While the U.S. has been the main source of foreign direct investment inflows to the region, other countries are increasing their attention to our region, investing in infrastructure projects that generate new jobs and create optimal conditions to accelerate an economic recovery after the global health crisis.

Our countries are becoming aware and unlocking their potential for sustainable growth and present opportunities for investment in the environment by taking responsibility for better and more efficient use and management of the region’s resources.

This guide is designed to provide the necessary information and direction on regulatory compliance issues and considerations for opening a new business, establishing a branch of a multinational company, or any other type of investment in the region.

We hope this Doing Business gives you the stimulus to build a successful business in this region filled with opportunities. This publication is for general guidance only and should not be construed as professional advice. Should you require further information, our advisors will be happy to assist you on an individual basis.

Central America, Panama and the Dominican Republic is an attractive region for investment, where its countries have for years excelled in various sectors such as financial services, information and communications technology, manufacturing and logistics, tourism, among others.

In recent years, the promotion of foreign investment has been one of the main objectives for the governments of Central America, Panama and the Dominican Republic. One of the policies that has seemed to be effective is tax benefits, which many countries in the region have extended in order to attract investment, making us a promising destination for foreign investment to be considered post-COVID-19.
Foreword

Francisco A. Barrios González
Regional Tax and Legal Leader, Partner
PwC Interaméricas

Thank you very much for thinking of PwC Interaméricas and allowing us to guide your journey through Central America and the Dominican Republic.

It should be noted that this document was prepared as a general guide and that its content is subject to constant changes given the legal and economic environment of the different countries, so due to the complexity of some specific issues, we recommend you rely on the assistance and accompaniment of professionals from our team specialized in tax, legal and regulatory matters, who will gladly support you taking into consideration the specific circumstances and situations of the matter under study.

PwC Interaméricas is always pleased to offer guidance to all its clients and the business community in their critical decision to do business in the region of Central America and the Dominican Republic. In that unceasing interest of guiding such an important activity, it is an honor for us to publish the sixth edition of the business guide called Doing Business 2022, which contains relevant information that allows understanding the cultural aspects, the investment climate and the main issues to consider in legal, commercial and tax matters in the region that we have complemented with international standards and the best world practices. We cannot overlook the difficult crisis we have experienced over the past two years, but as ECLAC figures show, Central America and the Dominican Republic are expecting growth in the short term, a fact that enhances the region’s strengths and will surely allow us to quickly return to the trends we had in previous years.

Existing business opportunities position Central America and the Dominican Republic as a highly attractive region for investors from around the world, hand in hand with positive GDP growth rates and equally valuable prospects. In recent years prior to COVID-19, growth in our region exceeded the average for all of Latin America and the Caribbean; inflation remained in a controlled position, favored by the dynamism of credit to the private sector and the existence of significant government investment. Our geographic position is advantageous and continues to strengthen despite some adverse facts, supported mainly by the easy accessibility to the United States of America, the largest economy in the world and with whom we have a high flow of commercial activity. The region has also awakened the interest of Europe and Asia, with important economic players from those jurisdictions coming forward to open activities and approaching a valuable market.

PwC Interaméricas operates in six Central American countries and the Dominican Republic, through an objective program of unique contacts aimed at streamlining your business and providing world-class personalized services, positioning us as the first choice of trusted advisors in most of the negotiations that take place in our region and the world.

ECLAC figures show that Central America and the Dominican Republic are expecting growth in the short term, a fact that enhances the region’s strengths and will surely allow us to quickly return to the trends we had in previous years. We cannot overlook the difficult crisis we have experienced over the past two years, but as ECLAC figures show, Central America and the Dominican Republic are expecting growth in the short term, a fact that enhances the region’s strengths and will surely allow us to quickly return to the trends we had in previous years.

Existing business opportunities position Central America and the Dominican Republic as a highly attractive region for investors from around the world, hand in hand with positive GDP growth rates and equally valuable prospects. In recent years prior to COVID-19, growth in our region exceeded the average for all of Latin America and the Caribbean; inflation remained in a controlled position, favored by the dynamism of credit to the private sector and the existence of significant government investment. Our geographic position is advantageous and continues to strengthen despite some adverse facts, supported mainly by the easy accessibility to the United States of America, the largest economy in the world and with whom we have a high flow of commercial activity. The region has also awakened the interest of Europe and Asia, with important economic players from those jurisdictions coming forward to open activities and approaching a valuable market.

PwC Interaméricas operates in six Central American countries and the Dominican Republic, through an objective program of unique contacts aimed at streamlining your business and providing world-class personalized services, positioning us as the first choice of trusted advisors in most of the negotiations that take place in our region and the world.

Thank you very much for thinking of PwC Interaméricas and allowing us to guide your journey through Central America and the Dominican Republic.

It should be noted that this document was prepared as a general guide and that its content is subject to constant changes given the legal and economic environment of the different countries, so due to the complexity of some specific issues, we recommend you rely on the assistance and accompaniment of professionals from our team specialized in tax, legal and regulatory matters, who will gladly support you taking into consideration the specific circumstances and situations of the matter under study.
Once part of Spain’s vast empire in the New World, Honduras became an independent nation in 1821. After two and a half decades of mostly military rule, a freely elected civilian government came to power in 1982.

During the 1980s, Honduras proved a haven for anti-Sandinista forces known as “contras” fighting the Marxist Nicaraguan Government and was an ally of Salvadoran government forces fighting leftist guerrillas. In 2009 the Honduran Democratic model experienced a threat; however, the Honduran people demonstrated their patriotism, defending their preference for a free and democratic Republic.
Content

11 Overview of the country
Climate.
Population, form of government, language, currency, others
Education.

12 Political and legal system
Legal framework.
Main political parties.

13 The economy
Inflation.

15 Doing business
Government attitude toward foreign investment.
Free trade agreement and other agreements.
Exports.
Imports.
Direct Access to Key Markets.
Forms of foreign investment.
Destination of foreign investment.
Restrictions on foreign investment.
Establishing business in Honduras.
Business structures.
Branch and/or permanent establishment.
21 Labor and social security
Labor supply.
Labor law requirements.
Wages and salaries.
Christmas bonus.
14th Month bonus.
Fringe benefits.
Hours worked.
Vacations time.
Notice of termination of employment.
Severance payment.
Technical education contribution.
Foreign personnel.
Social security.

23 Accounting and audit requirements and practices
Accounting.
Statutory audit requirements.
Books and records.
Accounting profession.
Auditing standards.

24 Tax on corporate income
Corporate residence.
Net assets tax.
Capital gain tax.
Tax on branch income.
Sales tax.
Municipal taxes.
National Security Regulation.
Corporate deduction.
Allowed deductions.
Depreciation and depletion.
Net operating losses.
Group taxation.
Tax incentives.
Other incentives.
Corporate tax compliance. Returns.
Payment of tax.
Individual taxation summary.
Individual deduction.
Taxes and royalties.
Taxes on dividends.
Individual tax compliance.
Returns.
Transfer pricing.

Sustainable Development Goals in Central America and the Dominican Republic
Why invest in Honduras?
1. Post Covid-19 Economic Outlook
Internationally, economic activities continue to recover rapidly from the impact of the health crisis resulting from COVID-19 and other events that have hindered economic growth. In Honduras, during the 2020 period, as a result of the impact of COVID-19, the economy contracted by 9%, while the inflation rate was 4%.

Honduras possesses multiple advantages and the potential to obtain economic growth through its geographic location, its industrial base, constant exports carried out, among other factors. The president of the Central Bank, Wilfredo Cerrato, expressed that the entity estimates that economic growth this year is near the upper limit of the established range (3.2% to 5.2%) and is estimated to remain around the midpoint during 2022.

As for exports, the central bank forecasts that it will grow by 23.3% at the end of 2021, this being higher than the 10.1% forecasted in March and it is expected to taper to 3.5% in 2022 below the 4.6% predicted. It should be noted that the higher than anticipated growth in exports is due to the sale of products such as coffee and palm oil.

In terms of imports, the Central Bank of Honduras has expressed that it is expected to grow by 35% at the end of the year 2021 and for the year 2022 it is estimated that this will decrease from 4.5% to 2.6%.

Having covered the economic perspective in general after Covid-19, we will refer to the perspective on the greener economy in Honduras.

The green economy is an economic model committed to sustainable development that seeks to generate long-term social, economic and environmental benefits. Honduras is a signatory to several international treaties and conventions, including the United Nations Framework Convention on Climate Change. As is well known, countries around the world have joined concerns and efforts to keep the global temperature increase well below 2ºC.

The National Observatory of Climate Change for Sustainable Development of Honduras has stated: “In Honduras, it has been considered urgently necessary to organize the operation of all institutions directly or indirectly responsible for the protection, management and sustainable use of water, soil, forest and biodiversity resources, in order to make, more efficient, the resources and impacts of the actions that the country executes in compliance with international commitments and its own policies.

In this context, the Presidential Office of Green Economy (OPEV) has been recently created under Executive Decree Number PCM 065-2019. It is noteworthy that the actions of the OPEV will be based on the formulation and implementation of a Green Growth Policy, which opens multiple opportunities for the recovery, restoration and conservation of environmental and ecosystem resources and services of the country and the consequent improvement of the quality of life of the Honduran population.
Civil society hopes that with the establishment of the OPEV, the actions that will lead to a substantial improvement in the environmental profile of Honduras will be implemented in the field. The first article of Executive Decree Number PCM-065-2019 states that the Presidential Office of Green Economy (OPEV) is created as an entity that will be responsible for the implementation, compliance, monitoring and evaluation of international commitments related to the protection, management and sustainable use of natural resources so that these result in a better quality of life for the population in general.

Through this entity, the National Terrestrial Ecosystem Conservation Program (PNCET) was created for a period from 2021 to 2030 as an instrument of the REDD+ mechanism. The general objective of the PNCET is to contribute to the conservation of terrestrial ecosystems inside and outside protected areas, as a tool for reducing emissions from deforestation and increasing carbon capture capacity to mitigate climate change, guaranteeing the sustainability of ecosystem resources and services for the benefit of the population.

The goal is to reduce 50% of the annual gross deforestation observed in the 8 clusters prioritized in the PNCET and their equivalent CO2 emissions by 2030. By 2030, Honduras would be reducing 17,423,904.60 GHG emissions and by that same year, it can expect to have achieved revenues from the sale of emission reductions by reducing deforestation by 50% in the eight selected clusters, estimated at more than US$ 87 million.

2. Why invest in Honduras? Through this entity, the National Terrestrial Ecosystem Conservation Program (PNCET) was created for a period from 2021 to 2030 as an instrument of the REDD+ mechanism. The general objective of the PNCET is to contribute to the conservation of terrestrial ecosystems inside and outside protected areas, as a tool for reducing emissions from deforestation and increasing carbon capture capacity to mitigate climate change, guaranteeing the sustainability of ecosystem resources and services for the benefit of the population.

The goal is to reduce 50% of the annual gross deforestation observed in the 8 clusters prioritized in the PNCET and their equivalent CO2 emissions by 2030. By 2030, Honduras would be reducing 17,423,904.60 GHG emissions and by that same year, it can expect to have achieved revenues from the sale of emission reductions by reducing deforestation by 50% in the eight selected clusters, estimated at more than US$ 87 million.

2. Why invest in Honduras? 2, 3, 4

Honduras expects to close 2021 with a foreign direct investment (FDI) of US$605.6 million, above the figure of US$430 million predicted at the beginning of the year. There are different reasons that make investment in the Honduran market increasingly attractive. Here are the different advantages and opportunities for investment in Honduras.

Facilitating investment in Honduras

Tax benefits and legal security are part of these opportunities or competitive and comparative advantages offered by the country. In addition, Honduras enjoys a regionalized, solid, solvent and profitable financial system, and connectivity, port infrastructure, and highways, which position Honduras as part of the Central American Logistics Hub. Despite the destabilization caused by the global economic crisis due to the COVID-19 pandemic, these advantages remain unchanged. In addition, expectations of an economic reactivation in 2021 also promise a healthy and more solid macroeconomic environment.

Competitive advantages

- Laws that protect and promote foreign investment.
- An environment of legal guarantees and tax incentives that are highly favorable for investment.
- Honduras has a geographic location in the center of the continent, which allows it to function as a strategic point to trade with diverse markets, both north and south of the continent, the Caribbean region and markets beyond the hemisphere.
- Permanent tax exemption regimes.
- Proximity to the United States accelerates production cycle and delivery time (48 -72 hours by sea or 2 hours by air).
- Ample availability of high productivity labor and competitive wages.
- It has the youngest labor force in Latin America and produces more than 10 thousand bilingual school graduates per year, more than 10 thousand jobs have been opened in recent years in the service industry, especially call centers. More than half a million Hondurans have been trained in other sectors over the last 20 years in the textile and garment industry and in the assembly of electronic parts.
- Optimal physical and communication infrastructure.
- Rental and sale of buildings and facilities at competitive prices.
- The best and most efficient port facilities in Central America.
- 5 Honduran seaports are certified in accordance with International Maritime Organization (IMO) standards.
- The U.S. Coast Guard considers the country as a role model in Port Security. In addition, under the Secure Container Initiative (SCI), they have a customs office and border guard.

Tax Benefits

Honduras offers special regulations and tax incentives that allow investors to be more competitive.

The Free Zones Law allows the granting of Free Zone status in different parts of the national territory without distinction of nationality, to establish commercial and industrial enterprises, and related or complementary activities.

1 National Observatory of Climate Change for the Sustainable Development of Honduras. Source: https://onccds.org/honduras-crea-la-oficina-presidencial-de-economia-verde/
2 Information obtained from the National Investment Commission
4 Embassy of Honduras in Germany. Source: https://hondurasenalemania.com/new/como-exportar-a-la-ue/
Export Processing Zones and Free Zones: Most of the foreign companies are located in the Export Processing Zones and Free Zones, and include companies of high world prestige (Fortune 500). Among these companies are those engaged in the textile and apparel industry, the manufacture of disposable garments for the medical industry, or sporting goods. In addition, there are companies engaged in electronics and automotive parts assembly, agribusiness-industrial processing, business outsourcing services (call centers, BPOs), and wood furniture manufacturing.

Companies located within these zones benefit from the following advantages:

- Unrestricted currency conversion.
- Free importation of all machinery, raw materials and supplies.
- Clearance of inbound and outbound shipments in less than one day with minimal documentation.
- 100% foreign property clearance.
- 100% sales tax, corporate tax and income tax exemption.
- Unrestricted repatriation of profits and capital at any time.
- Ample availability of productive labor at a competitive cost.
- Wide variety of raw materials such as textiles, timber, fruits, sugar, vegetables, meats, seafood, leather, coffee, cocoa and spices, available for processing. In 2010, the Investment Incentive and Protection Law was passed, creating the legal framework to facilitate the arrival of foreign capital. These incentives include tax exemptions under certain circumstances for companies investing in the country.

In 2010, the Investment Incentive and Protection Law was passed, creating the legal framework to facilitate the arrival of foreign capital. These incentives include tax exemptions under certain circumstances for companies investing in the country.

**Tax incentives**

3. Law of Relief to the productive sector and workers before the effects of the pandemic caused by the Covid-19 (Section One of the extension of terms relief as to tax obligations), Decree No. 33-2020 dated April 3, 2020.
5. Decree No. PCM 030-2020 published on April 9, 2020, containing the declaration of support to the food production and food agribusiness sector as a national priority, measures to ensure food sovereignty and security are decreed.

**Trade Agreement**

Honduras has trade agreements with more than 40 countries around the world giving it access to 1.5 billion consumers.

**Multilateral Agreements**:

- Honduras is an original member of the World Trade Organization (WTO), in accordance with an agreement signed on January 1, 1995, which grants most favored nation (MFN) treatment to its trading partners.
- Honduras is a member of the Group of Small and Vulnerable Economies (SVEs) and the so-called G-33 group of countries, co-sponsoring proposals aimed at obtaining effective special and differential treatment and other flexibilities in line with Honduras’ development needs.

**Regional Trade Agreements (Free Trade Agreements)**

1. Central America-Dominican Republic Free Trade Agreement
2. Central America-United States-Dominican Republic Free Trade Agreement (CAFTA-DR)
3. Central America-Chile Free Trade Agreement
4. Honduras, El Salvador and Chinese Taipei Free Trade Agreement
5. Central America-Panama Free Trade Agreement
6. Free Trade Agreement between El Salvador, Guatemala, Honduras and Colombia
8. Free Trade Agreement Honduras - Canada
9. Free Trade Agreement Honduras - Peru
10. Central America - Republic of South Korea Free Trade Agreement
11. Association Agreement between the European Union and Central America
12. Trade Agreement between Central America and the United Kingdom
13. Partial Scope Agreement between Honduras and Cuba

**Adherence to plurilateral agreements**:

Honduras finalized the Customs Union with Guatemala in 2017. The joint GDP of both nations reaches $72,781 million US dollars and it is expected that with the incorporation of El Salvador, the eighth largest economy in Latin America will be created, forming the Customs Union of the Northern Triangle of Central America.
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.

Educación

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 3 years).
- 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.

There are private schools and colleges as well in the country’s main cities. In the northern region there are approximately 310 private bilingual schools. Nationwide there are 12 private universities.
## Legal framework

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

<table>
<thead>
<tr>
<th>POLITICAL AND LEGAL FRAMEWORK</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EJECUTIVO</strong></td>
</tr>
</tbody>
</table>
| Exercised by the: | President | Unicameral Congress | Supreme Court of Justice (*)
|  |  |  | Courts of appeal
|  |  |  | District courts
|  |  |  | Small claims courts
|  |  | (*) The highest of all judicial bodies. |
| Composed of: | 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 justices. The number of Courts of Appeal, District Courts and Small Claims Courts, and the number of judges sitting on them are determined by law. |
| Elected or appointed by: | 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 judges are appointed by the National Congress. |

The last presidential and congressional elections were held on November 2017 and the representative of the National Party, Juan Orlando Hernández, was elected for the second consecutive time as president. The next elections will be held in November of this year (2021).

### Main political parties

<table>
<thead>
<tr>
<th>Party</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>PNH</td>
<td>National Party (Partido Nacional de Honduras)</td>
</tr>
<tr>
<td>PLH</td>
<td>Liberal Party (Partido Liberal de Honduras)</td>
</tr>
<tr>
<td>PINU–SD</td>
<td>Social Democrats (Partido Innovación y Unidad-Social Demócrata)</td>
</tr>
<tr>
<td>DC</td>
<td>Social Christians (Partido Demócrata-Cristiano de Honduras)</td>
</tr>
<tr>
<td>UD</td>
<td>Democratic Unification (Partido Unificación Democrática)</td>
</tr>
<tr>
<td>PAC</td>
<td>Anti-Corruption Party (Partido Anti Corrupción)</td>
</tr>
<tr>
<td>LIBRE</td>
<td>Freedom and Refoundation Party</td>
</tr>
<tr>
<td>AP</td>
<td>Patriotic Alliance (Alianza Patriótica)</td>
</tr>
<tr>
<td>FAPER</td>
<td>Broad Front Political Electoral in Resistance (Frente Amplio Político Electoral en Resistencia)</td>
</tr>
<tr>
<td>VAMOS</td>
<td>Go Solidarity Movement (Vá Movimiento Solidario)</td>
</tr>
</tbody>
</table>
The economy in Honduras has continued to grow slowly but the distribution of wealth remains very polarized with average wages remaining low. Economic growth in the last year has averaged 5.2%. 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.

| Source: Banco Central de Honduras (*) Cifras aproximadas. |

<table>
<thead>
<tr>
<th>GDP (US$ m)</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal GDP (US$ m)</td>
<td>20,844(*)</td>
<td>18,550(*)</td>
<td>22,98(*)</td>
<td>24,021(*)</td>
<td>25.09(*)</td>
<td>23.83(*)</td>
</tr>
<tr>
<td>Real GDP growth (%)</td>
<td>3.6</td>
<td>3.6</td>
<td>3.4</td>
<td>3.5</td>
<td>2.7</td>
<td>-9.0</td>
</tr>
<tr>
<td>Prices and financial indicators</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exchange rate Ps: US$ (end-period)</td>
<td>22.37</td>
<td>23.5</td>
<td>23.8</td>
<td>24.51</td>
<td>24.82</td>
<td>24.32</td>
</tr>
<tr>
<td>Current account (US$ m)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goods: exports fob</td>
<td>8,226.0</td>
<td>7,959.5</td>
<td>8,655.7</td>
<td>8,643.6</td>
<td>8,787.8</td>
<td>7,683.4</td>
</tr>
<tr>
<td>Goods: imports fob</td>
<td>11,175.2</td>
<td>10,558.98</td>
<td>11,408.8</td>
<td>12,461.5</td>
<td>12,148.6</td>
<td>10,241.3</td>
</tr>
<tr>
<td>Family Remittances in Balance Transfer (US$ m)</td>
<td>3,649.80</td>
<td>3,847.30</td>
<td>4,305.3</td>
<td>4,759.9</td>
<td>5,384.5</td>
<td>5,573.1</td>
</tr>
<tr>
<td>Current account Deficit in the Balance of Payments</td>
<td>979.9</td>
<td>-682.7</td>
<td>-288.2</td>
<td>-1,581.8</td>
<td>-596.4</td>
<td>673.5</td>
</tr>
</tbody>
</table>
The economy

Honduras is the fastest growing remittance destination in the region with inflows representing over a quarter of GDP, equivalent to nearly three-quarters of 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 as a means of attracting and maintaining investment.

Inflation
For August 2021, the Consumer Price Index (CPI) obtained a monthly variation of 0.39%, a result that is mainly due to the increase in the prices of some food, clothing, footwear, furniture, household items and recreation. With this result, interannual inflation stood at 4.48%; meanwhile, accumulated inflation so far this year reached 2.54%.

According to their contribution to monthly inflation, four items had the greatest impact: “Food and Non-Alcoholic Beverages” and “Clothing and Footwear” with 0.11 percentage points (pp) each; and “Furniture and Household Items” and “Recreation and Culture” with 0.06 pp each, totaling 87.2% of monthly inflation. Additionally, positive contributions were registered from the headings “Accommodation, Water, Electricity, Gas and Other Fuels” with 0.04 pp, “Hotels, Cafeterias and Restaurants” with 0.02 pp and “Personal Care” with 0.01 pp. Transportation” compensated with a negative contribution of 0.02 pp.
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. The Law of the Bay Islands Free Zone and the Law for the Promotion and Protection of Investments were passed recently, with highly favorable incentive packages. Law for Promotion of Electricity Generation with Renewable Resources and its fiscal incentives were recently amended as well.

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. However, the government has made significant improvements in streamlining procedures and eliminating a series of administrative obstacles involved in the process of establishing a company through the adoption of new legislation.

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. The Law of the Bay Islands Free Zone and the Law for the Promotion and Protection of Investments were passed recently, with highly favorable incentive packages. Law for Promotion of Electricity Generation with Renewable Resources and its fiscal incentives were recently amended as well.

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. However, the government has made significant improvements in streamlining procedures and eliminating a series of administrative obstacles involved in the process of establishing a company through the adoption of new legislation.

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.

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.
Doing Business in Honduras

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.

Exports
FOB (Free on Board) exports of general merchandise stood at $4,214.7 million ($4,150.6 million the previous year), stimulated by the dynamism in exports of products such as coffee, palm oil, cultivated shrimp, legumes and vegetables, bananas, melons and watermelons, among others.

This is a result of the slump in external demand derived from the measures adopted by the main trading partners in order to avoid the spread of Covid-19.

At the end of the 2020 period, exports of goods for transformation (maquila) totaled $3,391.9 million, i.e., reflected as 25.0% less than what was accounted for in the 2019 period ($1,126.5 million).

Imports
Honduras depends heavily on imports of machinery and transportation equipment, industrial raw materials, chemicals, fuels and food; while exports consist mainly of coffee, shrimp, bananas, palm oil, fruit, lobster and timber. The country’s main trading partners are the USA, Guatemala, Mexico and Colombia.

In 2020, CIF (Cost, Insurance and Freight) imports of final imports decreased by $157.5 million, which is reflected as 20.9% compared to the CIF of 2019 in which a total of $753.5 million was recorded.

Given the situation exposed above in relation to COVID-19, we see identified that the main goods that experienced decreases during July are: medicines with a year-on-year reduction of 18.1%, which in monetary terms represents a decrease of $7.9 million compared to the $43.8 million declared in 2019, in turn, this merchandise is mostly supplied by Mexico and El Salvador.

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.
Doing Business in Honduras

- Free Trade Agreement between Central America and Chile.
- Free Trade Agreement between Honduras, El Salvador and Taiwan.
- 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. There, large industrial companies receive special benefits (duty free, tax-free, etc.). The Government is also promoting public/private alliances and passing legislation to this end and has created the Office for the Promotion of Public/Private Alliances (COALIANZA), which has already awarded several projects.

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.

Forms of foreign investment

Congress has enacted a new law for the promotion and protection of foreign investment. Under this law, foreign investment is defined as “any transfer of capital that comes from abroad to Honduras, intended for the production of goods and/or services or for the generation of any kind of legal profit.”

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.

Employment Zones and Economic Development

(“ZEDE” for its acronym in Spanish)

In 2013, the Government of Honduras approved Decree No. 120, which establishes ZEDEs under Honduran law. The legislation aims to “facilitate conditions that allow the country’s insertion into world markets under highly competitive and stable rules”. Honduras is the first nation in Latin America to pass legislation regarding special development zones.

The ZEDE have legal personality, are authorized to establish their own policies and regulations, created with the purpose of accelerating the fulfillment of the goals of the National Plan and facilitating conditions that allow the country’s insertion in world markets under highly competitive and stable rules. They may be created for the purpose of development:
- International Financial Centers
- International Logistics Centers
- International Business Courts
- Autonomous Cities
- Special Economic Zones
- Areas subject to a special legal system
- Special Investment Districts
- Renewable Energy Districts
- Special Agro Industrial Areas
- Special Tourist Areas
- Social Mining Areas and
- Social Forest Areas

The ZEDE are subject to the Constitution of the Republic and the national government in matters related to sovereignty, application of justice, territory, national defense, foreign relations, electoral issues, issuance of identity documents and passports, as established in Article 39, in its seventh paragraph of the Constitution of the Republic.
Any combination of these Attributes:

- They have legal personality;
- They are subject to a special tax regime;
- They can contract obligations as long as they do not require the guarantee or the joint guarantee of the Government;
- They can celebrate contracts until the fulfillment of their objectives during several governments;
- They enjoy functional and administrative autonomy that must include the functions, powers and obligations that the Constitution and the laws confer on the municipalities;
- They have domestic courts that are part of the judiciary but operate autonomously and independently and under the Common Law;
- ZEDE’s have an independent financial regime, are authorized to use their financial income exclusively for their own purposes and they transfer resources to the authorities of the rest of the country;
- They are required to achieve fiscal balance, avoid deficits and keep the budget in line with the growth rate of their gross domestic product;
- They must have an independent tax system and should be guided by a low tax policy;
- There will be no exchange control policies within the ZEDE;
- The payment methods circulating within them must be freely convertible.

The special tax regime of the ZEDE authorizes them to create their own budget, the right to collect and administer their taxes, to determine the rates they charge for the services they provide, to enter into all types of agreements or contracts until their objectives are met over time, even if it is over several terms of government.

The first ZEDE in Honduras was approved in the last months of 2018 under the name of “Charter of the Village of North Bay ZEDE”. For more information you can visit the website www.https://pzgps.hn/.

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).

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.
Doing Business in Honduras

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
• Register the company at the Public Commercial Registry Office.
• Issue shares in accordance with the shareholders’ investment.
• Submit before the Chamber of Commerce.
• The Articles of Incorporation.
• The list of shareholders and a copy of their ID’s or Passports.
• Minutes of the First General Shareholder’s Meeting.
• Obtain the Taxpayer’s Identification Number from the Tax Authority.
• Obtain the operating permit at the City Hall.

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 statues, if any.

Once all the documentation is filed as required, 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.
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 Superintendent of Banks) 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
Banco Central
• Banco Central de Honduras

Banca Comercial
• 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 supply

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>Employed</th>
<th>Unemployed</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>3,364,687.8</td>
<td>3,243,876.7</td>
<td>120,811.1</td>
</tr>
<tr>
<td>2013</td>
<td>3,628,740.8</td>
<td>3,487,008.8</td>
<td>141,732</td>
</tr>
<tr>
<td>2014</td>
<td>3,655,099.0</td>
<td>3,460,900</td>
<td>194,200</td>
</tr>
<tr>
<td>2015</td>
<td>3,935,335.4</td>
<td>3,647,600</td>
<td>287,735</td>
</tr>
<tr>
<td>2016</td>
<td>3,944,800</td>
<td>3,653,800</td>
<td>291,000</td>
</tr>
<tr>
<td>2017</td>
<td>4,093,474</td>
<td>3,819,978</td>
<td>273,496</td>
</tr>
<tr>
<td>2018</td>
<td>4,336,378</td>
<td>4,089,204</td>
<td>247,174</td>
</tr>
<tr>
<td>2019</td>
<td>9,151,940</td>
<td>7,959,523</td>
<td>240,533</td>
</tr>
<tr>
<td>2020</td>
<td>9,362,596</td>
<td>8,181,302</td>
<td>245,726</td>
</tr>
</tbody>
</table>

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 or RIT are also regulated by this Code.

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.

Vacations time
• Vacations are determined as follows:
  • After 1 year of continued service, 10 consecutive working days.
  • After 2 years of continued service, 12 consecutive working days.
  • After 3 years of continued service, 15 consecutive working days.
  • After 4 or more years of continued 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.

Fringe benefits
The employer has the option to provide some fringe benefits to its employees and executives; in general, this type of benefits will be taxable for the employee 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.
Severance payment
The severance payment is generally payable in case of unjustified dismissal, at one month’s salary per year of uninterrupted service up to 25 years. The law specifies the causes of “just” dismissal.

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
There is a restriction on foreign personnel in Honduran companies, as the Constitution stipulates that at least 90% of the employees have to be Hondurans. The wages received by Hondurans must amount to at least 85% of the total payroll (Section 137 Constitution of Honduras). There are some exceptions to the rule in specific cases.

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).

Under the new legislation Framework Law of the Social Security System, employees pay 2.5% of their gross monthly salary and employers 5.0% for sickness and maternity (EM). In addition, employees pay 2.5% of their monthly salary and employers contribute 3.5% for Disability, Old Age and Death (IVM).

The provisions provide that for the calculation of these percentages must be considered the first HNL 8,508.54 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. Nonetheless, the Framework Law of the Social Security System states that all the new employer contributions and new individual contributions that may occur in the Private Contributions Regime (RAP) must be voluntary.
Accounting and audit requirements and practices

Accounting

Honduras approved a new law for auditing and accounting principles establishing that, the general applicable principles must comply with the International Principles for Financial Information and International Auditing Principles. 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. These rules have taken effect since January 2012.

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

A summary of the accounting principles that may affect the drafting of financial statements in Honduras is as follows:

• The financial statements should be prepared based on the Honduran Accounting Norms.
• The amounts and notes in the financial statements should be expressed in the local currency (Lempira). However, for financial situations and operations results, companies may have alternative registers adjusted to another currency.
• The financial statements should be presented annually and in a similar form as 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.

Audited financial statements are normally required for companies and partnerships, banks, insurance companies and retirement funds (AFPs).

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

The Honduran Constitution states that the National Congress is the only body empowered to levy taxes. Such taxes will be collected 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 1,000,000,000,000.00). 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 5% solidarity contribution must be added.

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
The net assets tax applies to the total value of assets in the balance sheet less reserves for accounts payable and any accumulated depreciation allowed under the income tax law and other deductions allowed by law. It is a 1% tax of the net asset value of the company. The law also allows a special deduction of HNL 3,000,000. The net assets tax is in lieu of the corporate income tax when the corporate income tax is less than the amount due for net asset tax. Non-resident companies do not apply for the Net Assets Tax.

Capital gain tax
A 10% tax is applied on capital gains, regardless of the person's residence status. This fee is reduced to a 4% for the person or company that benefits from a Special Tax Regime of Touristic Free Trade Zone.

In the case the sale of goods or property rights and values is performed by a non-resident, the acquirer must proceed to withhold 2% of the value of the transfer of property on account of the capital gain tax in order to pay it to the tax authorities within the following ten days of the transaction. Additionally, the recently approved Law for Public Finances establishes that a 10% fee is to be withheld on all State payments arising from the sale of goods, damages and rights. The law also amends the 15% tax rate applicable to some PCS, cellular, internet broadband, cable TV and energy services, depending on the amount of consumption billed to the supplier broadening such rate to all users of telecommunication services, including mobile phone, TV subscription and internet access services except fixed phone service.

Tax on branch income
Branch income is subject to income tax at the rates applicable for corporate income. Before May 12, 2010 there was no withholding tax on dividends distributed in the country or abroad.

Currently, there is a 10% withholding tax rate on dividends.

Sales tax
Sales tax is charged on all sale and purchase transactions of goods and services made in Honduran territory. The general tax rate was 12% and it applied to most goods and services, with the exception of machinery and equipment, basic grain, pharmaceutical products, raw material for the production of non-taxable goods, petroleum products, school supplies and insecticides, among other products. However, from time to time, the Honduras Government performs a review process of the sales tax exempted products and services. The last review process resulted from a Law approved by the National Congress on 30 December 2013 and enforced on 01 January 2014. This new law determined a special contribution of 3% on net sales of goods and services made on local market by individuals or corporations which increased the general tax rate from 12% to 15% and modified some of the sales tax exempted products and services. This law also amends the 15% tax rate applicable to some PCS, cellular, internet broadband, cable TV and energy services, depending on the amount of consumption billed to the supplier broadening such rate to all users of telecommunication services, including mobile phone, TV subscription and internet access services except fixed phone service.
Doing Business in Honduras

The import and sale of beer, other alcoholic beverages, cigarettes and other tobacco products are subject to 15% sales tax.

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

Municipal taxes
Companies doing business in Honduras are also subject to the rules and regulations of the respective municipality. Tax obligations are regulated by the “Plan de Arbitrios”. 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
National Security Regulation was issued by the Secretary of Finance on 25 January 2012 to determine the application of the norms established within the National Security Law.

Taxation was established as follows:

• 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 y 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.
## Tax system

The following table summarizes other significant taxes:

<table>
<thead>
<tr>
<th>Type of taxes</th>
<th>Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customs duties</td>
<td>1% al 20%</td>
</tr>
<tr>
<td>Payroll taxes or contributions, paid by employers</td>
<td>Social security 8.5% with a ceiling cap of HNL 9,849.70 INFOP 1% RAP/FOSOVI 1.5%</td>
</tr>
<tr>
<td>INFOP 1%</td>
<td></td>
</tr>
<tr>
<td>Real estate tax; imposed on companies and individuals owning real estate</td>
<td>L.1.5 to L.5 per every thousand</td>
</tr>
<tr>
<td>Calculated on the cadastral value of the real estate (refer to Municipality Tax Plan)</td>
<td>Various</td>
</tr>
<tr>
<td>Up to HNL 500,000</td>
<td>0.0003%</td>
</tr>
<tr>
<td>From HNL 500,001 to HNL 10,000,000</td>
<td>0.0004%</td>
</tr>
<tr>
<td>From HNL 10,000,001 to HNL 20,000,000</td>
<td>0.0003%</td>
</tr>
<tr>
<td>From HNL 20,000,001 to HNL 30,000,000</td>
<td>0.0002%</td>
</tr>
<tr>
<td>Over HNL 30,000,000.00</td>
<td>0.00015%</td>
</tr>
</tbody>
</table>
**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.

In general, all expenses incurred in the generation of taxable income are considered deductible for income tax purposes. However, there are some “non-deductible” expenses, even if incurred in the generation of 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 computed using the straight-line method. Companies may obtain authorization from the tax authorities to use a different depreciation method. However, after a company selects a depreciation method, it must apply the method consistently thereafter. The following are the applicable straight-line method rates for some common assets.

<table>
<thead>
<tr>
<th>Class</th>
<th>Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>2.5 to 10</td>
</tr>
<tr>
<td>Plant and machinery</td>
<td>10</td>
</tr>
<tr>
<td>Vehicles</td>
<td>10 to 33</td>
</tr>
<tr>
<td>Furniture and office equipment</td>
<td>10</td>
</tr>
<tr>
<td>Tools</td>
<td>25</td>
</tr>
</tbody>
</table>

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.

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 were reformed on 04 December 2012 by Decree 182-2012 and some tax rates were increased from a 10% to a 25%. The percentages are detailed as follows:

<table>
<thead>
<tr>
<th>Fuente de Ingresos</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from Movable Property and Real Estate.</td>
<td>25</td>
</tr>
<tr>
<td>Royalties from mining operations and other natural resources.</td>
<td>25</td>
</tr>
<tr>
<td>Salaries, commissions, or any other remuneration for rendering services within national territory or abroad.</td>
<td>25</td>
</tr>
<tr>
<td>Income or obtained profits by foreign companies through subsidiaries, affiliates, agencies.</td>
<td>10</td>
</tr>
<tr>
<td>Income, profits, dividends or any other profit sharing, of individuals or companies.</td>
<td>10</td>
</tr>
<tr>
<td>Royalties.</td>
<td>25</td>
</tr>
<tr>
<td>Interest on commercial operations, bonds, credit instrument and other type of obligations.</td>
<td>10</td>
</tr>
<tr>
<td>Income from operations of airplanes, ships and vehicles.</td>
<td>10</td>
</tr>
<tr>
<td>Income from operations of telecommunication companies.</td>
<td>10</td>
</tr>
<tr>
<td>Insurance and bonds premium.</td>
<td>10</td>
</tr>
<tr>
<td>Income obtained from public shows.</td>
<td>25</td>
</tr>
<tr>
<td>Films and video tapes for cinema, TV, video clubs and cable TV.</td>
<td>25</td>
</tr>
<tr>
<td>Any other income not mentioned previously.</td>
<td>10</td>
</tr>
</tbody>
</table>
Tax system

Tax incentives
Companies operating under a special tax regimen 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.
• Law for the Promotion and Protection of Investments (“Ley para la Promoción y Protección de Inversiones”). There are some income tax rate reduction benefits for companies with investment projects which are eligible under this law.

Other incentives
Maquila Industries
Special benefits exist for industries that import semi-manufactured materials for assembly in Honduras and export finished products. Benefits consist of duty-free imports of raw materials for subsequent exports as manufactured products. Machinery for these industries may also be imported duty-free.

Corporate tax compliance
The tax authority is known as “Servicio de Administración de Rentas-SAR” (before Dirección Ejecutiva de Ingresos-DEI) in Honduras. It is responsible for the administration of the tax and customs system. Taxpayers may request approval from the SAR regarding direct or indirect taxes (e.g. accelerated depreciation method on new assets acquired by corporations with monetary activities requiring constant technological update, higher installed production capacity and productive re-conversion processes, in order to maintain and strengthen their competitive advantage).

The statutory tax year runs from 1 January through 31 December. However, taxpayers may apply to
use a special tax year requesting an authorization from SAR. Companies must file and pay income tax annually. Mandatory advance installments are payable each quarter, based on the income tax paid in the preceding tax year.

Returns
The corporate Annual Tax Return must be filed and paid by April 30th each year. In cases of special tax years previously notified to SAR, Annual Tax Return must be filed and paid within the following 3 months of close of fiscal year. Tax returns are based on self-assessment and can be filed on electronic forms or paper forms supplied by the Tax Authority.

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 are obliged to make quarterly advance installment payments of tax related to the period in progress, which can be used as credit in the final tax return.

Individual taxation summary
Since 01 January 2017, Honduras follows a territorial concept for the determination of taxable income. Honduran residents are subject to Income Tax when deemed from Honduran sources. Non-residents are subject to Income Tax when deemed from Honduran sources. For tax purposes, an individual will be considered a resident in Honduras if he/she spends more than 90 days in the country during one fiscal year, continuously or not.

Resident individuals are taxed at progressive rates ranging from 0% to 25%. Currently, non-resident individuals are taxed at a flat rate that varies from 10% to 25% depending on the type of service rendered.

Individual deduction
Current deductions / credits
The personal deduction allowed:
• Yearly exemption of HNL.40,000.
• Donations to legally recognized state institutions, municipalities’ welfare, educational and sport institutions.

Taxes and royalties
All royalties paid to non-residents are subject to 25% withholding income tax.

Taxes on dividends
Honduran resident individuals and non-resident individuals or companies are subject to 10% withholding tax on cash dividends. The income from dividends is considered “other income” and thus non-taxable under the general income tax rates.

The Law for Public Finances approved on 30 December 2013 enacted on 01 January 2014, considers Honduran resident individuals and companies to be subject to this tax as well.

Individual tax compliance
Returns
Spouses are required to file separate income tax returns covering their respective income. Individuals are required to file a personal tax return only when income is from sources different from the salaries, wages and bonuses (where the employer withholds tax) is received, or when these are not enrolled in local payroll.

Tax payment
Employers are required to withhold income tax on salaries, wages and bonuses. Christmas bonus and 14th month of salary are exempt when they do not exceed ten minimum salaries. Social Security contributions, severance and termination payments are not subject to income tax, according to the Honduras Labor Code.
Current tax rates
Individuals who earn salaries equal to or less than L. 17,676.49 per month will not pay Income Tax during the 2021 tax period.

The following table is in effect:

PROGRESSIVE INCOME TAX SCALE (ACRONYM IN SPANISH - ISR)

<table>
<thead>
<tr>
<th>From</th>
<th>Up to</th>
<th>Rate %</th>
</tr>
</thead>
<tbody>
<tr>
<td>L. 0.01</td>
<td>L. 172,117.89</td>
<td>Exempt</td>
</tr>
<tr>
<td>L. 172,117.90</td>
<td>L. 242,449.27</td>
<td>15%</td>
</tr>
<tr>
<td>L. 262,449.28</td>
<td>L. 610,347.16</td>
<td>20%</td>
</tr>
<tr>
<td>L. 610,347.17</td>
<td>Onwards</td>
<td>25%</td>
</tr>
</tbody>
</table>

Las personas naturales tienen derecho a una deducción anual de gastos médicos por L 40,000.00.

Transfer pricing
Tax legislation in Honduras has enacted in Honduras Transfer Pricing Law since 01 January 2014 by Decree 232-2011 establishing the obligation to comply with transfer pricing rules for all transactions by individuals or legal entities resident in Honduras with related individuals or legal entities non-domiciled in Honduras or within a special regime. Additionally, Rulings of the before mentioned Law as published by La Gaceta on 18 of September 2015 in Agreement 027-2015, determined that transactions among Honduran resident related parties are also subject to Transfer Pricing legislation.

On October 22nd of 2019, the Tax Administration issued a statement informing that as of April 2020, companies operating in special regimes must submit their informative transfer pricing statement.
The style of development that countries have adopted in recent decades is no longer sustainable (ECLAC, 2016), this leads to the need to consider a different style of development.

The year 2015 marked the beginning of a new era on the international scene in the quest to unify the development goals of nations. 193 member countries of the United Nations signed the 2030 Agenda that gave life to the Sustainable Development Goals (SDGs). The 2030 Agenda represents a roadmap towards sustainable development that puts people at the center, from the perspective of inclusion. Implementing the 2030 Agenda brings challenges that vary in each region and country, however, there are megatrends such as population growth and population aging, growth of cities, technological innovations, weakening of the credibility of institutions, geopolitics, among others that have a global impact. As a region, Central America and the Dominican Republic present structural challenges to be solved, despite the efforts led by the Central American Integration System (SICA), there is still no unified strategy for SDG implementation and each country presents different levels of progress, with different approaches, institutions and legislation, which adds complexity. According to the SDG compliance index included in the Sustainable Development Report 2021 (1), Costa Rica is the best-ranked country in the region, occupying 50th position out of a total of 165 nations considered and achieving a score of 73.6 out of a possible 100 points. The first place in the ranking is occupied by Finland with a score of 85.9 and in the last place appears the Central African Republic with a score of 38.3.

The positions of the countries in the region are as follows:

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>50</td>
<td>Costa Rica</td>
<td>73.6</td>
</tr>
<tr>
<td>67</td>
<td>República Dominicana</td>
<td>70.8</td>
</tr>
<tr>
<td>88</td>
<td>Panamá</td>
<td>68.0</td>
</tr>
<tr>
<td>89</td>
<td>El Salvador</td>
<td>67.9</td>
</tr>
<tr>
<td>99</td>
<td>Nicaragua</td>
<td>66.3</td>
</tr>
<tr>
<td>112</td>
<td>Honduras</td>
<td>62.5</td>
</tr>
<tr>
<td>121</td>
<td>Guatemala</td>
<td>59.9</td>
</tr>
</tbody>
</table>

Source: Sustainable Development Report 2021, Tabla 2.1, pag. 10-11

But the 2030 Agenda also represents an important opportunity for the region as it includes priority issues such as the eradication of extreme poverty, the reduction of inequality in all its dimensions, inclusive economic growth with decent work for all, sustainable cities and climate change, among others (ECLAC).
After the end of the armed conflicts in most of the countries of the region, there was an economic improvement due to the implementation of strategies aimed at greater insertion in the world market and strengthening of the service sector. However, social progress is still needed and it is difficult to turn economic progress into wellbeing for everyone, which still maintains high rates of migration of inhabitants, mainly to northern countries. Environmentally, it has a great diversity of environmental resources in its territory, with a forest cover of 39% of the surface area (greater than the world average), has a great biodiversity potential of 12% of the planet’s total (ERCA, 2016) and has other resources such as water (2). The latter provides the region with global relevance, gives visibility to it at a very important moment in history, where a level of attention and awareness of the importance of the fight against climate change has been achieved. Embracing the green agenda and installing the necessary mechanisms and institutional infrastructure to receive sustainable investments has become a priority for our region. According to a report issued by Climate Bonds Initiative in March 2021 and sponsored by CABEI, the green bond market is still very incipient, only 6 issues have been made so far (including CABEI’s), however there is potential for more growth in green bonds in key sectors such as sustainable infrastructure, agriculture and blue economy. Diversifying projects and investing in climate compatible infrastructure to meet the emission reduction targets of the Paris Agreement are other opportunities identified in the report, in this regard there are key sectors such as renewable energy, low carbon transport, water cycle management and waste management.

Climate change is perhaps the greatest challenge humanity has ever faced, we are currently experiencing a global momentum where business owners and governments are increasingly aware, in our region each country has addressed this issue in different ways and has introduced policies and initiatives aimed at supporting the fight against climate change. The following is a summary:

(Disposition in the order of the SDGs Compliance Index presented above)

Source: Report published by Climate Bonds Initiative, March 2021

Costa Rica
As part of its Nationally Determined Contributions (hereafter NDCs) under the Paris Agreement, Costa Rica has defined a mitigation target of
44% reduction in emissions versus business as usual operations by 2030. Costa Rica issued the National Decarbonization Plan, launched by the Ministry of Environment and Energy in February 2019, this plan includes goals such as:

- Achieve and maintain a 100% renewable energy grid.
- 70% of buses and taxi cabs will be zero-emission and passenger trains will be 100% electric.
- 100% of new commercial, residential, and institutional buildings designed and built with low-emission, climate-resilient systems.

Dominican Republic
The Dominican Republic has defined a mitigation target of a 25% reduction in base year GHG emissions by 2030 under its NDCs. While the government does not have specific targets for the sector, it has several climate policies and initiatives in place, such as:

- Carbon tax, introduced in 2012
- Increased hydroelectric biodiesel capacity.
- Established a forestry working group to improve sustainability in the forestry sector.

The Dominican Republic’s government is also seeking to phase out fossil fuel-generated electricity, which currently accounts for 90.5% of the country’s installed capacity.

Panama
Under its NDCs, Panama has specific sectoral climate targets, which focus primarily on increasing carbon sinks, renewable energy, and sustainable forestry: 38:

- Increase renewable energy capacity by 15% by 2030 and 30% by 2050 compared to the base year of 2014.
- Increase reforested areas by 1 million hectares by 2030. In addition to these targets, Panama plans to continue implementing the following climate policies:
  - Participate in international emissions trade
  - Boost investment in renewable energy sources such as solar, wind and biomass.

El Salvador
El Salvador aims to establish a National Climate Change Policy Plan, which includes several regulatory framework goals within its NDCs:

- Strengthening the institutional and legal framework of the National Climate Plan by 2019.
- Establish a sectoral climate plan at the national level, including agriculture, water and infrastructure.

El Salvador’s climate goals included in its Five-Year Development Plan (2014-2019) include the following:

- Reduce economic losses caused by climate variability in the agricultural sector by one percentage point of GDP.
Sustainable Development Goals in Central America and the Dominican Republic

- Increase the number of municipalities at risk from early warning systems by 20%.
- Restore 10,000 hectares of salty forest and surrounding ecosystems.
- Renew 30% of coffee plantations, thus ensuring their resilience to climate change.
- Reduce the number of threatened or endangered species by 10%.
- Reduce the consumption of ozone-depleting substances by 25%.

Nicaragua
Nicaragua has defined the following goals in its NDCs:
- Achieve 60% renewable energy by 2030.
- Increase forest absorption capacity by 20% by 2030.

Nicaragua’s National Climate Change Policy is currently in the discussion stage. It will outline the country’s plans and will include the following aspects:
- Increasing agricultural resilience.
- Creating a low-carbon development strategy.
- Solutions for human resettlement due to climate change.
- Developing green infrastructure.
- Achieving forest conservation and restoration.
- Promoting knowledge, research and funding for climate change mitigation and adaptation.

Honduras
Honduras has the following climate targets as part of its NDCs:
- Reduce national GHG emissions by 15% by 2030.
- Achieve 80% of electricity supply from renewable sources by 2038.

In the context of the country’s NDC commitments, the Honduran government aims to continue its progress towards the creation of a climate policy framework, which includes:
- Developing a national climate change investment plan.
- Focusing on water resources, risk management, agriculture, forestry and biodiversity, and infrastructure and renewable energy projects, which are core priorities of the National Climate Change Agency.

Guatemala
As part of its NDCs, Guatemala has defined targets of 11.2% (unconditional) to 22.6% (conditional) reduction in GHG emissions by 2030 compared to the usual scenario. These targets are incorporated into Guatemala’s national development plan known as the K’atun 2032 National Development Plan.

The specific objectives included in the plan are:
- Achieve 80% of electricity from renewable energy by 2027.
• Improve energy savings by 25% in the industrial and commercial sectors by 2027 compared to the 2013 baseline
• Reduce industrial wood fuel use by 15% by 2027 compared to 2013 baseline

Finally, COVID-19 came to delay the SDG implementation process, yet globally the climate, biodiversity and pollution crisis persisted, despite the pandemic (as highlighted by Mr. Liu Zhenmin in the 2021 Sustainable Development Goals report). Concentrations of key greenhouse gases continued to rise despite temporary emission reductions in 2020 linked to confinements and other measures in response to COVID-19. The effects of the pandemic include increases in unemployment rates impacting poverty rates, in addition to the anticipated significant impact on the educational deficiencies of a generation and the long-term impact on the productive capacity of countries. But it is also important to highlight that COVID-19 tested the capacity for adaptation, collaboration, innovation and resilience of human beings and this adds optimism that we will be able to face the challenges of the 2030 Agenda successfully.

References:
(1) SUSTAINABLE DEVELOPMENT REPORT 2021 - By Jeffrey D. Sachs, Christian Kroll, Guillaume Lafontune, Grayson Fuller, and Finn Woelm - DOI: 10.1017/9781009106559
(2) Los Objetivos de Desarrollo Sostenible en Centroamérica y la República Dominicana, visualizando desafíos, viabilizando compromisos - Publicación de las Naciones Unidas - LC/MEX/TS.2017/31/Rev.1
(3) Oportunidades de financiamiento verde en Centroamérica y el Caribe 2021 - Publicado por Climate Bonds Initiative, marzo 2021 www.climatebonds.net, patrocinado por BCIE.
(4) Informe de los Objetivos de Desarrollo Sostenible 2021, tomado de
Contact

PwC Honduras
Entrada Principal Col. Orquídea Blanca 10 calle, 14 Ave Circunvalación San Pedro Sula, Honduras
Col. Loma Linda Norte, Diagonal Gema Nº 1, Bloque F, 3era Calle

Partners

Ramón Morales | Tax and Legal Partner
Romel Castellanos | Assurance Partner