Doing Business
A guide for Guatemala
January 2016
Table of contents

<table>
<thead>
<tr>
<th>The PwC Network</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preface</td>
<td>6</td>
</tr>
<tr>
<td>Forework</td>
<td>7</td>
</tr>
<tr>
<td>Guatemala</td>
<td>9</td>
</tr>
<tr>
<td>Our staff’s knowledge and expertise</td>
<td>48</td>
</tr>
<tr>
<td>Contacts</td>
<td>49</td>
</tr>
</tbody>
</table>
At PwC our purpose is to build trust in the Society and solve important problems. PwC is a Network of firms in 157 countries with more than 223,000 people committed to providing quality through our audit, tax and consulting services.

In the Central American region, PwC Interamericas is made up of: PwC Costa Rica, PwC Panamá, PwC El Salvador, PwC Guatemala, PwC Honduras, PwC Nicaragua and PwC República Dominicana.

The information contained in this Business Guide has been updated to December 2016.
Despite the slowdown registered in the region during 2016, the economy in Central America and Dominican Republic continues to benefit from the US economic recovery, given the strong links through exports and remittances. This positive effect is likely to counterbalance the tightening of financial conditions that will result from the normalization of monetary policy in the US. However, the region is expecting a change of government in the US, since an immigration repression would threaten remittance flows in the region, which would impact this important source of growth.

Doing Business in Central America and Dominican Republic 2017 is designed to introduce the investment’s fundament in this territory. Prepared by the professionals of PwC Interamericas, this completed guide is not only ideal for enterprises that look to get into Central America’s market, but for other enterprises that already have their presence here and want to keep up with most recent and relevant changes in tax, legal forms and accounting practices and business. In addition, this guide provides a brief description of each country of Interamerica.

Due to this guide cannot answer all the specific questions you may have, our multidisciplinary professionals’ team is qualified to assist in all matters related to this publication and advise investors on the best way to do business.

On behalf of PwC Interamericas, we hope this guide to be the first step that will help you make the decision to invest and do successful business in our territory.
We are pleased to provide the third edition of the 2017 Doing Business Guide for Central America, Panama and Dominican Republic (InterAmericas). This Guide offers information on the culture, investment climate and tax system for the InterAmericas, including practical responses to frequently asked questions on legal, regulatory and tax compliance matters. The information provided is based on the applicable laws, our knowledge and experience in each of these countries.

InterAmericas has implemented norms and tax reforms aligned with internationally accepted principles, including the business models adopted by the Organization for Economic Co-operation and Development, which represents significant progress and advancement. As a result, the tax authorities in InterAmericas have more skillful, qualified and experienced personnel to attend these matters with the objective of improving tax compliance, and therefore, increasing the revenues for the national budgets. It is important for both local and foreign investors to be up to date on these changes and their practical implications for the future of their businesses.

We hope to be your trusted business advisor as you navigate the changing InterAmericas commercial, legal, fiscal and regulatory landscape, and be able to provide you with our knowledge from what to do, where to go and how to best conduct business in each of these territories while considering each country’s unique culture.

Our tailored approach to service delivery combines our extensive experience working with the legal, regulatory and tax frameworks across the region, our deep knowledge of local business practices and global trends and our uncompromising commitment to confidentiality, independence and our code of conduct. All of which places us in a preferential position within the market.

Your business is our business, and with continued enthusiasm we strive to provide unparalleled tax, legal and regulatory services based on the best local and international practices, always striving to exceed your expectations.

This guide is not intended to be exhaustive and does not constitute advice or legal opinion. For professional advice do not hesitate to contact one of our consultants.
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.
Guatemala

Guatemala is the third largest Republic of Central America; to the northwest and west Mexico, northeast with both Belize and a small coastline on the Caribbean, to the south the Pacific Ocean, to the east Honduras and El Salvador.
Guatemala
Chapter content

Overview of the country
- Geographic and demographic background.
- Brief history.
- Climate.
- Population, form of government, language, currency.
- Education.

Political and Legal System
- Legal framework.
- Main political parties.

The Economy
- Inflation.

Doing business
- Government views toward foreign investment.
- Free Trade Agreement and other agreements.
- Other free trade zone agreements currently in effect.
- Foreign investment.
- Establishing a business.

Banking system
- Central bank.
- Commercial banks.
- List of banks.
**The Economy, cont.**

**Labor and social security**
- Labor supply.
- Labor law requirements.
- Social security.

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

**Sistema Fiscal**
- Other tax regime.
- Corporate deduction.
- Tax incentives.
- Transfer pricing ruling.
- Corporate tax compliance.
- Individual taxation summary.
- Individual deduction.
- Individual tax compliance.
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 25º and 30ºC. In temperate zones, located at an altitude of 610 and 1,830 meters temperatures are 17ºC in the higher altitudes. At altitudes over 1,830 meters, temperatures may be as low as 13ºC.

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.

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 6 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 for the 10 private universities available:

- Francisco Marroquin University
- Galileo University.
- Rafael Landivar University.
- Mariano Gálvez University.
- University of the Isthmus.
- Mesoamerican University.
- Panamerican University.
- University of the Valley.
- Saint Paul University.
- Rural University of Guatemala.

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

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

<table>
<thead>
<tr>
<th>Political and Legal Framework</th>
<th>Executive</th>
<th>Legislative</th>
<th>Judicial</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exercised by the:</td>
<td>The President</td>
<td>The Congress</td>
<td>• Supreme Court Of Justice (*)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Courts of appeal</td>
</tr>
<tr>
<td>Composed of:</td>
<td>The President</td>
<td>158 Deputies (1 deputy elected for every 80,000 inhabitants).</td>
<td>• Ordinary courts</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Small claims court (* The highest judicial body.</td>
</tr>
<tr>
<td>Elected or appointed by:</td>
<td>The President and Vice-President are elected by direct vote every 4 years.</td>
<td>The deputies are elected by direct vote every 4 years.</td>
<td>Judges of the Supreme Court are elected by the Congress 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.</td>
</tr>
</tbody>
</table>

Main political parties

- Encounter for Guatemala.
- Guatemalan National Revolutionary Unity.
- National Advancement Party.
- National Unity of Hope.
- Nationalist Change Union.
- Patriotic Party.
- Unionist Party.
- Renewed Democratic Freedom.
- Front of National Convergence / Nation.
The next Presidential and Congressional elections were held in September and October 2015 for the period from January 14th 2016 to January 14th 2020.

The next Presidential and Congressional elections will be held in 2019.

**The Economy**

Guatemala is the most populous of the Central American countries with a 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 revenues, 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$34 billion GDP, representing 39.6% of the region’s total GDP. The latest studies on investment banking highlights Guatemala’s great economic stability throughout its history.
According to the 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:

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</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>1.58</td>
<td>3.44</td>
<td>4.52</td>
<td>3.54</td>
<td>2.40</td>
<td>2.18</td>
<td>1.47</td>
</tr>
<tr>
<td>February</td>
<td>1.97</td>
<td>3.78</td>
<td>4.25</td>
<td>3.73</td>
<td>2.05</td>
<td>2.25</td>
<td>1.44</td>
</tr>
<tr>
<td>March</td>
<td>2.39</td>
<td>3.84</td>
<td>4.10</td>
<td>3.70</td>
<td>2.03</td>
<td>2.09</td>
<td>1.53</td>
</tr>
<tr>
<td>April</td>
<td>2.66</td>
<td>4.15</td>
<td>3.80</td>
<td>3.50</td>
<td>2.07</td>
<td>2.11</td>
<td>1.40</td>
</tr>
<tr>
<td>May</td>
<td>2.57</td>
<td>4.56</td>
<td>3.55</td>
<td>3.48</td>
<td>1.95</td>
<td>2.15</td>
<td>1.50</td>
</tr>
<tr>
<td>June</td>
<td>2.42</td>
<td>4.70</td>
<td>3.72</td>
<td>3.54</td>
<td>1.80</td>
<td>2.22</td>
<td>1.52</td>
</tr>
<tr>
<td>July</td>
<td>2.42</td>
<td>5.18</td>
<td>3.40</td>
<td>3.35</td>
<td>1.93</td>
<td>2.11</td>
<td>1.63</td>
</tr>
<tr>
<td>August</td>
<td>2.60</td>
<td>5.40</td>
<td>3.40</td>
<td>2.99</td>
<td>2.00</td>
<td>2.20</td>
<td>1.56</td>
</tr>
<tr>
<td>September</td>
<td>2.54</td>
<td>5.38</td>
<td>3.44</td>
<td>2.88</td>
<td>2.07</td>
<td>2.03</td>
<td>1.61</td>
</tr>
<tr>
<td>October</td>
<td>2.81</td>
<td>5.27</td>
<td>3.54</td>
<td>2.80</td>
<td>2.08</td>
<td>1.85</td>
<td>1.81</td>
</tr>
<tr>
<td>November</td>
<td>2.76</td>
<td>5.46</td>
<td>3.42</td>
<td>2.61</td>
<td>2.08</td>
<td>1.77</td>
<td>1.91</td>
</tr>
<tr>
<td>December</td>
<td>3.06</td>
<td>5.27</td>
<td>3.44</td>
<td>2.55</td>
<td>2.17</td>
<td>1.67</td>
<td></td>
</tr>
</tbody>
</table>

Fuente: Instituto Nacional de Estadística (INE) y Banco de Guatemala.
Exports

The total amount of General Trade exports up to October 2016 was US $ 8,633.4 million, decrease in US $ 441.9 million (-4.9%) from the same month of 2015 (US $ 9,075.3 million). The most important products, according to their share of the total exports, were: Apparel articles with US $ 1,063.9 million (12.3%); Sugar with US $ 673.1 million (7.8%); Coffee with US $ 611.4 million (7.1%); Banana with US $ 595.8 million (6.9%); And Edible Fats and Oils with US $ 353.1 million (4.1%); Products which together accounted for 38.2% of the total.

The main destinations for exports to October 2016 were: the United States of America with US $ 2,889.7 million (33.5%); Central America with US $ 2,557.4 million (29.6%); Eurozone with US $ 669.7 million (7.8%); Mexico with US $ 374.7 million (4.3%); And Canada with US $ 303.9 million (3.5%); Countries and regions which together accounted for 78.7% of the total.

Imports

A octubre de 2016 el monto total de las importaciones realizadas se situó en US$13,959.7 millones, inferior en US$829.6 millones (-5.6%) al registrado en 2015 (US$14,789.3 millones). La disminución en las importaciones estuvo influenciada principalmente por la variación negativa observada en Combustibles y Lubricantes con un descenso de US$295.6 (-13.8%).

Las importaciones para octubre de 2016 provinieron principalmente de los Estados Unidos de América con US$5,330.2 millones (38.2%); Centroamérica con US$1,613.9 millones (11.6%); México con US$1,585.2 millones (11.4%); República Popular China con US$1,499.9 millones (10.7%); y la Eurozona con US$946.1 millones (6.8%); países y regiones que en conjunto, representaron el 78.7% del total.
### Guatemala: Export Behavior (FOB)
#### General Trade
**Period: 2014-2016**
**-In millions of US dollars-**

<table>
<thead>
<tr>
<th>Moth</th>
<th>Exports</th>
<th>Relative Variations</th>
<th>Relative Variations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Annual</td>
<td>10,803.5</td>
<td>10,675.2</td>
<td>4.25</td>
</tr>
<tr>
<td>Accumulated to October</td>
<td>9,044.2</td>
<td>9,075.3</td>
<td>8,633.4</td>
</tr>
<tr>
<td>January</td>
<td>835.4</td>
<td>879.2</td>
<td>833.8</td>
</tr>
<tr>
<td>February</td>
<td>805.7</td>
<td>865.1</td>
<td>842.3</td>
</tr>
<tr>
<td>March</td>
<td>1,036.3</td>
<td>1,005.1</td>
<td>939.1</td>
</tr>
<tr>
<td>April</td>
<td>939.6</td>
<td>914.6</td>
<td>914.2</td>
</tr>
<tr>
<td>May</td>
<td>946.5</td>
<td>997.8</td>
<td>916.9</td>
</tr>
<tr>
<td>June</td>
<td>891.3</td>
<td>910.4</td>
<td>897.8</td>
</tr>
<tr>
<td>July</td>
<td>948.6</td>
<td>965.2</td>
<td>844.8</td>
</tr>
<tr>
<td>August</td>
<td>874.0</td>
<td>878.3</td>
<td>883.1</td>
</tr>
<tr>
<td>September</td>
<td>883.5</td>
<td>814.6</td>
<td>840.3</td>
</tr>
<tr>
<td>October</td>
<td>883.3</td>
<td>825.0</td>
<td>721.1</td>
</tr>
<tr>
<td>November</td>
<td>839.2</td>
<td>786.8</td>
<td>(6.2)</td>
</tr>
<tr>
<td>December</td>
<td>920.1</td>
<td>813.1</td>
<td>(11.6)</td>
</tr>
</tbody>
</table>

*It refers to the variations of the figures accumulated to each month of the respective year.*

Note: Figures can vary by approximations to millions.

Source: Unique customs declarations and Central American customs export forms.

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### Guatemala: Financial Indicators
**2005 - 2012**

<table>
<thead>
<tr>
<th>Concept</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current account balance (US$) / GDP (%)</td>
<td>4.6</td>
<td>5.0</td>
<td>5.2</td>
<td>4.3</td>
<td>0.0</td>
<td>1.5</td>
<td>3.6</td>
<td>2.6</td>
</tr>
<tr>
<td>Fiscal deficit / GDP (%)</td>
<td>1.7</td>
<td>1.9</td>
<td>1.4</td>
<td>1.6</td>
<td>3.1</td>
<td>3.3</td>
<td>2.8</td>
<td>2.4</td>
</tr>
<tr>
<td>Tax revenue / GDP (tax burden) (%)</td>
<td>11.2</td>
<td>11.9</td>
<td>12.1</td>
<td>11.3</td>
<td>10.3</td>
<td>10.4</td>
<td>10.9</td>
<td>10.8</td>
</tr>
<tr>
<td>Total payment means / GDP (financial deepening) (%)</td>
<td>35.7</td>
<td>38.3</td>
<td>37.0</td>
<td>35.2</td>
<td>37.2</td>
<td>38.3</td>
<td>38.1</td>
<td>39.3</td>
</tr>
<tr>
<td>Monetary base / GDP (%)</td>
<td>10.2</td>
<td>11.1</td>
<td>10.9</td>
<td>9.7</td>
<td>9.7</td>
<td>10.3</td>
<td>10.2</td>
<td>10.1</td>
</tr>
<tr>
<td>Internal debt / GDP (%)</td>
<td>7.9</td>
<td>8.8</td>
<td>9.2</td>
<td>8.9</td>
<td>9.9</td>
<td>11.0</td>
<td>12.1</td>
<td>11.9</td>
</tr>
<tr>
<td>External debt (US$) / GDP (%)</td>
<td>13.7</td>
<td>13.1</td>
<td>12.4</td>
<td>11.2</td>
<td>13.1</td>
<td>13.5</td>
<td>11.8</td>
<td>12.5</td>
</tr>
<tr>
<td>Total debt (in Q) / GDP (%)</td>
<td>21.6</td>
<td>21.9</td>
<td>21.6</td>
<td>20.1</td>
<td>23.0</td>
<td>24.5</td>
<td>23.9</td>
<td>24.4</td>
</tr>
<tr>
<td>GDP per cápita annual (in Q)</td>
<td>16,355.8</td>
<td>17,654.2</td>
<td>19,615.2</td>
<td>21,631.5</td>
<td>21,970.8</td>
<td>23,193.2</td>
<td>25,215.3</td>
<td>26,166.8</td>
</tr>
<tr>
<td>Variation rate of annual per capita GDP</td>
<td>6.4</td>
<td>7.9</td>
<td>11.1</td>
<td>10.3</td>
<td>1.6</td>
<td>5.6</td>
<td>8.7</td>
<td>3.9</td>
</tr>
<tr>
<td>Final consumption expenditure / GDP (%)</td>
<td>96.2</td>
<td>96.1</td>
<td>95.9</td>
<td>98.3</td>
<td>96.1</td>
<td>96.6</td>
<td>96.6</td>
<td>96.3</td>
</tr>
<tr>
<td>Gross fixed capital formation / GDP (%)</td>
<td>18.3</td>
<td>20.1</td>
<td>19.6</td>
<td>17.9</td>
<td>15.1</td>
<td>14.8</td>
<td>14.7</td>
<td>14.8</td>
</tr>
<tr>
<td>Degree of economic opening (%)</td>
<td>66.0</td>
<td>66.8</td>
<td>67.9</td>
<td>64.1</td>
<td>57.1</td>
<td>62.1</td>
<td>63.9</td>
<td>61.0</td>
</tr>
<tr>
<td>Penetration index (%)</td>
<td>20.1</td>
<td>20.4</td>
<td>20.7</td>
<td>19.3</td>
<td>17.1</td>
<td>18.4</td>
<td>18.9</td>
<td>18.5</td>
</tr>
</tbody>
</table>

Note: For reasons of rounding some figures may show slight differences.
### Guatemala: Value (FOB), Volume and Average price of the 25 main exports products

**General Trade**

_October of each year - In thousand of US dollars and kilos miles -_

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Totals</td>
<td>9,075,286.5</td>
<td>12,086,689.0</td>
<td>0.76</td>
<td>8,633,369.9</td>
<td>11,586,423.0</td>
<td>0.75</td>
</tr>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Apparel articles</td>
<td>1,125,479.9</td>
<td>76,821.5</td>
<td>14.65</td>
<td>1,083,891.2</td>
<td>75,443.4</td>
<td>14.10</td>
</tr>
<tr>
<td></td>
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<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Sugar</td>
<td>762,564.2</td>
<td>1,913,250.4</td>
<td>0.40</td>
<td>673,069.4</td>
<td>1,752,143.5</td>
<td>0.38</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coffee</td>
<td>625,747.9</td>
<td>167,474.0</td>
<td>3.74</td>
<td>611,429.6</td>
<td>171,277.3</td>
<td>3.57</td>
</tr>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banana tree</td>
<td>615,154.5</td>
<td>1,837,353.3</td>
<td>0.33</td>
<td>595,806.5</td>
<td>1,787,342.1</td>
<td>0.33</td>
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<tr>
<td>Edible fats and oils</td>
<td>302,058.4</td>
<td>452,481.8</td>
<td>0.67</td>
<td>353,052.0</td>
<td>622,369.6</td>
<td>0.57</td>
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<tr>
<td>Lead</td>
<td>254,539.9</td>
<td>22,765.2</td>
<td>11.18</td>
<td>271,609.2</td>
<td>22,599.1</td>
<td>12.02</td>
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<tr>
<td>Beverages, spirits and vinegars</td>
<td>256,992.1</td>
<td>482,201.4</td>
<td>0.53</td>
<td>268,556.9</td>
<td>500,616.4</td>
<td>0.54</td>
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<tr>
<td>Pharmaceutical products</td>
<td>274,717.4</td>
<td>7,787.5</td>
<td>35.28</td>
<td>267,940.6</td>
<td>8,428.8</td>
<td>31.79</td>
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<tr>
<td>Plastic materials and articles thereof</td>
<td>265,034.9</td>
<td>127,718.3</td>
<td>2.08</td>
<td>263,295.1</td>
<td>141,256.8</td>
<td>1.86</td>
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<tr>
<td>Fresh, dried or frozen fruits</td>
<td>216,789.4</td>
<td>441,967.8</td>
<td>0.49</td>
<td>230,412.3</td>
<td>471,030.6</td>
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<tr>
<td>Precious and semi-precious stones and metals</td>
<td>294,404.8</td>
<td>1,641.3</td>
<td>173.28</td>
<td>207,868.2</td>
<td>600.7</td>
<td>346.04</td>
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<tr>
<td>Paper and paperboard manufactures</td>
<td>194,308.4</td>
<td>172,535.9</td>
<td>1.13</td>
<td>202,969.0</td>
<td>176,832.5</td>
<td>1.15</td>
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<tr>
<td>Preparations based on cereals</td>
<td>161,392.4</td>
<td>106,229.7</td>
<td>1.52</td>
<td>165,455.2</td>
<td>108,584.2</td>
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<td>Caramel</td>
<td>184,803.3</td>
<td>24,320.1</td>
<td>7.59</td>
<td>164,472.4</td>
<td>28,799.9</td>
<td>5.71</td>
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<tr>
<td>Textile materials (fabrics or fabrics)</td>
<td>164,641.5</td>
<td>25,934.6</td>
<td>6.35</td>
<td>163,156.1</td>
<td>26,212.8</td>
<td>6.22</td>
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<tr>
<td>Iron and Steel</td>
<td>201,125.5</td>
<td>141,298.2</td>
<td>1.42</td>
<td>154,844.6</td>
<td>158,553.3</td>
<td>0.98</td>
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<tr>
<td>Insecticides, fungicides and disinfectants</td>
<td>121,946.5</td>
<td>33,531.6</td>
<td>3.64</td>
<td>146,065.4</td>
<td>39,331.6</td>
<td>3.71</td>
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<tr>
<td>Preparations of meat, fish, crustaceans and molluscs</td>
<td>139,269.4</td>
<td>54,727.7</td>
<td>2.54</td>
<td>137,488.9</td>
<td>57,046.7</td>
<td>2.41</td>
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<tr>
<td>Legumes and vegetables</td>
<td>140,730.0</td>
<td>250,920.7</td>
<td>0.56</td>
<td>135,937.5</td>
<td>261,908.2</td>
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<tr>
<td>Detergents and soaps</td>
<td>123,882.2</td>
<td>135,122.2</td>
<td>0.92</td>
<td>127,034.5</td>
<td>152,900.4</td>
<td>0.83</td>
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<tr>
<td>Miscellaneous chemical products</td>
<td>135,842.9</td>
<td>172,701.1</td>
<td>0.79</td>
<td>115,761.5</td>
<td>169,232.0</td>
<td>0.68</td>
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<tr>
<td>Perfumery, cosmetic and toilet products</td>
<td>112,358.5</td>
<td>40,285.4</td>
<td>2.79</td>
<td>107,172.9</td>
<td>39,875.9</td>
<td>2.69</td>
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<tr>
<td>Natural rubber (rubber)</td>
<td>117,844.0</td>
<td>86,518.2</td>
<td>1.36</td>
<td>94,199.3</td>
<td>78,416.8</td>
<td>1.20</td>
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<tr>
<td>Machinery and mechanical appliances</td>
<td>101,065.8</td>
<td>15,947.0</td>
<td>6.34</td>
<td>89,759.5</td>
<td>15,875.6</td>
<td>5.65</td>
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<tr>
<td>Articles of wood</td>
<td>67,222.7</td>
<td>90,206.4</td>
<td>0.75</td>
<td>76,570.6</td>
<td>95,189.4</td>
<td>0.80</td>
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<tr>
<td>Other products</td>
<td>12,157,59.0</td>
<td>5,127,189.6</td>
<td>0.41</td>
<td>1,945,542.5</td>
<td>4,624,554.5</td>
<td>0.42</td>
</tr>
</tbody>
</table>

*Calculated from the values in thousands of US dollars and kilos, to obtain average price per kilo.

Note: Figures in parentheses are negative.

Source: Unique customs declarations and Central American customs export forms.
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 restrict operation of foreigners.

Free trade agreement and other agreement

Guatemala has been a member of the World Trade Organization since July 21, 1995. DR-CAFTA (FTA between the US, Central American Countries and DR) 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 continue under in 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 eight 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.

According to Article 1 number 2 of the Congress Decree 9-98 titled Foreign Investment Law, a foreign investment is:

“All 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.

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

**Commercial entities**

Commercial companies in Guatemala are governed 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 the amount of their contribution. Contributions can not be represented by securities or shares.

Limited liability company

A limited Liability Company is comprised of several partners who are only required to pay their contributions. For the social obligation, 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.

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.

The initial paid capital of the corporation must be at least Q5,000.00 (approximately US$641.00).

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 of the organization, which is registered in the Commercial Registry of Guatemala. In addition, notice of formation of the entity must be published in one newspaper of wide circulation. 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 followed per the Commerce Law, Congress Decree number 2-70, 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 US$50,000 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
<table>
<thead>
<tr>
<th>No</th>
<th>Procedure</th>
<th>Time to complete</th>
<th>Cost to complete</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Check the proposed company name at the Mercantile Registry of Guatemala.</td>
<td>1 day</td>
<td>30 charge per name</td>
</tr>
<tr>
<td>2</td>
<td>Obtain letter from a Guatemalan notary public to open bank account.</td>
<td>1 day</td>
<td>No charge</td>
</tr>
<tr>
<td>3</td>
<td>Deposit the subscribed capital in a bank and obtain a receipt.</td>
<td>1 day</td>
<td>No charge</td>
</tr>
<tr>
<td>4</td>
<td>A notary public draws the article of incorporation.</td>
<td>3 days</td>
<td>GTQ 6,800 average notarial fees + tax.</td>
</tr>
<tr>
<td>5</td>
<td>The notary purchases the fiscal stamps and issues a certified copy of the article of incorporation for filing with the commercial register.</td>
<td>1 day</td>
<td>GTQ 250 stamp tax (company article of incorporation) + GTQ 300 (corporation license) + 2 stamps of GTQ 0.50 (Act for nomination of representative, constitution testimony).</td>
</tr>
<tr>
<td>6</td>
<td>File notarized unique registration form and documents with the Commercial Register (Registro Mercantil).</td>
<td>1 day</td>
<td>See comment</td>
</tr>
<tr>
<td>7</td>
<td>File for appointment of legal representative of the company.</td>
<td>1 day</td>
<td>Included in previous procedure</td>
</tr>
<tr>
<td>8</td>
<td>Obtain the definite registration, tax and social security numbers, and authorization to print invoices.</td>
<td>14 days</td>
<td>Included in previous procedure</td>
</tr>
<tr>
<td>9</td>
<td>Obtain trading license</td>
<td>1 day</td>
<td>GTQ 165</td>
</tr>
<tr>
<td>10*</td>
<td>Present accounting books and books of minutes to the Commercial Register for its authorization.</td>
<td>1 day</td>
<td>GTQ 0.15/page, assuming 100 pages</td>
</tr>
<tr>
<td>11*</td>
<td>Obtain the authorization of a book of salaries by the Inspection of the Department of Labor.</td>
<td>1 day</td>
<td>GTQ 0.5/page, assuming 100 pages</td>
</tr>
</tbody>
</table>
**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, 14 financial institutions, 15 bonded warehouses, 27 insurance companies, 2 foreign exchange entities, 7 off shore entities, 12 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.
Most of the banks and financial entities operate with several correspondents in the United States, Panama, Mexico and Switzerland, 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.

<table>
<thead>
<tr>
<th>Month</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
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</thead>
<tbody>
<tr>
<td>January</td>
<td>3.508,5</td>
<td>4.087,8</td>
<td>4.037,2</td>
<td>4.319,6</td>
<td>4.758,6</td>
<td>5.526,2</td>
<td>5.910,1</td>
<td>6.185,7</td>
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<td>February</td>
<td>3.536,8</td>
<td>4.067,1</td>
<td>4.054,6</td>
<td>4.348,4</td>
<td>4.742,3</td>
<td>5.565,2</td>
<td>6.042,5</td>
<td>6.126,9</td>
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<td>March</td>
<td>3.663,5</td>
<td>4.115,5</td>
<td>4.249,5</td>
<td>4.338,4</td>
<td>5.029,8</td>
<td>5.547,3</td>
<td>6.191,0</td>
<td>6.140,8</td>
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<td>April</td>
<td>3.734,6</td>
<td>4.141,6</td>
<td>4.263,2</td>
<td>4.468,7</td>
<td>5.001,0</td>
<td>5.601,6</td>
<td>6.393,1</td>
<td>6.183,3</td>
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<td>May</td>
<td>3.785,3</td>
<td>4.211,6</td>
<td>4.253,2</td>
<td>4.573,2</td>
<td>5.007,6</td>
<td>5.675,6</td>
<td>6.421,1</td>
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<td>June</td>
<td>3.738,0</td>
<td>4.062,4</td>
<td>4.489,2</td>
<td>4.771,3</td>
<td>5.137,3</td>
<td>5.847,6</td>
<td>6.382,5</td>
<td>6.811,6</td>
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<td>July</td>
<td>3.793,4</td>
<td>4.038,2</td>
<td>4.442,6</td>
<td>4.743,6</td>
<td>5.035,5</td>
<td>5.732,0</td>
<td>6.333,8</td>
<td>6.778,1</td>
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<td>August</td>
<td>3.793,5</td>
<td>4.031,8</td>
<td>4.263,1</td>
<td>4.714,9</td>
<td>5.170,0</td>
<td>5.681,9</td>
<td>6.398,6</td>
<td>6.765,7</td>
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<td>4.031,3</td>
<td>4.274,6</td>
<td>4.745,1</td>
<td>5.087,3</td>
<td>5.659,2</td>
<td>6.303,0</td>
<td>6.753,7</td>
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<td>October</td>
<td>3.771,6</td>
<td>1.036,6</td>
<td>4.288,0</td>
<td>4.787,3</td>
<td>5.091,3</td>
<td>5.650,5</td>
<td>6.574,0</td>
<td>6.804,2</td>
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<td>November</td>
<td>3.766,4</td>
<td>4.053,0</td>
<td>4.301,8</td>
<td>4.709,0</td>
<td>5.111,0</td>
<td>5.594,9</td>
<td>6.037,6</td>
<td>6.711,2</td>
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<tr>
<td>December</td>
<td>3.782,4</td>
<td>4.061,1</td>
<td>4.320,3</td>
<td>4.658,8</td>
<td>5.212,6</td>
<td>5.953,8</td>
<td>6.187,9</td>
<td></td>
</tr>
</tbody>
</table>
List of banks

Central bank
• Banco de Guatemala.
• Government partially-owned banks.
• Banco de Desarrollo Rural (Banrural).
• Crédito Hipotecario Nacional.

Private owned banks
• Banco G&T Continental.
• Banco Industrial.
• Banco Agromercantil.
• Banco de América Central.
• Banco de Antigua.
• Banco Internacional.

Foreign banks
• Citibank.
• Banco Azteca.
• Banca Sol.
• Banco Ficohsa
• Banco Promérica.
Labor and Social Security

Labor supply

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

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 minimum wages. As of January 1st, 2015, the minimum wage for the agricultural and non-agricultural work has been set at GTQ 78.72 (US$ 10.22) for a work day.

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.

Incentive bonus
In Guatemala it is mandatory to pay an annual bonus (bono 14) equal to 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 vacations
Legal Holidays established by law add up to 10 days per year. Vacations are for a period of fifteen (15) labor days a year, 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.
**Guatemala**

**Termination of employment**

The termination of employment contracts occur when one or both parts of the employment relationship will put an end to 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. Two managers or administrators may 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 insurance plan was 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 with respect to work accidents and occupational diseases in most parts of the country, and as to disability, old age and survival.

Apart from these benefits, in the department of Guatemala (where Guatemala City is located), maternity and common sickness benefits are also provided. 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 worker’s wages (with no upper limits or maximum salaries for the purposes of applying these percentages):

<table>
<thead>
<tr>
<th>% contributed by</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Employer</td>
<td>12.67 (%)</td>
</tr>
<tr>
<td>Employee</td>
<td>4.83</td>
</tr>
</tbody>
</table>

(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.
- Daily book.
- Inventory book.
- 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 Mercantile Registry. Loose-leaf and computerized systems shall also be authorized, although the individual sheets for the principal books of account still have to be stamped and subsequently bound per each fiscal year.
**Accounting profession**

To practice in Guatemala the profession of Certified Public Accountant and Auditor, professionals must have attained a degree in one of the country's universities or submit to approval a title 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**

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.

The Customs Bureau (Dirección General de Aduanas) agency, supervised by the SAT, controls the customs offices which assign and collect duties, fees and VAT on imports.

**Tax on corporate income**

There are two tax regimes in Guatemala, Taxpayer can choose to which regime the company register to:

- Income from profitable activities system: Tax is 7% on gross income.
- Income -from profitable activities system: Tax is 25% on net income.
**Income from profitable activities system**

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.

**Income from profitable activities system**

A rate of 25% is applicable to a company’s taxable income from Guatemala sources.

The rate is applicable on net income of individuals or juridical entities domiciled in Guatemala. Under this system, the tax is determined and paid at the end of each quarter, without prejudicing the end-of-period final tax liquidation.

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

Under this system, income taxes are payable as advance quarterly payments, and the balance is due upon filing the returns, due after the end of the fiscal period (December 31st) but, not later than March 31st of each year. Quarterly advance tax payments are applied to the final income tax liability computed as of the end of year.

The income tax return shall be accompanied by the documents required by the regulations, which might include:

- A balance sheet.
- A statement of result of operations.
- A statement of cash flow.
- A statement of cost of production.
Documents must be duly certified by a professional or an independent accounting firm. The financial statements that accompany the returns shall agree with both those recorded in the financial statements ledger and those destined for publication.

Both 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 this law and the tax code.

Salaries and wages, dividends, or profit and fees are subject to withholding tax. Remittances abroad of services, commissions, interest, rents, royalties and technical service fees are subject to flat income tax withholdings.

Although both business enterprises and individuals are required to file tax returns, individuals are not required to file tax returns if their annual income from personal services does not exceed GTQ 36,000 or if their income from personal services has been subject to withholding taxes in amounts of no less than the tax due.

**Corporate residence**

The place of incorporation determines corporate residence. Any entity incorporated according to Guatemalan law is required to have its fiscal and corporate domicile in Guatemalan territory.

As of January 2013, the Tax Law in Guatemala incorporates Permanent Establishment regulations.

**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.
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 by the VAT paid over purchases, and the government collects the net resulting amount. The insurance and circulation of credit titles is VAT-exempt.

- Sale of goods
  The taxable amount on the sale of goods includes the sales price less any discounts provided under sound commercial practices plus other charges shown on the invoice.
- Services
  The taxable amount of services includes the price of the services, minus any discounts provided under sound commercial practices, plus financial charges and products used to render the services.
- Other issues
  - Imports: The tax base is the value declared for 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;
    2. Individuals and juridical entities under temporary importation regulations; and
    3. 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 transfer tax

Real estate taxes are assessed annually at GTQ 2 per thousand on declared property values of 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 (e.g., collection of dividends), either by preparing the document on “papel sellado”, which is special stamped paper, or by affixing stamps on the documents.
This tax is also assessed on documents issued abroad, other than drafts or promissory notes involving international transfers of funds are generally exempt from stamp taxes. The normal 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 gift taxes**

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 subject to tax. 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% if not) and at 6% to 14% on amounts of excess of GTQ 500,000 (at least 25% for nonrelated recipients).

**Solidarity tax (ISO)**

An ISO tax rate of 1% is assessed on the net assets of a corporation, or on the 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 only applies to taxpayers under the income from profitable activities system, and has to be paid quarterly on the basis of the corporation’s opening balance sheet of each fiscal period.
**Corporate Deduction**

*Allowed deductions*
Deductions apply under the optional income tax regime.

*Interest*

The deduction for this concept cannot exceed the result of multiplying the 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.

<table>
<thead>
<tr>
<th>Class</th>
<th>Rate %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building and improvement</td>
<td>5</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>20</td>
</tr>
<tr>
<td>Furniture and fixtures</td>
<td>20</td>
</tr>
<tr>
<td>Vehicles</td>
<td>20</td>
</tr>
<tr>
<td>Tools</td>
<td>25</td>
</tr>
<tr>
<td>Trees and vegetable plants</td>
<td>15</td>
</tr>
<tr>
<td>Computer equipment and software</td>
<td>33.33</td>
</tr>
<tr>
<td>Installations not affixed to properties, furniture, office equipment, vessels, and maritime rolling stock.</td>
<td>20</td>
</tr>
<tr>
<td>Livestock used as pack or working animals, machinery, vehicles in general, cranes, air planes, excluding rail road stock.</td>
<td>20</td>
</tr>
<tr>
<td>Female or male breeders. In the last case, depreciation shall be computed over the value of such animals less their cost as cattle.</td>
<td>25</td>
</tr>
<tr>
<td>Any other depreciable asset.</td>
<td>10</td>
</tr>
</tbody>
</table>

Tax depreciation must be based on book value.

**Payments to foreign affiliates**

Deduction for royalties will be allowed up to 5% of gross income. Charges for technical service fees are deductible up to 1% of gross income of 15% of total salaries paid to Guatemalans, whichever is larger.

**Employee pension/retirement funds**

The deduction of provisions to establish or increase employee pension and retirement funds or reserves is allowed, provided the government approves the related plans.
Severance compensation payments

Severance compensation payments are allowed as deductible expenses, as well as limited allocations (not to exceed 8.33% of total annual salaries and wages) to a reserve, for severance compensation. Provisions pertaining to actual liability for severance compensation per year are allowed, provided the related plans, based on collective bargaining agreements, are approved by the government.

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 and foundations, and 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 net 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.

As of January 2013, the new Income Tax Law regulates Transfer Pricing rules in Guatemala.
Withholding tax (WHT)

On payments to non-domiciled foreign corporations or individuals:

<table>
<thead>
<tr>
<th>Class</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends</td>
<td>5</td>
</tr>
<tr>
<td>Commissions, salaries, royalties, professional fees, technical, financial, economic, scientific counseling</td>
<td>15</td>
</tr>
<tr>
<td>Interest</td>
<td>10</td>
</tr>
<tr>
<td>Others</td>
<td>25</td>
</tr>
</tbody>
</table>

**Corporate Tax Compliance**

**Returns**

The fiscal year runs from January 1st to December 31st.

**Payment of tax**

*Income from profitable activities optional simplified system*

The tax rate is 5% on gross income. There are two kinds of payment methods: direct payment method and withholding return.

Taxes on income are governed by the income tax law, “Ley del Impuesto sobre la Renta”, and its related regulations. Administration of the law is vested with the SAT.

*Income from profitable activities system*

Those taxpayers subject to income taxes on income from profitable activities system shall make quarterly income tax advance payments, and to that end they shall determine the related payment sums under any of the following options:

- Partially close their accounting records or preliminarily close-out their operations at the end of each quarter for determining the related taxable income for the period or
- On the basis of taxable income estimated at 8% of overall gross income from activities subject to this system, less any non-taxable income.
Once anyone of the preceding options is elected, such an election may not vary without previous authorization by the tax office. Income taxes shall be due per elapsed quarters and shall be finally settled on an annual basis. Quarterly tax payments shall be made under sworn declarations and shall be effected within the first ten working days following the end of the corresponding quarter, except the tax for the fourth quarter, which shall be paid when the corresponding annual sworn return is filed within the first quarter of the next year.

**VAT**

The amount payable to the “Superintendencia de Administracion Tributaria (SAT)”, Guatemala’s tax authorities, is the difference between the debits and credits of the tax period (one month), and is paid monthly by filing a tax return in the following calendar month, at the end of each tax period.

**Refund of VAT**

Any tax credits at the end of the period may be carried forward the next month to offset any tax debits that month. No cash refunds are allowed other than to exporters.

**Other issues**

Accurate and current information regarding taxation in Guatemala is often difficult to obtain, as the country lacks reporting services such as those available in the United States and other countries. It is also difficult to determine how the tax law will be applied in practice in complex situations. The law and regulations are limited and ordinarily cover only the most common situations. The system of legal precedent resulting from court decisions is narrowly used, and each issue is resolved by reference to the respective codes.
Guatemala has shown little interest in tax planning, but it is possible to have informal consultations with the tax authorities and to obtain binding ruling in many cases. Discrepancies between government and management criteria are commonly brought to judgment by the Constitutional Court, whose binding sentences generally abrogate the laws in dispute.

The income tax law differs from the United States in several basic aspects that may be of interest to a prospective investor. The comments in the preceding sections are of a general natural only; application thereof shall often be determined by reference to other laws regulating the specific industry or taxpayer, in particular, the industrial development laws.

National income is drawn principally from agriculture, poultry and cattle-raising, which together account for two-thirds of the economically active population. Taxes collected by the central government are levied on income, property, bequest and gifts, imports, exports and sales. Local taxes at countrywide level also are levied by the municipalities.

**Year-end dates established by the Guatemalan tax code**

The annual final settlement period begins on January 1st and ends on December 31st of each year and must match with the accounting year of the taxpayer. In the case of taxpayers who make less than one year temporary activities, tax administration, at their request, may authorize special times annual final settlement, which begin and end on the dates initiation and cessation of activity occurs, respectively.
Individual taxation summary

To all individuals incomes are allowed a flat personal exemption of the following:

- 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 SAT audit. This listing shall be filed with SAT within the first 10 working days of January of each year, and the employers shall reconcile any income tax withheld during the period to the final income tax return the employee shall be required to file with SAT.

- 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 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 covering employee death only, provided the related insurance.
Individual tax compliance

Returns

Employees are required to file before their employers at the beginning of the year, a projection of income to calculate the amount of income tax that they must retain per month. At the end of the year, it is required to submit to the employer with an annual statement of income tax, to determine if the amount of tax withheld is sufficient to cover the payable tax, if the employee must pay the difference or otherwise if the employer shall return the excess.

Current tax rates

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:

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.

<table>
<thead>
<tr>
<th>Taxable income</th>
<th>Tax on lower limit</th>
<th>% on excess over lower limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q.0.01 a Q 300,000.00</td>
<td>Q.0.00</td>
<td>5%</td>
</tr>
<tr>
<td>Q.300,000.01 en adelante</td>
<td>Q.15,000.00</td>
<td>7%  sobre el exceso de Q.300,000.00</td>
</tr>
</tbody>
</table>
Edgar is a Tax and Legal partner responsible for Guatemala and El Salvador Tax, Legal, Transfer Pricing & BPO services. He has more than 30 years of experience in the fiscal and legal area. He is a public accountant and auditor, as well as an attorney-at-law.

Edgar led numerous professional tax and legal consulting, audit and due diligence engagements for both local and international companies in the consumer products, manufacturing, agriculture, financial services, and transportation and tourism industries.

In the field of Consulting and Advisory Services, Edgar Mendoza has designed and implemented fiscal strategy systems for industry of commerce services, pharmaceutical laboratories, meat packing companies, plastic industries, agro industry, sugar mills, oil vending enterprises, mills, shoe factories, tanneries, fishing cooperatives, etc.

In the legal field of endeavor, he has conducted legal-tax defenses of administrative and juridical nature, and prepared unconstitutionality writs, and appeals for nullification of court decisions, appeals for legal protection and participated in compelling-economic collection.

He graduated from the University Of San Carlos Of Guatemala, obtained a master’s degree in tax law from the University of Galileo, and has degrees in international taxation and tax law from the University Castilla de la Mancha in Toledo, Spain. He is an active member of the Board of Public Accountants and Auditors of Guatemala, Guatemalan Institute of Public Accountants and Auditors and Guatemala Bar Association.
**Edificio Tivoli Plaza**
6a Calle 6-38 Zona 9, 4to Nivel
Tel: (502) 2420-7800
Fax: (502) 2331-8345
Apartado postal 868
Guatemala – Guatemala

**Edgar Mendoza***
Transfer Pricing / Tax & Legal Services / BPO / Partner
edgar.mendoza@gt.pwc.com
*Send your inquiries related to Doing Business to this contact.

**Dora Orizabal**
Assurance Partner
dora.orizabal@gt.pwc.com

**Rony Maldonado**
Advisory Partner
rony.maldonado@gt.pwc.com

**Fernando Rodriguez**
Assurance Partner
fernando.leonel.rodriguez@gt.pwc.com

**Alberto Rosales**
Assurance Partner
alberto.rosales@gt.pwc.com