3. Exemption from import duties for companies producing wood and paper articles (except sawmills) on imports of machinery, equipment and accessories.
4. All State institutions must give priority in their acquisitions to products made from certified wood. State agencies are allowed to pay up to 5% more for price difference within the tender for certified wood products.
5. Deduction of up to 100 percent of income tax when it is allocated to reforestation projects or forest plantations.

##### **Renewable Energy Incentives Law (Law 532)**

The Law for the Promotion of Energy Generation from

Renewable Sources promotes the development of new projects, expansion of existing ones, and biomass and biogas energy sources. Fiscal, economic and financial incentives are granted to this effect:

1. Exemption of customs duties on the importation of machinery, equipment, material and raw material necessary for all construction of stations, including sub transmission lines necessary for energy transportation from the generation facility to the National Interconnected Grid (SIN).
2. Exemption of the Value Added Tax (VAT) levied on machinery, equipment, material and raw materials utilized during pre-investment stage, construction of structures, including the construction of the sub-transmission lines necessary to transport energy to the National Interconnected Grid (SIN).
3. For “isolated systems” with their own generation facilities, this exoneration covers pre investments, construction and all the investments made in distribution grids associated with the project (i.e. panels and solar batteries for solar energy generation).
4. Exemption of the corporate income tax IR for a maximum period of seven years. During this same period, the income derived from the sale of carbon dioxide bonds will also be exempted.
5. Exemption of all the Municipal Taxes on real estate, sales and registrations during the construction of a project, for a period of ten years to be applied in the following manner: exoneration of 75% during

the first three years; 50% the five following years and 25% for the last two years. Investments in machinery, equipment, and hydroelectric dams will be exempted from all taxes and duties, for a period of ten years.

6. Exemption of taxes on the exploitation of natural resources for a maximum period of five years after the beginning of operations.
7. Exemption of Fiscal Seals Tax incurred by the construction, operation or expansion of a project for a period of ten years.

The deadline to apply for the tax benefits of this law ends on January 1, 2023. Projects authorized before that date shall maintain the approved incentives.

#### **Special Law on Exploration and Exploitation of Mines (Law 387)**

- Allows companies to apply to the Temporary Admission System and other schemes to promote exports as established by the legislation for purposes of exemption or suspension of customs taxes.
- Exemption of import tariffs on machinery, materials, instruments, tools and other effects related to the mining activity.
- Exemption from taxes imposed on company property, within the perimeter of the mining concession.
- Exemption from taxes or tax burden directly or indirectly applied on the minerals before

extraction, on the right to extract them, on the extracted mineral, cartage, benefits, transportation or storage of the minerals, as well as its sale or export.

This Law was amended in February 2019; the reform established that the extraction fee is not deductible for Corporate Income Tax purposes.

Law of Reform and Addition to Law 532, Law for the Promotion of Electricity Generation with renewable sources and its reforms: (Law 1027 September 08, 2020): The reform is based on the implementation of a transitory provision, which benefits current power generators to avail themselves of the income tax exemption for five years. This exemption applies to suppliers that have a contract for more than three years. This benefit applies to geothermal generators but only for a period of two years.

The law also permanently modified a provision referring to the price to be paid per Kwh in the commercialization outside the contracts with the Distributor.

Special Law for the Development of the Central Puerto Sandino Project for the generation of electricity based on natural gas (Law 1043, October 29, 2020): This special law is focused on regulating and establishing the legal basis for the development of the project for the generation of electricity based on natural gas, which includes storage, transportation of LNG and natural gas, regasification and generation of electricity, which will be developed by an investor.

**Temporary Admissions System (Law 382)**

Companies that directly or indirectly export at least 25% of total production (no less than US\$50,000 per year) may apply to the Temporary Admission System. This system allows both the entry of merchandise into the national customs territory, and the local purchase of goods or raw material without paying any kind of taxes or duties. This merchandise must be re-exported after being subjected to a process of transformation, repair or alteration.

The company must request a suspension of duties and tariffs to competent authorities.

If the company cannot apply for the suspension due to tax management reasons, it may later apply for a tax refund, as long as it re- exports the merchandise that was temporarily admitted into the country. This system is managed by the National Commission for Export Promotion (CNPE).

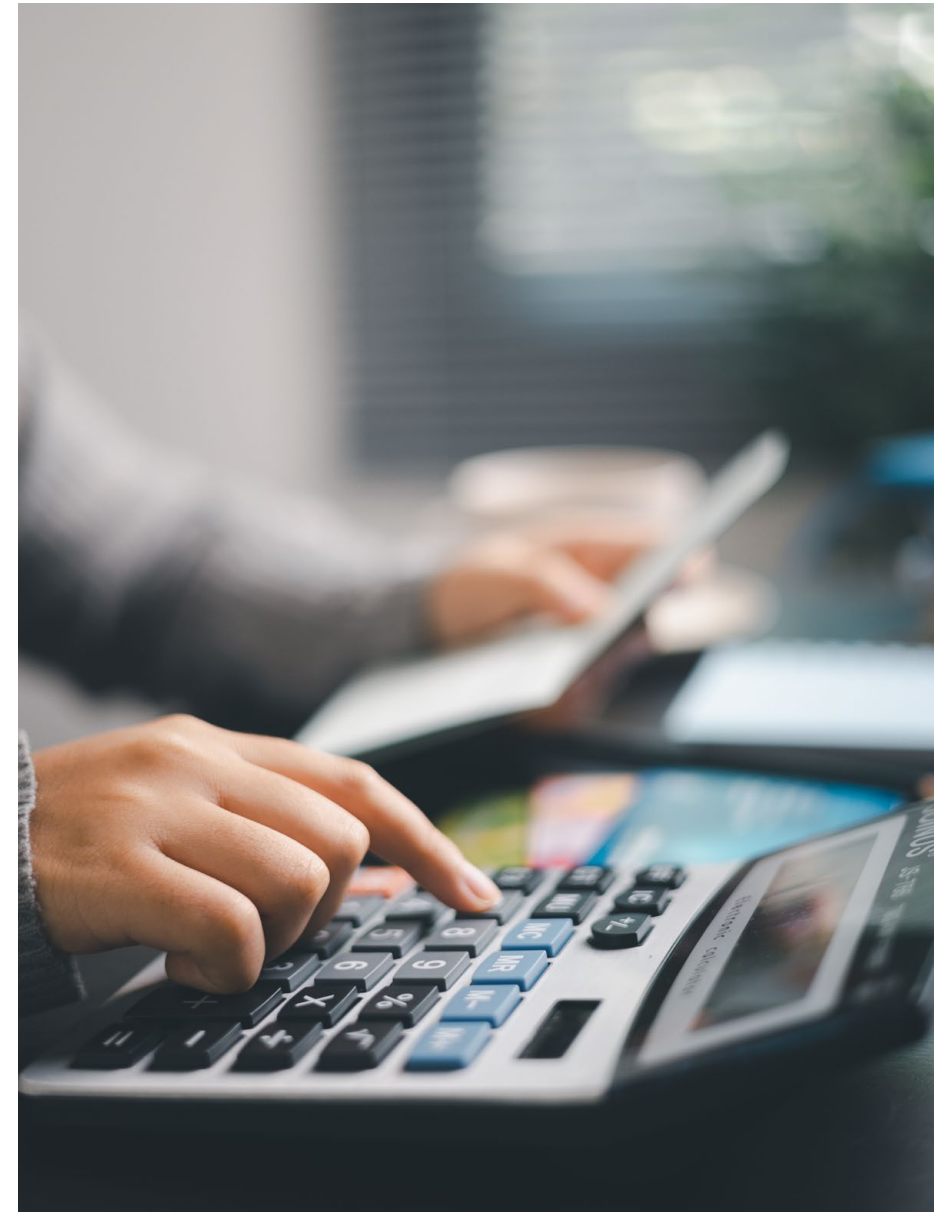
International treaties to avoid double taxation Currently, Nicaragua does not have any signed agreement or treaty with any country, to avoid double taxation.

**Corporate deduction**

**Depreciation and depletion**

Depreciation must be computed by the straight-line method. Depending on the type of construction and the estimated useful lives of fixed assets, annual rates for depreciation are as follows:

Buildings	3, 5, 10
Vehicles	12, 20, 33
Plant and equipments	10, 14, 20, 50



Losses are deductible on a stand-alone basis per year; therefore they cannot be aggregated and deducted in one single year.

#### Alternative method of depreciation

Taxpayers under the Temporary Admission for Active Processing (TAP) regime could, at their convenience, request a different depreciation rate (accelerated depreciation) to tax authority.

#### Net operating losses

The carry forward of tax losses are deductible during the following three fiscal periods in which they were incurred. Losses are deductible on a stand-alone basis per year; therefore they cannot be aggregated and deducted in one single year.

#### Taxes

Payments of services provided by foreign related entities are subject to 20% withholding tax and deductible for income tax purposes provided the requirements below are met:

- The expense is necessary to generate taxable income.
- The expense is duly supported (agreement, invoices, payments receipts).
- The expenses are incurred within the fiscal period.
- The withholding tax is applied and paid to Tax Authorities.

Limitations: income tax expense is not deductible for corporate income tax purposes. Municipal or local taxes (property tax, municipal monthly income tax, annual registration tax) are deductible for corporate income tax. Many types of penalties or charges

made by tax, customs, Social Security or municipal authorities are not deductible for income tax purposes.

#### Group taxation

Group taxation is not allowed.

#### Capital Incomes

- Dividends, distribution of profits, Royalties, Interest, Software Programs paid to residents and non-residents are subject to 15% withholding tax. Effective since February 28, 2019.
- Lease of property assets and similar are subject to 15% withholding tax for payments made to residents and non-residents (with 20% deduction). Effective since February 28, 2019.
- Lease of fixed assets is subject to 15% withholding tax for payments made to residents and non-residents (with 30% deduction.). Effective since February 28, 2019.

Interest paid to International Lending Institutions and Development Institutions founded by foreign governments are exempt of withholding tax. Furthermore, interest paid to international Banks with investment grade are subject to a 10% withholding tax.

#### Capital Gains

In general, capital gains are subject to 15% withholding tax on net income. Net income is the difference between the selling price and acquisition value, applicable to residents and non-residents. Non-residents are not allowed offset capital losses.

- Sale of assets not subject to annotation before the public registry office is subject to 15% of net income.
- Sale of shares of a Nicaraguan company is subject to 15% withholding tax applicable to net income for residents and non-residents, even though the sale is carried out between non-residents.
- When the taxpayer has difficulty to prove its acquisition cost, the withholding tax is levied to the 60% of the selling price.

#### Transfer pricing ruling

According to the Tax Law No. 822, effective as of January 1, 2013, incorporated transfer pricing rules, are effective as from June 30, 2017.

#### Tax incentives

##### Investment

Under present law and on a case-by-case basis, new companies with tourism activities may request and the Government may grant, during the construction phase of the asset, total exemption of custom duties and, for income tax purposes, partial or total exemption for a maximum period of 10 years.

The renewable energy sector is covered by a special law that provides benefits or exemptions in corporate income tax, VAT, customs duties and municipal tax.

Free Trade Zone industries also have a special law with tax benefits or exemption in tax and custom duties in imports and corporate income tax, VAT and municipal taxes.



## Corporate Tax Compliance

### Returns

With some exceptions, corporations and individuals are required to file tax returns for a fiscal year within the following two months after the fiscal year ends, which is usually on December 31; however, companies can obtain authorization from tax authorities in order to change or have a different year-end.

### Payment of tax

Corporations must pay fiscal-year income tax through monthly advanced payments. The monthly payable amount is calculated on the gross income as follow:

- 3% for taxpayers with annual incomes higher than C\$160 millions (approximately US\$4.4 millions). They are classified as large taxpayers by the tax administration.
- 2% for taxpayers with annual incomes between C\$60 and C\$160 millions (between US\$1.86 and US\$4.4 millions).
- 1% for other taxpayers, whose annual incomes are less than C\$60 millions (approximately US\$1.6 millions).

### Year-end dates established by the Nicaraguan tax law

Section 50 of Law 822, states that the Nicaraguan ordinary tax year-end is calendar year, from January 1 to December 31. Additionally taxpayers can request to the Tax Administration a special tax year-end that could be as follows:

- From April 1 to March 31 of the following year.
- From October 1 to September 30 of the following year.
- From July 1 to June 30 of the following year.

### Individual taxation summary

Nicaragua taxes its citizens and all residents and non-residents on their income originating in Nicaragua. Taxable income that originates in Nicaragua obtained by non-residents or non-domiciled persons is determined as a percentage of gross income, depending on the nature of the income.

### Income from work:

Are those coming from every kind of compensation and remuneration, whatever their denomination or nature, money or kind, that derive of the personal work rendered on behalf of others, such as: salaries, variable salaries, seniority bonds, bonuses, allowances, performance recognition and any other remuneration derived from work. There are no concessions of any kind to foreigners. Total personal gross income can be estimated ex officio by the fiscal authorities.

### Tax residence:

For tax purposes, a resident is defined as the person who meets any of the following conditions:

- Nationals or foreigners from abroad that with a stay in the country for more than 180 days, whether continuously or not. Non-residents deemed as tax residents must register before Tax Administration,



otherwise, the Tax Administration could proceed with the registration and claim on the corresponding tax, based on a estimation; the taxpayer may prove different in case of a wrong estimation of the tax assessed.

- When the main center of economic interest is located within the country, unless the taxpayer proves its residence or tax domicile in another country through the corresponding certificate issued by the competent tax authorities. This will not apply when the country is treated by the Tax Authorities as a tax haven.

Residents are subject to the income tax according the progressive tax rates as shown below:

Taxable income in US\$ *		
From	To	Applicable Rates
US\$ 0.00028	US\$ 2,730	Exempt
US\$ 2,730	US\$ 5,460	15% from the excess of US\$ 2,730
US\$ 5,460	US\$ 9,556	US\$ 410 plus 20% from the excess of US\$ 5,460
US\$ 9,556	US\$ 13,652	US\$ 1,230 plus 25% from the excess of US\$ 9,560
US\$ 13,652	To more	US\$ 2,250 plus 30% from the excess of US\$ 13,650

\*Approximated based on the average exchange rate in effect in 2024 of C\$ 36.6243 = US\$ 1.00.

Non-residents, whether domiciled or not, that perceive Nicaraguan source income are subject to a 20% definitive withholding tax.

### Individual tax exemptions

The following deductions will be effective as of year 2017:

Educational expenses, health and professional services, up the amount of C\$20,000 (approximately US\$ 563).

The employee's social tax (7%) of the gross income.

From February 28, 2019, the contributions from employees to saving funds and/or pension, other than social security, are no longer deductible for income tax calculation purposes.

### Tax exemptions

The following income from work is tax exempt:

- Up to the first C\$100,000 (approximately US\$ 2,730).
- The Christmas Bonus (1 month of salary) in accordance with the labor code.
- Compensation of up to 5 months of salaries and wages received by employees or their beneficiaries. The additional compensation (over 5 months) will also be exempt up to an amount of C\$ 500,000 (approximately US\$ 13,650); any excess will be taxed at 15%.
- Benefits in kind agreed in labor union agreements.
- Compensations granted by the social security regime.
- The benefits paid by the savings funds and/or pension, if duly authorized by the corresponding authority.

- The means and services necessary to carry out the assignment, such as: travel expenses, telephone, vehicles, fuel, depreciation expenses, vehicle maintenance, representation expenses and reimbursement of expenses, as long as such benefits are not considered a simulation or concealment of income from work.

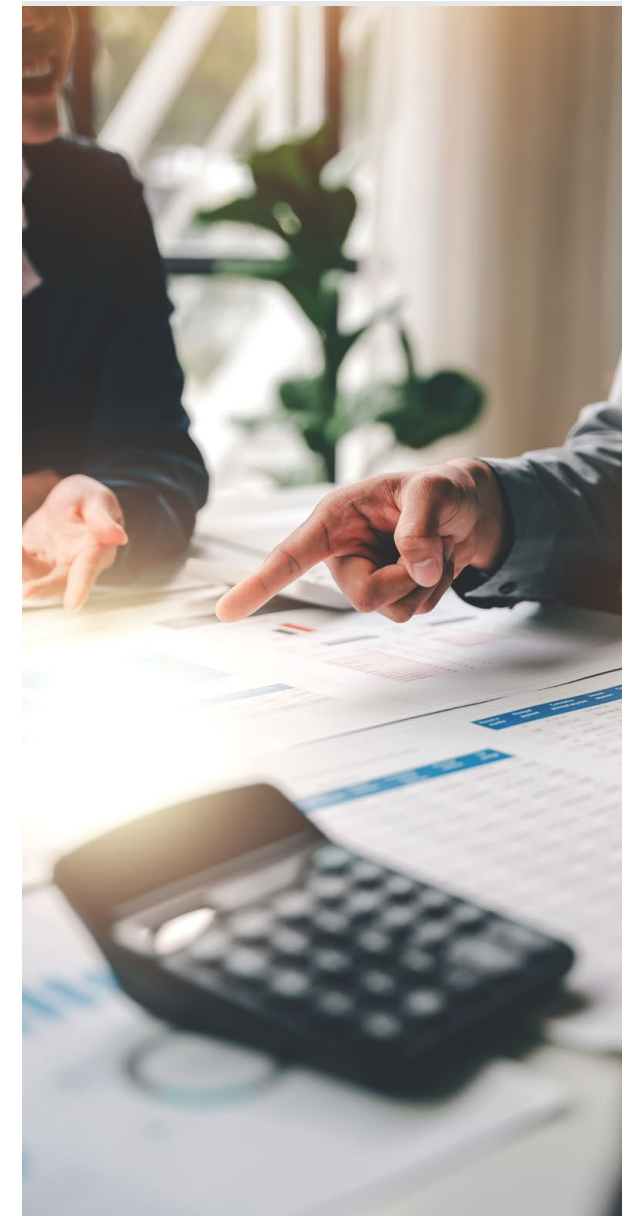
### Individual tax compliance:

There are 2 mechanisms for individuals to pay taxes on their Nicaraguan source income:

- Withholding (Form IR-122): Mandatory system for taxpayers that obtain income from single employer and do not benefit from the deduction for expenses mentioned in the previous section. The employer through the payroll is responsible to withhold and pay the income tax on a monthly basis through withholding income tax return Form IR-122. Social charges should also be withheld.

**Remark.** The employer must submit the Annual Income form Work within 45 days after year-end.

- Annual individual income tax return (Form IR-106): This is applicable for taxpayers that obtain income from two or more employers that in the aggregate exceed an annual income of C\$100,000 (approximately US\$ 2,730). The taxpayer should submit the Annual Income Tax Return through Form IR-106, within 90 days after year-end.





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# Panamá

Since their arrival to the New World, the Spanish conquerors found the sparsely populated region of Panama and dominated by independent chiefdoms whose culture was similar to the most advanced civilizations of the Andean Colombia.



The first Europeans to explore the region were Rodrigo de Bastidas, Juan de la Cosa and Vasco Nunez de Balboa, who arrived in 1501 and explored the Atlantic coastal region. The former Spanish colonies in the region were established in 1510, near the Chagres River. However, the new arrivals faced great resistance from the indigenous tribes, so they were forced to move their colony to a place to the side of the Atrato River.

This colony called Santa Maria de la Antigua del Darien became the first permanent colony on the Isthmus. In 1513, Balboa led an expedition across the isthmus towards the Pacific Ocean, which he conquered in the name of the King of Spain. Spain increased its number of colonies in the region, until the end of the colonial era, the passage across the isthmus served as the largest trade route between Spain and its colonies western South America.

# Brief history of Panamá

In 1519 the town of Panama was established (Panama City now) by ancient inhabitants of Santa Maria. The new town quickly became the center of commercial activity in the region and an important part of Spanish mercantile system in the New World. Nombre de Dios, a colony at the mouth of the Chagres River, was connected by a road with Panama and became famous for its fairs. The colony became a village but was destroyed in the late 16th century by the English explorer Sir Francis Drake. After the destruction of Nombre de Dios, the great fairs moved to Portobelo on the Caribbean coast.

The commercial activity growing in Panama and Portobelo attracted an increasing number of English pirates. Panama was destroyed in 1671, but was rebuilt near its original location two years later and for the next 120 years it was the largest settlement in the isthmus. Portobelo did not fare so well. It was destroyed by English pirates in 1739 and rebuilt in 1751, but by then the Spanish trade routes had changed. Instead of anchoring in Portobelo and take the merchandise by land to the western villages, commercial shipping route from Europe took the South Atlantic Ocean, around Cabo de Hornos at the tip of South America and up to the West Coast of South America to anchor in commercial ports in the west. The result of this changes were a large decrease in business income of Portobelo.

After the attack on Portobelo in 1739, Spain ceased Panama under the authority of the Viceroyalty of Nueva Granada. However, in 1821 the colony became

independent from Spain, and was incorporated into the new union of Gran Colombia. In 1830, this union was divided into nations we know today as Venezuela, Ecuador, and Colombia, and authority was granted on by Panama to Colombia. Although Panama was always allowed to choose its own governor after independence from Spain, a new constitution adopted in 1843 gave control of the territory back to Bogota.

Eventually Panama was annexed to Colombia as a state.

In the mid-1800s, Colombia negotiated with private investors in the United States to build a railroad that would run on the Isthmus, and provide a route that would connect the Pacific with the Atlantic Ocean via the Caribbean Sea.

The railroad was widely used during the gold rush of 1849 and inspired the development of plans for the construction of a canal that would cover a similar route, and provide a direct connection between the two oceans. After much deliberation, the Colombian government granted him the rights to build a French company, which started work in 1880.

However, the project failed prematurely, the hot rain forests contributed to the proliferation of mosquito-borne diseases such as malaria and yellow fever, and soon workers became sick.

After the failure of the French project the Colombian government saw the United States as a potential partner in the construction of the canal, however Colombia rejected their proposal in 1902. The

failure of the government for not being able to secure a contract, further encouraged the revolutionary movement that already had prior problems with Colombia. On November 3, 1903 a meeting between revolutionary leaders was held, were they proclaimed the separation of Panama from Colombia, the later sent armed forces to stop the rebellion, but were stopped in Colon on november 5th through a series of negotiations and the pressure of the American troops,. assuring the separation of Panama. The canal treaty was signed with the United States on November 18 of the year in question.. This treaty established the installation of a canal zone of 10 miles (16 kilometers) wide, extending about 50 miles (80 kilometers) between Colon and Panama City. Control over this region was ceded to the United States, and this was not well seen by the Panamanian people. Construction began the following year, and in 1914 the Panama Canal was opened.

Following the success of the revolutionary movement to achieve separation of Panama, the new forces in the power instituted a new government. The first Constitution, adopted in 1904, instituted a centralized government headed by a president, who has the authority to appoint and dismiss provincial governors. It also gave permission to the United States to use its military force to intervene in any disturbance that occurs in the new nation, a situation that often occurred during the first quarter century.

The first president of the New Republic was Manuel Amador Guerrero, who was appointed by a

constitutional convention in 1904. During his term as president, Guerrero focused on organizing the new branches of government, the Executive, Legislative, and Judicial, and made important changes in the structure of the presidential cabinet.

During the first three quarters of the 20th century, in Panama there were many political and military coups. Much of the civil dissatisfaction and political destabilization originated from the U.S. presence in Panama and other matters related to the Canal Zone. The original treaty was modified in 1936 by the Hull-Alfaro Treaty, which among other things requested the U.S. to give up its right to intervene militarily in Panama.

In 1940, the newly elected president Arnulfo Arias made a change in the constitution of Panama that extended the presidential term. Arias was a populist leader who led the first coup in Panama in 1931, same that overthrew the government of then president Florencio Arosemena. The presidential term of Arias was also relatively short.

In 1941 he was ousted from the presidency by the national police and replaced by Ricardo Adolfo de la Guardia, who authorized the United States to establish military protection of the canal and the Canal Zone.

Panama's political situation became very unstable after WWII. De La Guardia was removed from office in 1945 by the Legislature and appointed the diplomat Enrique A. Jimenez as Interim President. Arnulfo Arias returned to run for president in 1948 but in the face of electoral fraud by his followers, was defeated

by Domingo Diaz, who died in office the following year. After the death of Diaz, he was succeeded by Daniel Chanis, first vicepresident, who dismisses the commander in chief of the national police and they force him to resign, the second vice president Roberto F. Chiari is placed, this is invalidated by the court, so the police commander Jose A. Ramon decides to recount the votes of 1948, an election that had been claimed before the National Elections Jury, the body responsible for overseeing the electoral process in Panama. This review results in the declaration of Arnulfo Arias as the winner a year after it was made. In 1951, Remon led a coup that overthrew Arias, whom he had previously supported.

The following year he was elected president Remon, to be murdered in 1955 and the following year of 1956 Ernesto De La Guardia was elected president.

The presidential term of De La Guardia had virtually no outstanding event, although the social dissatisfaction that led to a wave of protests in 1958 that resulted in the imposition of martial law. In 1960 Roberto Chiari was elected president, he instituted a program of ambitious social reform regardless of the huge budget deficit and the national debt.

Government control was taken over by a military meeting led by General Omar Torrijos who made a change in the constitution that granted more powers.

Despite the serious financial problems of the country, Torrijos authorized large public works programs, gaining the approval of the people but increasing the Public Debt. In 1977, Panama has suffered economic

decline and the following year began negotiations for new contracts for the control of the Panama Canal.

In 1979 a new treaty became effective authorizing the transfer of control of the canal to Panama in 2000.

After Torrijos tragic death in a plane crash in 1981, control passed to several military commanders before it was taken by Manuel Antonio Noriega in 1982.

In 1988 the United States accused Noriega of drug trafficking charges and imposed severe economic sanctions on the country in an effort to force his resignation. As a result there was an increase in the unemployment rate and declining productivity and sales.

At the end of the 20th century, the political problems continued to plague the Panamanian government. At the end of 1989, Noriega survived an attempted coup by Panamanian soldiers, and on December 15, 1989 was elected to handle the "state of war" with the United States.

In December of 1989 US president George Bush authorized the dispatch of troops to invade Panama in an attempt to capture Noriega. Guillermo Endara, who won the last elections but was unable to sworn in as president at that moment, was quickly sworn in as president on Dec. 20 while U.S. soldiers invaded the headquarters of Noriega in Panama City.

Noriega, who had taken refuge in the Vatican Embassy in the capital, surrendered on January 3rd 1990 and brought to the United States to stand trial on charges of drug trafficking and organized crime. He

was convicted in 1992 and sentenced to 40 years in Florida. In March 1990 the United States formed an aid package to help rebuild the economy of Panama.

The Democratic Revolutionary Party candidate, Ernesto Perez Balladares, won the 1994 elections. Balladares administration worked to heal relations

with the United States and to make economic reforms, including the privatization of several companies. In September 1999, Perez Balladares was replaced as president by the first woman president in Panama, Mireya Moscoso, the widow of Arnulfo Arias. Moscoso promised that once the Canal passed to the Panamanians it would not belong to any political party.

She also promised to restore the economy and ensure the needs of the poor, particularly in rural areas.

On December 31, 1999, control of the canal passed to Panama and all U.S. military personnel was withdrawn. Since then, the Panamanians have managed the Panama Canal efficiently. There have been five elections (2001, 2004, 2009, 2014 and 2019) and during the global economic crisis, Panama has maintained a healthy growth.

Under the Panamanian Administration was completed and inaugurated the expansion of the waterway in 2016, after different vicissitudes, increasing the volume capacity and traffic in the Canal. The referred program consists in the following projects:

Third group of locks was delivered in 2016, and consists of two new locks complex that generates a third traffic rail.

Access to the Pacific Ocean, which consists of the excavation of a 6.1 Km channel through the new Pacific locks in Miraflores.

Improvements in the water provision through the increase of the maximum operative level of Gatun Lake by 45 centimetres, in order to obtain a better water provision in the project.



# Content



## 131

Overview Of The Country



## 132

Political And Legal System



## 133

The Economy



## 135

Doing Business In Panama



## 137

Banking System



## 138

Labor And Social Security



## 140

Accounting And Audit Requirements  
And Practices



## 141

Tax System

# Overview of the country



## Clima

The climate is tropical, humid and cloudy with a long rainy season (May to December), and short dry season (January to May). The average humidity is 70%.

### Population, government, language, currency, and others:

<b>Area</b>	75,517 km <sup>2</sup>
<b>Population</b>	4.202 millions (2023 population census)
<b>Population per km2</b>	55.7 inhabitants/ km <sup>2</sup>
<b>Population growth</b>	1.3% (2021 vs 2022)
<b>Political system</b>	Representative Democracy
<b>Form of government</b>	Presidential
<b>Language</b>	Spanish
<b>Currency</b>	Panamanian Balboa (PAB) at par value with the US Dollar
<b>Administrative division</b>	(USO) 10 provinces and 3 Indian reserves
<b>Religion</b>	Roman Catholic
<b>Capital city</b>	Panama City

## Educación

The illiteracy in the last three years has decreased significantly from 5.5% to 3.7%. Education is free and mandatory for children aged 6 to 15 years. Elementary school has a 6 year duration. According to the 2023 census, the school population amounts to 918,336 students from pre- school to 12th grade, of which 423,036 are elementary school students and 390,985 in middle and high school. Preschool students numbered 104,315 in March 2023. Middle school and high school, have three years duration each one.

The leading higher education institution, the University of Panama, is a public university and was founded in Panama City in 1935.

# Political and legal system



## Legal framework

The political and legal structure of Panama is composed of three main branches - Legislative, Executive and Judicial - organized as follows:

	Executive	Legislative	Judicial
<b>Exercised by the:</b>	The president.	National Assembly.	Supreme Court of Justice.
<b>Composed of:</b>	The president and the Cabinet Council.	71 deputies.	9 magistrates and 9 alternates.
<b>Elected or appointed by:</b>	The president and Vice-president are elected by direct popular vote for a five-year period.	The Deputies are elected by direct vote every five years.	Are appointed by the president (subject to approval by the National Assembly) for a period of 10 years.

The legal system is based on Napoleonic Code.

## Main political organizations

- Democratic Revolutionary Party  
Partido Revolucionario Democrático (PRD)
- Democratic Change  
Cambio Democratico ( CD)
- Panameñista Party  
Partido Panameñista
- Realizing Goals  
Realizando Metas (RM)

Elections take place every five years. The last presidential elections were held in 2019, the upcoming elections are in May 5, 2024.

As of November 2024, there were more than 1,595,314 Panamanians registered in political parties.

The last presidential elections were held in May 2024, the current presidential term began in July 2024 and will run until June 2029. The next elections will be held on May 6, 2029.

# The Economy



Panamá's economy generated an annual growth of over 6% during the period between 1950 and 1981.

However, economic growth stagnated at 1.9% per year during 1977-1987, caused by the result of the second petroleum crisis and debt. During the early years of the 1990s, in Panamá bounces a new recession caused by the U.S. seizure and subsequent military invasion.

In May 1994, the economy continued to grow but at a slower rate during the first half of the 1990s. The main drivers of the economy of Panamá (the Panamá Canal, the Colon Free Zone and the International Banking Center) continued to lose competitiveness in the context of an economy open to the world. The Administration of the president Ernesto Perez responded to this in 1996 with a strong program of economic reforms including the privatization of two ports (Cristobal and Balboa), the enactment of antitrust law, the renegotiation of the foreign debt with commercial banks, privatization of electricity and telephone companies, and banking law reforms. In addition to these economic changes came the recovery of most traditional sectors, with the exception of the construction sector.

Between 1988 and 1998, the economy grew by 5% annually. In December 1999, in accordance with the Panamá Canal Treaty of 1977, the Panamá Canal and all U.S. bases were returned to Panamanian government, comprising 364,000 acres, and its cost is estimated at \$ 4 billion.

Real growth in gross domestic product (GDP) fell to 3.2% in 1999 with the government of Mireya Moscoso

(below 4.4% in 1998) and then to 2.5% in 2000. In 2001, growth is bent beyond, as declining export demand and a dramatic drop in tourism that followed after the terrorist attack on the United States of September 11, 2001 were added to domestic demand declining, which presented Panamá as a preferred destination.

During the Administration of the president Ricardo Martinelli, Panamá began negotiating double taxation treaties with clauses related to information exchange, in order to meet the objectives of the OECD and stay out of the list of non-cooperative countries.

Panamá's economy is based on Panamá Canal operations, tourism, banking, the Colon Free Zone (which is the second largest free trade zone in the world, after Hong Kong), insurance and ship registration, medical, health, and other business.

Panamá has also earned significant revenues through the Canal and Panamanian-flagged ships licensed around the world. Another important but small sector of the economy is agriculture. The main products are: bananas, rice, corn, coffee, sugar, vegetables, meat and shrimp.

Clay, limestone, and salt are the main mineral products and gold, ferrous sand and manganese have been small-scale mining. There are important copper deposits, but untapped, such as Cerro Colorado which is located in the province of Chiriqui. Some deposits of bauxite, phosphates and minimally carbon have been mined, as well as various

other materials exploited, as well as various other construction materials such as stone and gravel. Oil reserves have been found in the Pacific and Atlantic.

## Potential growth areas

The Panamá Canal expansion project in Panamá contributed to maintain a stable economic growth and the government has continued with the execution of important projects such as: the construction of the Metro, which is currently in the construction phase of its line 3 and is intended to generate 13 stations in total along its route through the province of Panamá Oeste.

With the decrease in income tax for companies and individuals, which took place in 2010, the government contributed by attracting more private investment.

Another area of potential growth is related to renewable energy generation. Currently, only 5% of the total national energy market corresponds to wind energy and 6% to solar energy.

However, there are currently approximately 33 solar energy projects under development in the country and 5 wind energy projects.

Some of the most relevant future projects are:

- Line 4 (2A) and 5 of the Panamá Metro.
- Extension of Line 3 of the Panamá Metro.
- Development of projects under the Public-Private Partnership (PPP) modality.
- Port of Corozal developed by the Panamá Canal Authority.

- Construction of the Panama-David train
- Panama-Colombia Interconnection Line
- Construction of the Costa Abajo de Colón Highway.

### Inflation

Through December 2021, Panama accumulated an inflation rate of

**-1.63%**

according to figures from the National Institute of Statistics and Census (INEC).

	2021	2022	2023
<b>Nominal GDP (US\$b)</b>	B/.\$ 67,406.70 millions	B/. 76,522.5 \$ millones	B/.\$ 83,382.4 millones
Real GDP growth (%)	18.0%	13.5%	9.0%
<b>Prices and financial indicators</b>			
Exchange rate Ps: US\$ (end- period)	1	1	1
Lending interest rate (avg:%)	6.9%	6.9%	%
<b>Current account (US\$m)</b>			
Trade balance	B/.\$ -6,795.4 millions	B/.\$ -9,886.5 millones	B/.\$ -9,827.8 millones
Goods: Export fob	B/.\$ 3,558.1 millions	B/.\$ 3,604.5 millones	B/.\$ 3,367.5 millones
Goods: imports fob	B/.\$ 10,353.0 millions	B/.\$ 13,491.0 millones	B/.\$ 13,195.3 millones
Current-account balance	B/.\$ -778.8	B/. -3,090.0	B/. 10,501.1
<b>Unemployment</b>			
Unemployment (avg.%)	11.3%	9.9%	7.4%

Source: Instituto Nacional de Estadísticas y Censos, Contraloría General de la República de Panamá., Superintendencia de Bancos de la República de Panamá, Informe Económico y Social del Ministerio de Economía y Finanzas

# Doing business in Panamá



## Government attitude toward foreign investment

Panamá is open to foreign investment and does not discriminate as to foreign investors even when there are some restrictions for the exercise of retail business. The Strategic Plan 2009-2014 recognized its importance and focused on efforts to attract foreign investment in areas such as logistics service providers, hotels and fruit exporters.

Panamá hasn't issued paper currency, in consequence the U.S. dollar is used as currency. The Balboa is at par value and U.S. dollar equivalent. Therefore, a control authority is not necessary.

There are no registration requirements for capital and the transfer of funds to the country is not taxable.

There are no controls on repatriation of capital or retained earnings different to applicable taxes according to the information described below.

The Government is encouraging foreign investment and working to position Panamá as the primary destination in Latin America for foreign investors. However, the same business channels are open to domestic and foreign investors alike. There are no major restrictions on foreign investment, and investors can repatriate their profits and capital.

Special trading rules, granting migration, labor, and tax incentives for investment and creating the PROINVEX office are among the principal ways Panamá has encouraged foreign investment.

PROINVEX is a "sole office" where every interested investor may obtain in one office all the information

required to achieve a successful investment. Investors can also get updated information on special fiscal regimes such as the Multinational Headquarters (SEM), Panamá Pacific Area (APP), The City of Knowledge, Colon Free Zone (ZLC), Investment Stability Law, and other Free Trade Zones.

The organization of commercial companies and commercial activities is mainly regulated by special laws created for these effects and additionally by the Commercial Code.

Price controls mainly on food, medicines and construction materials are given by the market interaction. In Panamá does not exist a price control authority. We have a government authority in charge of surveillance against antitrust practices.

Up to date there are no restrictions on mergers and acquisitions, neither special restrictions on foreign investment in this regard. Our legislation addresses both the merger with foreign entities as redomiciliation, and is currently permitted under Panamanian law the demerger.

One of the benefits provided in the development of industrial laws is the protection from foreign competition by establishing special rates on some sensitive products. There are imposed rates on all foreign goods entering the country, except those who are exempted by law or special contracts.

Tax rates are based on quantity, weight, size or volume. Rates vary from low to significant protectionist (0% - 33%). In terms of comparability, Panamá applies the Harmonized Tariff System.

Panamá has considered the advantages and disadvantages of requesting admission to the Central American Common Market. Not expected any immediate application for admission as any effective integration by Panamá.

A seven percent (7%) tax is applied on the transfer of goods and services (ITBMS) on all imports except food, medicines and some other products. The documentation related to the payment of import duties and re-export shall be prepared and signed by a local customs broker.

Free trade agreement and other agreements

A Free Trade Agreement (FTA) is a regional or bilateral trade agreement to expand the market of goods and services between countries. Basically, is the elimination or substantial reduction of tariffs on goods between the parties, and agreements on services. This agreement is governed by the rules of the World Trade Organization (WTO) or by mutual agreement between the countries.

Panamá has free trade agreements with Honduras, Costa Rica, El Salvador, Israel, Singapore, Nicaragua, Guatemala, Chile, Peru, Canada; and other trade agreements with the Dominican Republic, Colombia, Trinidad & Tobago and USA.

## Foreign investment

Since Panamá's incorporation into the World Trade Organization, domestic commercial protectionism has been decreased.

The government has incorporated into his banking legislation the Basel II recommendations to improve transparency in the Panamanian Banking System and to prevent money laundering.

The negotiation of Free Trade Agreements (FTA) has greatly contributed to the increase of foreign investment in Panama.

The government has incorporated into his banking legislation the Basel II recommendations to improve transparency in the Panamanian Banking System and to prevent money laundering.

Immigration legislation has been modified, improving the monitoring of foreign individuals in the country. The creation of the SEM Regime has been the most successful initiative to attract the establishment of multinationals in Panama.

#### **Destination of foreign investment**

According to information provided by the Office of the Comptroller General of the Republic of Panama, in December 2020, foreign direct investment in 2022 was USD 588.7 million, a decrease compared to the 2021 foreign investment of USD 4,320.4 million.

#### **Restrictions on foreign investment**

Under the Panamanian Constitution, retail business is restricted for foreigners in Panama.

### **Establishing Business in Panama**

#### **Business structures**

The Panamanian law recognizes five different forms of legal entities:

- Corporations or Stock company (Sociedad Anónima)

- Limited Liability Company (Sociedad de Responsabilidad Limitada)
- General partnerships (Sociedad en Nombre Colectivo)
- Ordinary Limited Partnership (Sociedad en Comandita Simple)
- Joint- stock Company (Sociedad en Comandita por Acciones)

These five types of entities can be used for the operation of any type of commercial business. A business can also be operated by a single owner. Most businesses operate as corporations, partnerships or sole proprietor. Although some foreigners living in Panama conduct business in any of the ways described above, foreign businesses, with very few exceptions, exist in the form of corporations.

#### **Branch of a foreign company**

Foreign companies may establish branches or agencies in Panama who are intended to start operations within our territory, will need to file with the Public Registry of Panama their registration documents listed below.

#### **Branch and/or permanent establishment**

Foreign corporations can establish in Panama branches or agencies for the purpose of starting operations in our territory, which must present documentation (detailed below) for registration with the Panamanian Mercantile Registry.

Panama 's Commercial Code stipulates that foreign corporations "will not be able to perform activities not allowed in their home country".

It is considered that the persons and corporations domiciled abroad has operations in Panama through a permanent establishment when they perform business either directly or by proxy, holding an employee or representative in Panama, in an office or place of business, where the activities are performed totally or partially.

#### **Registration procedure**

The registration procedure is established according the Commerce Code and the special rules governing LLC's and Corporations.

As a general rule, a document is drafted by an Attorney at Law appointing subscribers and approving the incorporation bylaws. This procedure allows a local attorney to get the deed ready without the foreign investor coming to Panama and sign. The board and the shareholders can be either nationals or non-nationals, and can be either individuals or entities. The incorporation takes one day and the incorporation of branches may take longer, but no more than three days on average.

#### **Joint-Venture**

Joint Venture is a contract between two or more persons (partners) with an interest in one or more specific and transitional business operations, which shall be run by one of them in his name alone and under his personal credit, with responsibility of dividing with the partners the gains or losses in the proportion agreed upon.

# Banking system



## Central Bank

There is no Central Bank in Panama.

Decree Law 9 of 1998 as amended by Decree Law 2 of 2008, along with the Cabinet Decree No. 238 of July 2, 1970 and Law No. 1, 1999 regulates the banking and created the Superintendence of Banks, which is autonomous from the Central Government. This law establishes three different types of banking licenses as described below:

### General:

For banks organized under the laws of Panama and branches of foreign banks that have activities in Panama and internationally.

### International:

For banks organized under the laws of Panama and with branches that only practice business abroad.

### Representation:

For foreign banks that maintain offices in Panama, but that are not performing banking transactions.

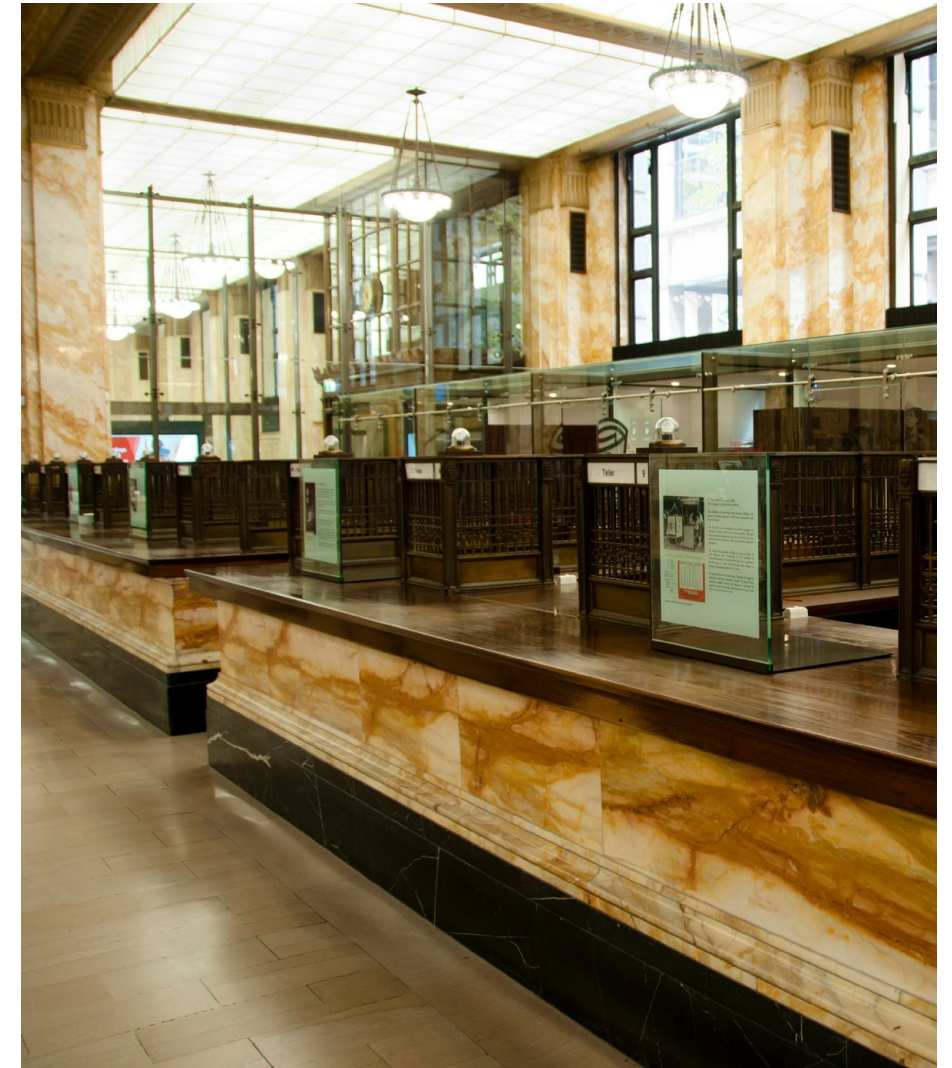
The law provides various reserve and capital requirements and certain other conditions, depending on the type of license.

In Panama there are two national banks, National Bank of Panama (Banco Nacional de Panama) and the other is the Savings Bank (Caja de Ahorros).

## Commercial banks

The Superintendence of Banks is the government entity responsible for granting licenses to all the different banks located in Panama. Actually, Panama has one of the largest banking and financial centers of the region including banking institutions with worldwide presence.

The banking system in Panama is well established, composed by 62 authorized banks in Panama, 2 public banks, 38 with general license and 13 with an international license. (Source: [www.superbancos.gob.pa](http://www.superbancos.gob.pa))



# Labor and social security



## Employment Offer

According to the Ministry of Labor (Ministerio de Trabajo y Desarrollo Laboral - MITRADEL), employment statistics are the following:

### Población ocupada por actividad económica

	2021	2022	2023
<b>Total</b>	<b>1,744,387</b>	<b>1,846,363</b>	<b>1,938,616</b>
Agriculture and others	202,401	199,950	218,298
Service workers and salespeople in shops and markets	332,359	352,377	379,219
Mining, construction, manufacture.	317,595	342,205	348,662
Artisans and workers in mining, construction, manufacturing, mechanics and related industries	247,666	263,579	277,498
Professional, scientific and technical activities	203,727	213,686	222,618
Operators of fixed installations and machines, assemblers, drivers and operators of mobile machinery	124,741	132,766	136,281
Technicians and mid-level professionals	119,142	131,294	138,525
Office employees	102,985	113,554	128,262
Directors and managers of the public and private sectors and social interest organizations	93,771	96,952	89,253

Source: Ministerio de Trabajo y Desarrollo Laboral (MITRADEL).

There are three different types of employment contracts established by Panamanian law: permanent contracts, defined termination contracts and contracts for defined services.

Panama has a minimum wage system by economic activity, which is adjusted periodically. The minimum wage system is applicable in practice only to non - skilled employees. The effective average wages are substantially higher than the minimum wages, especially in metropolitan areas.

Companies that need to employ foreigners must obtain permission from the Ministry of Labor. Work permits issued to foreigners are valid for one year and may be extended for up to five years.

It is mandatory by law to give employees a day of rest per week as required by law, preferably on Sundays. However, if the type of employment requires to work on Sunday, another day should be given in lieu of it, and Sunday will be paid with an extra charge of 50% per hour. Each employee is entitled to thirty (30) days of paid vacation after eleven (11) months of continuous work.

In Panama is mandatory for the employer to pay a yearly additional month of salary (XIII Month) and shall be paid in three parts (April 15, August 15 and December 15). This salary is calculated based on the total wages received. The XIII Month is subject to social security contributions and income tax.

#### **Labor Law Requirements**

Please find below a summary of the most important requirements of the Labor Law.

#### **Wages and salaries**

Panama has a minimum wage system by economic activity, which is adjusted periodically. The minimum wage system is applicable in practice only to non - skilled employees. The effective average wages are substantially higher than the minimum wages, especially in metropolitan areas.

Executive Decree No. 1 of January 10, 2024, fixes the minimum wage rates for the entire national territory for the years 2024 and 2025. Below is a table with the

increase in economic activities.

#### **Profit sharing**

Companies are not obliged to share the company's profits with the employees.

#### **Christmas bonus**

Companies are not required to pay the worker a Christmas bonus.

#### **Complementary Benefits**

Housing and children's education are among the most common complementary benefits, which are treated as salary in kind for both calculations: income taxes and social security contributions.

#### **Paid Holidays and Vacations**

Every employee has the right of 30 days full-paid for vacations after 11 months of continuous work.

#### **Foreign Personnel**

Panama recognizes joint investment with no restrictions. Labor Code is applied equally to Panamanian and foreigners. However, the exercise of retail trade is restricted for foreigners. Most foreign personnel wishing to work in Panama are required to have a work permit and/ or resident visa.

Under the Labor Law, foreign personnel may not exceed 10% of a company's total workforce, and the monthly payroll for foreigner employees, may not exceed 10% of the total company payroll.

In the case of technicians, up to 15% may be foreign personnel.

Under special regimens , foreigners may be able to work in Panama with a special immigration permit not requiring a work permit, granting this individual exemption from income tax and social security contributions.

#### **Social Security**

The Social Security is an autonomous government agency that provides retirement due to illness or maternity, age or disability pensions to widows and orphans, funeral assistance and compensation for occupational injuries and death.

Recently, through Law 462 of March 18, 2025, significant reforms were introduced to the social security system, including a gradual increase in employer contributions of 1% per year until 2029, with a cap of 15.25%. Currently, the employee contribution rate is 9.75% and the employer contribution rate is 12.25%.

# Accounting and audit requirements



## Accounting

The accounting principles accepted in Panama are the International Financial Reporting Standards (IFRS). For the banking sector and for entities supervised by the National Securities Commission, IFRS or US GMP are used upon previous notification to the regulatory entity.

There are three active accounting professional organizations: the Certified Public Accountants Association, the Panamanian Association of Women Accountants and the Panamanian Certified Public Accountants College. The three organizations appointed a Financial Accounting Standard Committee in 1978 to define generally accepted accounting principles in Panama.

A Panamanian company that operates in Panama, although it does not generate Panamanian source income may be subject to reporting obligations and/ or preparation of audited financial statements. Panamanian companies operating in Panama, and companies in free zones and qualified foreign companies operating in the country require the filing of tax returns.

The minimum corporate accounting books required for a Panamanian company are:

- Shareholders Register
- Acts Register
- Journal
- General Ledger

A company doing business in Panama must maintain their accounting records required by law, correspondence, and other supporting documentation in the country. You may request cancellation of the use of manual accounting records and instead ask the authorities the use of magnetic systems. According to the law, these certificates must be issued by a Panamanian CPA.

## Statutory audit requirements

There are no requirements for the formal delivery of financial statements to the authorities in Panama. However, the companies listed on the National Securities

Commission, commercial and governmental banks and the insurance and reinsurance companies are required to refer to the regulator. In other cases if the capital of the taxpayer exceeds B/.100,000.00 or the annual sales or gross income exceeds B/. 50,000.00, the annual income tax return must be countersigned by a Panamanian Certified Public Accountant (CPA) and financial statements shall be duly audited by a CPA.

## Accounting profession

Licenses for Certified Public Accountants (CPA) are issued by the Ministry of Commerce and Industry. Candidates must have a university degree in accounting.

## Electronic Invoicing Requirements

Since 2018, Panama started a Pilot Plan, through which, interested taxpayers could join the Electronic Invoicing System. As of January 1, 2022, all new taxpayers will only be able to use the electronic invoicing system as the only mechanism to document their commercial operations, either through a) the Free Biller, according to the guidelines defined through the website of the General Directorate of Revenue, and b) using any of the Qualified Authorized Providers (PAC).

All taxpayers with gross income of B/.1,000,000.00 or more or who generate 500 invoices or more must use PAC invoicing as an obligation.

As of October 30, 2023, all public entities are required to receive from their suppliers of goods and services, only invoices issued through the Electronic Invoicing System. For the year 2023, a progressive implementation schedule was established in phases for the banking and financial sector, which concluded on August 31, 2023. For companies under Special Tax Regimes, the obligation to use electronic invoices is effective as of June 30, 2023.

As of 2024, the certifications of exception for the use of fiscal equipment expired; therefore, taxpayers that had this type of exception should have switched to electronic invoicing.

# Tax system



Our most recent structural reform is Law No. 8 of 2010. It reduces tax rates, raising the overall rate of VAT, and sets the new Tax Tribunal, among other relevant provisions.

Additionally the Law 33 of 2010, adapts the Panamanian tax system, for the application of double taxation treaties and formally recognize the comprehensive legislation of transfer pricing rules included in the OECD regulations.

The main taxes you must pay in Panama are:

- Income Tax
- Corporate Annual Tax
- ITBMS - Tax on Transfer of Goods and Provision of Services (VAT).
- ISC - Excise Tax
- Fuel other Petroleum Derivatives Tax
- Capital Gain Tax
- Dividends Tax and Complementary Tax
- Operation Notice Tax
- Stamp Tax
- Real Estate Tax

## Corporate Income Tax

The tax rate is 25%. For companies in which the State owns more than 40% of the shares, the tax rate will remain at 30%. The tax base (amount to which the tax rate will apply) for companies whose taxable income is greater than B/. 1,500,000 will be the greater of one of the following:

- Net taxable income calculated by the traditional method, or
- 4.67% of the gross taxable income (excludes exemptions of non-taxable income and foreign source of income) - this is called the Alternate Calculation of Income Tax Alternative Calculation (“Calculo Alternativo de Impuesto sobre la Renta “ or CAIR).

If the entity’s fiscal year results in a loss due to the alternative calculation or the effective tax rate calculated over the traditional method exceeds the 25% rate, the taxpayer may request from the Tax Authority (General Directorate of Revenues - DGI) the no application of the alternative calculation, in order to be taxed according to the traditional method of calculation.

The DGI has a six- month period to decide on the request, otherwise the petition will be considered granted.

## Franchise Tax

Franchise Tax must be paid by all corporations and private interest foundations (PIF). The deadline for payment depends on the date of the entities incorporation. If the company was incorporated during the first six months of the year, the due date for payment will be July 15th of each year. If the company was incorporated during the last six months, the due date will be January 15th of each year.

Non-profit organizations, cooperatives and partnerships are not subject to franchise tax.

## Dividend Tax

Companies’ profits are taxed, in addition to the corporate income tax, with a dividend tax of 10%. This tax is reduced to 5% in the cases of entities that operate in a Free Zone, if the income subject to dividends is considered an exempt income or from non-Panamanian source of income.

In cases where entities belong to tax residents in countries which Panama has subscribed to a Double Taxation Treaty (DTT), tax rates over the dividends vary according to what is established in the applicable treaty.

Dividend tax foresees a presumptive annual distribution of 40% of the profits after income tax, and in case it is not executed, requires the tax payment according equivalent to the minimum distribution, which is the Complementary Tax of 4% (10% over the 40% of the profits).

## Excise Tax

Is applied to goods, jewelry, automobiles, guns, tobacco, alcoholic beverages, etc.) and services (mobile telephone services or cable TV) that are considered as non -essentials. The tax base is the cost, insurance and freight (CIF) price, plus import duties for imported items and sales price for all the other activities. The tax is applied at only one stage: on the importation of the product or the sale of taxed goods produced in Panama; and for services, it may be applied at the same time when the service is provided, invoiced, completely rendered or upon receipt of advance payments, whichever occurs first.

The Panamanian tax system is regulated by the Tax Code and many other complementary laws that regulate specific matters.

**Stamp Tax**

Stamp duty is charged at a rate of B/.0.10 per B/ .100.00 (or fraction thereof) only on certain commercial contracts.

**Movable goods transfer and provision of services tax (ITBMS)**

Is the Panamanian Value Added Tax (VAT). Tax rate is 7% effective from June 30th 2010, according to Law 8, 2010. Alcoholic beverages are taxed at 10% and tobacco and tobacco derivatives are taxed at 15%.

Exports are not taxed and the ITBMS paid to generate exports are subject to a refund . The sale of goods such as medicines, food and certain products for babies are not taxed.

During 2016 was established the legislation related to VAT withholding agents, for taxpayers with income higher than B/ . 5,000,000.00 per year, which is summarized as follows:

1. Invoices issued from November 2015 and on are subject to a withholding of 50% of the VAT, applied by the designated withholding agents.
2. No withholding will be applicable if the beneficiary of the payment is a withholding agent.
3. No withholding will be applicable to suppliers of goods and services, businesses or persons affiliated with entities that manage debit or credit cards that are not VAT taxpayers.
4. The withholding agent should issue certificates for the withholdings performed during the month

to all the taxpayers that have been subject to the withholding.

5. The withholding agent must be designated by the Panama Tax Administration.

To improve the ITBMS collection and reduce the evasion, the Government modified Article 19 of the Executive Decree No.84,2005, establishing the following rules:

**Withholding Agents**

- A) State agencies, decentralized entities, public enterprises, municipalities and other public sector entities not exempt, making payments or managing State funds (regardless of the amount of the compensation).

**Withholding amount:** fifty percent (50%) of VAT included in the invoice or equivalent document.

In case of professional services, the withholding will be applied to the one hundred percent (100%) of VAT included in the invoice or equivalent document.

	Professional Services	Others
Invoice	1,000.00	1,000.00
Vat (7%)	70.00	70.00
Total	1,070.00	1,070.00
Withholding	70.00	35.00
Supplier payment	1,000.00	1,035.00

**Exclusions:** Payments made through petty cash are excluded according to the regulation of the Panama Tax Authority.

- B) Paid or accrued amounts for taxable transactions with individuals or entities incorporated abroad, if these don't have any branch, agency or establishment in Panama:

**Withholding amount:** will be applied over the total ITBMS caused. In this case, it is considered that in the invoice price includes the ITBMS, therefore a coefficient of 0.065421 should be applied to the total amount in order to obtain the ITBMS applicable.

Invoice	1,000.00
ITBMS (0.065421)	65.42
Total	934.58
Withholding	65.42
Supplier payment	934.58

In this case, the withheld amount will be considered as a tax credit by the withholding agent.

- C) Partnerships and Joint Ventures, as the entities described in the Panama Commerce Code, referred to in Article 7 from the Executive Decree No. 84, 2005.
- D) Those who are or are not taxpayers of ITBMS, and in the immediately preceding fiscal period comply

with the criteria of annual purchase of goods and services equal or over three million balboas (B/.3,000,000.00). The Tax Administration will determine the limits and conditions to lower purchases that are not subject to withholding.

Withholding amount: it will be the fifty percent (50%) of ITBMS included in the invoice or equivalent document submitted by the suppliers.

**E)** Issuers or administrators of debit and credit cards responsible for processing payments to businesses and service providers, at the moment of the payment or deposit into the affiliated establishment's account.

Withholding amount: it will be the fifty percent (50%) of ITBMS caused by taxable sales of goods or services.

Special report: these entities must submit a monthly report to the Tax Authority with the detailed sales performed by commercial establishments or individuals affiliated to the debit and credit cards payment system. The Tax Authorities will determine the guidelines for filing the referred report.

Exclusions: Goods and services Suppliers, or businesses or individuals affiliated with entities that process credit or debit cards that are not considered as ITBMS taxpayers are not included in the scope of these provisions. In these cases it will be necessary to prove the referred condition through an ITBMS non-taxpayer certificate or other certificate which is specified that the activity is not taxable; both certificates should be issued by the Panama Tax Administration.

**Other exclusions:**

No withholding applies to suppliers of goods, services, businesses or individuals affiliated to entities managing credit or debit cards, if they perform exempt activities of ITBMS.

Companies under special tax regimes that are considered as ITBMS exempt subjects are not allowed to be withholding agents.

No withholding should be made to the source when the operation is performed between withholding agents.



Conditions for the ITBMS withholding

- a) That a total or partial payment has been made or accrued.
- b) That the payment refers to an ITBMS taxable operation.
- c) That the person performing the payment has been designated as withholding agent.
- d) That the beneficiary of the payment is not a state entity or a withholding agent designated by the Tax Authorities.

**ITBMS Return**

By Resolution 201- 17687 from October 20, 2015, the Form 433 for Withholding ITBMS is created, used for filing and monthly payment of withholdings performed during each period, along with information about the concepts and amounts withheld (Official Gazette No. 27893-B).

**Sales Report**

As of January 1, 2022, according to Resolution 201-10011 of October 20, 2021, the report of Sales and Services rendered or Form No. 1027, for taxpayers of the Tax on the Transfer of Movable Goods and the Rendering of Services (ITBMS), becomes effective. This report must be filed on a monthly basis by individuals and legal entities with a sworn income tax return and that have received gross income equal or higher than B/.1,000,000 and/or owned as of the same date total assets for an amount equal or higher than

B/.3,000,000, in the previous fiscal period (annual) to the current one.

This report must keep the following information:

- Details of operations made to ITBMS taxpayers.
- Details of the operations arranged with the state
- Details of operations destined to the operation
- Operations with final consumers.

The taxpayers that use the Electronic Invoicing System of Panama are excluded from the presentation of this form since the system by means of the platform E-Tax 2.0 will do it automatically.

**Capital Gain Tax**

The real estate transactions has a special tax treatment related to the number of transactions performed by the seller, the special rules are described as follows:

1. If the sale and purchase of real estate is not within the ordinary course of business of the taxpayer, income tax will be calculated at a rate of 10% on the taxable income. In order to liquidate the tax, the taxpayer may choose between:
  - a) To file a sworn statement liquidating the total gain arising from the act accompanied by the documents supporting such disbursements duly established by the DGI by means of a motivated resolution, so that after this received, the tax will be paid according to the mentioned rate of 10%;
  - b) To pay in advance 3% using as a basis for its calculation the value of alienation or the

cadastral value of the property, whichever is higher, as an advance payment of income tax.

The taxpayer may choose to consider 3% of the total value of the alienation as the definitive income tax to be paid as gain. When the 3% is greater than the amount resulting from applying 10% of the gain obtained, the excess may be claimed in cash or as a credit.

The capital gain tax will be calculated based on the total price of the transaction or the cadastral value, whichever is the highest, applying the following rates, applicable only for first sale of homes and commercial constructions:

Value of new housing	Rate %
Up to B/.35,000.00	0.50
From B/.35,000.00 up to B/. 80,000.00	1.50
More tha B/.80,000.00	2.50
New commercial constructions	4.50

If the sale is of non-new housing or premises, they are subject to the rates established in articles 699 and 700 of the Tax Code.If at least one of the previous requirements is not met, the general regime would apply. An exemption of the Real Estate Transfer Tax (2%) established on article 1 of Law 106, 1974, applies on the first transfer of the real estate.

**Real Estate Tax applies to the value of the land and all registered improvements which are not exempted**

In case of the direct or indirect transfer of shares or securities from Panamanian source of income, the income tax is applied as follows:

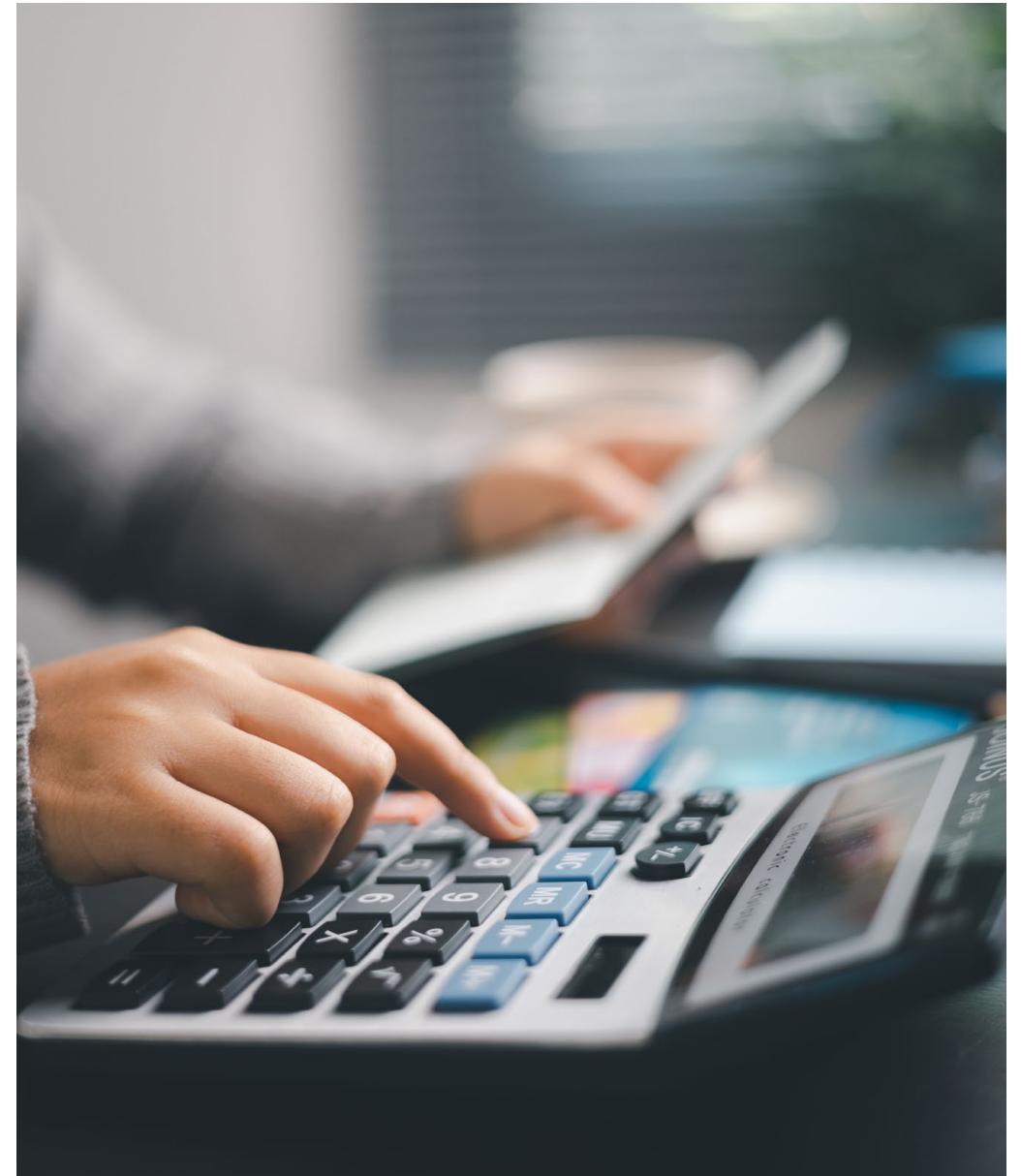
- a) The buyer must withhold a 5% over the total value of the transaction and submit it to the Tax Authority on behalf of the seller within the next 10 days after the transaction is performed.
- b) The seller may accept the withholding as final tax payment.
- c) If the seller didn't accept the withholding as a final tax payment, can apply the 10% rate over the capital gain and applying as a credit the amount of the withholding and file a tax return at the Tax Authority for overdue payments.
- d) In case of movable goods, the capital gain tax will be calculated at a 10% rate over the capital gain.

**Real Estate Tax**

Real Estate Tax applies to the value of the land and all registered improvements which are not exempted. From January 1st, 2019 is exempted from payment of the property tax, properties which base value, including improvements, does not exceed B/.120,000.00 and become family tax patrimony or main home, stating a new tax rates:

Value	Rate %
Up to B/.120,000.00	Exempt
From B/.120,000.00 up to B/.700,000.00	0.5
Over B/.700,000.00	0.7

Also, from January 1st, 2019 the combined progressive rate for commercial and industrial properties, other residences and land will be the following:



Value	%
Up to B/.30,000.00	Exempt
From B/.30,000.00 up to B/. 250,000.00	0.6
From B/.250,000.00 up to B/.500,000.00	0.8
Over B/.500,000.00	1.0

**Corporate Deductions**

All expenses necessary to generate income or to preserve the source of income are deductible with some minor limitations.

**Ordinary repairs and improvements**

These are deductible in a way that does not increase the useful life of assets.

**Depreciation**

The straight - line method and some accelerated methods are allowed, considering the useful life for movable property of 3 years and for immovable property 30 years.

% Straight – Line	
Category	Maximun years
Buildings	3 1/3
Machinery and equipment	33
Furniture and fixtures	33
Vehicles	33

**Investment credit or allowance**

Some special investment credits are in effect for electricity generating activities only.

**Depletion**

Depletion is deductible over the useful life of mine, depending on State Contract methodology.

**Insurance premiums**

Insurance premiums related with risks associated with taxable activities are deductible. In special cases, it is possible to contract insurance for entities located abroad (special risk).

**Bad Debts**

The balance sheet allows establishing reserves for bad debts with a limit of 1% of credit sales and a minimum of 10% of accounts receivable at the end of the fiscal year, or direct charge against earnings and losses when an account is declared bad.

The taxpayer can deduct the bad debts by choosing one of the following systems:

Charging annually to taxable income the amount of the account in the fiscal year;

Charging annually one percent (1%) of taxable income for the constitution of a reserve destined to contingencies.

Adopted the reserve system, the taxpayer can change it doing the necessary adjustment so that the imputation to the profit and losses can only be done when the

previously constituted reserve is over and notifying the Tax Authority of the change.

If the taxpayer opted for the system of constituting a reserve to do front to uncollectible, only can be deductible as a provision annual expense equivalent to one percent (1%) of the total credit sales or services performed in each fiscal year. At any moment the balance of the reserve can be more than ten percent (10%) of the balance commercial receivables at the end of the fiscal year.

**Donations**

Are deductible for the taxpayer the expenses and expenditures of donations in money or in species to:

- Central government entities, autonomous entities, semiautonomous and decentralized entities of the State, as well as municipality and community boards.
- Education or benefit institutions with non-commercial purposes, as long as they are recognized by the government and the Tax Authority. For corporations, deductions are limited to 1% of the annual taxable income, as established in Article 699 of the Tax Code. For individuals, the deduction is limited to B/ . 50,000.00per fiscal year.
- Political parties or candidates for popular election positions. Each taxpayer can deduct, in each fiscal period, up to B/ .10,000.00.
- The amounts paid to entities or associations with no commercial activity, as long as they are properly authorized to receive deductible donations by the Panama Tax Authority.

- Activities related to prevention of sexually transmitted diseases or human immunodeficiency virus (HIV), for the treatment or caring of the affected persons with HIV, up to B/.10,000.00 per fiscal year, according to Law No. 3, 2000. The donation should be received by the Ministry of Health and the taxpayer should prove the donation by a certificate granted by this entity.

**Other entities established in the Law.**

- When the donations are in species, for new goods, the value will be according to the invoice. In case of used goods, the value will be the acquisition value less accumulated depreciation.
- The donations in the time and exposure in social media and the services granted to individuals or entities mentioned above, are deductible for the value of the service if it was registered, invoiced and declared income by the taxpayer.

**Net operating losses**

Net operating losses incurred by taxpayers may be deducted from the taxable profits within the next five (5) years at a 20% rent for each year, but limited to 50% of taxable income for each year.

**Withholding tax (WHT)**

Payments made by taxpayers for certain concepts should apply the following WHT rates:

Recipient	Dividends %	Interest %	Royalties and services %
Foreign entities	5, 10, 20	12.5	12.5

For dividends, the withholding should apply nevertheless that the beneficiary is a foreign or a domiciled entity.

For royalties and services, the withholding tax will be applicable as long as the payment is considered as a deductible expense for corporate income tax purposes. Nevertheless, Law 27 May, 2015, established that companies which are in a loss position, must apply the withholding tax regardless of the fact that the expenses was not considered deductible.

**Setup expenses**

Expenses arising from initial operations can be amortized over 5 years or charged against profits and losses in the first year.

Interest, service fees and royalties

In the case of royalties and services, withholding applies as long as the payment is considered a deductible expense in the affidavit of income tax. However, by Law 27 of May 4, 2015, companies that are in a loss position are required to make the retention whether the expense is not considered as deductible.

**Tax Incentives**

**Inward Investment**

Investment in industries, agroindustry, marine resources transformation, industries dedicated to extracting and transforming raw agricultural and forestry materials may get industrial promotion certificates which allow crediting the investment against taxes such as income tax, but limitation of depreciation of referred assets.

**Accelerated depreciation**

According to tax law, a taxpayer can apply accelerated depreciation depending on the use of the assets without any authorization from the Tax Authorities, but will be limited to minimum useful life period described by law.

**Tourism, industry and agriculture allowances**

Tourism development: The Law for Tourism Development grants several incentives

Tax is paid via income tax return, and must be made no longer than 3 months after closing of the corresponding accounting period (with no possible extension).

and tax benefits, such as exemption from import duties on certain tourism service related goods for companies dedicated to tourism, but only for those corporations with a signed tourism agreement with the Tourism Authority. In some special cases, income tax exemptions apply.

Income related to forestry activities is totally exempt from income tax if the final disposition of the plantations derived from property are registered in the Forestry Registry of the Environmental National Authority from 2017 within the next 20 years.

### **Corporate Tax Compliance**

#### **Returns**

Tax returns must be filed no later than 90 days after the end of the fiscal year. It is possible to request an extension for the filing, which rarely is denied. The extension for filing is one additional month. Tax authorities can perform audits under two timetables:

- a) If the taxpayer filed the return on time, it can be audited for up to 3 years for income tax and 5 years for VAT.
- b) If the tax return was not filed on time, it can be audited for up to seven years.

#### **Tax Payment**

Tax is paid via income tax return, and must be made no longer than 3 months after closing of the corresponding accounting period (with no possible extension).

The tax can be paid in one payment or in three equal payments, in which case the payments should be done up to June 30th (first payment), September 30th (second payment), and December 31st (third payment). In addition, the taxpayer should pay the estimated income tax.

The taxpayer can request to the Tax Authority a special fiscal period of 12 months, different than calendar year, to comply with their tax obligations.



### Individual Taxation Summary

Taxable income produced from any source within the territory of Panama, regardless of where it is received, is subject to income tax. Income tax is levied only upon net income derived from operations within Panama, by individuals and corporations, except those considered non taxable or exempt by law, in accordance with the corporate and personal income tax rates.

In this sense, income derived from activities performed outside Panama is not considered taxable, although it may be subject to dividend tax.

The term “resident” refers to a person physically located and generating income in Panama for more than 183 days, continuous or cumulative in the same fiscal year. Likewise, “non- resident” refers to a person located in Panama and generating income for less than 183 continuous days or cumulative in the same fiscal year.

### Gross income

Broadly, the entire remuneration for personal services rendered in Panama is subject to income tax. There are two different ways to calculate the income tax. When the person is an employee, the employer is responsible for withholding the corresponding taxes according to progressive rates. When the person is an independent contractor, a person with more than one job or an employee who has different types of income, distinct from this employment, an annual income tax return must be filed.

Panamanian law establishes that when the taxpayer has only one source of income related to his employment; he/she must not file an annual income tax return.

### Current deductions/credits

Resident taxpayers will be subject to the normal tax rates on their net income arising from Panamanian sources. Panamanian legislation allows the following personal allowances and deductions to be deducted from resident taxpayer’s taxable income:

- Married couple filing jointly the tax return are entitled to an annual deduction of B/.800.00.

- Interest paid on mortgage loans for home improvements on residences located in Panama up to B/.15,000.00 per year.
- Interest paid for educational loans.
- Medical expenses incurred on the taxpayer’s behalf or for his/her dependents within the Republic of Panama. It will be necessary to prove through invoices or other documentation the expenses incurred, including the hospitalization and medical attention insurance premiums.
- Donations to local educational and charitable institutions authorized by the tax administration to receive such donations up to the amount of B/.50,000.00 per year.
- Education expenses related to dependents under age, up to US\$3,600.00 per dependent, per year. In addition, the deduction could be applied if the taxpayer assume its own education expenses.

### Individual Tax Compliance

#### Returns

If a taxpayer receives income only from employment, he may choose whether or not to file an annual income tax return.

A foreign individual will be required to submit a tax return if he stays in the Republic of Panama for more than 183 days in the fiscal year, if the employee receives as part of compensation benefits in kind or if he/ she is employed by a foreign firm which has a permanent establishment in the Republic of Panama. The tax returns must be filed by March 15th following the end of the fiscal year in which the income is earned.

#### Tax payment

If tax payment is required, it must be made by March 31st at the latest, in order to avoid interest charges. These payments must be submitted to a specific bank with a special slip indicating that payment of taxes was made. If taxpayers request an extension, it will be granted only for filing and not for payment. Overdue payment will trigger interest charges (11% annual average rate).

**Current tax rates**

<b>If taxable income is:</b>	<b>Taxes payable will be:</b>
Up to B/. 11,000.00	0%
More than B/.11,000.00 up to B/.50,000.00	15% rate on amounts exceeding B/.11,000.00 up to B/.50,000.00
More than B/.50,000.00	B/. 5,850.00 for the first B/.50,000.00 and an applicable rate of 25% on amounts exceeding B/.50,000.00

**Special tax rates for representation allowances**

<b>If taxable income is:</b>	<b>Taxes payable will be:</b>
Up to B/.25,000.00	10%
More than B/.25,000.00	B/.2,500.00 for the first B/.25,000.00 and a rate of 15% on amounts exceeding B/.25,000.00.

**Transfer Pricing**

Transfer Pricing regulations in the Republic of Panama date back to 2010, and has theoretical and technical basis in the Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations (“OECD Guidelines”).

Law 33 of 2010 includes the arm’s length principle. In this sense, operations carried out by taxpayers with their related parties should be determined considering the price or amount that would have been agreed by independent parties under the same circumstances in arm’s length conditions.

Law 33 of 2010 originally established that operations carried out with related parties of countries that have Treaties or Agreements that attempt to avoid Double International Taxation with the Republic of Panama, should be object of the aforementioned Law (this concept was later changed by Law 52 of 2012). Additionally, this Law established the formal requirement for the preparation of a Transfer Pricing Study. However, the taxpayer should only present the Study in

case the Panamanian Tax Authority requires it, within forty five (45) working days, starting the day after the notification.

This Law establishes that Tax Authorities are allowed to fine those taxpayers that fail to present the Transfer Pricing Informative Statement or any required documents before the deadline; fines ranging from B/. 1,000 to B/. 5,000 will be applied for the first time, from B/. 5,000 to B/. 10,000 in case of recurrence and the closure of the establishment for 2 to 15 days in case of non compliance.

Through Law 52 of 2012, the scope of application of the Transfer Pricing obligations is extended to all the transactions carried out with foreign related parties, in case these operations have effect in determining the tax base. At the same time, this Law establishes the obligation of the presentation of an annual Transfer Pricing Informative Statement (“Form 930”) , which should include all the operations carried out with foreign related parties during the fiscal year under analysis. This report should be presented six months after the fiscal year has ended and the amount of the transactions must be informed in Balboas. Failure to submit or late submission of this Form will be penalized with a fine equivalent to 1% of the total sum of operations carried out with foreign related parties. For the calculation of this fine, the gross sum of the operations will be considered, independently of their nature (revenues, costs or expenses). Law 114 of 2013 established that the fine aforementioned will never exceed one million Balboas (B/. 1,000,000).

Executive Decree 958 of 2013 regulates how the operations have to be analyzed by the taxpayer. Due to the practical implementation of the transfer pricing regime, experience has shown that it is necessary to update the same applicable regulations to make the control of taxpayers’ operations with their related parties abroad more efficient and effective, with a view to promoting a relationship of trust between Taxman-Taxpayer. Therefore, Executive Decree No. 390 of October 24, 2016 is published, which regulates Arm’s Length principle. Based on this Decree, the content of the Study is extended, given that the required information of the Group and the taxpayer has become more specific.

This transfer pricing regime will also apply to any operation that a company that holds a Multinational Company Headquarters License performs with related parties

that are established in the Republic of Panama or that are tax residents with other jurisdictions or that are established in the Colon Free Zone, or operating in the Oil Free Zone under Cabinet Decree 36 of 2003, Panama-Pacific Special Economic Area, Headquarters of Multinational Companies, City of Knowledge or in any other free zones or in an area special established or believed in the future. The aforementioned persons are obliged to comply with the provisions of this article regarding operations carried out as of fiscal 2019.

Equally, through Official Gazette No. 28684-B of December 27, 2018, Law No. 69 of December 26, 2018 was enacted, which establishes the method to calculate the income subject to a preferential tax exemption or treatment by transfer or exploitation of intangible assets.

Finally, Executive Decree No. 46 of May 27 establishes the obligation to annually submit the Country-by-Country Report to any Last Parent Company of a Multinational Group that has consolidated revenues of more than seven hundred and fifty million euros (€ 750,000,000) or its equivalent in balboas to the exchange rate as of January 2015 in a fiscal period and which resides for tax purposes in Panama. On the other hand, Executive Decree NO. 46 defines the Last Parent Company as the member entity or belonging to a Multinational Group.

It should be noted that the first Country-by-Country Report will be enforceable with respect to the 2018 fiscal period and must be submitted within twelve (12) months following the closing date of the corresponding fiscal period.

### International Taxation

The Republic of Panama, through the reform carried out in 2012, established the rules for the application of double taxation for treaties signed by the Republic of Panama. This reform included the adoption of the terms tax resident, permanent establishment, certificate of Tax Residence and application of benefits of Double Taxation Treaties.

Up to date, Panama has a network of double taxation treaties covering 17 treaties with the following countries: Mexico, Barbados, Qatar, Spain, Luxembourg, the Netherlands, Singapore, France, Italy, Korea, Portugal, Ireland, Czech Republic, United Arab Emirates, United Kingdom, Israel and Vietnam.

In addition to these countries, Panama has negotiated Information Exchange Agreements with the United States, Iceland, Canada, Finland, Sweden, Greenland, the Faroe Islands, Denmark, Japan and Norway.

The use of benefits contained in the Double Taxation Treaties need a previous notification of the use of the treaty benefits submitted at the Tax Authority, which include among other documents the tax residency certificate. The Tax Authority reserves the right to accept the request or perform additional research in the process of acceptance of the use of the benefits.

The BEPS Multilateral Instrument, also known by its acronym in English as “MLI”, came into force on March 1, 2021 in Panama, with which the CDI network is modified with respect to the preamble, the adoption of the Principal Purpose Test or PPT and adjustments to the Mutual Friendly Procedures.

### US Foreign Account Tax Compliance Act (FATCA)

Panama signed the Model 1 Intergovernmental Agreement (IGA) for FATCA purposes with the US Treasury in order for Panamanian Banks to subscribe to the terms of FATCA. For this purpose, was created Law 51 of 2016 and Executive Decree 124 of 2017 that complement the IGA and establish the procedures and deadlines for the financial institutions obliged to perform the due diligence and send the reports to the Tax Authority.

In 2016, Panama was committed to automatically exchange information starting 2018, according to the Common Reporting Standards (CRS). Same as the IGA-FATCA, the CRS also includes the automatic information exchange of financial information for tax purposes, based on the agreements signed by the Tax Authority (DGI) and the CMs.

To date, Panama is a signatory of important agreements on information exchange, including the Mutual Administrative Assistance in Tax Matters (MAC) and the Multilateral Competent Authority Agreement (MCAA). At the same time it has adopted a series of internal measures to facilitate the execution of the referred treaties.



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# Dominican Republic

The island was discovered on December 5, 1492 by Christopher Columbus, who named it Hispaniola.



The Taino Indians, indigenous peoples were forced into and eventually annihilated introduced by the Spaniards and the abuses of slavery. Bartholomew, brother of Christopher Columbus, was appointed governor in 1496 and founded Santo Domingo, the capital city. The island of la Hispaniola remained under Spanish reign until 1697, when the western part of the island became a French possession.

In 1804 it became the Republic of Haiti, and in 1809 the eastern part of the island returned to Spanish rule. In 1821, the Spanish settlers declared an independent state but just weeks later, Haitian forces invaded the eastern region and incorporated Santo Domingo, then known as Saint Domingue.

For the next 22 years, the entire island was under the control of Haiti. The February 27, 1844, the eastern part of the island declared independence as the “Dominican Republic”. The next 70 years were characterized by political instability and civil war, mainly due to power struggles among Dominicans strongmen for control of the government.

# Content



**155**

**Overview Of The Country**



**156**

**Political And Legal System**



**157**

**The Economy**



**158**

**Doing Business In the Dominican Republic**



**161**

**Banking System**



**162**

**Labor And Social Security**



**165**

**Accounting And Audit Requirements  
And Practices**



**166**

**Tax System**

# Overview of the country



## Brief history

From 1916 to 1924, the Dominican Republic was occupied by the United States Armed Forces, when the USA withdrew its troops due to the Harding Plan. In 1930, Rafael Trujillo came into power and established a dictatorship that ended with his assassination in 1961. In 1963, Juan Bosch was the first democratically elected president, however, he was overthrown after only 7 months. This caused civil unrest, which culminated in a civil war in 1965. As a result, the USA dispatched 42,000 troops to the island in support of antibosch groups, these troops were retired in 1966.

The same year, Joaquin Balaguer won a free election against Bosch. Since then the presidency has changed among three major parties: Partido Revolucionario Dominicano (PRD), the Partido de la Liberación Dominicana (PLD) and the Partido Reformista Social Cristiano (PRSC).

## Climate

The Dominican Republic (“DR”) has a moderate tropical climate, even though it is located in a tropical zone. The northeast winds blow steadily from the Atlantic Ocean all year long, tempering the climate. The average temperature throughout the year is 75°F (25° C).

### Population, government, language, currency, and others:

<b>Area</b>	48,671 km <sup>2</sup>
<b>Population (*)</b>	10.760.028 millions inhabitants
<b>Population per km2</b>	221.1 hab. /km <sup>2</sup>
<b>Population growth</b>	1.1%
<b>Urban population</b>	9,415,142 inhabitants (2022)
<b>Political system</b>	Democracy
<b>Form of government</b>	Presidential
<b>Language</b>	Spanish
<b>Currency</b>	Dominican peso (RD\$ or DOP)
<b>Administrative division</b>	31 national provinces and 1 national district
<b>Religion</b>	Roman Catholic / Protestant
<b>Capital city</b>	Santo Domingo de Guzmán

Source: Estimaciones y proyecciones nacional población. Oficina Nacional de Estadística y Banco Mundial

## Education

The educational system in the DR is regulated by Law 66-97, passed in 1997 and the ordinance 03-2013, and comprises the following levels:

- Elementary School - (0-6 years).
- Primary - (Starts after the initial level is completed and lasts 6 years).
- Secondary School - Bachelor’s degree (Starts after the Elementary School level is completed and lasts 6 years).
- College - (Starts after completing the middle level and lasts 4-5 years).

The Autonomous University of Santo Domingo (Universidad Autonoma de Santo Domingo), founded in 1538, is the oldest institution of higher education in the New World. It is the only public university in the Dominican Republic and has the largest student body and the highest number of graduates.

There are numerous private universities, many sponsored by religious institutions. Among the well-known private universities regarded as high-quality education providers are: Pontificia Universidad Católica Madre y Maestra (PUCMM), Universidad Acción Pro- Educación y Cultura (UNAPEC), Universidad Católica de Santo Domingo (UCSD), Universidad Iberoamericana (UNIBE), and Instituto Tecnológico de Santo Domingo (INTEC).

# Political and legal system



## Legal framework

The political and legal structure of the Dominican Republic (DR) is composed of three main branches – Legislative, Executive and Judicial – organized as follows:

	Executive	Legislative	Judicial
<b>Political and legal framework</b>			
<b>Exercised by:</b>	The President	Bicameral National Congress	Supreme Court of Justice (*) Constitutional Court Electoral Court Court of Appeals District Court Small Claims Court (*) The highest of all Judicial bodies
<b>Composed of:</b>	The President	The Chamber of Deputies, made up of 178 deputies, 1 deputy elected for every 50,000 citizens (including 1 deputy for every voting district of more than 25,000 citizens). The Senate, composed of 32 senators, one representing each province and the National District.	The Supreme Court of Justice and the Constitutional Court are composed of 16 and 13 judges respectively and the Electoral Court will be composed of no less than 3 judges without exceeding 5.
<b>Elected or appointed:</b>	The President and Vice President are elected by direct vote every four years.	Senators and Deputies are elected by direct vote every four years.	The number of Courts of Appeals, District Courts and Small Claims Courts and the number of judges sitting on them are determined by law. Judges are appointed by the National Judicial Council. The Council is made up of five judges: two from the Supreme Court of Justice (one of them serving as President of the Council) and one judge from each of the other courts described above.

The Dominican legal system is based on Napoleonic Code.

## Main political parties

- Dominican Liberation Party  
Partido de la Liberación Dominicana (PLD).
- Modern Revolutionary Party  
Partido Revolucionario Moderno (PRM).
- Social Christian Reformist Party  
Partido Reformista Social Cristiano (PRSC).
- Dominican Revolutionary Party  
Partido Revolucionario Dominicano (PRSC).
- People’s strength  
Fuerza del Pueblo (FP).

Elections take place every four years. The last presidential elections were held in 2020 and the last congressional elections in 2020.

# The Economy



The Dominican economy is the largest in the Caribbean and in Central America. The Dominican Republic is an upper- middle-income country, reliant on the service sector. The most prominent economic activities are construction, tourism, free trade zones, local manufacturing, retail trade, and mining.

The economic activities with the greatest expansion were: hotels, bars and restaurants (24.0%), health (11.3%), public administration (8.5%), other service activities (8.2%), transportation and storage (6.4%), financial services (5.8%), and commerce (5.4%) according to the information of the report of the Dominican Economy January-December 2022 of the Central Bank.

## Inflation

Inflation, measured as the variation of the Consumer Price Index (CPI), from January to December 2022 was 7.83%, this was due to increases in the prices of food and non-alcoholic beverages, housing and the cost of transportation . As in the rest of the world's economies, it was affected by external shocks that turned out to be more persistent than expected. However, as of the second half of 2022, there was a moderation in the international prices of raw materials, particularly oil and food, as well as in the costs of container transport.

## Post-COVID-19 economic outlook in the context of a greener world economy

The Dominican Republic is one of the fastest growing economies in Latin America and the Caribbean in the last decade. Real GDP grew by 4.9% in 2022. Economic growth in the Dominican Republic is expected to slow from 4.9% to 4.4% in 2023 due to tighter financial conditions, continued fiscal consolidation, and the global economic slowdown.

From the point of view of sectoral dynamics, the services sector drove the growth of Dominican economic activity in 2022, with a year-on-year variation of 6.5% in real terms.

Starting in November 2021, the Central Bank began a cycle of gradual increases in the monetary policy rate (TPM), which lasted twelve months. Since then, the TPM has increased by 550 basis points (bps), going from 3.0% to 8.5% in November 2022.

The Dominican financial system showed signs of resilience and stability during 2022, evidenced by the notable performance of the loan portfolio and financial soundness indicators.

# Doing business in the Dominican Republic



## Government attitude toward foreign investment

The government continues to encourage foreign investment and to work in positioning the Dominican Republic as the primary destination in the Caribbean for foreign investors. However, the same business channels are open to domestic and foreign investors alike. There are no major restrictions on foreign investment, and investors can repatriate their profits and capital.

The relaunching of free trade zones, incentives for investment in tourism and the signing of CAFTA-DR are some of the ways the Dominican Republic has encouraged foreign investment.

Over the last ten years, there has been an emphasis on restructuring the current free trade zones and strengthening the textile free trade zone, the film industry and other sectors.

## Free trade agreement and other agreements

The Dominican Republic is a member of the World Trade Organization and has received preferred treatment. The country has access to the United States through the Caribbean Basin Trade Partnership Act (CBTPA), which was an extension of the Caribbean Basin Initiative (CBI) and the Preferred Generalized System GSP.

The Cotonou Agreement with the European Community allows preferential access to Dominican goods without quantitative restrictions.

DR-CAFTA (FTA between the US, Central American

Countries and Dominican Republic) was signed and implemented on March 1, 2007. In 1998, the Dominican Republic signed a Free Trade Agreement with other Caribbean islands (CARICOM).

## Why invest in the Dominican Republic?

In recent years, the Dominican Republic has been characterized as one of the countries with the highest economic growth in Latin America and the Caribbean, based on the development of its most important productive sectors such as tourism, free trade zones, remittances, foreign direct investment, and mining. This country has privileged conditions that improve its competitiveness and make it one of the best destinations for foreign investment in the American continent.

Among these conditions, we can highlight its strategic geographic location, since being located in the center of the Caribbean, allows the Dominican Republic to have access to a wide variety of international markets for export and import purposes.

Likewise, the country has a great variety of natural resources such as beaches, mineral deposits, and fertile lands, which guarantee the diversity of business options for foreign investors.

Finally, the economic, social and political stability that characterizes the Dominican Republic, makes that every year the business climate in the country improves, and facilitates the possibilities of expansion of already established companies. Among the most important measures taken by the government that we

can highlight are the opportunities for financing and growth through public-private partnerships.

## Foreign investment

The agreement (DR - Central America) between Costa Rica, El Salvador, Honduras, Nicaragua, Guatemala, and the Dominican Republic in April 1998 and entering into force Pro Dominican is the official agency responsible for the promotion of international trade and foreign direct investment (FDI).

Foreign investment is regulated by Law 16-95, which sets the principle of equal treatment for domestic and foreign investments, guaranteeing the same legal protection for foreigners.

All foreign investments must be registered at Pro Dominican. Foreign investors must notify the Pro Dominican within 180 days of placing an investment in the country, and will then automatically obtain a Certificate of Foreign Investment Registration.

Under Art.2 of Law No. 16-95, foreign investment may take the following forms:

- Contributions in freely convertible currency, exchanged in a banking institution authorized by the Central Bank.
- Contributions in kind, such as industrial plants, new and reconditioned machinery, new and re-conditioned equipment, parts (including replacement and spare parts), raw materials, intermediate products and final goods, as well as intangible technological contributions.

Foreign investors may establish their business through any of the legal forms allowed under domestic legislation. Local companies with foreign capital can access domestic credit with the same rights and under the same conditions as local companies with domestic capital.

- Financial instruments which the Monetary Board classifies as foreign investment, except those that are a result of contributions or internment of a transaction to restructure the Dominican foreign debt.

Under Art.3 of Law no. 16-95, foreign investment may be directed as follows:

- Investments in the capital of an existing, new or branch company based on the framework of the DR's commercial code. Stock should be nominative shares for foreign investment in companies with share capital.
- Investments in real estate properties in the country.
- Acquisition of financial assets.

There are certain constraints, which are standard in most countries:

- Disposal of toxic, dangerous or radioactive waste not produced in the country.
- Activities affecting public health and the environment.
- Production of materials or equipment directly linked to national defense and security, except with the express authorization of the Chief Executive.

#### **Establishing a Business in the Dominican Republic**

There are different business categories in the Dominican Republic – permanent establishment (PE), branch or subsidiary – as defined below.

#### **Commercial societies**

Under Law no. 479-08, the legal commercial societies are:

- General Partnership (Sociedad en Nombre Colectivo).
- Ordinary Limited Partnership (Sociedad en Comandita Simple).
- Joint-stock Company (Sociedad en Comandita por Acciones).
- Limited Liability Company (Sociedad de Responsabilidad Limitada -S.R.L.-).
- Stock company (Sociedad Anónima -S.A.-).
- Simplified Stock Company (Sociedad Anónima Simplificada -S.A.S.-).

Foreign investors may establish their business through any of the legal forms allowed under domestic legislation. Local companies with foreign capital can access domestic credit with the same rights and under the same conditions as local companies with domestic capital.

#### **Incorporation procedure of a local entity**

- Register the company name at the Trademark Office (ONAPI) and obtain the Business Name Certificate.
- Pay capitalization tax to tax authorities (branches are not required to make this payment).
- Submit to the Chamber of Commerce the following documents:

- Articles of incorporation;

- List of shareholders and copies of their IDs or passports;

- Documentation of the first general shareholder's meeting.

- Obtain mercantile registration certificate from the Chamber of Commerce.
- Submit the RC-02 form to tax authorities and obtain the tax identification card.

Aside from the branch, the Limited Liability Company is the vehicle most frequently used by both domestic and foreign investors, since in accordance with the Law No. 68 -19, this type of commercial societies do not require a minimal amount of social capital and they can also be incorporated on the Chamber of Commerce webpage

#### **Closing procedure**

Liquidation or dissolution of a company in the DR is regulated by Law No. 479-08 and its Reform 31-11.

#### **Branch and/or permanent establishment**

A branch is created upon its registration with the Chamber of Commerce, whereas a permanent establishment (PE) is a fixed place where the business of the enterprise is wholly or partly conducted, such as: management offices; branches; a mine, oil or gas well, quarry or other location for extraction of natural resources; assembly projects, including monitoring the activities thereof; construction of or



sales management of machinery or equipment when the cost exceeds 10% of the purchase price of such goods; business consulting services provided in excess of six months within a fiscal year; offices for staff or free-lance representatives or agents, when the latter work exclusively or almost exclusively on behalf of the company.

If a PE arises, the foreign company is subject to registration with the Chamber of Commerce and tax authorities. Both the branch and/or PE are considered an extension of the parent company. A PE has the same characteristics as a branch for tax and legal purposes.

### Registration procedure

1) Submit to the Chamber of Commerce the following documentation:

- Articles of Incorporation;
- Updated Certificate of Incorporation of the parent company;
- Power of attorney issued by the company designating a representative in the DR, including authorization for registering the branch and establishing the domicile in the DR.

**Note:** These documents need to be legal IDs in the country of origin and translated into Spanish by an official translator in the DR.

- Copies of the ID's or passports of the main shareholders and members of the board of directors.
- 2) Obtain Mercantile Registration Certificate at the Chamber of Commerce.
  - 3) Obtain Tax Identification from tax authorities by submitting the RC-02 Form.

It takes the same amount of time to incorporate a domestic company or to register of a branch in the DR, once the documentation is submitted to the DR authorities, and the same procedure is followed.

### Joint venture

Joint Venture is a contract between two or more persons who are classified as partners with an interest in one or various specific and transitional business operations, which shall be run by one of them in his name alone and under his personal credit, with responsibility for tabulating and dividing with stakeholders the gains or losses in the proportion agreed upon.

# Banking system



## Central bank

The Central Bank of Dominican Republic (Banco Central de la República Dominicana / BCRD) was created on October 9, 1947 by Law No. 1529. Its main office is located in Santo Domingo, with a regional office in Santiago de los Caballeros.

The Central Bank is an autonomous institution responsible for executing policies issued by its Monetary Board. It oversees currency, credit and foreign exchange controls and closely regulates and supervises the activities of banks and other financial intermediaries.

## Commercial banks

The banking system in the DR is well established, composed of a number of private institutions that are regulated by the Central Bank and the Superintendence of Banks.

## List of banks

### Central bank

- Banco Central
- Banco Central de la República Dominicana.

### Government-owned banks

- Banco de Reservas de la República Dominicana.

### Foreign banks

- Citibank, N.A.

- Banco de las Américas S.A. (Bancamérica)
- Banesco, S.A.
- Banco Promerica de la República Dominicana, C. por A.
- Scotiabank República Dominicana, S.A.

## Commercial banks

- Banco Popular Dominicano S. A.
- Banco BHD León S.A.
- Banco Santa Cruz, S.A.

- Banco Caribe Internacional, S.A.
- Banco BDI, S.A.
- Banco Vimenca, S.A.
- Banco López de Haro S.A
- Banco Múltiple Ademi, S.A.
- Banco Lafise, S. A.
- Banco Activo Dominicano, S. A.
- Banco Bell Bank, S.A.



# Labor and social security



## Labor supply

Employment statistics, according to the last National Workforce Survey, conducted every year by the Central Bank of the Dominican Republic, are as follows:

### Economically Active Population (1) by age group, 2017-2022

Age range	2017	2018	2019	2020	2021	2022
15-19	304,370	306,705	308,995	311,244	311,327	311,361
20-39	2,543,497	2,578,230	2,610,153	2,640,961	2,668,603	2,696,165
40-59	1,589,640	1,627,981	1,664,449	1,699,937	1,737,703	1,774,628
60 and more	353,562	368,186	383,525	399,419	416,250	433,548
<b>Total</b>	<b>4,791,069</b>	<b>4,881,102</b>	<b>4,967,122</b>	<b>5,051,561</b>	<b>5,133,883</b>	<b>5,215,702</b>

Source: Oficina Nacional de Estadística de la Dominican Republic (ONE).

## Labour law requirements

Below is a summary of the most important requirements of Labor Law no. 16-92, enacted on May 29, 1992.

### Wages and salaries

Minimum wage is the lowest salary that can be agreed upon in an employment contract and is established by the National Salary Committee, a division of the Ministry of Labor, and varies according to different types of businesses and their installations and/or holdings.

### Profit sharing

It is mandatory to share 10% of the company's profits with employees.

**Christmas bonus**

In the month of December, the employer is obliged to pay the worker a Christmas bonus consisting of one-twelfth of the usual salary earned by the worker in the calendar year.

**Fringe benefits**

Non-cash compensations given to employees (benefits in kind) are taxed at a 27% rate in 2022, levied on the employer. This compensation includes cars, housing, relocation expenses, club memberships, etc.

**Hours worked**

The maximum work day is 8 hours, not to exceed 44 hours a week. The work week must end at noon on Saturday. Any change in the end of a work week has to be approved by the Ministry of Labor. In the case of overtime, the employer must pay all overtime hours at 100% the regular hourly wage plus 35%, and an additional 15% for night-time hours.

**Paid holidays and vacations**

After each year of continuous employment, employees are entitled to receive 14 days of paid vacation. More vacation time may be granted upon agreement between the employer and the employee, but the additional vacation days must total less than one week.

**Termination of employment**

The employment contract can be terminated with or without legal liability for both parties. Termination

of the contract without legal liability can be done by mutual consent, under the terms of the contract or in cases where the contract cannot be fulfilled.

Termination of the contract with legal liability

- Dismissal without cause.
- Dismissal with cause.
- The worker’s resignation.

**Termination due to incapacity or death of the employee**

In the event of the employee’s death or disability, the employer shall pay the employee, or his/ her heirs, economic assistance in the amounts shown in the table below (Art. 82 DLC).

**Economic assistance**

Time employed	Assistance
3 to 6 months	5 days salary
6 to 12 months	10 days salary
Over 1 year	15 days salary per year

**Severance payment**

Severance payment varies depending on the duration of the employment contract as outlined in the Art.80 of the DLC. When applicable, any sums owed by the employer must be paid within ten days of the contract’s termination (Art. 86). Noncompliance entails a penalty of one days salary for every day of delay (Art. 86).

**Technical education tax**

Employers and employees are required to make payroll-based contributions to finance programs for technical instruction and training of workers. The contribution for employers is 1% of total monthly payroll and for employees 0.5% of bonuses received.

**Foreign personnel**

There is a limit on foreign personnel in a Dominican company, as the DLC requires that 80% of employees are Dominicans.

Wages received by the Dominican employees must amount to at least 80% of the company’s total payroll (Art.138 DLC).

Employees with exclusively executive or managerial duties and those in technical positions that cannot be filled by Dominicans are exceptions to these rules (Art. 138).

**Social security**

The Dominican Social Security System (SDSS for his acronyms in Spanish), established by Law no. 87-01 enacted on May 10, 2001, regulates and determines the mutual rights and interests of the state and the people with regard to a fund for protection against the risks of old age, disability, unemployment due to advanced age, illness, childhood disabilities and occupational hazards, and for provision of survivors’ and maternity benefits.

The SDSS is conducted and regulated by the National Social Security Board.

The system covers legal residents in the Dominican Republic (nationals and foreigners) and Dominicans residing abroad.



The administration of the system is the responsibility of two autonomous agencies, the Superintendent of Pensions (Art. 06) and Superintendent of Health and Labor Risks (Art.175).

Social security law no. 87-01 introduces three benefits:

- Old-age, disability and survivors insurance (Pensions),
- Family health insurance, and
- Occupational hazard insurance

The system covers legal residents in the Dominican Republic (nationals and foreigners) and Dominicans residing abroad.

For the purpose of calculating the contribution ceilings of the Family Health Insurance, the reported salary of the employee, with a ceiling of 20 national minimum salaries for pensions, ten national minimum salaries for Family Health Insurance and four national minimum salaries for occupational risk insurance.

As of March 2023, the amount of the National Minimum Wage is set at RD\$18,702.00, effective as of April 1, 2023. Likewise, the amount of the Minimum Wage is set at RD\$19,449.75 as of the first (1st) of February 2024, for the calculation of the maximum contribution ceilings of the Contributive Regime for Family Health Insurance, Occupational Risk Insurance and Old Age, Disability and Survival Insurance, based on the average of the four (4) classifications of the minimum wages of the non-sectorized private sector, established by the National Wage Committee of the Ministry of Labor, through Resolution No. 01-2023 dated March 17, 2023

**Pension**

The current applicable percentages for pensions are 2.87% (employee) and 7.10% (employer) of the employee’s taxable income. This contribution is mandatory. If the employee already contributes in another country (as a resident), a certificate of

contribution from the relevant Social Security Ministry should be issued and filed in the Dominican Social Security Ministry, in order to avoid double contribution.

**Family health**

The current family health rates are 3.04% (employee) and 7.09% (employer) of the employee’s salary subject to Social Security deductions.

**INFOTEP**

A payroll tax is imposed on employees and employers to finance programs for the technical instruction and training of workers. The contribution by employers is 1% of monthly payroll (after employee social security); for employees it is 0.5% of bonuses received.

**Occupational hazard**

This contribution is covered 100% by the employer and has four different rates depending on the risk category assigned by the Social Security Treasury. It takes into account the type of activity performed by the company and its personnel. The rates for each category are defined as follows:

Category	Percentage of salary
I	1.10%
II	1.15%
III	1.20%
IV	1.30%

# Accounting and audit requirements and practices



## Accounting

The accounting principles followed in the DR are those established by the Institute of Certified Public Accountants of the DR (ICPARD). Under Minute No. 2010- 004 (Resolutions 001 and 002), the ICPARD adopted the International Financial Reporting Standards (IFRS) in Spanish version for companies that are listed in the Superintendence of Securities or International Financial Reporting Standards for Small and Medium Size Entities (SMEs) for the remaining companies as the accounting standard for companies operating in the DR.

Regulated companies must follow the accounting standards established by their respective regulatory bodies.

The ICPARD established January 1, 2014 as the date by which all companies operating in the DR should be following the IFRS or IFRS for SMEs, to allow adequate time for companies to adopt the new principles.

Previously, some companies used a set of accounting principles that can be characterized as generally accepted accounting principles in the DR. They were in accordance with many aspects of the IFRS, but do not comply with all of their requirements.

New standards, amendments and interpretations issued by the International Accounting Standard Board (IASB) should be applied six months after they have been translated into Spanish.

## Requisitos de auditoría legal

Art. 33/Law no. 31-11 of February 10, 2011, which amends the Law No. 479-08, regulating commercial entities and limited companies, indicated that companies should be required to prepare audited financial statements if one of the following conditions is met:

- Borrows from financial institutions or financial intermediaries.
- Issues any type of security.
- Shows annual income more than 100 times the official minimum salary.

In addition, companies are required to elect Statutory Auditors (comisarios) to oversee management's actions on behalf of stockholders for S.A and optional for S.R.L.

## Books and records

- Accounting records should be kept in Spanish and, as specifically required by the Commercial Code, should include two bound books of account, a daily journal (libro diario) and an inventory book (libro de inventarios). These books should be kept for at least ten years.
- Accounting books/records could be kept in a variety of ways, by digital or manual means. These methods meet the Commercial Code's formal requirements.

## Accounting profession

Licenses to practice as Certified Public Accountant (Contador Publico Autorizado - CPA) are issued by the government's executive branch. Candidates must obtain a degree in accounting, auditing or finance from a Dominican university. The accounting profession is regulated by ICPARD.

## Auditing standards

The DR follows the International Auditing Standards issued by the International Auditing and Assurance Standards Board.



# Tax system



The Dominican Constitution states that the National Congress is empowered to levy taxes. Taxes will be collected and administered by the Dominican Government through the General Directory of Internal Taxes (“DGII”).

## Tax on corporate income

The DR follows a territorial concept for the determination of taxable income. The current corporate income tax rate is 27% in 2022.

Please note that the asset tax is an alternative minimum tax that is payable when it is higher than a company’s corporate income tax liability. See also asset tax in ‘Other Taxes’ section.

## Asset tax / Minimum tax

Asset tax/Law No. 557-05 imposes a 1% tax on total assets. Share investments in other companies, land in rural areas, immovable property pertaining to livestock and agriculture, and advance tax payments are excluded from this tax base.

Depreciation, amortization and reserves for bad debts are allowable deductions for application of the 1% tax on total assets.

This tax shall be filed and paid in combination with the Annual Corporate Income Tax Return (Form 1R-2) and as follows:

The asset tax is an alternative minimum tax.

- The income tax is allowed as a credit against the asset tax.
- If the income tax is greater than the asset tax, the obligation to pay the asset tax is cancelled and the income tax is paid instead.

## Minimum tax test

If the income tax is less than the asset tax, the

difference (in order to complete the asset tax value) shall be paid in two equal installments as follows:

- First installment shall be paid within 120 days of closing date.
- Second installment shall be paid within six months after first quote’s due date.

Companies may request a temporary exemption from the asset tax. For example, companies that require large capital (among other requirements established by General Ruling No. 3-06) may make such a request, which shall be submitted at least 90 days before the filing due date. The Internal Revenue Agency shall evaluate the merits of the request and approve or deny it as appropriate.

If the company has an income tax credit arising from excess advance payments, it may request that the refund of such balance be applied against the asset tax.

In the case of financial institutions, power generation and distribution companies, pension fund entities and stock brokerage companies, the tax is calculated based on the book value of fixed assets. According to rule no. 07-2007, construction companies may seek exemptions from the asset tax, provided that they meet the requirements established in this rule.

## Tax on branch income

The branch profits tax rate is 27% for 2022.

## Free Trade Zone Tax

Law 253-12 establishes a 3.5% tax rate on sales

of goods and services rendered by companies in free trade zones, traded in the local market with individuals and legal entities.

## Export free trade zones

Free trade zones are regulated by Law 8-90, which defines the special customs, tax and commercial rules that benefit entities classified as Free Trade Zone (FTZ). FTZs are expected to be in a specific geographical area within the DR, with special customs and tax controls, with the products introduced, stored or transformed in these areas to be located abroad, and the services provided therein to be rendered abroad.

The three types of free trade zones are as follows:

- Industrial or services free zones, located in specific non- metropolitan areas within the DR;
- Border free zones, located on the border of DR and Haiti; and
- Special free trade zones – those that must be located outside a FTZ park to be near the resources needed to manufacture goods.

The National Export Free Zone Council (CNZFE) is in charge of regulating and supervising the sector, and every 30 days the CNZFE Board meets to study and approve any operations in the Free Zone.

## Special FTZs and call centers

There are over 20 legal entities acting as call centers, classified as Special FTZ, most of which are located in cities, even though there are no legal provisions

for call center activities to obtain this classification. Special FTZs are only engaged in call center activities, in compliance with the FTZ Council requirement. No financial or other business operations different from call center activities are allowed to be performed.

However, Law 253-12 abolished Special FTZ classifications. Therefore, only FTZ located in specific geographical FTZ park will be eligible to apply for a classification under Law 8-90.

### Selective Consumption Tax

Indirect or selective consumption taxes apply to the purchase at the level of the manufacturer or import of certain goods and the provision of certain services.

Alcoholic products and cigarettes are subject to Selective Excise Tax including a specific ad-valorem tax, which are adjusted for annual inflation for the period from October 1 to December 31, 2022:

- Alcoholic beverages and beers will be paid a ten percent (10%) Selective Ad-valorem Tax (which is applied on the selling price to the final consumer according to price surveys conducted by the authorities for different market segments), plus a specific amount of RD\$700.42 for each liter of absolute alcohol content.
- Cigarettes: DOP 59.25 for a package of 20 and DOP 29.62 for a package of 10 plus 20% over the final consumer price.
- The specific tax is adjusted for inflation on a quarterly basis.

Other products subject to this tax are:

- 7.5% on the transfer of alcoholic beverages, applied on the sales price. Imports and transfers made by domestic manufacturers are subject to this tax.
- 20% on the transfer of tobacco products, applied on the sales price. Imports and transfers from domestic manufacturers are subject to this tax.
- 19.50% to 130% on the consumption of certain imported goods (listed in the law) which are considered non-essential.
- 10% of telecommunications services, including cable television.
- 16% on insurance services.
- 0.0015% on the value of checks or electronic transfers made through financial institutions (this tax does not apply to cash withdrawals or the use of credit cards).

### Value-added tax (VAT)

In the DR, VAT is known as Tax on the Transfer of Industrialized Goods and Services (ITBIS). The ITBIS is a value-added tax applied to the transfer and import of (movable) industrialized goods and the provision of services, with exemptions established by law for certain goods and services. The rate is 18%. On the other hand, a reduced rate of 16% applies to the following products: yogurt, butter, coffee, animal or edible vegetable fats, sugars, cocoa and chocolate.

### Exports

Zero percent rates apply to exports, including sales to free trade zones.

### Imports

18% VAT applies to imports, and it will also apply in the sale of goods to local market made by free trade zones.

### Real estate transfer tax

This tax is assessed at the basic rate of 3%.

### Other tax regimens

#### Simplified regimen

Taxpayers can apply for the simplified regimen, which consists of an estimated income tax payment, in accordance with rule no. 758-08. This regimen can be applied if at least one of the following conditions is met:

- Companies engaged in informal retail sales (groceries stores, markets, etc.).
- Companies engaged in wholesale and retail sales (groceries stores, markets, etc.) in which the inventory is normally acquired from domestic suppliers or identified as domestic suppliers based on their products.
- Companies engaged in manufacturing of goods sold to non-hosted in the simplified regimen and which purchase their materials in the domestic market.

In addition, the following conditions should be met:

- Purchases cannot exceed DOP 49,392,150.51 annually.



There is a simplified regime for income tax payments from casinos based on the number of tables in operation.

**Amounts from February 2023 up to January, 2024:**

Amount of tables	Amount
1- 15 tables	RD\$53,298
16- 35 tables	RD\$62,225
De 36 tables onward	RD\$82,966

Simplified regimen for companies engaged in the lottery business Law no. 139-11 of June 29th, 2011, establishes a single annual tax of DOP 58,076 for companies engaged in the lottery business. This tax should be paid on a monthly basis. This tax amount is indexed annually according to the Consumer Price Index (CPI) published by the Central Bank.

**Single annual tax from February, 2023 to January, 2024:**

Lottery business	DOP 58,076
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**Simplified regimen for companies engaged in the sports betting business**

Law no. 139-11 of June 29th, 2011, establishes that companies engaged in the sports betting business (bancas de apuestas) with establishments in Dominican territory should pay an annual tax based on their geographic location, to be paid monthly.

**Single annual tax from February, 2023 to January, 2024:**

Sport business (Metropolitan area	DOP\$373,349
The remaining	DOP\$ 248,899

**Income obtained by transportation entities**

Art. 274/ Law no. 166-97: Income obtained by foreign transportation companies through operations made from the Dominican Republic to other countries shall be presumed to be from Dominican sources and to be equivalent to ten percent (10%) of the gross amount of fares received for passengers and cargo. National transportation companies shall be subject to this presumption when the net income cannot be determined. Regulations shall establish pertinent provisions for the application of this provision.

**Income of insurance companies**

Art. 275/ Law no. 166-97: Foreign insurance companies, whether located within or outside the country, shall be presumed to have obtained a minimum net profit from Dominican sources equivalent to ten percent (10%) of the gross premiums charged by them to insure or reinsure persons, goods or enterprises located in the country. National insurance companies shall be subject to this presumption when the net income cannot be determined.

**International treaties to avoid double taxation**

The Dominican Republic has two international treaties to avoid double taxation with the countries of Canada, dated August 6, 1976 and Spain, dated July 25, 2014.

Both treaties covers all taxes imposed on total income, on total capital, or on elements of income or of capital, including taxes on gains from the alienation of movable or immovable property, taxes on the total amounts of wages or salaries paid by enterprises and taxes on capital appreciation.

**Corporate Deduction**

**Allowed deductions**

Art. No. 287 of the Dominican tax code specifies that all expenses incurred in order to obtain, maintain and preserve taxable income are considered deductible for tax purposes. Deductible expenses arising from company activities include the following:

**Interest**

Interest deductibility is limited to 2 criterion in which the most favorable one for Tax Authorities will apply:

- Deduction of interest paid abroad (or to resident physical persons) is limited to the amount resulting from the application of the quotient, resulting from 10% WHT and 27% corporate income tax to the interest expense.
- Relation between nominal rate and effective rate and its implications: Nominal and effective rates

are considered equivalent, unless tax resulting from the application of nominal rate is reduced by special tax incentives.

- Interest deduction limitation (Thin Capitalization): The deduction will be on the amount incurred but may not exceed the product of multiplying total interest amounts yielded during taxable period, times the value of three times the maximum annual average of accounting capital and the annual average of taxpayer's total interest bearing debt (excluding those in which its creditors with local residency or domicile and are subject to corporate income tax).

Note: In case interest recipient is subject to taxation abroad on said income, this limitation to interest deductibility will not apply, provided that the final nominal rate is equivalent or exceeds the applicable rate in the Dominican Republic. If said rate is inferior, interest deductibility limitation will apply with nominal rate abroad and local corporate income tax rate as benchmark.

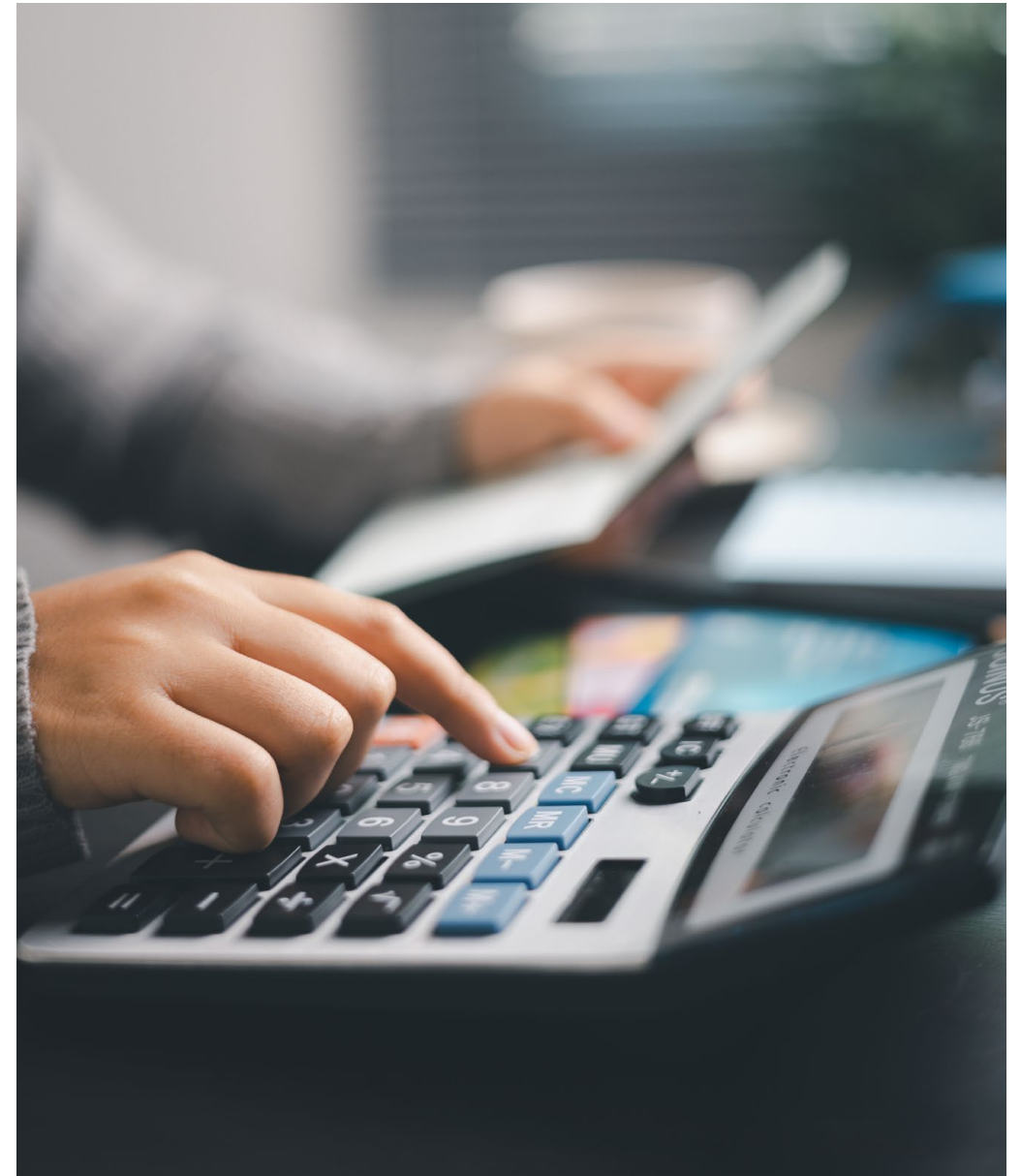
Average accounting capital is obtained from the sum of the period's initial and final balances, divided by two. This is comprised of the paid-in capital, legal reserve and retained earnings as reflected in the financial statements (excluding period's earnings effect). Taxes expenses deduction: Deductibility of taxes will proceed if these were paid for the generation of taxable income, are part of its cost and do not represent a credit or advanced tax.

### **Taxes**

In principle, taxes are not deductible, nor are interest and surcharges imposed on taxes, inheritances, donations, fringe benefits tax and penalties related to all taxes.

### **Insurance premiums**

All insurance premiums that cover risks on goods that generate profits should be deducted.



Carry forward losses by legal entities can be used to offset profits up to the fifth period following the period in which the losses were generated, with a maximum amortization of

**20%**

in each period

**Extraordinary damages**

Extraordinary damages suffered by goods that produce profits as a result of accidental causes (force majeure) are deductible.

**Depreciation and depletion**

Depreciation allowances on fixed assets are determined by the declining balance method at the following rates:

Class	%
Buildings	5
Furniture, fixtures, computers, vehicles, etc.	25
Other assets not specified	15

The fiscal book value is adjusted to the annual inflation rate.

**Net operating losses**

Carry forward losses by legal entities can be used to offset profits up to the fifth period following the period in which the losses were generated, with a maximum amortization of 20% in each period. For the fourth period the deduction allowed should not exceed 80% of the net taxable income. In the fifth period, the percentage is 70%.

**Group taxation**

When a person, company or group of persons, whether or not domiciled in the DR, conducts its activities through a company or business and other divisions associated, controlled or financed by them, the tax authorities may classify this as an economic unit. In this case, the Administration may contribute, assign or allocate

gross income, deductions, and credits between such organizations or businesses if it determines that such distribution, adjudication or assignment is necessary to prevent tax evasion or to clearly reflect the income of any such organizations or companies.

**Withholding tax (WHT)**

The WHT on payments to foreign corporations which are not permanently established in the DR, are as follows:

	Interest	Dividends	Royalties	Technical Assistance	Other
	%	%	%	%	%
<b>Non-treaty, basic</b>	10 <sup>(1)</sup>	10 <sup>(1)</sup>	27	27	27
<b>Treaty (Canada)</b>	27-18	0-10	18	27 <sup>(2)</sup>	27
<b>Treaty (Spain)</b>	0-10 <sup>(3)</sup>	0-10 <sup>(3)</sup>	0-10 <sup>(3)</sup>	10-27 <sup>(3)</sup>	10-27 <sup>(3)</sup>

- (1) This withholding is a sole and definite payment.
  - In the case of interests, this withholding tax rate applies to both financial and non-financial institutions.
  - Dividend distribution of shares is not subject to withholding tax.
- (2) Technical assistance withholding tax could constitute a tax credit if certain conditions are met.
- (3) It depends if you have a permanent establishment.

**Tax Incentives**

To promote the economy, the government constantly develops and amends incentive laws which benefit specific sectors. The main sectors that benefit from these incentives include tourism, industrial free trade zone operations, alternative energy, industrial renovation and modernization and border development.

Law No. 158-01 – Tourist Development and its amendment Law No. 184-02 Establishes tourism development for limited development poles and new poles in provinces and places of great potential, and creates the Official Tourism Promotion Fund.

Law 253-12 eliminated exemptions to resident physical/juridical persons that invest in tourism projects (directly to the promoters/developers) within the specified tourist development zones.

Law No. 57-07 – Incentives for renewable energy and special regime Establishes the basic regulatory framework, to be applied throughout the nation, to encourage and regulate development of and investment in projects that develop renewable sources of energy and seek to benefit from such incentives.

**Tax Reform Law 253-12 eliminates:**

- Income tax exemption granted to companies generating renewable energy approved by the National Power Board (“Consejo Nacional de Electricidad”).
- Financing incentives granted to social and cultural institutions that develop renewable energy resources for community use, and
- Reduces to 40% the credit on investment expense granted to self power producers 40% (previously 75%).

Law No. 392-07 – Industrial renovation and modernization. It creates a new institutional framework and a regulatory body to allow the competitive development of the manufacturing industry. It suggests policies and support programs that will encourage renovation and industrial innovation, with a view to greater diversification of national production and strengthening of the manufacturing chain through the promotion of industrial parks and districts and links to international markets.

Law No. 28-01 – Border development zone and its amendment Law No. 236-05. Creates Special Zones for Border Development in order to attract new investment and development projects to those zones, such as industrial, agroindustrial, construction, free zone tourism, metal and energy companies, etc. It declares a national interest in the promotion and protection of such companies, to encourage the development of the border region with Haiti. The border cities entitled to benefits under the law are: Pedernales, Independencia, Elías Piña, Dajabón, Monte Cristi, Santiago Rodríguez and Bahoruco.

Law No. 56-07 – Textile industry Declares the textile sector a priority sector for the nation and creates a national regulatory regimen for the sector.

Law No. 84-99 – Reactivation and promotion of exports. It reintroduces a system which supports exports, consisting of the following new mechanisms:

- 1) Refund of customs duties and taxes,
- 2) Simplified Compensation for customs duties, and
- 3) Temporary Admission for Investment.

Law No. 480-08 – Law of international financial zone in the DR. Defines a legal framework for the establishment of International Financial Zones in certain geographic areas of the DR, which will be opened for offshore, financial services and related activities for persons who are not DR residents and citizens whose primary residence is outside the DR.

Law No. 179-09 – Deduction of educational expenses from personal income tax. Allows natural persons except sole-owner business tax filers to deduct from gross income the costs incurred in the education of their self-employed direct dependents.

Law No. 502-08 - Promotion on books and libraries aims to:

- Establish principles and standards to promote the foundation of an integral and sustainable policy that will lead to equal access to books in the DR;
- Achieve well-integrated development of all sectors of the Dominican publishing industry; and build a National Library as a means to the nation’s social, educational, cultural, scientific, technological and economic development and its integration with the world.

Law No. 108-10 – Promotion of film activity and its amendment Law No. 257-10 promotes progressive, well-integrated and equitable development of the domestic film industry, and generally promotes film production in the Dominican Republic.

Law No. 171-07 – Retirees and annuitants of foreign sources. Establishes certain benefits and exemptions for foreign retirees and self-supporting foreigners who wish to reside permanently in the DR, provided that they meet the requirements and conditions set by this law.

Law No. 8-90 – Development of free trade zone export incentives. Grants free zone companies a 100% exemption from the following for a 15-year period: Income tax payment on:

- Construction and loans for registration and transfer of real estate through construction of the corresponding Free Zone Operator.
- Incorporation of commercial entities or their capital increase.
- Municipality tax payment.
- All import, tariff, customs rights and other taxes affecting raw material, equipment, construction material, buildings, office equipment, etc. for free zones.
- Tax on patent filings or patrimonies as well as tax on transfers of industrial goods and services (ITBIS / VAT).
- Custom duties related to:
  - Equipment and necessary tools for the installation and operation of affordable dining rooms, health services, medical assistance, nursery facilities and any other kind of equipment promoting the welfare of the workforce.
  - Transportation equipment, trucks, garbage collectors, and minibuses for employee transport to and from work centers, with the CNZFE's prior approval in each case.

### **Transfer Pricing Ruling**

Transactions between related parties in the Dominican Republic must meet the requirements initially established by the General Rule 04-2011 issued on June 2, 2011, further included in the Dominican Tax Code by Law 253-12. This rule provides additional regulations for transfer pricing dispositions included in Law no. 495-06, which were promulgated in 2006 and which introduced the concept of transfer pricing in the Dominican Republic.

Transfer Pricing regulations mainly adheres to the arm's length principle and are in line with the guidelines issued by the Organization of Economic Cooperation



and Development (OECD), referred to as the “OECD Guidelines”.

These regulations mainly establish the following:

- That the intercompany transactions subject to analysis include those that may take place with domestic and foreign related parties, as well as any transactions with tax havens or operating in free trade zones. The list of tax haven countries will be published by the Tax Authorities (Dirección General de Impuestos Internos - “DGII”), taking into consideration the OECD pronouncements on the matter.
- Also, even if there is no ownership, an exclusive relationship is considered a related party.

From the obligations perspective, a transfer pricing informative return (Declaración de Operaciones entre Partes Relacionadas - “DIOR”) is required to be filed no later than 60 days after the filing of the corporate tax return. If the transactions carried out during the fiscal year under analysis surpass the threshold of RD\$ 13,229,945.70, taxpayers should prepare a transfer pricing report, which will be provided to DGII upon request. This report shall include: a functional analysis, details and quantification of the intercompany transactions, method selected for the analysis, details on sources for all information, interquartile ranges (if applicable) and details on adjustments that may have been performed by the analysis.

As of the Decree 256-21, it is established that by 2023, the transfer pricing informative return must be filed in

conjunction with the corporate tax return. The transfer pricing report must be delivered 180 days after the filing of the transfer pricing informative return.

Companies, which its income surpasses the threshold of RD \$ 38,800,000,000 must submit a Country-by-Country Report in 2023, this obligation will be valid as long as the parent company or the company designated as the informant. Taxpayers who, with respect to the counterparties with which they carry out transactions, comply with the linkage assumption established in Numeral I of Article 2 of the Decree no. 78-14 and who are part of a multinational group, must submit a Master File Report in electronic format.

## Corporate Tax Compliance

### Returns

The corporate annual tax return must be filed and tax paid within 120 days after year-end. Tax authorities may allow extensions of up to 60 days, upon request. Tax returns are based on self assessment and must be filed on electronic forms supplied by the Internal Tax Department.

### Payment of tax

The balance of any tax due must be paid no later than the due date for filing the return. Corporations domiciled in the country and permanent establishment of foreign enterprises shall be obliged to make monthly advance payments of tax related to the period in progress.

## Year-end dates established by the Dominican Tax Code

Corporate bylaws should establish as year-end one of the following:

December 31, March 31, June 30 or September 30. Once the year-end is selected, any changes must be authorized by the Tax Authorities.

## Summary of taxation of natural persons

The Dominican Republic follows the territorial concept for the determination of taxable income. Dominican citizens are subject to income tax on their income from Dominican sources and from sources outside the Dominican Republic derived from investments and financial gains.

Foreign citizens will be subject to income tax on their Dominican source income from day one, regardless of where they receive payment for their work in the Dominican Republic. In addition, income from sources outside the Dominican Republic derived from investments and financial gains will be subject to the Tax on Income from the third year of being tax residents. For tax purposes, a person will be considered a resident of the Dominican Republic if they spend more than 182 days in the country during a fiscal year, continuously or not. Resident individuals are taxed at graduated rates ranging from 0% to 25%. In principle, non-resident individuals pay a fixed 25% tax, however, the tax authorities apply a progressive scale of 0-25%. See also Current Tax Rates in the Other Taxes section.

**Tax news**

To review updated information on taxes in the Dominican Republic, visit our web page, following the next link <http://www.pwc.com/ia/es/publicaciones/tax-news/index.jhtml>

**Gross income**

In general terms, all remuneration for personal services rendered in the Dominican Republic is subject to Income Tax. The employer is taxed at 27% (on a monthly basis), as established in the Tax Code on supplementary benefits. This additional compensation includes housing, housing and auto subsidies, among others. However, the calculation of the fringe tax on vehicles is different and would be the subject of a more detailed analysis.

**Individual deduction**

**Current deductions / credits**

The deductions for natural persons admitted include:

- Annual exemption of DOP 416,220 (DOP 34,685 per month) for 2022, adjusted annually for inflation and social security contributions.
- Deduction of education expenses for direct dependents / non-salaried employees.
- These expenses include education at the basic, intermediate, technical and university levels. The deduction is limited to 10% of the individual’s total taxable income.

**Individual tax compliance**

**Declarations**

Spouses are required to file separate tax returns covering their respective income.

Income from common property is included in the husband’s return, so it should not be included in the spouse’s return. Individuals are required to file a tax return (form IR-1) only when income from sources other than wages, salaries and bonuses (where the employer withholds the tax) is received, or when these are not recorded on the local payroll.

**Tax payment**

Employers are required to withhold tax on wages, salaries and bonuses on all earnings above DOP 416,220 per year (This amount is adjusted annually for inflation).

Christmas bonuses, Social Security contributions, dismissal and termination payments are not subject to Income Tax, according to the Labor Code.

**Current tax rates**

Individuals pay taxes on all earnings that exceed DOP 416,220 annually. The following scale is for the year 2021-2022. These figures will be adjusted for annual inflation.

Annual Scale	Tax Rate
Upt to RD\$416,220	Exempt
RD\$ 416,220.01 to RD\$ 624,329.00	15% of the surplus of RD\$416,220.01
RD\$ 624,329.01 to RD\$ 867, 123.00	RD\$31,216.00 plus 20% of the surplus of RD\$624,329.01
RD\$ 867,123.01 on above	RD\$79,776.00 plus 25% of the surplus of RD\$867,123.01



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