After two consecutive years of economic contraction, this year’s growth in the Central America and Dominican Republic region will exceed the average of other regions in Latin America.

The gross domestic product (GDP) of the countries in this region has registered positive changes during this year. Among the factors favouring a better economic environment for the region we can mention the measured recovery in global economy and better growth expectations for the United States, largest trading partner of the region. We should also mention the slight increase in the global trade volume, a higher level of prices of commodities, and an increase in the income from remittances.

This Doing Business seeks to provide a broad understanding of the key aspects to invest in the Central America and Dominican Republic region. In this guidebook we intend to answer the main questions each foreign company and investor has as they enter our markets for the first time, as well as keep informed those companies who already have a presence here and would like to be updated on relevant topics.

Leveraging on our vast experience in the establishment of companies in the region, our Tax & Legal team has developed this complete guide which reflects the changes in regards to taxes, legal forms and accounting and business practices. Additionally, it offers a brief description of each country in the Interamericas region.

As a guide, however, this publication serves mainly as a starting point. Should you need more information, our advisors will be ready to help you individually.

On behalf of PwC Interamericas, I hope you find this information be useful and I wish you the very best in your future investments.
Foreword

Doing Business 2018 is the fourth edition of a series of yearly guidelines offering information about culture, climate for investment, as well as tax systems for Central America and the Dominican Republic. This document is made up by a series of indicators on business regulations for tax, legal and regulatory compliance, based on laws applicable in each country.

The Central American and Dominican Republic region is ideal for investing and starting up businesses due to its fertile ground for investment. Most of its economies are going through a period of stable growth, which makes them an ideal place to start new business. Each country has appropriate legal regulations and incentives to protect and encourage investors, which the authorities aim to highlight all around the world. Regarding their geographical location, this is a privileged region since it is located close to some of the most important ports and cities of the world, which facilitates global commerce. This territory is full of investment opportunities.

Our objective is to provide essential basic information about aspects which may help the investors establish and manage a business in this region, be it an independent entity, a branch of a multinational company, or a subsidiary of an existing multinational company. It also covers essential basic information for those who are considering relocating permanently to live or work in any of the countries in Central America or in the Dominican Republic.

PwC offers personalized services to our clients, which places us as leader in the market, and makes us the trusted advisor in most of the negotiations that take place in the region and in the world.

This is a general guideline and was not created as a comprehensive advice document. Due to the speed of change and the complexity of some of the related topics, we recommend that this guideline be used along with the appropriate professional advice of our team, which specializes in tax, legal and legal topics, and who will provide the help you need after carefully considering your circumstances and objectives.
Costa Rica
The culture of Costa Rica is in many ways a reflection of its ethnic diversity, with a predominantly European and North American influence, along with traces of creole and indigenous affinity.

Costa Rica was discovered by the Europeans around the year 1500, and subsequently became part of the greater Spanish Empire. In 1821, CR obtained its independence from Spain, and after some attempts to conform to the rest of Central America in a union called “Federación Centroamericana”, it declared itself as a sovereign and independent republic under the mandate of its first president Jose Maria Castro Madriz in 1848.
Costa Rica
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• Population, form of government, language, currency.
• Education.

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• Free Trade Agreement and other agreements.
• Other free trade zone agreements currently in effect.
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• Public Private Partnerships Law
• Law of Legal Stability for Investments
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• Individual deduction.
• Individual tax compliance.
Overview of the country

Brief history

The culture of CR is in many ways a reflection of its ethnic diversity, with a predominantly European and North American influence, along with traces of creole and indigenous affinity.

CR was discovered by the Europeans around the 1500 year, and subsequently became part of the greater Spanish Empire. In 1821, CR obtained its independence from Spain, and after some attempts to conform with the rest of Central America a union called “Federación Centroamericana”, it declared itself as a sovereign and independent republic under the mandate of its first president Jose Maria Castro Madriz in 1848.

Climate

CR has a tropical climate with an average temperature of 22°C that increases considerably in the coastal areas; in San José (the capital city), it goes from 14°C to 24°C in December, and 17°C to 27°C in May. The Caribbean coast averages 21°C at night and over 30°C during the day. The Pacific coast is hotter than the Caribbean but less humid.

Population, form of government, language, currency:

<table>
<thead>
<tr>
<th>Area</th>
<th>51,100 km²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>4 857 274 million of inhabitants</td>
</tr>
<tr>
<td>Population per km²</td>
<td>95 hab./km²</td>
</tr>
<tr>
<td>Population growth</td>
<td>1,023% (2016)</td>
</tr>
<tr>
<td>Urban population</td>
<td>77.67% (total population of the country)</td>
</tr>
<tr>
<td>Political system</td>
<td>Democratic Republic</td>
</tr>
<tr>
<td>Form of government</td>
<td>Presidential</td>
</tr>
<tr>
<td>Language</td>
<td>Spanish</td>
</tr>
<tr>
<td>Currency</td>
<td>colon (¢)</td>
</tr>
<tr>
<td>Administrative division</td>
<td>7 provinces</td>
</tr>
<tr>
<td>Religion</td>
<td>Roman Catholic</td>
</tr>
<tr>
<td>Capital city</td>
<td>San Jose</td>
</tr>
</tbody>
</table>


Education

Costa Ricans are a highly literate people: the country boasts of 95% literacy in those 10 years or over, the most literate population in Central America. Many of the country’s early fathers like the first president, Jose Maria Castro, were former teachers who were concerned about the education
in Costa Rica. In 1869, the country became one of the first in the world to make primary school education both free and compulsory, funded by the State’s share of the great coffee wealth. In those days only one in ten Costa Ricans could read and write. By 1920 50% of the population was literate and by 1970 89% were able to read and write.

The last 20 years have seen a significant boost to educational standards. Since the 70’s the country has invested more than 28% of the national budget on primary and secondary education. President Figueres elected in 1994, advocates a computer in each of the nation’s 4,000 schools, plus mandatory English classes, following the technological and tourist industries’ boom of recent years.

Elementary and High schools are to be found in every community. Students are not required to pay for assistance to school; a nominal voluntary charge of around $20 per year applies. Elementary school has 6 grades or levels; whereas high school has 5 grades or levels. Each is divided in two cycles, and upon completion of each cycle, students are required to pass tests on all subjects studied during those years. The most notorious of these tests are the “high school” ones which are known as “bachelor’s tests”. The aforementioned tests are required to get the high school diploma needed for admission to Universities.

Although the country lacked a university until 1940, Costa Rica now boasts four state-funded universities and a score of small private ones, the number of which has increased dramatically in the last decade, due to the difficulty of being admitted to state-funded, more prestigious universities. Opportunities abound for adults to earn primary or secondary school diplomas and to have access to higher education.

The University of Costa Rica (UCR), the largest, oldest, and most prestigious university, enrolls some 39,000 students, mostly on scholarships, but even paying full tuition is not hard as it rarely surpasses $200 a semester. The main campus is in the northeastern San Jose community of San Pedro but the UCR also has regional centers in Alajuela, Turrialba, Puntarenas and Cartago. The National University in Heredia, offers a variety of liberal arts, sciences, and professional studies to 18,200 students. Cartago’s Technical Institute of Costa Rica (ITCR) specializes in science and technology, and seeks to train people for agriculture, industry and mining. The State Correspondence University, founded in 1978, is modeled after the United Kingdom’s Open University and has 32 regional centers offering 15 degree courses in health, education, business administration, and the liberal arts.

Also, in Costa Rica it is located in INCAE Business School Costa Rica, which has been considered as the best business school of Latin America, it ranks at the 27th global position and it is considered among the best business schools of the world.

In addition there are many private institutions like, the Autonomous University of Central America, the University for Peace, sponsored by the United Nations offering a master’s degree in communications for Peace.

1 Fuente: UNESCO
Political and legal system

Legal framework

The political and legal structure of Costa Rica is comprised of three main branches: Legislative, Executive and Judicial; which are composed and exercised as follows:

<table>
<thead>
<tr>
<th>Political and Legal Framework</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Executive</strong></td>
</tr>
<tr>
<td><strong>Exercised by the:</strong></td>
</tr>
<tr>
<td><strong>Composed of:</strong></td>
</tr>
<tr>
<td><strong>Elected or appointed by:</strong></td>
</tr>
</tbody>
</table>

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

In the 2013 Worldwide Governance Indicators from the World Bank, Costa Rica was first among Latin American countries for Political Stability and Absence of Violence/terrorism.


Main political parties

- Frente Amplio (FA).

The presidential elections are carried out in Costa Rica each four years. Next elections period is scheduled for February 2018.
The economy

One of the pillars of the Costa Rican economic development has been trade liberalization, which has allowed exports to surpass its 30% ratio of GDP in 1990 to a current rate of 31.6% rate for 2016 (includes exports of goods and services).

This trade liberalization has been followed by a series of structural changes resulting in productivity growth, diversification of the economy and a higher level of investment. The real GDP has been increasing at a compound annual growth rate of 5.3% since 1991. All these changes have translated into important social achievements. In the last 20 years poverty was reduced from 40% to less than 20%.

<table>
<thead>
<tr>
<th>GDP</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP million of US$</td>
<td>49,552.6</td>
<td>51.11 mil</td>
<td>54,736 mil</td>
</tr>
<tr>
<td>Real GDP growth (%)</td>
<td>0.60%</td>
<td>2.8%</td>
<td>4.329%</td>
</tr>
</tbody>
</table>

Prices and financial indicators

| Exchange rate Colón: US$ (end-period) | 538.3 | 531.94 | 561.10 |
| Lending interest rate (avg. %) Jan 1st Estimate. Industry loans in national currency | 16.00% | 17.01% | 14.25% |
| Lending interest rate (avg. %) Jan 1st Estimate. Industry loans in USD currency | 10.37% | 9.85% | 9.82% |

Current account (US$ millions)

| Exports | 11,304.42 | 9,649.6 | 9,932.7 |
| Imports | 17,186.2 | 15,154.2 | 15,324.7 |
| Trade Balance | -5881.78 | -5946.40 | -5392 |

| Unemployment (avg. %) | 9.60% | 9.60% | 8.99% |

Sources: Costa Rican Central Bank, Costa Rican Foreign Commerce Ministry, Worlds Bank.

Inflation

In 2016 year Costa Rica accrued an inflation of 0.77%.

The national Institute of Statistics and Censes of Costa Rica (INEC as per the acronym in Spanish) informed that Costa Rica, during the first quarter of 2017, registered an inflation of 0.7% with the inter-annual inflation fallen to the 1.64%. It is envisaged that the Gross Domestic Product will grow in a 4.5% in 2017; the expected growth is related to the expansion of the internal and external demand, this last one linked to the acceleration of the economic activity of the main commercial partners of the country.
Doing business in Costa Rica

Government attitude towards foreign investment

CR’s economic, political and social stability is one characteristic that has distinguished the country throughout its entire contemporary history and is one of the most important strengths that has enabled it to reach great success in alluring foreign investors.

The Government created Free Trade Zones under law No. 7210 (known as the “Free Trade Zone Law”). Fiscal incentives, including 100% exemption from virtually all taxes and Government finance for the training of employees, are available to companies which comply with the investment and employment requirements stated in the Law.

In addition, there are other specific sectors, such as tourism and forestry that are promoted by the government through tax incentive laws. These sectors are briefly defined in the Tax System epigraph.

Free trade agreement and other agreements

Costa Rica is a member of the World Trade Organization and has some preferred treatments. The country has access to United States through the Caribbean Basin Trade Partnership Act (CBTPA) which was an extension of the Caribbean Basin Initiative (CBI) and the Preferred Generalized System GSP.

Costa Rica has bilateral free trade agreements with the following countries and blocs which took effect on (see date): Canada (November 1, 2002), Chile (February 15, 2002), Caribbean Community (CARICOM) (November 15, 2002), Dominican Republic (March 7, 2002), El Salvador Customs union, (1963, re-launched on October 29, 1993), Guatemala Customs union, (1963, re-launched on October 29, 1993), Honduras Customs union, (1963, re-launched on October 29, 1993), Mexico (January 1, 1995), Nicaragua Customs union, (1963, re-launched on October 29, 1993), Panama (July 31, 1973, renegotiated and expanded for January 1, 2009), United States (January 1, 2009), China under negotiation, Singapore under negotiation, European Union under negotiation, Perú (June 1st, 2013), Central America, United States and Dominican Republic Free Trade Agreement (CAFTA-DR) January 1st, 2009.

The main agriculture products are bananas, pineapples, coffee, melons, ornamental plants, sugar, corn, rice, beans, potatoes; beef, poultry, dairy; timber.

The main industries are: microprocessors, food processing, medical equipment, textiles and clothing, construction materials, fertilizer, plastic products.

Foreign investment

Foreign investment, which is welcomed in Costa Rica, the gross is concentrated 3 sectors: services (28.6%), manufacturing (28%) and agriculture (16.4%, mainly banana and coffee); other sectors include real state (11.2%) & commercial (11.1%)\(^2\). Other investments are placed in the railways,

\(^2\) Source: MIDEPLAN
tobacco, communications, airlines, government bonds, and real estate. The US, Costa Rica’s major foreign investor, has interests in computer chip manufacturing, agriculture, petroleum refining, distribution, utilities, cement, and fertilizers. The continued high level of trade with the US has been conducive to private foreign investment, especially in export industries. Investment incentives include constitutional equal treatment guarantees and free trade zones. Foreign direct investment in Costa Rica in 2016 was $3.18 billion, or 5.5% of GDP.

Liberalization of Costa Rica’s trade and investment regimes, have resolved the internal debt problem, and passage of legislation expanding private sector investment in energy, telecommunications, roads, ports, and airports have boosted opportunities for foreign and local investors and increase Costa Rica’s prosperity. The Public Concessions Law defines the ways in which foreigners could invest in Costa Rica’s public sector.

The Costa Rican government has introduced a wide variety of incentives in an effort to encourage foreign investment. To support this effort, CINDE (Costa Rican Investment Promotion Agency), a private non-profit organization, was set up to assist and guide investors and companies in the set up for operations in Costa Rica.

A further step on this effort was the promulgation of legislation providing significant tax and operational incentives to companies in export related activities. These sets of incentives are: the export contract, the free zone and the temporary admission system, all of which include total or partial tax exemptions and expedite customs clearance services among other simplified operational aspects.

Costa Rican laws, regulations and practices foster competition and do not discriminate between locals and foreigners, for the conduction of business. The only exceptions to this are the entities that are constitutionally precluded from total foreign ownership such as telecommunications, energy generation and insurance. Tax, labor, health and safety laws do not inhibit the flow of investment.

**Foreign investment incentives**

The Costa Rican government has introduced a wide variety of incentives to encourage foreign investment. Among the most important are:

- The ‘Drawback’ law no 5162 of 1972 encouraged the citing in Costa Rica of “screw driver” assembly plants. Enterprises which wish to assemble products in Costa Rica and re-export the finished products to other markets can import all their capital machinery and raw materials including the parts to be re-assembled free of all import duties. The final product which is re-exported is not assessed to any business income tax on profits.

- Free Zones, known as Export Processing Zones - see above.

**Establishing business in Costa Rica**

Costa Rican corporations are regulated by the Code of Commerce, Law N° 3284, enacted on April 30th, 1964 (henceforth “C.C.”).
Commercial Corporations

- General Partnership (Sociedad en Nombre Colectivo).
- Ordinary Limited Partnership (Sociedad en Comandita Simple).
- Limited Liability Company (Sociedad de Responsabilidad Limitada -S.R.L.-).
- Corporation (Sociedad Anónima – S.A.).

Formation procedure

In general terms, the formation of any type of commercial entity follows the steps described below. However, it is important to bear in mind that each have specific requirements that must be complied with in order to duly incorporate the desired entity, and that further consultation must be carried out with the particular legal specialist in each case.

- The founders acquire the services of a Public Notary and draft an incorporation deed, containing the new company’s by-laws and the appointment of the administrators.
- Issue shares in accordance with the shareholder’s contributions.
- Pay the registrations fees (based in the company’s capital) and submit the incorporation deed to the Public Registry.
- Upon registration of the incorporation deed the company is assigned a corporate identification number.

Closing procedure

According to the C.C., a corporation is closed by either of the following reasons: - Shareholder’s agreement. – Completion of the corporate term. – Impossibility of achieving the corporate object. – Definitive loss of more than 50% of its capital (unless replenished by the shareholders or proportionally decreased).

If the shareholders agree to close and liquidate the corporation, they have to register such agreement in the National Registry, publish a notice in the Official Ledger and appoint a liquidator in order to pay the company debts and distribute the balance to the shareholders in accordance with their contributions.

Branch and/or Mercantile Establishment

Any foreign entity may register a branch in Costa Rica.

Registration procedure

The foreign entity must register a Shareholders agreement in the Costa Rican National Registry containing:

- Appointment of a Legal Representative in the country for the company’s businesses.
- Object, capital, and compete data of the main company’s directors.
- An express declaration of submission to the Costa Rican Law.
All documents are validated by the Consulate of the country of origin and registered in Costa Rica in order to acquire a local corporate identification.

**Joint-Venture (Sociedades de Hecho)**

Joint Venture is a contract between 2 or more persons who are classified as traders with an interest in one or various specific and transitional business operations, which shall be run by one of them at his sole name and under his personal credit, with the responsibility to account and divide with its stakeholders the gains or losses in the agreed proportion.

Joint Ventures are not expressly contained in the Costa Rican law, but are accepted as valid for the business association.

**Banking system**

**Central Bank**

The Central Bank of Costa Rica (Banco Central de Costa Rica BCCR) was created on April 23, 1953, and currently it is governed by the Law No. 7558 dated November 3, 1995.

The Central Bank is an autonomous institution responsible in the contribution to the development of the Costa Rican economy, security and price stability. Also, it is tasked with maintaining the internal and external stability of the national currency and to ensure its conversion to other currencies.

**Commercial banks**

The Superintendence of Financial Institutions (Superintendencia General de Entidades Financieras SUGEF), is the entity in charge of ensuring the stability, solidity and efficient operation of the national financial system, by following strictly legal and regulatory provisions and according to regulations, guidelines and rulings issued by the institution itself, safeguarding the general interest.

SUGEF supervises the operations and activities of the entities under its control and the operations of the entities authorized by the BCCR that are to participate in the exchange market. Within its powers are the faculty to issue general norms for establishing sound bank practices, to issue guidelines it deems necessary to promote stability, solvency and transparency of the operations of the supervised entities, and to establish categories of financial intermediaries in terms of the type, size and degree of risk.


**List of banks**

**Central bank**

- Banco central de Costa Rica.
**Government-owned banks**
- Banco de Costa Rica.
- Banco Nacional de Costa Rica.

**Banks created with special laws**
- Banco Hipotecario de la Vivienda.
- Banco Popular y de Desarrollo Comunal.

**Private Banks**
- Banco BAC San José, S.A.
- Banco BCT S.A.
- Banco Cathay de Costa Rica S.A.
- Banco CMB (Costa Rica) S.A.
- Banco Davivienda (Costa Rica) S.A.
- Banco General (Costa Rica) S.A.
- Banco Improsa S.A.
- Banco Lafise S.A.
- Banco Promérica de Costa Rica S.A.
- Prival Bank (Costa Rica) S.A.
- Scotiabank de Costa Rica S.A.
- The Bank of Nova Scotia (Costa Rica) S.A.

**Labor and social security**

**Labor supply**

The Costa Rican labor force is distributed as follows:

<table>
<thead>
<tr>
<th></th>
<th>Total as of 2016</th>
<th>Employed</th>
<th>Unemployed</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Country total</strong></td>
<td>2,280,989</td>
<td>2,063,366</td>
<td>217,623</td>
</tr>
<tr>
<td><strong>Male</strong></td>
<td>1,415,247</td>
<td>1,317,044</td>
<td>98,203</td>
</tr>
<tr>
<td><strong>Female</strong></td>
<td>865,742</td>
<td>746,322</td>
<td>119,420</td>
</tr>
</tbody>
</table>

*Source: Costa Rican National Institute of Statistics*
Labor law requirements and Social Security

Social security charges/payroll taxes based on salary paid to the staff in Costa Rica.

A. Cost obligations of the employer as a temporary withholding:

1. Income Tax Law: According to Costa Rican Income Tax Law, the employer has the obligation of withholding salary income tax on the employee’s salary (with an upper marginal rate of 15%) as part of his (employer) Income Tax Obligations. The retained amount has to be declared and paid to the Tax Authorities within the first 15 calendar days of the month immediately following that in which the payment of salary was rendered.

For the purposes of the company’s year-end Income Tax Return, the amounts paid as salary can be treated as a deductible expense, as long as all salary income tax and social security contribution obligations have been duly carried out.

The percentage of the withheld tax varies according to the salary paid to the employee, in accordance with the following progressive scale:

<table>
<thead>
<tr>
<th>Salary Range</th>
<th>Percentage paid by the employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 799,000 CRC</td>
<td>Exempt</td>
</tr>
<tr>
<td>On the excess of CRC 799,000.00 up to CRC 1,199,000.00</td>
<td>10%</td>
</tr>
<tr>
<td>On the excess of CRC 1,181,000.00</td>
<td>15%</td>
</tr>
</tbody>
</table>

2. Social Costs: Costa Rican labor law introduces the concept of Social Costs, commonly known in the local language as “Cargas sociales” as a series of items that cover all the employee’s social security needs, this costs are paid both by the employee and the employers. The amount paid by the employee is retained from his salary by the employer (in the same manner as the income tax described above) and then transferred to the Costa Rican Social Security Fund: “Caja Costarricense del Seguro Social” (C.C.S.S.).

The percentage of this cost that has to be paid by the employee and retained by the employer is 9.84% of the employee’s salary and contains the following category:

<table>
<thead>
<tr>
<th>Social Costs</th>
<th>Percentage paid by the employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health and maternity leave Benefits</td>
<td>5.50%</td>
</tr>
<tr>
<td>Old age, disability and death Benefits</td>
<td>3.34%</td>
</tr>
<tr>
<td>People’s and Community Development Bank</td>
<td>1.00%</td>
</tr>
<tr>
<td>Payable Total amount</td>
<td>9.84%</td>
</tr>
</tbody>
</table>

B. Direct cost obligations of the employer:

1. Social Costs: As mentioned before, the social costs are paid by both the employer and the employee. Different from the employee’s portion, where the employer acts strictly as a withholding, the portion corresponding to the employer has to be paid directly by it in any state owned bank (there are four of them) and adds 26.33% of the worker’s salary and contains the following items:
2. Mandatory Labor Risks insurance cost:

An insurance policy called “Labor Risks Insurance” is set as mandatory by the Costa Rican Labor Code. The employer is obligated to pay this policy to the National Insurance Institute (an insurance entity of the country) according to different rates set by the employee’s status or position. (The rates increase according to the risk level of the line of work, for example the rate of a common office clerk is set in a low 1% of the salary).

C. Other costs

1. **Vacations**: Costa Rican labor code describes a benefit set as two weeks paid vacations for every fifty weeks worked for the same employer.

When the employment relation ends before fifty weeks, the employee has the right of one paid vacation day for every month worked, before leaving the company.

Also when the labor relation ends by any cause (including justified termination) the worker has the right of receiving in cash his or hers vacation benefit. This is calculated based in the average salary of the last fifty weeks worked.

2. **“Aguinaldo”, “Thirteenth Month” or “Christmas Bonus”**: This is a specific Costa Rican benefit that consists on paying an extra entire month’s salary every December. The amount is calculated adding the last twelve salaries received (from December of the previous year to November of the current year) and dividing it by twelve. This amount is not taxed at the income tax, but what exceeds its calculation, will be taxable.

This benefit has to be paid during the first 20 days of December. If the work relation ends before December, the employee has the right of receiving a proportional “Aguinaldo” calculated by adding the salaries received in the current year and dividing it by twelve.

**Note**: Both the vacations and the “Aguinaldo” are constitutional labor rights, and, in Costa Rican law, every worker has the right of receiving them even if the employment relationship is terminated by causes attributable to the employee.

---

### Social Costs

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Percentage paid by the employer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health and maternity leave Benefits</td>
<td>9.25%</td>
</tr>
<tr>
<td>Old age, disability and death Benefits</td>
<td>5.08%</td>
</tr>
<tr>
<td>Family Allowances</td>
<td>5.00%</td>
</tr>
<tr>
<td>INA*</td>
<td>2.00%</td>
</tr>
<tr>
<td>People’s and Community Development Bank</td>
<td>0.50%</td>
</tr>
<tr>
<td>IMAS*</td>
<td>0.50%</td>
</tr>
<tr>
<td>Employee’s Protection Law***</td>
<td>3%</td>
</tr>
<tr>
<td>INS*</td>
<td>1%</td>
</tr>
<tr>
<td><strong>Total amount to pay</strong></td>
<td><strong>26.33%</strong></td>
</tr>
</tbody>
</table>

*INA, IMAS, and INS are government institutions.

** This law has been effective since March 2001.
3. **Notice:** When either the employee or the employer decide to terminate the employment relationship, the responsible party has to give notice to the other party in the following terms:

<table>
<thead>
<tr>
<th>Condition</th>
<th>Notice Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>If the relationship lasted less than 3 months.</td>
<td>No notice required.</td>
</tr>
<tr>
<td>If the relationship lasted more than 3 months but less than 6 months.</td>
<td>One week notice required.</td>
</tr>
<tr>
<td>If the relationship lasted more than 6 months but less than one year.</td>
<td>Fifteen days notice required.</td>
</tr>
<tr>
<td>If the relationship lasted more than one year.</td>
<td>One month notice required.</td>
</tr>
</tbody>
</table>

This benefit can be converted in cash if one party pays the other one, the amount of one salary day for each day contained in the terms listed in the table above.

The employer has the obligation of granting one day off every week during the terms listed above so the employee can find another job.

4. **Unemployment Aid or Severance:** Known in Costa Rican law as “auxilio de cesantía”, this benefit is paid only when the employment relationship is terminated by causes not attributed to the employee. This is why it is known as an “expected right” or “not consolidated right” of the worker.

The unemployment Aid is paid according to the following terms:

<table>
<thead>
<tr>
<th>Condition</th>
<th>Payment Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>If the relationship lasted less than 3 months.</td>
<td>No payment required.</td>
</tr>
<tr>
<td>If the relationship lasted more than 3 months but less than 6 months.</td>
<td>Seven salary days payment.</td>
</tr>
<tr>
<td>If the relationship lasted more than 6 months but less than one year.</td>
<td>Fourteen days payment.</td>
</tr>
<tr>
<td>If the relationship lasted more than one year.</td>
<td>Payment of 19.5 to 22 days for each year worked depending on the years worked and with a maximum of 8 years (The calculation is made based on a table established in article 29 of the Labor Code)</td>
</tr>
</tbody>
</table>

### Accounting and audit requirements and practices

**Accounting**

The Costa Rican Public Accountant Association has adopted the International Financial Reporting Standards for the recording of financial information, standards for attestation works, and standards for related services and statements.

Any modification to the Standards in force, as well as new Standards that in the future are to be issued by the International Federation of Accountants, will be deemed to be automatically
incorporated for mandatory application in CR, without the prejudice that the Commission of Auditing and Accounting Standards of the Costa Rican Public Accountant Association performs an evaluation and recommendation, totally or partially, for its specific application in the country, without the impairment of possible changes.

**Books and records**

- Accounting records should be kept in Spanish and are specifically required by the Commercial Code.

- The accounting records should include: Daily Ledger, General Ledger, Inventories and Balances Ledger; in addition, business corporations must keep a Shareholder’s Assembly Minutes Ledger and a Shareholder’s Registry Ledger. These books must also be kept by limited liability corporations.

- The books must be written in Spanish language, in a clear way, in a progressive order by date, with no blank spaces and no scratching or interlineations.

**Accounting profession**

In CR, the authorized public accountant must have the degree of Licenciatura en Contaduría Pública or its equivalent degree, in a university whose curriculum is duly guaranteed by the CONESUP or the CONARE, as appropriate.

The Public Accountant Association was created with Law No. 1038 of August 19, 1947.

Due to the academic education of Public Accounting professionals and the continuous professional update which Authorized Public Accountants are obliged to have, they are able to develop in one or several professional areas, such as financial audits, compliance audits, Internal Control system assessments, and act as internal auditors, among others.

**Rules for listed filings**

IFRS is required for consolidated and standalone/separate financial statements for listed companies.

As published by the IASB, subsidiaries of foreign companies, or foreign companies listed on local exchanges, are not subject to different rules.

**Rules for statutory filings**

Is IFRS or IFRS for SMEs required, permitted or prohibited for statutory filings?

Since 2001, IFRS was adopted as the mandatory accounting framework for preparation of financial statements for public and private companies (with the exception of banks and financial institutions and government entities). This contribution applies also to the companies considered as Large Territorial Corporates. In compliance with the resolution DGT of 2013, it also includes the companies in Free Zone that have been classified as large taxpayers or territorial corporations.
Tax System

The Costa Rican Constitution states that the Congress is empowered to levy taxes. Such taxes will be collected and administered by the Costa Rican Government through the Tax General Directorate which is an entity that belongs to the Ministry of Treasury.

Tax on corporate income

The current income tax rate is 30%.

However, the law establishes special regulations for small companies whose gross income does not exceed CRC 106,835,000. For this category, the following tariffs will be applied:

10% for companies with gross income up to CRC 53,113,000
20% for companies with gross income up to CRC 106,835,000

Please note that these income tax brackets are adjusted yearly, effective October 1st to September 30th. The tax brackets listed are for the 2016-2017 fiscal year.

Tax on corporations

The Tax on Corporations is the tax established by the State in order to obtain resources for the Ministry of Public Security for the performance of its duties, as well as for the Ministry of Justice and Peace; and the Judiciary of the Republic to finance the Judicial Investigation Agency in the attention of organized crime.

This tax was in force for the periods 2012 to 2015 by Law No. 9024 of December 23, 2011 and was suspended by resolution No. 2015-001241 of January 28th, 2015, issued by the Constitutional Chamber of the Supreme Court of Justice and published in the Judicial Bulletin No. 234 of December 2nd, 2015 - (Exp. No. 12-016277-0007-CO).

Subsequently, it is established with Law No. 9428 Tax on Legal Persons published in Digital Scope No. 64 to La Gaceta N° 58 of March 22, 2017 and governed from September 1, 2017, in conjunction with the regulation issued by Executive Decree No. 40417-H published in Digital Scope No. 114 to La Gaceta N° 99 of May 26, 2017. In this law, article 18 repeals Law No. 9024.

The rates established annually are:

a) Fifteen percent (15%) of a monthly salary base for legal entities that are not registered with the Single Tax Registry (RUT) of the General Directorate of Taxation.

b) Fifteen percent (15%) of a monthly salary base for the proportion of time remaining between the date of registration of the company before the Registry of Legal Entities of the National Registry and the end of the period those legal entities that are constituted and enter in the course of the fiscal period

c) Twenty-five percent (25%) of a monthly salary base for taxpayers of the Income Tax, whose income tax return for the immediately preceding period has recorded gross income less than one hundred and twenty basic salaries (120 base salaries).
d) Thirty percent (30%) of a monthly salary base for the taxpayers of the Income Tax, whose income tax declaration for the immediately preceding period recorded gross income of 120 base salaries (120 base salaries) to less than two hundred and eighty basic salaries (280 base salaries).

e) Fifty percent (50%) of a monthly salary base for taxpayers of the Income Tax, whose income tax return for the immediately preceding period has registered gross income of two hundred and eighty basic salaries (280 salary basis) or plus.

The legal entities that are constituted and registered during the fiscal period, must pay the rate established in item a) proportionally to the time that remains between the date of presentation of the deed before the cited Registry and the end of the fiscal period.

The Superior Council of the Judicial Branch establishes the salary base applicable for each period, through a circular that is published in the Judicial Bulletin of the official journal La Gaceta.

For calendar year 2017 the wage base is located set in the sum of ¢ 426,200 colones (four hundred twenty-six thousand two hundred colones). In this way, it is possible to establish the amounts payable for this tax, both for the existing companies as for the new corporations that are filed for its corresponding registration during the current year.

**Corporate residence**

In most cases, the place where a company is incorporated is known by the Costa Rican tax authorities as “the tax domicile”. However, any company that carries out industrial, agricultural or commercial activities in Costa Rica is subject to local income tax in the same manner as a registered business, regardless of where it is incorporated. Such companies that conduct business in Costa Rica are subject to the rules of permanent establishment (EP). On the other hand, under the Costa Rican income tax law, income from transactions carried out completely abroad may be regarded as non-Costa Rican-source income and, therefore, are not subject to income tax in Costa Rica.

On the other hand, under the Income Tax Law, income from transactions carried out entirely abroad can be considered as income from non-Costa Rican sources; therefore, would not be subject to income tax in Costa Rica.

**Franchise tax**

The payment made abroad for the use of a franchise, royalty or use of license will be subject to a 25% withholding on the tax on remittances abroad.

**Capital gains tax**

Currently, there is no capital gains tax for the sale of real estate or securities as long as such sales do not represent a habitual activity. There is a capital gain tax (at the normal rate of 30%) on the sale of depreciable assets when their selling price is higher than their adjusted basis (book value).

**Transfer Pricing**

On September 13, 2013, through Executive Decree No. 37898-H “Transfer Pricing Provisions”, transfer prices were regulated at the regulatory level in Costa Rica, prior to that date they had been regulated only by a guideline interpretive.
With the issuance of this Decree, the taxpayers are forced to evaluate the prices agreed in operations of goods or services sold to companies locally and abroad, whereas the prices that will be agreed between independent parties, according to the Principle of Free Competition and Economic Reality.

Recently, the Tax Administration published Resolution No. DGT-R-28-2017, which modifies Resolution DGT-R-44-2016, where the Tax Administration indicates that it will communicate, at least three months in advance, the date and by means of which it will request the presentation of the first or first information declarations of transfer prices, by publication on the website of the Ministry of Finance and in a written communication medium with national circulation. This period of three months will be granted in order for taxpayers to make adjustments in their computer systems to perform the electronic transmission of data. It will also inform the same term in advance, the technological means that for that purpose, will make available to those taxpayers who cannot access the Internet.

**Sales Tax**

A fixed sales tax rate of 13% applies at all stages of the sale of goods and in the billing of certain limited services expressly indicated in the Law. The tax applies to (i) sales of goods within of the national territory (except sales of land, buildings, exports and certain articles of basic necessity, such as staples, certain medicines and veterinary products); (ii) the value of services provided by restaurants, bars, motels, printing houses, social and recreational clubs, paint and repair shops, and others; and (iii) the importation of merchandise for personal use or consumption or to meet commercial needs.

**Use of electronic vouchers:**

On September 20th, 2017, the notice regarding the start dates for the use of electronic vouchers was published in the scope of La Gaceta No. 178. In accordance with the obligation established by Resolution No. DGT-R-48-2016 of October 7th, 2016 and in compliance with the provisions of Article 2 entitled “Objective Criteria for Taxpayer Selection” in Resolution No. DGT- R-51-2016 of October 10, 2016, the Directorate General of Taxation announces the start dates for compliance with the obligation to use the electronic billing system, electronic ticket, electronic credit note and electronic debit note, as well as vouchers for the support of revenues, costs and expenses, in accordance with the defined technical and normative specifications, for the groups of taxpayers described in the following sectors:

1. Health Sector - January 15th, 2018  
2. Accounting-financial-administrative sector - February 1st, 2018  
3. Legal sector - March 1st, 2018  
4. Engineering-architecture-computer science sector - April 2nd, 2018  
5. Other sectors - May 1st, 2018

**Excise tax**

The excise tax must be applied at a rate of up to 100% and it is applicable in products that are considered non-essential. The base tax is a cost, insurance or freight (CIF) plus import tax for
imported goods or the value of the sale of goods produced in Costa Rica. The tax is applied in only one stage in the sale of goods. The payment of the tax is required at the time of importation or, for articles produced in CR, within 15 days of the month of sale.

**Property tax**

Each local municipal government is in charge of real estate appraisal. The property tax to be applied throughout Costa Rican territory is 0.25% of the appraised value, registered in the respective municipality when the tax liability originates. Depending on the municipality and the region, the local government can apply an exemption from the property tax if the taxpayer is an individual who owns only one price of property within the country.

**Real property transfer tax**

Real estate transfer is calculated as the 1.5% of the selling price of the real estate or it tax value, whichever is greater. The indirect transfer of real property was levied in the year 2012 through the Enforced Law of Tax Management No. 9069 and it was created a tax on the indirect transfer of real property understanding for it all legal business that implies the transfer of the control power on a corporation holder of the real property.

**Tax on branch income**

Branch income is subject to income tax at the rates applicable for corporate income taxes. Additionally, there is a withholding tax of 15% on dividends distributed within the country to legal entities and on the profits transferred abroad.

**Income Determination and Corporate deduction**

**Inventory valuation**

Inventories are generally stated at cost and can be valued at the compound average cost method, FIFO, LIFO, retailer method, or specific identification method. Since all entities must keep legal records, any adjustment resulting from different methods of inventory valuation for tax purposes and financial purposes should be recorded.

**Capital gains**

Capital gains and losses on the disposition of non-depreciable fixed assets or shares of other companies are excluded for income tax purposes as long as such dispositions are not a habitual activity.

**Intercompany dividends**

Dividends between domestic subsidiaries and other domestic corporations are not subject to any taxes. There are no ownership requirements to qualify for this exclusion.

**Foreign income**

Foreign-source income is not taxable.

**Stock dividends**

The stock dividends are subject to income tax of 15%, or 5% if the share is registered in a stock market approved in Costa Rica. Dividends paid in the form of shares are permitted and tax exempt.
**Deductions**

Depreciation and depletion / The straight-line and sum-of-the-years-digits methods of depreciation are allowed.

<table>
<thead>
<tr>
<th>Class</th>
<th>Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>50</td>
</tr>
<tr>
<td>Machinery and equipments</td>
<td>10</td>
</tr>
<tr>
<td>Furniture and fixtures</td>
<td>10</td>
</tr>
<tr>
<td>Vehicles</td>
<td>10</td>
</tr>
<tr>
<td>Agricultural plantation</td>
<td>2 a 10</td>
</tr>
</tbody>
</table>

The tax administration, at the request of the taxpayer, could adopt technically acceptable special depreciation methods in cases duly justified by the taxpayer. In addition, the tax administration could authorize, through general resolution, accelerated depreciation method on new assets, acquired by corporations with monetary activities requiring constant technological update, higher installed production capacity and productive reconversion processes, in order to maintain and strengthen their competitive advantage.

**Payments to foreign affiliates**

Corporations can claim deductions for royalties, technical and management service fees, and interest charges paid to foreign affiliates, provided that a tax of 25% for royalties, franchising’s and other services, and 15% for interest is withheld. However, the deductions for technical/financial advisory, use of patents, supply of formulae, trademarks, privileges, franchises, royalties and the like cannot exceed 10% of gross sales in the aggregate if paid to the parent company.

**Taxes**

With the exception of sales tax, selective consumption tax, specific taxes over consumption and special duties over them established by law, penalties and interest paid over any tax obligation, and the income tax itself, all other taxes are deductible expenses when determining taxable income.

**Net operating losses**

Losses incurred by industrial and agricultural enterprises may be carried forward and deducted from the taxable profits for the following three and five years, respectively. Loss carry backs are not allowed.

**Group taxation**

There is no group taxation in CR.

**Withholding tax (WHT)**

Regarding payments to non-domiciled foreigner’s corporation or individuals, taxes are withheld as follows:

1. Dividends – 15%

   Withholding depends on the origin or source of the retained earnings.

   Total or partial exemptions will be authorized by the tax authorities to the extent that a
foreign tax credit is totally or partially disallowed to the taxpayer in the taxpayer’s country of residence. This exemption will not be allowed, however, if this type of income is not taxable to the taxpayer in the country of residence.

2. For the interests, commissions and other financial expenses; as well as, for the lease of capital assets, it will be paid a rate of fifteen percent (15%) of the amount paid or accredited.

3. Interest, commissions and other financial expenses paid by foreign banks that are part of a Costa Rican financial group or conglomerate regulated by the National System of Financial System Supervision shall pay a five-point rate of five percent (5.5%); during the first year of validity of the law that established that tax (from November 27, 2014 to November 27, 2015); during the second year (from November 27, 2015 to November 27, 2016) will pay nine percent (9%); during the third year (from November 27, 2016 to November 27, 2017), will pay thirteen percent (13%) and, from the fourth year (beginning November 27, 2017), they will pay fifteen percent (15%) of the amount paid or credited.

4. For the technical and financial advice or other service, as well as payments for the use of patents, formula supplies, trademarks, privileges, franchises and royalties, a fee of twenty five percent (25%) will be paid.

5. For the pensions, the retirement, the wages and any other remuneration to be paid for personal work performed as an employee, a WTH of 10% will be applicable.

6. For the fees, commissions, allowances and other provisions of personal service performed without a relationship of dependency, a WTH of 15% will be applicable.

7. Transportation and communication services are subject to a 8.5% withholding.

**Tax incentives**

Entities established in Free Trade Zone, may enjoy tax exemption on export of goods, income tax in various forms (ranging from 0% to 15% depending on the activity, location within the national territory and the amount of years in which he has enjoyed the benefit), sales tax, export tax, selective consumption tax, real estate transfer tax, and WHT on payments abroad, as well as they will enjoy of the discretionary use of foreign exchange related to local operations. However, these incentives for export manufacturing activities have been affected by the rules established by the World Trade Organization, in force since 2015, such that these benefits will be made available for certain qualifying manufacturing operations in accordance with the Free Trade Zone Law as amended. The requirements and benefits of the Free Trade Zone for services sector companies did not suffer any changes.

Other devolutive tax regimes, apply for industries that import semi-finished materials for assembly in Costa Rica and import and export of finished products. Benefits consist of duty-free imports of raw materials for subsequent export as manufactured products. Machinery for these industries may also be imported duty-free.

**Tourism development:**

The incentive Law for Tourism Development grants several tax benefits, such as exemption from import duties on certain tourism service-related goods and from property tax for companies dedicated to tourism, but only for those with a signed tourism agreement.
Costa Rica -United States: The only tax treaty in force between CR and the United States, effective since 12th of February, 1991 is a Tax Information Exchange Agreement, whereby both countries agree to exchange information, from and/or in relation to public and private entities and individuals, at the request of the party’s corresponding authority, in relation to any tax relevant issue.

**Double Taxation Treaties:**

**Costa Rica -Spain:** This agreement was approved with law number 8888 to avoid the double taxation and tax evasion on income and assets.

**Costa Rica -Germany:** This agreement was approved with law number 9345, in the scope No. 59 of Wednesday, April 20th, 2016. In the official newspaper La Gaceta, the agreement between the Republic of Costa Rica and the Federal Republic of Germany was given, in order to avoid double taxation on the income tax and the tax on capital.

**Tax Information Exchange Agreement (TIEAs)**

<table>
<thead>
<tr>
<th>Contracting State</th>
<th>Reference</th>
<th>Applicable date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>Law 9007</td>
<td>Jul. 12th 2012</td>
</tr>
<tr>
<td>Canadá</td>
<td>Law 9045</td>
<td>August 14th 2012</td>
</tr>
<tr>
<td>Ecuador</td>
<td>Law 9370</td>
<td>September 17th 2016</td>
</tr>
<tr>
<td>El Salvador</td>
<td>Law 8880</td>
<td>October 31st 2012</td>
</tr>
<tr>
<td>España</td>
<td>Law 8888</td>
<td>January 01st 2011</td>
</tr>
<tr>
<td>Estados Unidos</td>
<td>Law 7194</td>
<td>February 12th 1991</td>
</tr>
<tr>
<td>Finlandia</td>
<td>Law 9197</td>
<td>January 01st 2015</td>
</tr>
<tr>
<td>Francia</td>
<td>Law 9012</td>
<td>December 14th 2011</td>
</tr>
<tr>
<td>Guatemala</td>
<td>Law 8880</td>
<td>February 11th 2011</td>
</tr>
<tr>
<td>Holanda</td>
<td>Law 9040</td>
<td>July 1st 2012</td>
</tr>
<tr>
<td>Honduras</td>
<td>Law 8880</td>
<td>April 25th 2006</td>
</tr>
<tr>
<td>México</td>
<td>Law 9033</td>
<td>June 26th 2012</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>Law 8880</td>
<td>July 9th 2011</td>
</tr>
<tr>
<td>Noruega</td>
<td>Law 9201</td>
<td>April 13th 2014</td>
</tr>
<tr>
<td>Suecia</td>
<td>Law 9203</td>
<td>August 8th 2015</td>
</tr>
</tbody>
</table>

Source: Ministry of Treasury

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**Corporate Tax compliance**

**Returns**

Corporations must file by December 15th the income tax return based on ordinary fiscal period (from October 1st to September 30th). Entities with an operating period of four months or less may file a return together with the following year’s tax return.
Costa Rican Tax Administration, will only authorize the change to a calendar fiscal period (January 1st to December 31st) in the specific cases of the following taxpayers:

a) Entities or enterprises of the Public Sector which are required to set the budget period between the January 1st and December 31st of each year.

b) A transportation company or international communication or a related company for management, possession of property or business relationship with other goods or services of this type.

c) An entity comprised in any of subparagraphs b), c), ch) and d) of Article 3rd of the Income Tax Act No. 7092 of April 21st, 1988 and its amendments, and that because of the laws governing should make economic closures in accordance with the calendar year.

d) That is a Mutual savings and loan authorized by the Housing Mortgage Bank to operate within the National Financial System for Housing.

e) Engaged in financial and securities (member of the National Banking System, savings and loan, nonbank financial company, but regulated by the Superintendent of Financial Entities) engages market.

f) Engaged in banana cultivation or its correlated activities.

g) Engaged in planting or industrialization of paddy.

h) It is a subsidiary of a foreign parent company, subsidiary of a parent company based in Costa Rica, parent company of a foreign subsidiary, branch or agency of a foreign domiciled company or a related company -in the terms set forth in subsection b) of this article- another, which (in either case) is subject to a different ordinarily established in the Law on Income tax or has previously hosted a special fiscal period.

Taxpayers benefiting from a special fiscal period must provide the sworn statement of their incomes and pay the tax within two months and fifteen days after the end of the fiscal period authorized. They also have the obligation to make partial payments of tax, in three quarterly, equal and successive installments, six months after the date of the special prosecutor authorized period.

The tax system is one of self-assessment with occasional auditing by the tax authorities.

**Payment of tax**

On the last day of March, June and September all corporations and taxpayers that will have an ordinary fiscal period, must prepay installments that amount 75% of the average income taxes paid in the past three fiscal years, or the amount paid in the prior year, whichever is greater.

The taxpayer may request the tax authorities to eliminate or modify partial payments or advances tax corresponding income in certain specific cases (i.e. if the company anticipates a loss that year, or if the average of the three previous fiscal years used to calculate partial payments of the current period was affected by some extraordinary income no longer be charged).

**Individual’s taxation summary**

Costa Rica follows a territorial concept for the determination of taxable income. Costa Rican citizens
are subject to income tax on their income from Costa Rican source, which is understood to be any income from assets used, goods located or services rendered within the Costa Rican territory.

Foreign citizens will be subject to income tax on their income from Costa Rican source, regardless the location these receive the payment for their work in the C.R.

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

**Individual tax compliance**

**Returns**

Individual tax payers must file their tax returns the same dates scheduled for the corporate tax payers, they are required to keep the same records, and are allowed to apply the same deductions, except for small to medium companies (which can apply to a Simplified Taxpayer’s Regime) and the activities of certain taxpayers (such as non-professional services), which apply different income calculation methodologies and simplified documentation requirements.

**Salary Tax**

Employers are required to withhold income tax on salaries, wages and bonuses. The tax is levied using also progressive rates with defined brackets. Christmas bonus, Social Security contributions, severance and termination payments are not subject to income tax according to Labor Code.

**Current Individual Tax Rates**

**Income tax for individuals with independent lucrative activities:**

<table>
<thead>
<tr>
<th>Up to ₡₃,₅₄₉,₀₀₀ (annually)</th>
<th>Exempt</th>
</tr>
</thead>
<tbody>
<tr>
<td>From ₡₃,₅₄₉,₀₀₀</td>
<td>Up to ₡₅,₂₉₉,₀₀₀</td>
</tr>
<tr>
<td>From ₡₅,₂₉₉,₀₀₀</td>
<td>Up to ₡₈,₈₄₀,₀₀₀</td>
</tr>
<tr>
<td>From ₡₈,₈₄₀,₀₀₀</td>
<td>Up to ₡₁₇,₇₁₆,₀₀₀</td>
</tr>
<tr>
<td>On the excess of ₡₁₇,₇₁₆,₀₀₀</td>
<td>25%</td>
</tr>
</tbody>
</table>

**Salary wage tax & applicable credits:**

<table>
<thead>
<tr>
<th>Up to ₡₇₉₉,₀₀₀</th>
<th>Exempt</th>
</tr>
</thead>
<tbody>
<tr>
<td>From ₡₇₉₉,₀₀₀</td>
<td>Up to ₡₁,₁₉₉,₀₀₀</td>
</tr>
<tr>
<td>Over ₡₁,₁₉₉,₀₀₀</td>
<td>15%</td>
</tr>
</tbody>
</table>

**Tax Credits**

| Per child | ₡1,₅₀₀ |
| Spouse     | ₡2,₂₄₀ |
Contactos

**PwC Costa Rica**

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**Partners**

Oscar Piedra, Ignacio Pérez, José Naranjo,
Carlos Barrantes, Luis Garrido y William Menjivar.
El Salvador
El Salvador is the former site of the ancient Pipil civilization and was conquered in 1524 by Spain, under whose rule Diego de Holguín and Gonzalo de Alvarado founded the capital city of San Salvador in 1525. El Salvador declared independence from Spain on September 15, 1821.

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

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• Corporate tax compliance.
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• Individual deduction.
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Overview of the country

Climate

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

Education

The Salvadoran public education system consists of the following levels:

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

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

The Ministry of Education regulates all educational institutions and runs the public school system. There is a wide range of private education institutions which are also regulated and must meet certain requirements set by the Ministry of Education.

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

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

<table>
<thead>
<tr>
<th>Area</th>
<th>21,040.79 km²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>6,172,011 millones de habitantes (Est. Julio 2017)</td>
</tr>
<tr>
<td>Population per km²</td>
<td>293 hab. /km²</td>
</tr>
<tr>
<td>Population growth</td>
<td>0.3 % (est. 2017)</td>
</tr>
<tr>
<td>Urban population</td>
<td>67.6% (2015)</td>
</tr>
<tr>
<td>Political system</td>
<td>Democracia republicana y representantes</td>
</tr>
<tr>
<td>Form of government</td>
<td>Presidencial</td>
</tr>
<tr>
<td>Language</td>
<td>Español</td>
</tr>
<tr>
<td>Currency</td>
<td>Dólar americano (US$)</td>
</tr>
<tr>
<td>Administrative Division</td>
<td>262 municipalidades agrupadas en 14 departamentos</td>
</tr>
<tr>
<td>Religion</td>
<td>Católica</td>
</tr>
<tr>
<td>Capital City</td>
<td>San Salvador</td>
</tr>
</tbody>
</table>

*Fuentes: ???

Political and Legal System

Legal framework

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

<table>
<thead>
<tr>
<th>Political and legal framework</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Exercised by the:</strong></td>
</tr>
<tr>
<td>Executive</td>
</tr>
<tr>
<td>The President</td>
</tr>
<tr>
<td>The President and the Ministries council.</td>
</tr>
<tr>
<td>Elected or appointed by:</td>
</tr>
<tr>
<td>The President and Vice-President are elected by direct vote every 5 years</td>
</tr>
</tbody>
</table>

The legal system is based on Napoleonic Code.
Main political parties

- Republican Nationalist Alliance (Alianza Republicana Nacionalista – ARENA).
- Democratic Change (Cambio Democrático - CD).
- Frente Farabundo Martí for National Liberation (Frente Farabundo Martí para la Liberación Nacional – FMLN).
- Grand Alliance of National Unity (Gran Alianza por la Unidad Nacional – GANA).
- National Conciliation Party (Partido de Concertación Nacional - PCN)
- Christian Democratic Party (Partido Demócrata Cristiano - PDC).

Presidential elections were held in February and March 2014. Municipal councils and Legislative Assembly elections were held in 2015.

The Economy

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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal GDP (US$ m)</td>
<td>23,139</td>
<td>23,184</td>
<td>24,351</td>
<td>25,054</td>
<td>26,052</td>
<td>26,797.47</td>
</tr>
<tr>
<td>Real GDP growth (%)</td>
<td>2.2</td>
<td>1.9</td>
<td>1.7</td>
<td>1.4</td>
<td>2.3</td>
<td>2.4</td>
</tr>
</tbody>
</table>

Prices and financial indicators

| Exchange rate SVC US$ (end-period) | 8.75 | 8.75 | 8.75 | 8.75 | 8.75 | 8.75 |
| Lending interest rate (avg.%) | 5.99 | 5.60 | 5.74 | 6.99 | 6.16 | 6.37 |

Current account (US$ m)

| Trade goods balance | (4,656.3) | (4,919.0) | (5280.90) | (5240.2) | (4,930.5) | (4,519.22) |
| Goods: exports FOB | 4,499.2 | 5339.1 | 5491.1 | 5272.7 | 5,484.9 | 5,335.38 |
| Goods: imports CIF | 8,416.2 | 10258.1 | 10772.0 | 10512.9 | 10,415.40 | 9,854.6 |
| Services balance | (93.9) | (32.9) | (32.9) | 305.7 | - | - |
| Income balance | (550.6) | (632.2) | (632.2) | (503.3) | - | - |
| Current transfers balance | 3,598.6 | 3,841 | 3,841 | 3,650 | - | - |
| Current-account balance | (575.9) | (1,070.1) | (1,070.1) | (677.2) | - | - |
| Unemployment | - | - | - | - | - | - |
| Unemployment (avg.) | 7.05% | 6.6% | 5.7% | 6.2% | 7.0% | 7.0% |

Sources: Central Bank of El Salvador, www.bcr.gob.sv
GDP by sector is made up as follows

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultura</td>
<td>10.8%</td>
</tr>
<tr>
<td>Industria</td>
<td>25.8%</td>
</tr>
<tr>
<td>Servicios</td>
<td>63.3%</td>
</tr>
</tbody>
</table>

Inflation

According to the Directorate General for Statistics and Census (DIGESTYC for its acronym in Spanish) Consumer Price Index (CPI) Bulletin No. 85 (January 2017), accumulated inflation for 2016 was -0.94%. International reserves as of December 2016 were estimated at approximately USD $ 2.9 billion and according to the BCR’s February 2017 Macroeconomic Report; 2016 closed with an economic growth of 2.4%.

Doing Business in El Salvador

Government attitude toward foreign investment

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

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

Free trade agreement and other agreements

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

Agreements and treaties such as CAFTA are in place with other Central American countries and the United States for purposes of easing and fostering free trade among member countries. In addition, El Salvador is party to a common market, under a broad treaty whose main objectives are the free exchange of products originating in the member states and a common customs tariff on products imported outside the area.

El Salvador is part of the association agreement that Central America signed with the European Union, which entered into force on October 2013.

Moreover, El Salvador has already entered into trade treaties with Mexico, the Dominican Republic, Chile, Panama, Taiwan, Colombia and Cuba. The country is presently negotiating trade treaties with Canada and CARICOM, and is considering treaties with Peru and Israel.
Likewise, trade agreements with Trinidad and Tobago, Ecuador, Belize, South Korea, Peru and Canada; are still in negotiation.

**Forms of foreign investment**

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

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

The Salvadoran government has two entities that play a significant role in matters concerning foreign investments. One of them is the National Agency for the Promotion of Investments in El Salvador (PROESA). PROESA furnishes foreign investors with professional consulting services on the business environment and opportunities for doing business in the country. The other is The National Office of Investments (ONI), an agency of the Ministry of Economy that conducts legal processing of investments and is working on expediting it. According to the Investments Law, Section 2, foreign investment is understood to be those investments sourced from assets or resources, whether tangible or intangible goods, services or financial instruments in a convertible currency, transferred from abroad by foreign investors. The law also establishes that funds in foreign convertible currencies sent by Salvadorans residing abroad as family aid or for acquisition of property intended for family housing, are not considered foreign investment.

Moreover, the law also defines a foreign investor as a foreign natural person or entity as well as Salvadorans residing abroad for over one uninterrupted year and undertaking investments in the country.

Section 3 of the investments law specifies that assets or resources considered investment according to Section 2 of that law are as follows:

- Investment of foreign capital for the establishment of business enterprises, or acquisition of all or part of existing commercial enterprises.
- Investment of foreign capital for the acquisition of ownership rights over real property located in the country, as well as the formation of all types of property rights.
- Investment of foreign capital for the acquisition of ownership rights over tangible personal property, especially industrial plants, new and reconditioned machines, spare parts and accessories, raw materials and intermediate products, provided that such goods are used in commercial enterprises in any capacity.
- Subscription or acquisition of shares in companies, as well as those products derived of capital increases through the capitalization of profits, reserves, revaluation of assets or new loans or investments.
• Capital investments from duly registered profits derived from the original investment, used to subscribe or acquire shares in other corporations.

• Loans contracted in foreign currency freely convertible for the productive activities of individuals or corporations.

• Funds destined to the purchase of bonds issued by legal persons domiciled in the country, compliant with the requirements specified in the regulations of this law.

• The internationally accepted intangible assets, which include: intellectual property rights and services, leases of equipment, technical services and contributions of administrative skills.

• The resources destined to the development of sharing agreements or joint ventures in a contractual form, which give foreign investors a form of participation in the industrial, commercial or service sector, in exchange for a share in the total amount of profits.

**Restrictions on foreign investment**

Section 7 of the Investments Law states that foreign investments shall be limited in the following activities:

• Trade, industry and services in small-scale as well as inshore fishing, under the terms established by law, are the exclusive property of native-born Salvadorans and Central Americans.

• The subsoil belongs to the state, which may grant concessions for exploitation.

• Rural real estate cannot be acquired by foreigners whose home countries do not have equivalent rights for Salvadorans, except in the case of land for industrial establishments.

• The maximum amount of rural land belonging to the same person or entity may not exceed 245 hectares. This limitation shall not apply to cooperative associations or communal farms, which are subject to special rules.

• The state has the power to regulate and monitor public services provided by private companies as well as approve their fees, except those established in accordance with international treaties or conventions.

• State permission is required for the operation of docks, railways, canals and other works of public use.

• Investments made in shares of banks, financial institutions and currency exchange offices are subject to the limitations stated in the laws governing such institutions.

**Establishing Business in El Salvador**

The Salvadoran Commercial Code that took effect in 1970 and has been modified and supplemented by subsequent legislation regulates commercial activities, including business structures.

Business may be undertaken in the name of individuals and in the name of entities that are granted existence by law as juridical entities. The companies in El Salvador are divided into personal enterprises and capital companies, which can be both fixed capital and variable capital.
**Formation procedure**

- Signing a Deed of Incorporation before a Salvadoran Notary Public incorporates the company.

- For the Public Deed of Incorporation to be granted, at least two (2) persons must appear as founder shareholders, which can be individuals or companies.

- The Public Deed shall be registered at the Registry of Commerce in order to obtain legal status (juridical person or entity).

- The stock capital of the company must be at least US $2,000.00. At incorporation, at least 5% of the capital must be paid.

- The company’s administration may be entrusted either to a Board of Directors or to a Sole Administrator, and their respective Alternates must also be appointed. The Directors or Sole Administrator may remain in their positions from one to seven years, and may be reelected.

- The company must also request a Business and Commercial License from the Registry of Commerce. Said license must be renewed every year, with the relevant fees due during the same month the company was originally incorporated.

- The initial balance must be registered at the Registry of Commerce.

- The company must be registered at the local City Hall of the city where it will be operating and the Statistics and Census Department (DIGESTYC).

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

**Branch and/or permanent establishment**

For tax and commercial purposes the branch is a domiciled entity, having the same rights and obligations as local companies. A branch of a foreign company is subject to Salvadoran law. Regarding the capital required by law to establish a branch in El Salvador, the commercial law does specifies a minimum capital, and establishes that the branch should register the capital necessary to perform its commercial activity, with said investment initially registered at the National Investments Office (ONI) of the Ministry of Economy, before filing the entity’s registration with the Registry of Commerce.

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

- Ministry of Treasury – Internal Tax Office (DGII).
- Statistics and Census Department (DIGESTYC).
- Ministry of Labor.
- Local Municipality.
- Salvadoran Social Security Institute (ISSS).
- Pension Fund Administrator (AFP).
The minimum capital to establish a branch is US$12,000.00.

**Registration procedure**
A branch in El Salvador must be registered with the Salvadoran Registry of Commerce.

The following documentation must be filed in the country:

- A certified copy of Articles of Incorporation (By-laws) of the foreign company that will establish the branch. If the Articles of Incorporation are in a language other than Spanish, the documentation must be translated into Spanish before a Salvadoran Notary Public.

- Agreement issued by the company's administration (i.e. Shareholders Meeting, Board of Directors) approving: (i) the establishment/opening of the branch in El Salvador, and (ii) the designation of the legal representative.

- Power of Attorney granted by the company to a domiciled local person or to a foreigner residing permanently in El Salvador, to act as the legal representative of the branch and to carry out the registration process with the relevant authorities.

- The minimum capital must enter the country through a transfer of funds to a bank of the local financial system, in order to obtain the document (“Comprobante de ingreso de divisas”) required to register such investment at the ONI.

**Joint venture**
In El Salvador, joint ventures are considered to be agreements between two or more people with the same objective or interest in pursuing a commercial activity.

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

- Income tax exemptions.

- VAT exemptions.

- Municipal exemptions from real estate transfer tax when land is intended for productive activities.

- Exemptions from duties on imports of machinery, raw material, equipment and intermediate goods used for production.

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

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

**Tourism Law**

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

**The Renewable Energy Incentives Law**

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

Public Private Partnerships LawIts objective is to guarantee legal certainty in customs, tax and immigration areas, through the conclusion of Legal Stability Contracts. Companies that undertake the commitment to invest an amount equal to or greater than 4,220 times the minimum wage in fixed assets may apply, ie approximately US $ 1.26 million, extending the benefits to a term of up to 20 years.

**Investment Funds Law**

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

There are two types of investment funds: i. Open: These funds do not have a defined duration time and the participants can withdraw their participations in any given time the total or partial amount. The open funds must have a minimum capital of USD$350,000 and at least 50 participants, or 10 participants if one of these is an institutional investor. ii. Closed: These funds have a defined duration of time and the participants will only receive the corresponding amount to their shares at the end of the fixed period, Close funds should have a minimum capital of USD$350,000 and at least 10 participants, or 2 participants if one of these is an institutional investor.

Investment funds are exempt from income tax and VAT and any other kind of taxes, fees and special contributions. Likewise, natural persons who invest in the funds will be exempt from the payment of Income Tax on the proceeds from their participation quotas, for the first 5 years following the establishment of the first investment fund. Natural persons or legal entities not domiciled in the country will enjoy a reduced rate of 3% withholding income tax.
Banking System

Central bank

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

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

Commercial banks

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

Law against Laundering of Money and Assets No. 498
Dated December 2, 1998, this law is intended to prevent, detect, punish and eradicate the crime of laundering of money and assets laundering, as well as the withholding of information.

Law for the Insurance Companies No. 844
Dated October 10, 1996. This law has the purpose of regulating the constitution and operation of insurance companies, as well as, the participation of insurance intermediaries, in order to protect the public’s rights and facilitate the development of insurance activity.

Law of Banks No. 697
Dated September 2, 1999; reformed in 2000, 2001, 2002 and 2004. The banks law is intended to regulate financial intermediation and other bank operations, fostering a transparent, reliable and agile service that contributes to the nation’s development.

Law of Monetary Integration No. 201
Dated November 30, 2000. This law establishes that the legal exchange rate between the colón and the U.S. dollar is fixed and unalterable, at 8.75 colones per U.S. dollar, from the date of the law’s enactment.

Law for the Creation of the Development Bank
Development Bank No. 847 dated September 22, 2011 and modified in August 17, 2012. The law created the Development Bank as a public institution for credit. The bank’s objective is to promote the development of investment projects in the private sector in order to:

• Promote the growth and development of all productive sectors.
• Promote the development and establishment of businesses.
• Foster the development of micro and small businesses.
• Generate jobs.
• Improve education and health services.

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

**List of banks**

**Central bank**
• Central Bank of El Salvador.

**Government-owned banks**
• Banco de Fomento Agropecuario.
• Banco Hipotecario.
• Development Bank of El Salvador (Bandesal, Banco de Desarrollo de El Salvador).

**Private banks**
• Banco Agrícola, S.A.
• Banco Cuscatlán de El Salvador S.A.
• Banco Davivienda Salvadoreño, S.A.
• Banco G&T Continental El Salvador, S.A.
• Banco Promérica, S.A.
• Scotiabank El Salvador, S.A.
• Banco de América Central, S.A.
• Banco Atlántida, S.A.
• Banco Azteca El Salvador, S.A.
• Banco Industrial El Salvador, S.A.
• Banco Azul El Salvador, S.A.

**Branch of foreign Banks**
• Citibank N.A. El Salvador branch

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

Labor supply

Employment statistics, according to the Multiple Purpose Household Survey prepared by the National Bureau of Statistics and Censuses, for which an average sample of 20,000 dwellings is taken annually to obtain information at a national level, for the urban and rural area:

<table>
<thead>
<tr>
<th>Economic Activity</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade, hotels and restaurants</td>
<td>30.5%</td>
<td>30.4%</td>
<td>30.8%</td>
</tr>
<tr>
<td>Agriculture, livestock, hunting and forestry</td>
<td>17.9%</td>
<td>17.3%</td>
<td>17.8%</td>
</tr>
<tr>
<td>Manufacturing industries</td>
<td>15.0%</td>
<td>16.1%</td>
<td>15.3%</td>
</tr>
<tr>
<td>Community social and health services</td>
<td>7.7%</td>
<td>6.7%</td>
<td>6.8%</td>
</tr>
<tr>
<td>Financial intermediation, real estate</td>
<td>5.3%</td>
<td>5.6%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Households with domestic services</td>
<td>4.7%</td>
<td>4.9%</td>
<td>5.4%</td>
</tr>
<tr>
<td>Construction</td>
<td>5.4%</td>
<td>5.4%</td>
<td>5.3%</td>
</tr>
<tr>
<td>Transport, storage and communications</td>
<td>4.3%</td>
<td>4.7%</td>
<td>4.4%</td>
</tr>
<tr>
<td>Public administration and defense</td>
<td>4.8%</td>
<td>4.2%</td>
<td>3.9%</td>
</tr>
<tr>
<td>Teaching</td>
<td>3.1%</td>
<td>2.9%</td>
<td>2.7%</td>
</tr>
</tbody>
</table>


Labor law requirements

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

Wages and salaries

In January 2018 El Salvador Congress, issued a decree of Minimum Wage Rates for 2018, in which the minimum monthly wage is equivalent to USD $ 304.17 for the trade sector, this was determined from the basic daily salary of $ 10.00 and multiplying it by the 365 days of the year, the result is divided by 12 months, resulting in the monthly salary to be paid to the worker regardless of the month that is being paid.

Profit sharing

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

Christmas bonus

This bonus applies according to seniority:

- As approved by Congress employees with more than 1 year but less than 3 years with a company receive 15 days of basic salary.
- As approved by the Congress workers with more than 3 years but less than 10 years with a company receive 19 days of basic salary.
- As approved by Congress employees with more than 10 years of employment with the same company receive 21 days of basic salary.
Fringe benefits
Non-cash compensation given to employees (benefits in kind) for services rendered in the country is considered taxable income for the employee.

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

Paid holidays and vacations
After each continuously worked year employees are entitled to receive fifteen days of paid vacation, plus a 30% of their basic salary for those 15 days of vacation.

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

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

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

Technical education tax
A contribution of 1% of total monthly payroll is imposed on employers with more than 10 employees, toward the financing of a program for the technical instruction and training of workers, managed by the National Institute for Professional Training (INSAFORP).

INSAFORP, ensures that the Salvadoran workforce remains a high-quality asset within the region by offering training and other courses for employees.

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

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

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

The social security system contemplates:

**Health/maternity benefits**
For illness, the employer pays the first three days, and after the third day, social security covers 75% of salary. For maternity, social security covers 100% (Maximum salary is $1000) of the monthly salary and the employer grants a 16-week period for maternity care.

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

**Old age/retirement**
After working 30 years, men can retire at age 60 and women at 55.

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

**Pension Fund (AFP)**
Savings are obligatory through pension funds managed by private Pension Fund Administrators, (AFP’s).

<table>
<thead>
<tr>
<th>Monthly salary US$</th>
<th>Rate %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social security contribution</td>
<td></td>
</tr>
<tr>
<td>Up to 1,000 (August 2015)</td>
<td>Employer: 7.50 Employee: 3</td>
</tr>
<tr>
<td>Pension fund (AFP)</td>
<td></td>
</tr>
<tr>
<td>Up to $6,500.00 (February 2017)</td>
<td>Employer: 7.75 Employee: 7.25</td>
</tr>
<tr>
<td>Payroll tax (for 10 employees and above)</td>
<td></td>
</tr>
<tr>
<td>Up to 1,000 (from august 2015)</td>
<td>Employer: 1.00 Employee: 0</td>
</tr>
</tbody>
</table>

**Accounting, Audit Requirements and Practices**

**Accounting**
On October 7, 2009, the Supervisory Board of Public Accounting and Auditing, issued a resolution whereby, as of January 1, 2011, financial statements of those entities whose shares or debt instruments are not traded in a public market should be prepared based on the International Financial Reporting Standard for small and medium-sized entities (IFRS for SME). Financial statements of entities whose shares or debt instruments are traded in a public market should be prepared based on the International Financial Reporting Standards-Full version (NIIF-Full).
Statutory audit requirements

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

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

- Entities having total assets exceeding US$1,142,857.14.
- Entities with income exceeding US$571,428.57.
- Entities resulting from a merger or transformation process, and
- Companies undergoing a liquidation process.

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

Books and records

Both the Commercial Code and the Tax Code stipulate the principal books of account to be maintained by business enterprises. The books and records normally required are: Daily and General Ledgers, Financial Statements, purchase ledger for VAT purposes, ledger of operations with final consumers and detail of exports, ledger of operations with VAT-registered contributors, as well as other special records and files required for the control of VAT. These books are authorized by the external auditor, and each page must be numbered and then stamped with the seal of the public accountant. According to the Commercial Code, all records must be in Spanish, and all accounts recorded in colons or US dollars. The books must be located and the accounting based in El Salvador, even for branches, agencies or subsidiaries of foreign companies.

Accounting profession

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

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

Regulation for Assurance Tax Obligations

(Norma para el Aseguramiento sobre el Cumplimiento de Obligaciones Tributarias - NACOT 2016)


Which replace NACOT issued on June 27, 2002.
This NACOT applies to assurance engagements on compliance with tax obligations for the fiscal year starting on January 1, 2017. According to this reform, paragraph 4.1 establishes: the requirement of independence for the auditor, that is to say that it forbids a firm, to provide the companies with Tax Audit services and the preparation of the Transfer Pricing Study or other services for the same fiscal period. In the case of appointments to carry out fiscal audit for fiscal years prior to January 1, 2017, the designated Firm will apply the NACOT in effect on that date.

**Tax System**

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

**Tax on corporate income**

The current income tax rate is 30%.

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

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

**Income tax advance payments**

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

**Income tax on profit distribution**

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

**Tax on branch income**

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

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

On sweetened soft drinks and simple syrups
This is an ad valorem tax levied at 10% on the selling price to the public as suggested by the manufacturer, importer or distributor, excluding VAT and returnable bottle taxes.

On the production and importation of alcohol and spirits
This tax is levied on domestic or imported alcohol and spirits at rates ranging from 0.0825 and 0.15 on each 1% of alcohol volume per liter or portion thereof. As of the beginning of 2010, spirits and alcohol also have an ad valorem tax levied at 5% on the suggested selling price to the public.

On tobacco products
This tax is levied at USD 0.005 per cigarette, cigar or any other tobacco product. Also, an ad valorem tax is levied at 39% on the suggested consumer selling price reported, excluding items such as VAT taxes.

Value-added tax (VAT)
VAT is levied at a rate of 13% on the taxable amount. As a general rule, the taxable amount is the price or remuneration agreed upon by the parties. For imports, the taxable amount is the customs value.

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

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

The following imports are exempt from VAT:

- Imports made by diplomats and Consulate representatives of foreign nations with presence in the country according to international agreements adopted by El Salvador.
- Imports made by international organizations to which El Salvador is a party.
- Travelers’ luggage according to customs regulations.
- Donations to non-profit organizations.
- Imports made by municipalities, if the goods imported are for the public benefit of the community.
- Imports of machinery by a taxpayer duly registered for this purpose which will be part of the taxpayer’s fixed assets.
- Vehicles for public transportation, which can only be transferred after five years.
The following services shall be exempt of VAT:

• Health services rendered by public institutions.
• Lease and sublease of real estate properties for housing.
• Services rendered under an employment relationship, and those rendered by public and municipal employer.
• Public cultural performances authorized by the relevant authorities.
• Educational services rendered by authorized entities, (i.e. the Ministry of Education, “Ministerio de Educacion”).
• Interest on deposits and loans, provided by local financial institutions or entities registered at the Salvadoran Central Bank (BCR).
• Interest on securities issued by the government and/or private entities traded through a stock exchange.
• Water supply by public institutions.
• Public transportation.
• Insurance premium covering individuals, and reinsurance in general.

Exports are levied at 0% VAT. Foreign source income is not subject to VAT.

VAT taxes paid by a registered taxpayer company on its purchases (tax credits) are credited against VAT taxes charged to its customers (tax debits), on a monthly basis. Regarding the tax system, in July 2014 amendments to the Law on Income Tax were approved; and also the Law of Tax on Financial Operations was created. Here are the most relevant for each of these aspects:

Law of tax on financial operations

A tax on the amount paid for any type of check and electronic transfers in the country was established. Its elements are as follows:

Taxable event: debits on deposit accounts and money orders or wire transfers corresponding to:

• Payments for goods and services through the use of check and debit card, when the transaction value exceeds US $ 1,000.00.
• Payments by electronic transfer which transaction value exceeds US $ 1,000.00.
• Transfers to third parties, in any form or by any technological means, when the value of transaction exceeds US $ 1,000.00.
• Disbursements of loans or financing of any kind.
• Transactions between the entities of the financial system, based on any instruction of their clients or for their own interest.
Taxpayers

- Holders of deposits of money.
- Those who order or instruct payments or transfers by any means or technological means, through the Financial System institutions and non-financial entities.
- Financial System Entities performing loan disbursements of any nature and operations in their own interest.

Taxable: The rate of 0.25%, equivalent to $2.5 per thousand, on the amount of taxable transactions.

Exemptions

- The withdrawal of cash from deposit accounts, ATMs and operations conducted at the offices of the entities of the Salvadoran Financial System.
- Payment of goods and services by check, the use of debit card and transfer in any form or through technology, when the value of transactions or operations is equal to or less than US $ 1,000.00.
- Payments made by cardholders in the Credit Card System, including the use of credit card for the cardholder.
- Social security payments.
- Payments, accreditations and transfers done by:
  - The State of El Salvador, the municipalities of El Salvador and autonomous institutions of El Salvador.
  - Diplomatic missions, consular and foreign diplomats accredited in El Salvador, on condition of reciprocity.
  - International organizations, development agencies and cooperation of states or foreign countries.
  - The Pension Funds. Users of Free Zones, Deposits for Inward Processing, Parks and Service Centers.
- The exemption includes the operations performed on accounts of the entities mentioned in the exercise of their functions.
- The payment of wages to workers, including workers compensation, by transfer or issuance of checks.
- Payment of loans by customer entities of the Financial System. For loans originated abroad for use in the country, payments through transfers, money orders or other means shall be liable to the tax imposed by the referred law.
- Disbursements of loans for working capital for micro entrepreneurs, for house purchase or working capital loans for agriculture and livestock.
- The exemption will proceed when the sum of the values of disbursements is less than or equal to $ 50,000.00. In case of personal or consumer loans the exemption applies when the values of disbursements are equal to or less than US $ 10,000.00.
• Transfers between accounts of the same owner in the Financial System institutions. Also, those made by entities of the Financial System with the Central Reserve Bank of El Salvador; or in the case of Cooperative Savings Institutions and Credit Associations in the Central Bank or mechanisms to centralize funds established by the Federation.

• The constitution of the reserve for liquidity of institutions of the financial system as well as the requirement of liquid assets and any disposal or operation on them.

• Payments for services of water and electricity to be made by check, bank transfer, credit card or debit card.

• Investment transactions and output made in the primary market of the Stock Exchange and the primary purchase and sale made on Exchange of Goods and Services. This exemption includes securities issued by state, municipal and autonomous public entities. All transactions performed by Brokerage Houses, Securities Deposit Institutions and Exchange Posts in the exercise of their functions broking Securities and brokerage of Products and Services. The tax generated by the payment of checks or transfers made by investors and issuers to the Brokerage Houses, Securities Deposit Institutions and Exchange Posts in brokering Products and Services, will not be retained by entities of the Financial System. The subjects referred to in this subsection are required to withhold tax in accordance with the provisions made by law.

• Transfers abroad related to imports of goods and services related to remittances for productive activity and repatriation of capital or profits.

• Transfers from abroad credited to the account of the beneficiary or recipient, such as remittances, payments for goods or services exported.

• Payments for insurance premiums whose value per transaction or operation are equal to or less than $1,000.00. Transfers severance and sale of salvage-related insurance premiums monthly fee which are equal to or less than US $1,000.00.

• Payments made by fuel service stations for the purchase of this product.

Additionally, the Law of Tax on Financial Operations withholding tax for liquidity control was established; consisting of a deduction in tax for controlling liquidity 0.25% or the equivalent of $2.5 per thousand, on the excess of US $5,000.00, originated from operations deposits, payments and cash withdrawals individually or cumulative in each month. Its elements are as follows:

- Taxable events: deposits, payments or cash withdrawals.
- Taxpayers: Those who make deposits, payments or cash withdrawals.
- Taxable: 0.25% or the equivalent of $2.5 per thousand, on excess of $5,000.00.

Special contribution law for national security

The Special Contribution to big Taxpayers for the National Safety Plan Law, taxes domestic and foreign legal entities with net earnings greater than US $500,000 within a fiscal year, through a special contribution of 5% of the total amount of this, which must be filed within the first four months of the following year.
Capital gains tax

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

Annual business tax

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

<table>
<thead>
<tr>
<th>Asset Value Range</th>
<th>License Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>From US$ 2,000 to US$ 57,150</td>
<td>USD$ 91.43</td>
</tr>
<tr>
<td>From US$ 57,151 to US$ 114,286</td>
<td>USD$ 137.14</td>
</tr>
<tr>
<td>From US$ 114,287 to US$ 228,572</td>
<td>USD$ 228.57</td>
</tr>
<tr>
<td>An additional charge for each office, branch or proprietary agency of a company</td>
<td>USD$ 34.29</td>
</tr>
</tbody>
</table>

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

Municipal taxes

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

Real estate transfer tax

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

Other tax regime

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

Corporate Deduction

Allowed deductions

All business expenses considered necessary to produce taxable income and/or maintain the income source (including freight, marketing, power, telecommunications, water, salaries, lease contracts, merchandise and transport insurance, fuel, interest paid on loans used by income-generating sources and similar expenses) are deductible for income tax purposes.
Interest
Interest paid on loans invested to produce taxable incomes or maintain the income source. Also, if the loan was made by a foreign company or bank that is not registered with the Central Bank or if the loan is between related parties, income tax is withheld at 20%. If the foreign bank was registered with the Central Bank by 2010, then 10% income tax will be withheld.

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

Depreciation
Depreciation allowances on fixed assets are determined by the declining balance method at the following rates:

<table>
<thead>
<tr>
<th>Type</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>5</td>
</tr>
<tr>
<td>Machinery</td>
<td>20</td>
</tr>
<tr>
<td>Vehicles</td>
<td>25</td>
</tr>
<tr>
<td>Other movable assets</td>
<td>50</td>
</tr>
</tbody>
</table>

Depletion
Amortization of new software is admitted at a constant and maximum 25% over purchases or production costs.

Payments to foreign affiliates
Remittance of royalties, interest income and service fees to foreign affiliates are deductible, provided proper contracts are in place and withholding tax of 20% is applied and if these services have actually been received. Payments to entities located in tax havens are subject to a withholding tax rate of 25%.

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

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

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

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

Certain transactions are subject to a reduced withholding of 5%, such as the following:

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

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

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

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

**Transfer pricing ruling**

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

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

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

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

For purposes of compliance with transfer pricing rules, the taxpayers must determine the market price using the technical procedures and methods contained in the Salvadoran Tax Code and in the Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations published by the OECD.
Moreover, Section 199-B of the Tax Code states that domestic transactions’ market prices shall be understood to be the selling prices of movables or services charged by companies or concerns, located in the country and unrelated to the taxpayer, and which trade movables or services of the same kind.

For sales of movables or services made or rendered abroad, the related market prices shall be the prices which concerns other than the taxpayer and unrelated to it might have charged on sales of movables or services of the same kind, made or rendered from El Salvador to the same country of destination.

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

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

On September, 2017, the Internal Revenue Service (“Dirección General de Impuestos Internos” or “DGII”) issued the “Orientation Guide N° DG 001/2017” whose main objective is to provide taxpayers with guidance on the proper tax treatment of related party transactions or transactions with parties domiciled in tax havens. Orientation Guide N° DG 001/2017 generally adheres to the arm’s length principle and is in line with the guidelines issued by the Organization for Economic Cooperation and Development (“OECD”).

**Corporate Tax Compliance**

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

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

- Internal Revenue Service (“Dirección General de Impuestos Internos” or DGII) created by Law No. 451, dated February 22, 1990, replacing the former Direct Revenues Services and charged with managing and collecting the country’s main internal revenues.

- Customs Authorities (“Dirección General de Aduanas” or DGA), created by Law No. 903 dated December 14, 2005, replacing the former Customs Revenues Services. Its main function is the exercise of its customs powers to facilitate and control international trade within its domain, and monitor and collect duties and taxes imposed upon merchandise entering and existing the territory.
Returns
VAT returns are filed on a monthly basis within the first ten (10) working days of each month following the period under taxation. In addition, public and private juridical entities other than farm and cattle concerns, domiciled in the country for tax purposes, are required to make income tax advance payments at 1.75% of gross revenues.

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

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

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

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

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

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

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

Gross income
Broadly, the entire remuneration for personal services rendered in the El Salvador is subject to income tax. Taxable compensation of employees covers all types of income whether in cash or in kind, such as salaries, bonuses, overtime, paid vacations, housing and car allowances, reimbursement for tax and children’s educational expenses, and other benefits in kind.

Individual Deduction

Current deductions / credits
The personal deductions allowed include:

• Yearly exemption of AFP Pension fund contributions.
• Deduction of Social Security contributions.
• Deduction of educational expenses (personal, of spouse or of direct dependents under 25 years of age). These expenses include education at basic, medium, technical and college levels within the country. The deduction is limited to US$ 800 per year.
- Deduction of medical expenses (personal, of spouse or of direct dependents under 25 years of age). These expenses include doctor fees, medicines and hospitalization within the country. The deduction is limited to US$ 800 per year.

- The individuals earning US$9,100.00 a year or less are entitled to a fixed deduction of US$1,600 and are not required to file returns and submit tax payments.

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

**Individual Tax Compliance**

**Returns**

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

**Tax payment**

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

**Current tax rates**

The monthly withholding tax scale for employees is shown below:

<table>
<thead>
<tr>
<th>Monthly salary</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to US$ 472.00</td>
<td>Exempt</td>
</tr>
<tr>
<td>From US$ 472.01 to US$ 895.24</td>
<td>10% over US$ 472.00 plus US$ 17.67</td>
</tr>
<tr>
<td>From US$ 895.25 to US$ 2,038.10</td>
<td>20% over US$ 895.24 plus US$ 60.00</td>
</tr>
<tr>
<td>From US$ 2,038.11 and above</td>
<td>30% over US$ 2,038.10 plus US$ 288.57</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Annual Income</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to US$ 4,064.00</td>
<td>Exempt</td>
</tr>
<tr>
<td>US$ 4,064.01 to US$ 9,142.86</td>
<td>10% of the amount exceeding US$4,064.00 plus US $212.12</td>
</tr>
<tr>
<td>US $ 9,142.87 a US $22,857.14</td>
<td>20% of the amount exceeding $9,142.86 plus US $720.00</td>
</tr>
<tr>
<td>US$22,857.15 and above</td>
<td>30% of the amount exceeding US$22,857.14 plus US $3,462.86</td>
</tr>
</tbody>
</table>
Contacts

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Guatemala
The former site of the ancient Mayan civilization, whose ruins may be seen in the jungles of Petén and the neighboring Yucatán peninsula of Mexico; Guatemala was conquered by Spaniards in 1524, under whose rule the capital city was eventually established at Antigua Guatemala; it achieved a certain magnificence, and the major towns acquired some aspects of the Spanish culture, but the outlying areas were only slightly affected. When Antigua was razed by an earthquake in 1773, the capital was moved by royal order to the site of modern Guatemala City.

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

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

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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.

Population, form of government, language, currency:

<table>
<thead>
<tr>
<th>Area</th>
<th>108,890 km²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>14.2 millones de habitantes</td>
</tr>
<tr>
<td>Population per km²</td>
<td>131.15 hab. /km²</td>
</tr>
<tr>
<td>Population growth</td>
<td>2.11 % (est. 2010)</td>
</tr>
<tr>
<td>Urban population</td>
<td>21%</td>
</tr>
<tr>
<td>Political system</td>
<td>Democracia republicana</td>
</tr>
<tr>
<td>Form of government</td>
<td>Presidencial</td>
</tr>
<tr>
<td>Language</td>
<td>Español</td>
</tr>
<tr>
<td>Currency</td>
<td>Quetzal (Q)</td>
</tr>
<tr>
<td>Administrative Division</td>
<td>22 departamentos, 339 municipalidades</td>
</tr>
<tr>
<td>Religion</td>
<td>Católica</td>
</tr>
<tr>
<td>Capital City</td>
<td>Ciudad de Guatemala</td>
</tr>
</tbody>
</table>

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 in any of the private universities available:

- Francisco Marroquin University
- Rafael Landivar University.
- University of the Isthmus.
- Panamerican University.
- Saint Paul University.
- Da Vinci University.

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

**Political and Legal System**

**Legal framework**

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

<table>
<thead>
<tr>
<th>Political and Legal Framework</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Executive</strong></td>
</tr>
<tr>
<td>Exercised by the:</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Composed of:</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Elected or appointed by:</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>
Main political parties

- Encounter for Guatemala.
- Guatemalan National Revolutionary Unity.
- National Advancement Party.
- National Unity of Hope.
- Nationalist Change Union.
- Unionist Party
- Front of National Convergence / Nation.

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.

In the second quarter of 2017, the economic activity measured by the estimate of the real Gross Domestic Product, showed a growth of 2.3%, lower than that registered in the second quarter of the previous year (3.75), driven mainly by the positive behavior of the expenditure of private consumption and investment.

Regarding the measurement of GDP by the origin of production, highlights the behavior recorded by the activities of private services; Wholesale and retail trade, transportation, storage and communications; and agriculture, livestock, sheep, forestry and fishing, activities that together represented about 73% of the rate of change of GDP in the second quarter of 2017.
Inflation

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

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>4.90</td>
<td>5.44</td>
<td>3.86</td>
<td>4.14</td>
<td>2.32</td>
<td>4.38</td>
<td>3.83</td>
</tr>
<tr>
<td>February</td>
<td>5.24</td>
<td>5.17</td>
<td>4.18</td>
<td>3.50</td>
<td>2.44</td>
<td>4.27</td>
<td>3.96</td>
</tr>
<tr>
<td>March</td>
<td>4.99</td>
<td>4.58</td>
<td>4.34</td>
<td>3.28</td>
<td>2.43</td>
<td>4.26</td>
<td>4.00</td>
</tr>
<tr>
<td>April</td>
<td>5.76</td>
<td>4.27</td>
<td>4.13</td>
<td>3.27</td>
<td>2.58</td>
<td>4.09</td>
<td>4.09</td>
</tr>
<tr>
<td>May</td>
<td>6.39</td>
<td>3.90</td>
<td>4.27</td>
<td>3.22</td>
<td>2.55</td>
<td>4.36</td>
<td>3.93</td>
</tr>
<tr>
<td>June</td>
<td>6.42</td>
<td>3.47</td>
<td>4.79</td>
<td>3.13</td>
<td>2.39</td>
<td>4.43</td>
<td>4.36</td>
</tr>
<tr>
<td>July</td>
<td>7.04</td>
<td>2.86</td>
<td>4.74</td>
<td>3.41</td>
<td>2.32</td>
<td>4.62</td>
<td>5.22</td>
</tr>
<tr>
<td>August</td>
<td>7.63</td>
<td>2.71</td>
<td>4.42</td>
<td>3.70</td>
<td>1.96</td>
<td>4.74</td>
<td>4.72</td>
</tr>
<tr>
<td>September</td>
<td>7.25</td>
<td>3.28</td>
<td>4.21</td>
<td>3.45</td>
<td>1.88</td>
<td>4.56</td>
<td>4.36</td>
</tr>
<tr>
<td>October</td>
<td>6.65</td>
<td>3.38</td>
<td>4.18</td>
<td>3.64</td>
<td>2.23</td>
<td>4.76</td>
<td>4.20</td>
</tr>
<tr>
<td>November</td>
<td>6.05</td>
<td>3.11</td>
<td>4.63</td>
<td>3.38</td>
<td>2.51</td>
<td>4.67</td>
<td>4.63</td>
</tr>
<tr>
<td>December</td>
<td>6.20</td>
<td>3.48</td>
<td>4.39</td>
<td>2.98</td>
<td>3.07</td>
<td>4.23</td>
<td>4.23</td>
</tr>
</tbody>
</table>

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

Exports

The total amount of exports as of September 2017, were US $ 44,741 million, in increased in US $ 12,216 million (+ 27.3%) compared to the same month of 2016 (US $ 32,525 million).

The most important products, according to their participation in the total of exports, were:
Costumes with US $ 5,023 million (11.2%); Sugar with US $ 4,200 million (9.3%); Coffee with US $ 3,618 million (8%); Banana with US $ 3,071 million (6.8%); and Edible Fats and Oils with US $ 1,887 million (4.2%), Cardamom with US $ 1,437 million (3.2%); Paper and Cardboard with 1.054 million (2.3%) products that together, represented 45% of the total.

The main destinations of exports to September 2017 were:
United States of America with US $ 11,946 million (26.7%); Central America with US $ 9,804 million (21.9%); Asia with US $ 3,792 million (8.4%); The Caribbean with US $ 3,663 million (8.1%) Eurozone with US $ 2,787 million (6.2%); Mexico with US $ 1,499 million (3.3%); South America with US $ 1,078 million (2.4%) and Canada with US $ 875 million (1.9%); countries and regions that together, accounted for 80% of the total.

Imports

As of September 2017, the total amount of imports were US $ 69,222 million, higher by US $ 4,516 million (6.5%) in comparison with the same month in 2016 (US $ 64,706 million). The increase in imports was mainly influenced by the positive variation observed in Fuels and Lubricants with a 30% increase.

Imports to September 2017 came mainly from the United States of America with US $ 27,869 million (40.2%); Central America with US $ 7,938 million (11.4%); Mexico with US $ 7,335 million (10.59%); China with US $ 7,296 million (10.54%); and the Eurozone with US $ 4,554 million (6.5%); countries and regions that together, accounted for 79.23% of the total.
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 negotiation.

The Free Trade Agreement with Canada is still under negotiation.

Foreign investment

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

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

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

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

Forms of foreign investment

According to Article 1 number 2 of the Congress Decree 9-98 titled Foreign Investment Law, a foreign
investment is: “Any kind of investment that involves all sorts of capital transfer to the Republic of Guatemala made by a foreign investors. Also within this concept is the foreign reinvestment in Guatemalan territory of any income or capital generated in Guatemala through its investment”.

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

**Restrictions on foreign investment**
As to foreign interest activities, the law does not restrict operation of foreigners.

**Establishing a business in Guatemala**

**Commercial entities**
Commercial companies in Guatemala are governed 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 cannot 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-in capital of the corporation must be at least Q5,000.00 (approximately USD 641.00). As of February 2018, the companies may be constituted with a minimum paid capital of Q. 200.00 (USD 30.00) which will not require the opening of a bank account. If the initial paid-in capital is greater than Q. 2,000.00 (USD 275.00), this amount must be deposited in a bank account in the name of the entity.

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

As of June 2011, no bearer shares are permitted.

The differences between the main types of organization of the company are mainly related to the registration procedures and the financial responsibility of the participants. In general, the liability is limited to capital contributions, except in the case of members of a partnership or a limited liability company.
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 electronically by the means that the Commercial Registry implements. Any change or extension of the original Article of Incorporation must also be effected by public instrument and be registered.

Closing procedure

Liquidation or dissolution of a company in Guatemala is 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 worldwide assets and a USD50,000 guarantee bond is required as well.

Joint venture

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

<table>
<thead>
<tr>
<th>No.</th>
<th>Procedure</th>
<th>Time to complete in days</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Check the proposed company name at the Mercantile Registry of Guatemala.</td>
<td>1</td>
<td>30 charge per name</td>
</tr>
<tr>
<td>2</td>
<td>Obtain letter from a Guatemalan notary public to open bank account. If necessary</td>
<td>1</td>
<td>No charge</td>
</tr>
<tr>
<td>3</td>
<td>Deposit the subscribed capital in a bank and obtain a receipt. If necessary</td>
<td>1</td>
<td>No charge</td>
</tr>
<tr>
<td>4</td>
<td>A notary public draws the article of incorporation.</td>
<td>1</td>
<td>GTQ 6,800 (USD 930.00)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>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</td>
<td>GTQ 1,000.00 (USD 340.00)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>stamp tax</td>
</tr>
<tr>
<td>6</td>
<td>File notarized unique registration form and documents with the Commercial Register (Registro Mercantil).</td>
<td>1</td>
<td>In addition to the above</td>
</tr>
<tr>
<td>7</td>
<td>Provisional registration and tax ID are issued</td>
<td>5</td>
<td>Additionally from the above</td>
</tr>
<tr>
<td>8</td>
<td>Publishing of notice</td>
<td>3</td>
<td>GTQ 600.00 (USD 90.00)</td>
</tr>
<tr>
<td>9</td>
<td>Final registration trading license</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Present accounting books and books of minutes to the Commercial Register for its authorization.</td>
<td>1</td>
<td>GTQ 0.80 (USD 0.15) per page</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</td>
<td>GTQ 0.50 (USD$0.10) per page</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 11 banks, 10 financial institutions, 15 bonded warehouses, 15 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.

<table>
<thead>
<tr>
<th>MONETARY RESERVES INTERNATIONAL NET</th>
</tr>
</thead>
<tbody>
<tr>
<td>YEARS: 2010 - 2017 Millions of US dollars</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>5,526</td>
<td>5,910</td>
<td>6,186</td>
<td>6,650</td>
<td>7,265</td>
<td>7,656</td>
<td>7,660</td>
<td>9,065</td>
</tr>
<tr>
<td>February</td>
<td>5,566</td>
<td>6,043</td>
<td>6,127</td>
<td>7,277</td>
<td>7,164</td>
<td>7,625</td>
<td>7,711</td>
<td>9,268</td>
</tr>
<tr>
<td>March</td>
<td>5,547</td>
<td>6,191</td>
<td>6,141</td>
<td>7,280</td>
<td>7,111</td>
<td>7,770</td>
<td>7,663</td>
<td>9,425</td>
</tr>
<tr>
<td>April</td>
<td>5,602</td>
<td>6,393</td>
<td>6,183</td>
<td>7,221</td>
<td>7,215</td>
<td>7,721</td>
<td>7,753</td>
<td>9,793</td>
</tr>
<tr>
<td>May</td>
<td>5,676</td>
<td>6,421</td>
<td>6,113</td>
<td>7,253</td>
<td>7,174</td>
<td>7,650</td>
<td>8,626</td>
<td>9,916</td>
</tr>
<tr>
<td>June</td>
<td>5,848</td>
<td>6,388</td>
<td>6,812</td>
<td>7,071</td>
<td>7,096</td>
<td>7,718</td>
<td>8,696</td>
<td>10,794</td>
</tr>
<tr>
<td>July</td>
<td>5,792</td>
<td>6,334</td>
<td>6,778</td>
<td>6,727</td>
<td>7,133</td>
<td>7,585</td>
<td>8,861</td>
<td>11,025</td>
</tr>
<tr>
<td>August</td>
<td>5,682</td>
<td>6,399</td>
<td>6,766</td>
<td>6,746</td>
<td>7,248</td>
<td>7,573</td>
<td>8,919</td>
<td>11,278</td>
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<tr>
<td>September</td>
<td>5,659</td>
<td>6,303</td>
<td>6,754</td>
<td>6,584</td>
<td>7,149</td>
<td>7,536</td>
<td>9,015</td>
<td>11,268</td>
</tr>
<tr>
<td>October</td>
<td>5,651</td>
<td>6,574</td>
<td>6,804</td>
<td>6,658</td>
<td>7,098</td>
<td>7,564</td>
<td>9,063</td>
<td>11,494</td>
</tr>
<tr>
<td>November</td>
<td>5,595</td>
<td>6,028</td>
<td>6,711</td>
<td>6,959</td>
<td>7,094</td>
<td>7,422</td>
<td>9,004</td>
<td>11,573</td>
</tr>
<tr>
<td>December</td>
<td>5,954</td>
<td>6,188</td>
<td>6,694</td>
<td>7,273</td>
<td>7,333</td>
<td>7,751</td>
<td>9,160</td>
<td></td>
</tr>
</tbody>
</table>
Most of the banks and financial institutions operate with several correspondents in the USA, Panamá, México, Switzerland, among other countries. In addition, some foreign banks operate directly in Guatemala such as Citibank, BAC, Banco Azteca, among others.

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

**Banking secrecy**

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

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

1. **Administrative Penalty:**

Fine equivalent to one percent (1%) of the gross income obtained by the taxpayer during the last monthly, quarterly or annual period declared in the tax regime to be audited. When the resistance is of those that constitute immediately, the sanction will double.

2. **Criminal action:**

Offense of resistance to the tax inspection action of the Tax Administration, which is regulated in the Criminal Code as follows:

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

**List of banks**

**Central bank**
- Banco de Guatemala.
- Government partially-owned banks.
- Banco de Desarrollo Rural (Banrural).
- Crédito Hipotecario Nacional.
- Banco de los Trabajadores
Private owned banks

- Banco G&T Continental.
- Banco Industrial.
- Banco Agromercantil.
- Banco de América Central.
- Banco de Antigua.
- Banco Internacional.

Foreign banks

- Citibank. (corporate banking)
- Banco Azteca.
- Banca Sol.
- Banco Ficohsa
- Banco Proméria.

Labor and Social Security

Labor supply

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

Employed population according to main economic activities

<table>
<thead>
<tr>
<th>Economic Activity</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farming</td>
<td>31.4%</td>
</tr>
<tr>
<td>Commerce</td>
<td>28.6%</td>
</tr>
<tr>
<td>Manufacturing Ind.</td>
<td>12.8%</td>
</tr>
<tr>
<td>Admin. Public</td>
<td>9.5%</td>
</tr>
<tr>
<td>Other Services</td>
<td>6.5%</td>
</tr>
<tr>
<td>Building</td>
<td>5.4%</td>
</tr>
</tbody>
</table>

Source: Instituto de Estadística
Labor law requirements

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

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

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

Wages and salaries

The government is empowered to set minimum wages. As of January 1st, 2018, the minimum wage for the agricultural and non-agricultural work has been set at GTQ 90.16 (USD 12.18) 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 a month’s salary and it is payable in the month of July.

Christmas bonus

The employer is obliged to pay the worker a Christmas bonus in the month of December, consisting of one month’s salary, (one twelfth of the ordinary salary earned by the worker in the calendar year).

Hours worked

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

Paid holidays and 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.

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 security 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 employee’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 29th, 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 to obtain a degree in one of the country’s universities or submit to approval certificate obtained abroad before the University of San Carlos of Guatemala. Professionals must also register at the College of Public Accountants and Auditors and obtain a registration number before the Tax Administration.

Auditing standards

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

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.

**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 the Guatemalan territory.

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

**Tax on corporate income**

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

- Simplified Optional Regime on Income from Lucrative Activities
- Regime Regarding the Profits of Lucrative Activities

**Simplified Optional Regime on Income from Lucrative Activities**

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

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

**Regime Regarding the Profits of Lucrative Activities**

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

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 48,000.

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

- **Services**

  The taxable amount of services includes the price of the services, minus any discounts provided under some 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 taxes**

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.

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 (up to 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 railroad 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.

Transfer pricing ruling

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

Transfer pricing ruling is bases on OECD guides.

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>Interest</td>
<td>10</td>
</tr>
<tr>
<td>Commissions, salaries, royalties, professional fees, technical, financial, economic, scientific counseling</td>
<td>15</td>
</tr>
<tr>
<td>Others</td>
<td>25</td>
</tr>
</tbody>
</table>

End of year date provided by the Income Tax Law

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

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

Individual tax summary

All individuals can deduct from their net income 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 presented to employer 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.

- 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 that cover only the death of employees, provided that the insurance contract does not accrue any amount for the concept of return.

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

<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 and above</td>
<td>Q.15,000.00</td>
<td>7% on the excess of Q.300,000.00.</td>
</tr>
</tbody>
</table>
Contacts

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Honduras
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.
Honduras

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Overview of the country

Climate

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

Population, form of government, language, currency, others

<table>
<thead>
<tr>
<th>Area</th>
<th>112,492 km²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>8,721,000 million (2016)</td>
</tr>
<tr>
<td>Population per km²</td>
<td>77.52 hab. /km²</td>
</tr>
<tr>
<td>Population growth</td>
<td>1.7% (approx. 2016)</td>
</tr>
<tr>
<td>Urban population</td>
<td>54% (2016)</td>
</tr>
<tr>
<td>Political system</td>
<td>Republican Democrat</td>
</tr>
<tr>
<td>Form of government</td>
<td>Presidential</td>
</tr>
<tr>
<td>Language</td>
<td>Spanish</td>
</tr>
<tr>
<td>Currency</td>
<td>Lempira (HNL)</td>
</tr>
<tr>
<td>Administrative Division</td>
<td>18 departments</td>
</tr>
<tr>
<td>Religion</td>
<td>Roman Catholic</td>
</tr>
<tr>
<td>Capital City</td>
<td>Tegucigalpa M.D.C.</td>
</tr>
</tbody>
</table>

Source: report “Honduras en Cifras 2014-2016”, issued by BCH.

Education

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

- Initial level (for children up to 5 years old).
- Basic level – Elementary (starts after initial level is finished and lasts 9 years).
- Middle level – High School (starts after basic level is finished and lasts 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.

**Political and legal system**

**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>Political and legal framework</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. |

**Main political parties**

- Liberal Party (Partido Liberal de Honduras: PLH).
- Social Democrats (Partido Innovación y Unidad-Social Demócrata: PINU-SD).
- Social Christians (Partido Demócrata-Cristiano de Honduras: DC).
- Democratic Unification (Partido Unificación Democrática: UD).
- Anti-Corruption Party (Partido Anti Corrupción: PAC).
- Patriotic Alliance (Alianza Patriótica AP)
• Broad Front Political Electoral in Resistance (Frente Amplio Político Electoral en Resistencia FAPER)
• Go Solidarity Movement (Vá Movimiento Solidario VAMOS)
• Freedom and Refoundation Party (LIBRE)

The last presidential and congressional elections were held on 24 November 2013 and the representative of the National Party, Juan Orlando Hernández, was elected president.

The economy

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 3.2%. 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.

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.

<table>
<thead>
<tr>
<th>GDP (US$ m)</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal GDP (US$ m)</td>
<td>18,379(*)</td>
<td>18,550(*)</td>
<td>19,757(*)</td>
<td>20,844(*)</td>
<td>18,550(*)</td>
</tr>
<tr>
<td>Real GDP growth (%)</td>
<td>(3.5)</td>
<td>2.6</td>
<td>3.1</td>
<td>3.6</td>
<td>3.6</td>
</tr>
<tr>
<td>Prices and financial indicators</td>
<td>8,645.7</td>
<td>10,952.6</td>
<td>9,325.6</td>
<td>9,292.4</td>
<td>9,021.7</td>
</tr>
<tr>
<td>Exchange rate Ps: US$ (end-period)</td>
<td>19.54</td>
<td>20.50</td>
<td>21.51</td>
<td>22.37</td>
<td>23.50</td>
</tr>
<tr>
<td>Goods: exports fob</td>
<td>3,287.7</td>
<td>3,405.3</td>
<td>3,638.0</td>
<td>3,834.8</td>
<td>4,009.2</td>
</tr>
<tr>
<td>Family Remittances in Balance</td>
<td>8,645.7</td>
<td>10,952.6</td>
<td>9,325.6</td>
<td>9,292.4</td>
<td>9,021.7</td>
</tr>
<tr>
<td>Transfer (US$ m)</td>
<td>14,791</td>
<td>14,825</td>
<td>12,729.7</td>
<td>12,891</td>
<td>12,350</td>
</tr>
<tr>
<td>Current account Deficit in the Balance of Payments</td>
<td>2,891.8</td>
<td>3,120.5</td>
<td>3,353.2</td>
<td>3,649.8</td>
<td>3,847.3</td>
</tr>
<tr>
<td>Current-account balance</td>
<td>(1,586.90)</td>
<td>(1,6525.0)</td>
<td>(1503.2)</td>
<td>(1744.4)</td>
<td>(1764.0)</td>
</tr>
</tbody>
</table>

Sources: Central Bank of Honduras (*) Approximate figure
**Inflation**

Inflation in 2016, as measured by changes in the Consumer Price Index (CPI), reached an average of 3.31%, according to the Honduran Central Bank. This level is mainly due to increase in the price of fuel and food products in Central America.

**Doing Business in Honduras**

**Government attitude toward foreign investment**

Government policies have been friendly towards foreign private investment. The government is emphasizing the promotion of tourism and has implemented laws in order to attract foreign investment to the sector. 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 US$2.4 billion 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 billion.

**Tariffs:** Under the agreement, over half of U.S. farm goods presently exported to the four CAFTA countries were protected by duty-free treatment immediately upon implementation. Tariffs on other products were to be phased out over the course of 5, 10, 12, or 15 years (18 years in the case of rice and chicken parts, and 20 years in the case of dairy products). In most cases, eliminating these tariffs will create preferences (or equal footing) for U.S. exporters over third country suppliers, helping to expand the U.S. market share.
Certain sensitive products will be subject to tools and mechanisms provided for by CAFTA, including tariff-rate quotas, long-term tariff phase-outs, nonlinear tariff reductions, and the application of import safeguards.

It has been forecast that with the EU-CA association agreement, Central American exports will increase in US$ 2.6 billion to the European Union.

**Exports**

FOB exports of general merchandise amounted to US$3,762.8 million (US $ 3,824.5 million the previous year), as a result of the decline in the value of coffee exports, lower international prices, low in the export of products such as paper and cardboard, textiles, iron and its manufactures and fillet of tilapia and lobster, among others; the foregoing was partially offset by foreign sales of palm oil, farmed shrimp, vegetables and soaps and detergents.

Exports of goods for processing (maquila), mostly to the US, totaled US $ 3,949.9 million (US $ 4,234.2 million in 2015), a behavior influenced by lower exports of textiles, which reached US $ 3,250.2 million (US $ 3,496.0 million the previous year); and the decrease in shipments abroad of electrical parts and transportation equipment (harnesses), caused by the deceleration in the demand of the automotive industry in the US market.

The main export destination of general goods was United States reaching an amount of US$ 1.455.9 million, including: bananas, coffee, gold, vegetables, melons and watermelons. Exports to Europe amounted to US$ 980.6 million (US $ 944.6 million in 2015), especially coffee, palm oil, shrimp, melons and watermelons. Meanwhile, the flow to Central America was US$ 895.6 million (US $ 881.6 million the previous year), with products such as soaps, palm oil, plastics and their manufactures and iron and their manufactures being the most outstanding. Sales to the rest of the world totaled US$ 525.2 million (US $ 694.9 million last year), to Mexico (US $ 112.5 million), Korea (US $ 44.7 million), Panama (US $ 38.7 million), Taiwan, Colombia (US $ 16.7 million) and Ecuador (US $ 16.1 million). The US was the largest recipient of maquilas (for processing) with US $ 2,988.8 million, with textiles and automotive equipment being the most prominent. Towards Central America, US $ 597.9 million were exported, mainly shipments of cut and stained fabric pieces; for the rest of Latin America were exported US $ 138.5 million, thermal transfer labels, cloth cut and clothing; exports to Europe reached US $ 59.7 million in t-shirts and garments; and the rest of the world countries were US $ 165.0 million.

**Imports**

Honduras depends heavily on imports of machinery and transportation equipment, industrial raw materials, chemicals, fuels and food. The country’s main trading partners are the US, Guatemala, Mexico and Colombia. In 2016, CIF imports of general merchandise amounted to US$ 8,898.2 million at the close of 2016 (US$ 9,424.3 million observed the previous year), primarily due to the fall observed in purchases of fuels, raw materials and intermediate products; and capital goods, particularly for industrial activity.

Imported consumer goods amounted to US$ 3,116.6 million (US $ 2,953.4 million in 2015), associated with the purchasing power of economic agents, low levels of inflation and income from family remittances; Thus, non-durable consumer goods reached US$ 1,777.9 million and
semi-durable goods US$ 1,338.7 million. Imports of raw materials and intermediate products were US$ 2,667.0 million (US $ 3,049.3 million in 2015), basically due to lower imports of raw materials for industrial use (specifically those destined to the development of projects for the generation of electric energy with solar source.

**Other free trade agreements currently in effect**

- Free Trade Agreement with United States of Mexico and the Republics of Honduras, El Salvador and Guatemala.
- Free Trade Agreement between Central America and the Dominican Republic.
- Free Trade Agreement between Central America and Chile.
- Free Trade Agreement between 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**

a. A complementary Agreement with Ecuador.

b. An Association Agreement with the European Union.

c. Observer member of the Pacific Alliance.

d. Honduras applied for official inclusion in the Trans-Pacific Partnership.

e. 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.

**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.

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.

Closing procedure

Liquidation or dissolution of a company in Honduras is governed by the Code of Commerce.

Branch and/or permanent establishment

After a legal reform issued on 15 July 2011 by Decree 51-2011, a company established abroad can incorporate a branch in Honduras once its existence in the country of origin is certified before the Public Registry of Commerce. This can be accomplished by filing the following documentation:

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

Once all the documentation is filed 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.

Banking system

Central Bank

The banking system is controlled by the Honduras Central Bank (Banco Central de Honduras). International banks operate through branches or special purpose offices. The Central Bank is responsible for supervision (through the 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

Central bank
• Banco Central de Honduras.

Commercial banks
• Banco Atlántida
• Banco de los Trabajadores
• Banco de Occidente
• Banco del País
• Banco Hondureño del Café
• BanRural
• Citibank de Honduras
• Ficensa
• FICOHSA
• Promérica

Foreign banks
• BAC Honduras
• Da Vivienda
• LAFISE

Labor and social security

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>2010</td>
<td>3,387,717.1</td>
<td>3,253,980.3</td>
<td>133,736.8</td>
</tr>
<tr>
<td>2011</td>
<td>3,369,918.7</td>
<td>3,226,135.3</td>
<td>143,783.4</td>
</tr>
<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>
</tbody>
</table>

Source: Instituto Nacional de Estadística (INE) June 2016
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.

Please find below a summary of the most important requirements of the Labor Code.

Wages and salaries

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

Christmas bonus

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

14th Month bonus

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

Fringe benefits

The employer has the option to provide some fringe benefits to its employees and executives; in general, 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.

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.

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 new provisions provide that for the calculation of these percentages must be considered the first HNL 7,717.50 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)

The National Training Institute (INFO) 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 The Gazette, on February 27 2016.
Tax on corporate income

The corporate tax rate for a resident company is 25% of the company’s period net income.

In addition, the temporary solidarity contribution tax rate has decreased from the 6% for 2012 to a 5% for 2013 and will continue to be the same rate for year 2014 hereinafter according the Law for Public Finances published on 30 December 2013 and valid since 01 January 2014. This is levied on all companies with taxable income in excess of HNL one million. In 2007, the law established this tax as deductible for income tax purposes; however, beginning in 2008, this tax became a surcharge and non-deductible for income tax purposes.

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 companies 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. Resident companies during their preoperative period and companies operating in Free Zones, among others, are exempt from the net assets 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 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.
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.

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.

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 to 20</td>
</tr>
<tr>
<td>Payroll taxes or contributions, paid by employers</td>
<td>Social security 8.5% with a ceiling cap of HNL 7,717.50</td>
</tr>
<tr>
<td></td>
<td>INFOP 1%</td>
</tr>
<tr>
<td></td>
<td>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</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% a 10%</td>
</tr>
<tr>
<td>Plant and machinery</td>
<td>10%</td>
</tr>
<tr>
<td>Vehicles</td>
<td>10% a 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.

<table>
<thead>
<tr>
<th>Income source</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>

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:

**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 are 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 pay tax on all annual income over HNL 152,557.15 Honduran Lempiras. The following scale is currently in effect:

<table>
<thead>
<tr>
<th>From</th>
<th>Up to</th>
<th>Rate %</th>
</tr>
</thead>
<tbody>
<tr>
<td>L. 0.01</td>
<td>L. 152,557.15</td>
<td>Exempt</td>
</tr>
<tr>
<td>L. 152,557.16</td>
<td>L. 232,622.61</td>
<td>15%</td>
</tr>
<tr>
<td>L. 232,622.62</td>
<td>L. 540,982.82</td>
<td>20%</td>
</tr>
<tr>
<td>L. 540,982.83</td>
<td>Onward</td>
<td>25%</td>
</tr>
</tbody>
</table>

**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.
Contacts

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San Pedro Sula – Honduras

Partners

Ramón Morales, Roberto Morales y Romel Castellanos.
Nicaragua
Nicaragua takes its name from Nicarao, chief of the indigenous tribe that lived in time of the Spanish conquerors. In 1524, Hernandez de Cordoba founded the first permanent Spanish towns, Granada, on Lake Nicaragua, and León. Nicaragua gained independence from Spain in 1821, becoming a part of the Mexican Empire.

The Constitution was ratified in 1858 (to be in effect for 35 years) and Managua was established as the capital city.
# Nicaragua

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- Population, form of government, language, currency.
- Education.

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- Inflation.

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- Government views toward foreign investment.
- Free Trade Agreement and other agreements.
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- Foreign investment.
- Establishing a business.
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- Public Private Partnerships Law
- Law of Legal Stability for Investments
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- Individual deduction.
- Individual tax compliance.
Overview of the country

**Brief history**

Nicaragua takes its name from Nicarao, chief of the indigenous tribe that lived in time of the Spanish conquerors. In 1524, Hernandez de Cordoba founded the first permanent Spanish towns, Granada, on Lake Nicaragua, and León.

Nicaragua gained independence from Spain in 1821, becoming a part of the Mexican Empire. After separating from Mexico, in 1823 Nicaragua joined a federation of independent Central American provinces with other Central American countries. In 1838, Nicaragua separated from the federation, which dissolved a month later. In 1845, three years after trying to form a union, Nicaragua went to war with Honduras and El Salvador.

In 1847 there was a new attempt to unite. The history of Nicaragua is marked by tensions between the parties, conservatives and liberals. The Constitution was ratified in 1858 (to be in effect for 35 years) and Managua was established as the capital city. On November 5, 2006, the presidential election was won by Daniel Ortega of the Sandinista National Liberation Front (FSLN), Current government.

**Climate**

Nicaragua has a predominantly tropical climate, alternating between two seasons: rainy and dry (winter and summer). This is the result of its geographic location between 11 and 15 degrees latitude north and the humidity from both the Atlantic and Pacific oceans which give it a fairly stable season.

In the central region the rainy season lasts from May to October. The dry season occurs from November through April. During December the weather is more temperate. The warmest months are March, April and May, Nicaragua’s “beach season.”
The climate along the Caribbean Coast has the highest temperatures and humidity. The temperatures in this region are similar to those in tropical jungles, ranging above 89° F.

Population, form of government, language, currency:

<table>
<thead>
<tr>
<th>Area</th>
<th>130,373 km²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>6.3 millions of inhabitants (2016)</td>
</tr>
<tr>
<td>Population per km²</td>
<td>48.0 hab/km²</td>
</tr>
<tr>
<td>Population growth</td>
<td>1.0% (est. 2016)</td>
</tr>
<tr>
<td>Urban Population</td>
<td>56%</td>
</tr>
<tr>
<td>Political System</td>
<td>Republican democracy</td>
</tr>
<tr>
<td>Form of Government</td>
<td>Presidential</td>
</tr>
<tr>
<td>Language</td>
<td>Spanish</td>
</tr>
<tr>
<td>Currency</td>
<td>Cordoba (NIO)</td>
</tr>
<tr>
<td>Administrative division</td>
<td>15 departments, 2 autonomous regions, and 153 Municipalities</td>
</tr>
<tr>
<td>Religion</td>
<td>No official religion (Predominant religion is Roman Catholic)</td>
</tr>
<tr>
<td>Capital City</td>
<td>Managua</td>
</tr>
</tbody>
</table>

*Sources: ProNicaragua/National Institute of Development Information (INDE), Nicaraguan Institute of Territorial Studies (INETER).

Education

Currently, 75% of the population is younger than 39 years and elementary, high school, and university education are mandatory, the first two being free. There is one Nicaraguan branch of a US University that has been accredited by Southern Association of Colleges and Schools (SACS). The Nicaraguan government is increasing funding to improve educational opportunities in the country, and has promoted increased enrollment for both grammar and high school, as well as for universities.

All schools, including elementary, high school and university, are under the general supervision and regulation of the National Ministry of Education.

*Sources: ProNicaragua/National Institute of Development Information
Political and legal system

Legal framework

The political and legal framework of Nicaragua is composed of four main branches – Executive, Legislative, Electoral and Judicial – organized as follows:

<table>
<thead>
<tr>
<th>Political and Legal Framework</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Exercised by the:</strong></td>
</tr>
<tr>
<td>Executivo</td>
</tr>
<tr>
<td>The President</td>
</tr>
<tr>
<td>Legislative</td>
</tr>
<tr>
<td>National Assembly</td>
</tr>
<tr>
<td>Judicial</td>
</tr>
<tr>
<td>Supreme Court of Justice</td>
</tr>
<tr>
<td>Electoral</td>
</tr>
<tr>
<td>Supreme Electoral Council</td>
</tr>
</tbody>
</table>

| Composed of:                  |
| Executivo                    |
| The President                |
| Legislative                  |
| Chamber of Deputies (90 deputies, 20 national deputies and 70 departmental deputies, plus 2 more deputies: the former President and the Presidential Candidate who obtained second place in the elections). |
| Judicial                     |
| The judges are appointed by the National Assembly every 5 years. |
| Electoral                    |
| The judges are appointed by the National Assembly every 5 years. |

| Elected or appointed by:      |
| Executivo                    |
| The President and Vice-President are elected by direct vote every 5 years. |
| Legislative                  |
| The deputies are elected by direct vote every 5 years. |
| Judicial                     |
| The judges are appointed by the National Assembly every 5 years. |
| Electoral                    |
| The judges are appointed by the National Assembly every 5 years. |

The Nicaraguan legal framework is based on Napoleonic Code.

The last presidential elections were held in November 2016 and the last Municipal elections were held in November 2017.

Main political parties

The recent trend has been toward fewer political parties participating in the presidential election, as evidenced by the last two elections.

Currently, the four major political parties are:

- Constitutional Liberal Party (14 seats in the National Assembly).
- Nicaraguan Liberal Alliance (2 seats).
- National Liberation Sandinista Front (71 seats).
- Independent Liberal Party (2 seats).

There are also a number of other small parties which have been in existence for some time and a few that are still relatively young. Attempts to create new political parties are often largely unsuccessful due to the strengths of the larger parties.
The economy

As a result of years of economic liberalization and the implementation of policies intended to stimulate national and foreign investment, Nicaragua now has one of the most dynamic economies in Central America, due in large part to a substantial increase in private investment and exports.

Foreign Direct Investment Inflows reached US$ 1,442 million in 2016. FDI attracted in 2016 was led mainly by the manufacturing industry, telecommunications, commerce and services, which together represented 70 percent of all investment inflows to the country. The development of these sectors has contributed significantly in increasing the country’s productive capacity and boosting its economy.

Nicaragua index of FDI as a percentage of GDP was 8.6% in 2016.

**Economic Data - 2016**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (US$ m)</td>
<td>10,460.9</td>
<td>10,850.7</td>
<td>11,805.6</td>
<td>12,692.5</td>
<td>13,230.1</td>
</tr>
<tr>
<td>Real GDP growth (%)</td>
<td>5.1</td>
<td>4.5</td>
<td>4.7</td>
<td>4.9</td>
<td>4.7</td>
</tr>
<tr>
<td>Prices and financial indicators</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nominal GDP (US$ m)</td>
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<td>10,850.7</td>
<td>11,805.6</td>
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<tr>
<td>Real GDP growth (%)</td>
<td>5.1</td>
<td>4.5</td>
<td>4.7</td>
<td>4.9</td>
<td>4.7</td>
</tr>
<tr>
<td>Exchange rate: US$ (end-period)</td>
<td>24.1</td>
<td>25.3</td>
<td>26.6</td>
<td>27.9</td>
<td>29.3</td>
</tr>
<tr>
<td>Lending interest rate (avg; %)</td>
<td>12.89</td>
<td>15.55</td>
<td>11.66</td>
<td>11.84</td>
<td></td>
</tr>
<tr>
<td>Current account (US$ m)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>12.8</td>
</tr>
<tr>
<td>Trade Balance</td>
<td>(2,447)</td>
<td>(2,510)</td>
<td>(2,168.6)</td>
<td>(2,545.3)</td>
<td>(2,612.1)</td>
</tr>
<tr>
<td>Goods: exports FOB</td>
<td>2,671.8</td>
<td>2,401.8</td>
<td>2,632.7</td>
<td>2,421.7</td>
<td>2,226.4</td>
</tr>
<tr>
<td>Goods: imports FOB</td>
<td>5,420.9</td>
<td>5,225.4</td>
<td>5,452.9</td>
<td>5,434.2</td>
<td>5,453.9</td>
</tr>
<tr>
<td>Service Balance</td>
<td>1,728.50</td>
<td>1,781.1</td>
<td>1,952.5</td>
<td>2,026.7</td>
<td>2,309.6</td>
</tr>
<tr>
<td>Income Balance</td>
<td>345.5</td>
<td>254.0</td>
<td>428.3</td>
<td>489.2</td>
<td>321.7</td>
</tr>
<tr>
<td>Current-account balance</td>
<td>-10.6</td>
<td>-11.1</td>
<td>-7.1</td>
<td>-8.2</td>
<td>-8.6</td>
</tr>
<tr>
<td>Unemployment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unemployment (avg; %)</td>
<td>5.9</td>
<td>5.7</td>
<td>6.6</td>
<td>7.0*</td>
<td>4.0</td>
</tr>
</tbody>
</table>

Sources: ProNicaragua/Central Bank of Nicaragua

Inflation

According to the Consumer Price Index (CPI) inflation for 2016 was 3.1%, ergo slightly higher than in 2015 (3.05 %), hence lower than the average for the past five years (6%).

Doing business in Nicaragua

Government attitude towards foreign investment

Foreign investment legislation grants foreign investors the same rights and responsibilities as domestic investors.

Some aspects of the Foreign Investments Law relate to the definition of foreign investment, registration, rights granted and arbitration.

Free trade agreement and other agreements

Nicaragua has signed the following free trade agreements, among others:

- **The Dominican Republic - Central American Free Trade Agreement (DR-CAFTA) with the United States of America:** Nicaragua, along with the four other Central American nations and the Dominican Republic, signed a free trade agreement with the U.S. This agreement eliminates duties for most Central American exports to the U.S. and helps integrate the Central American economies into a single trading block.

- **Free Trade Agreement with Panama:** On October 12, 2007 Free Trade Agreement negotiations with Panama concluded; signing of the Protocol Agreement on Bilateral Cooperation and Integration is still pending. The objective of this agreement is to attract investment and to open agribusiness markets.

- **Free Trade Agreement with Mexico and the Dominican Republic:** Nicaragua has signed Free Trade Agreements with Mexico and the Dominican Republic that permit duty-free trade for certain key products.

- **Free Trade Agreement with Taiwan:** The agreement came into effect on January 1, 2008, and is expected to further increase bilateral trade.

- **Free Trade Agreement between Central America and Chile:** The bilateral protocol was ratified on August 2011. It includes the reduction of duties, the specific rules of origin and other terms related to reserves in the services chapter, as well as an asymmetric treatment for Nicaragua, as reflected in the schedules for reduction of duties.

- **Generalized System of Preferences (GSP):** The Generalized System of Preferences (GSP) is the result of a global effort by industrialized countries to grant preferential market access to developing countries. The GSP is a unilateral beneficial tariff granted to imports from developing countries. Nicaragua benefits from the GSP with Japan, Colombia, the European Union and Canada.

- **Central American Common Market (CACM):** Nicaragua, Honduras, El Salvador, and Guatemala have signed an agreement to integrate their economies in order to achieve greater
competitiveness in the global marketplace. The union has created a common customs territory among the countries that will result in the free movement of all products, regardless of their origin, and the elimination of customs requirements between the countries.

- **Bolivarian Alliance for the Americas (ALBA):** The ALBA is a social and economic cooperation agreement among Venezuela, Ecuador, Bolivia, Cuba, Nicaragua, Antigua & Barbuda, Dominica & St. Vincent and the Grenadines.

- **Association Agreement between Central America and the European Union:** The Central American countries signed an agreement with the countries of the European Union Association based on three independent, fundamental parts: political dialogue, cooperation and trade.

**Pending Negotiation Agreements**

- **Free Trade CA4 and Caribbean Community (-CARICOM):** This trade is already in force to Costa Rica and CARICOM. The negotiations formally started on August 2007. Panamá is also incorporated to the negotiations.

- **Free Trade Central America CA4-Canada:** This agreement is at the negotiation phase, the objective is to promote and develop the investment and the opportunities for local exports.

- Free Trade ALBA.

- Partial Scope Agreement between the Republic of Cuba and Nicaragua.

**Foreign investment**

Law No. 344 for the Promotion of Foreign Investments establishes equal treatment of foreign and domestic investment eliminates restrictions on the way in which foreign capital can enter the country, and recognizes the foreign investor’s right to own and use property without limitation.

The law also stipulates:

- Total currency conversion.

- Freedom to repatriate all capital and profits.

- No pre-established minimum or maximum investing amount.

- 100% international ownership permitted; there is no restriction against foreign investors, whether in total ownership of the company or as shareholders.

- Accelerated depreciation of capital goods.

- National loans accessible through local banks, according to their terms of approval.

- Property protection and security. Nicaraguan law recognizes and guarantees the legal rights of national or international investors, their property rights and the right to dispose freely of the goods, capital and the profits of the company (all as established under the law).

- Equal treatment for foreign and local investors.
Destination of foreign investment

Foreign investments have been centralized on Telecommunications, Energy, Manufacturing, Tourism and Services.

Restrictions of foreign investment

There are no restrictions in Nicaragua on converting or transferring funds associated with investments. Many transactions are freely and fully conducted in U.S. dollars. Remittances of investment capital, earnings, loans and lease repayments are freely allowed through the private foreign exchange market operated by local financial institutions.

Establishing business in Nicaragua

Business activities, including forms of enterprise, are governed mainly by the Commercial Code effective since 1917.

Business may be undertaken in the name of individuals and/or entities that are granted legal status as legal entities.

The forms of legal entities are:

Business structures

- General Partnership (Sociedad en Nombre Colectivo).
- Ordinary Limited Partnership (Sociedad en Comandita Simple).
- Joint-stock Company (Sociedad en Comandita por Acciones).
- Stock company (Sociedad Anónima).

General formation procedure

- Drafting of Public Deed of Incorporation.
- Application for registration as a business person.
- Registration of Corporate and Accounting Books.
- Recording of Board of Directors minutes and appoint a Legal Representative of the Company.
- Registration of the General Power of Administration at the Commerce Registry.
- Registration of the company before tax, social security and municipality authorities.

General closing procedures

- Recording of a shareholder’s resolution to dissolve and liquidate the company.
- Appointment of a liquidator to pay the company’s obligations and distribute the remaining assets to the shareholders.
- Registration of the public deed of dissolution before the Commerce Registry.
**Branch and/or permanent establishment:**

Foreign entities must register either as a branch or subsidiary, to conduct business activities in Nicaragua.

**Registration procedure**

In order to register a branch the following documentation must be filed before authorities.

- Name of the entity establishing the branch and the mailing address of its main office; country or state of organization or incorporation; business to be conducted by the branch; certificate from appropriate agency of the country or state of organization or incorporation, indicating it is duly registered and authorized to do business; copy of articles of incorporation or equivalent on file with the authorities of the country or state as applicable.

- Certified copy of the resolution of the appropriate body approving the incorporation of a branch in Nicaragua and also granting a local representative power to obtain the authorized domicile, as it is mandatory to appoint a local representative to file the request.

**Joint venture (Asociación Temporal)**

This type of business structure is regulated under sections 329-332 of Nicaraguan Commerce Code. Basically, the terms and clauses must be negotiated in the Joint Venture Agreement.

**Banking system**

**Central Bank**

Banco Central de Nicaragua (the Central Bank of Nicaragua) was created by Article 148 section 19 of the Constitution of 1950 through legislative decree no. 525 dated July 28, 1960.

It began operations on January 1, 1961 as a government institution with operational autonomy, indefinite duration, independent funding and legal identity. It is governed by Article 99 of the current Constitution, which establishes that “The Central Bank is the regulator of the monetary system of Nicaragua”.

In 2010, the legal framework of the bank was modernized through Law 732 “Law of the Central Bank of Nicaragua,” which defines it as an autonomous, decentralized institution of the Government, technical in nature, of indefinite duration, legal identity, independent funding and complete capacity to enter into legal contracts. The bank’s main office is in the city of Managua.

**Commercial banks**

Banking entities established in Nicaragua provide a full range of services that include, among others, credit cards; loans for the purchase of vehicles; loans for personal expenses; leasing operations; mortgage loans; saving accounts; checking accounts; investments through deposit certificates; short and long term loans; management of letters of credit; document collections; industrial credit; factoring; and sale and purchase of foreign currency. The Superintendent of Banks and Other Financial Institutions (SIBOIF) is the public entity that supervises banks, and financial and insurance entities.
The General Law of Banks, Law No. 561 enacted on November 2005, modernized the banking business.

**List of banks**

**Central bank**
- The Central Bank of Nicaragua.

**Commercial banks**
- Banco de la Producción, S.A. (BANPRO).
- Banco FICOHSA Nicaragua, S.A. (FICOHSA)
- Banco LAFISE Bancentro, S.A. (BANCENTRO LAFISE).
- Banco de América Central, S.A. (BAC).
- Banco de Finanzas, S.A. (BDF).
- Banco Procredit, S.A. (Procredit).
- Banco Corporativo, S.A. (BANCORP)
- Banco de Fomento a la Producción (Banco PRODUZCAMOS)

**Representation offices of foreign banks**
- Banco Internacional de Costa Rica (BICSA).
- Banco de Desarrollo Económico y Social de Venezuela (BANDES).
- Tower Bank International, Inc.
- LAAD Americas N.V.

**Labor and Social Security**

**Labor Supply**

<table>
<thead>
<tr>
<th>Desempleo 2012-2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>-----------</td>
</tr>
<tr>
<td>5.9</td>
</tr>
</tbody>
</table>


**Labor law requirements**

The regulation of the Nicaraguan work relationships are based on the country’s labor code, the highest law regarding employment matters. This law is intended to protect employees and employers and specifies their rights and obligations.

Below is a summary of the most important requirements of the Labor Law.

Sources: Superintendence of Banks

---

*PwC*
Wages and salaries

The current minimum wages (expressed in Cordoba “C$”) applicable from the month of September, 2017 through February, 2018 in accordance with the notification enacted by the Ministry of Labor on February 21, 2017, are shown below:

<table>
<thead>
<tr>
<th>Industry</th>
<th>Monthly (C$)</th>
<th>USD Equivalent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture*</td>
<td>3773.82</td>
<td>3773.82</td>
</tr>
<tr>
<td>Fishing</td>
<td>5,738.20</td>
<td>5,738.20</td>
</tr>
<tr>
<td>Mining</td>
<td>6,777.61</td>
<td>6,777.61</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>5,074.31</td>
<td>5,074.31</td>
</tr>
<tr>
<td>Industry subject to fiscal regime **</td>
<td>5,044.69</td>
<td>5,044.69</td>
</tr>
<tr>
<td>Micro and small craft Industries and national tourism</td>
<td>4,054.76</td>
<td>4,054.76</td>
</tr>
<tr>
<td>Electricity, gas and water; commerce, restaurants and hotels, transportation, warehousing and communications</td>
<td>6,921.93</td>
<td>6,921.93</td>
</tr>
<tr>
<td>Construction, Insurance and Financial Institutions</td>
<td>8,445.44</td>
<td>8,445.44</td>
</tr>
<tr>
<td>Community, social, and personal services</td>
<td>5,290.48</td>
<td>5,290.48</td>
</tr>
<tr>
<td>Central and municipal government</td>
<td>4,706.12</td>
<td>4,706.12</td>
</tr>
</tbody>
</table>

(*) Salary plus meals (**) As of January 2017. Source: Ministry of Labor

Profit sharing

Under the Nicaraguan Labor Code profit sharing is not mandatory for companies.

Christmas bonus

At the end of each calendar year the employee is entitled to an additional month of salary (bonus). If the worker has not completed a year of continuous work, the additional month of salary is calculated proportionally to the months worked during the year. Payment is due within the first ten days of December.

<table>
<thead>
<tr>
<th>Costs for the Employer</th>
<th>% of Ordinary Gross Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vacation</td>
<td>8.33%</td>
</tr>
<tr>
<td>Christmas Bonus – 13th Month</td>
<td>8.33%</td>
</tr>
<tr>
<td>Severance Payment</td>
<td>8.33%</td>
</tr>
<tr>
<td>Holidays</td>
<td>2.5%</td>
</tr>
<tr>
<td>Social Security</td>
<td>19% effective Jan, 1 2017</td>
</tr>
<tr>
<td>INATEC (National Technological Institute)</td>
<td>2.00%</td>
</tr>
<tr>
<td>Total</td>
<td>48.5%</td>
</tr>
</tbody>
</table>

Source: Nicaraguan Labor Code and Social Security Law
Work shifts

The maximum working hours for a daytime shift are 8 hours daily, and should not exceed 48 hours per week. For a nighttime shift the maximum is 7 hours daily, and should not exceed 42 hours per week. For mixed shifts (daytime and nighttime shifts), the maximum is 7.5 hours daily and should not exceed 45 hours per week.

Vacations

After each continuously worked year, employees are entitled to thirty days of paid vacation.

Severance payment

Whatever the cause may be for the termination of a contract, the employer is obliged by law to pay the employee the proportional part of his benefits, such as vacation, Christmas bonus and work compensation. Also, when the employer rescinds an open-ended contract without just cause, he must pay the employee the equivalent of the following:

• One months of salary for each of the first three years of work,
• 20 days of salary from year four through six.

In no case shall the payment be less than one month or greater than five months. Any fractions of years will be compensated proportionally.

Technical education tax

National Technological Institute (INATEC): Employers must pay the equivalent of 2% of the employee’s monthly gross salary. This fund is available for training for workers from the contributing company.

Foreign personnel

Under Nicaraguan Labor Code, Section 14, all companies are required to employ a workforce that is at least 90% from Nicaraguan citizens, with a maximum 10% of foreign personnel. As an exception and for technical reasons only, the Ministry of Labor can approve a higher percentage to hire foreign personnel.

Social Security

The Nicaraguan Social Security System is conducted and regulated by the Nicaraguan Institute of Social Security (INSS) according to Decrees 974 and 975.

The Social Security regime, as stated in the before-mentioned law, is composed of four insurance systems:

• Disability.
• Retirement age.
• Death.
• Occupational Hazard Insurance.
For Social Security taxes, the employer social security contribution for 2018 is 19% of the gross salary, and the employee social security contribution is 6.25% of its gross salary. The taxable salary for 2017 was up the amount of C$ 82,953.89, which will be increase in 2018 based on the annual variation of the average wage of the insured workers.

**Accounting and audit requirements and practices**

**Accounting**

The Institute of Public Accountants of Nicaragua (CCPN) is the regulatory body of the accounting profession. On May 10, 2010, this Institute established mandatory adoption of International Financial Reporting Standards (IFRS) or International Financial Reporting Standards for the Small and Medium Size Entities (IFRS for SME) for accounting periods beginning on or after July 1, 2011.

Financial institutions, regulated by the Superintendence of Banks of Nicaragua, must use as accounting framework The Unique Accounting Manual. This manual, along with additional regulatory standards are issued by Superintendence of Banks of Nicaragua.

**Statutory audit requirements**

According to the income tax law, the accounting period should be calendar year, except for companies, that due to the nature of its operating cycle request to and get the approval by Fiscal Authorities.

Statutory audit is not required in Nicaragua. However, regulations by Superintendence requires to financial institutions to obtain audited financial statements from debtors for loans greater than US$750,000.

Financial institutions regulated by the Superintendence of Banks must have audited financial statements, which should be submitted to such Superintendence 90 days after calendar year end. Additionally, financial institutions are required to publish in newspapers of national distribution its annual audited financial statements at least 120 days after calendar year end.

**Books and records**

Under Nicaragua’s Code of Commerce, Section 28, companies are required to:

- Keep an inventories ledger and balance sheets (not used in practice).
- Keep Journal and General Ledgers.
- Keep a Corporate Stock Ledger.
- Keep a ledger for letters and telegrams (not used in practice).

All ledgers must be kept in Spanish except the ledger of letters and telegrams. If there is any legal ledger in a foreign language, this should be translated it into Spanish. The books also need to be bound and each page must bear the stamp of the Nicaraguan Department of Commerce registration office.
Accounting profession

The accounting profession is regulated by Law No. 6, Accounting Public Exercise Law, issued in the official newspaper: La Gaceta No. 94 of April 30, 1959. The Institute of Public Accountants of Nicaragua (CCPN) is the regulatory body of the accounting profession.

Auditing Standard

CCPN has established The International Auditing Standards (ISA) as the auditing standards for Nicaragua. Superintendence of Banks also requests such standards to audit financial institutions.

Tax system

On November 30, 2012, the Nicaraguan Congress approved a tax reform bill that changes significantly the local tax system. This reform (Law No. 822), effective as of January 1, 2013, establishes among other important aspects, the following:

- Tax resident definition.
- Tax haven definition.
- Rules of permanent establishment (PE).
- Transfer pricing rules.
- Introduction of a dual tax system, segregating the taxation of personal income, economic activities, and capital gain or losses.

In Nicaragua the tax system is based on the territory principle, and with four major sources of taxable income which are administered by the following government agencies:

- General Incomes Services - DGI (Dirección General de Ingresos).
- General Customs Services - DGA (Dirección General de Servicios Aduaneros).
- Nicaraguan Social Security Institute - INSS (Instituto Nicaragüense de Seguridad Social).
- Municipalities – Alcaldías Municipales.

Tax on corporate income

The Nicaraguan corporate income tax rate is 30%.

Income taxes are levied only on domestic-sourced income at whichever is higher of the following rates:

- 30%, applied to net taxable income (gross taxable income less allowed deductions by law);
- Definitive Income Tax payment based on 1% of gross income obtained during the fiscal year.

The law establishes exceptions to the 1% definitive minimum tax, regulated as follows:

- During the first three fiscal periods of recently incorporated entities.
• Taxpayers whose sales are controlled by Government.
• Taxpayers that ceased operations by ‘force majeure’.

**Excise tax**

Goods that are considered to be nonessential are subject to excise tax: rum, beer, soda, juice, tobacco. The tax base is the CIF price for imported items, and the tax is levied and paid only at that stage.

**Tax on branch income**

• Income received is subject to corporate income tax.

**Free Trade Zone tax**

The Free Trade Zone Law – Law 917, relates to export-oriented industries, manufacturing, agribusiness, and contact centers. According to international agreements with World Trade Organization (WTO) members (Doha Article VII), Nicaragua will be one of the few countries in the region able to provide free zone and other tax incentives to exporters after 2008.

In August of 2004, as part of the incentive for DR-CAFTA (Dominican Republic and Central America Free Trade Agreement), Nicaragua was granted a special one-for-one provision (to a limit of 50,000 square meters of fabric) for free trade zone companies. This benefit, known as Tariff Preference Levels (TPL), was granted for a ten-year period that ended on December, 2014.

The tax benefits and exemptions provided by the Free Trade Zone are:

• Tax exemption on corporate income and property taxes.
• Tax exemption on municipal taxes.
• Tax exemption on customs taxes for the importation of capital goods such as machinery, equipment and raw material, and transport and support services for the Free Trade Zones.
• Tax exemption on value-added tax.

Export Processing Zone Tenant shall be entitled to: 10 years exemption of corporate income regulated as follow:

• 100% exemption for the first ten years, and
• 60% exemption from the eleventh year onwards.

The aforesaid tax exemptions can be renewed for one time only under the same rules.

**Tax on dividend**

Natural person, corporate and economic unit, resident or not in the country, will be subject to a withholding tax of 10%, which is applicable for tax residents and 15% for non-tax residents.

**Tax on Capital Gain**

As general rule, capital gains are subject to a 10% definitive withholding tax rate. Also, in case of
the capital gain arising from the sale of property, which is subject to annotation before the public registry office, the withholding tax will be calculated as follows:

<table>
<thead>
<tr>
<th>Equivalent in Cordoba’s of the property value in Dollars US$</th>
<th>Withholding tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>From</td>
<td>To</td>
</tr>
<tr>
<td>0.01</td>
<td>50,000.00</td>
</tr>
<tr>
<td>50,001.00</td>
<td>100,000.00</td>
</tr>
<tr>
<td>100,001.00</td>
<td>200,000.00</td>
</tr>
<tr>
<td>More</td>
<td>More</td>
</tr>
</tbody>
</table>

**Municipal sales and service tax**

A monthly 1% tax is levied on all sales of the month of goods and provision of services payable to the municipalities of the city in which the service is provided or the goods are sold.

**Municipal registration tax**

An annual 2% tax is levied on the average gross income received during the last trimester. In the case of the incorporation of new establishment or enterprise, municipal registration tax is 1% of the capital invested.

**Property Tax**

This annual tax is levied at a rate of 1% on 80% of cadastral/surveyed value, as recorded by the government.

**Value-added tax (VAT)**

VAT is imposed at 15% general rate on the:

- Supplies of goods;
- Supplies of services;
- Importations of goods

Export of goods and services are subject to a 0% rate

VAT liquidation is determined by subtracting, VAT debit (sales of goods or rendering services), from VAT credit paid on transactions needed to generate taxable income for VAT purposes. VAT credits are applicable or allowed when related to goods/services subject to VAT. VAT paid on transactions to generate non-taxable income for VAT purposes are not allowed as VAT credits but may be proportionally applied.

VAT exceptions include:

- Medicine.
- Real estate transfer.
- Sales of used goods.
- Basic food products.
Financial instruments.
Tuition.
Textbooks and educational supplies.

**Other tax regimens**

**Tourism Investment Incentives Law (Law 306)**

Tourism is a very dynamic industry in Nicaragua, due to the country’s plentiful breathtaking natural resources and the fiscal incentives offered to investments in this industry.

**Qualified tourism projects can receive the following tax benefits under Law No. 306:**

- 80% to 90% income tax exemption:
  - Property tax exemption for 10 years.
  - Import tax and value-added tax exemption on the purchase of accessories, furniture, or equipment.

- Tax exemptions related to project implementation:
  - Value-added tax on design/engineering and construction services.
  - Exoneration of import duties and taxes and of the value added tax (VAT) for the local purchase of construction materials and fixed building accessories.

- Tax incentives can be extended if project undergoes extensive expansions.

**Forestry Incentives Law (Law 462)**

The New Forestry Incentive Law of August 2003 provides significant tax incentives for forestry plantations:

- 10-year tax exemption up to year 2023, on:
  - 50% of municipal taxes on sale of land.
  - 50% of profits.
  - The payment of taxes on real estate in the case of forest plantations and areas under forest management.

- Companies investing in forest plantations can reduce 50% of the amount invested as costs.
- Exemption from import duties for companies producing wood and paper products (excluding saw mills), on imports of machinery, equipment and accessories.
- All Government institutions must give priority in their acquisitions, to goods made from certified wood. Government agencies are permitted to pay 5% more for certified wood products than for non-certified products.
- 100% deduction of income tax when land is destined to reforestation projects or forest plantations.
Renewable Energy Incentives Law (Law 532)

The Law for the Promotion of Energy Generation from Renewable Sources promotes the development of new projects, expansion of existing ones, and biomass and biogas energy sources. Fiscal, economic and financial incentives are granted to this effect:

- Exemption of customs duties on the importation of machinery, equipment, material and raw material necessary for all construction of stations, including sub transmission lines necessary for energy transportation from the generation facility to the National Interconnected Grid (SIN).

- Exemption of the Value Added Tax (VAT) levied on machinery, equipment, material and raw materials utilized during pre-investment stage, construction of structures, including the construction of the sub-transmission lines necessary to transport energy to the National Interconnected Grid (SIN).

- For “isolated systems” with their own generation facilities, this exoneration covers pre investments, construction and all the investments made in distribution grids associated with the project (i.e. panels and solar batteries for solar energy generation).

- Exemption of the corporate income tax IR for a maximum period of seven years. During this same period, the income derived from the sale of carbon dioxide bonds will also be exempted.

- Exemption of all the Municipal Taxes on real estate, sales and registrations during the construction of a project, for a period of ten years to be applied in the following manner: exoneration of 75% during the first three years; 50% the five following years and 25% for the last two years. Investments in machinery, equipment, and hydroelectric dams will be exempted from all taxes and duties, for a period of ten years.

- Exemption of taxes on the exploitation of natural resources for a maximum period of five years after the beginning of operations.

- Exemption of Fiscal Seals Tax incurred by the construction, operation or expansion of a project for a period of ten years.

The deadline to apply for the tax benefits of this law ends on January 1, 2018.

Special Law on Exploration and Exploitation of Mines (Law 387)

- Allows companies to apply to the Temporary Admission System and other schemes to promote exports as established by the legislation for purposes of exemption or suspension of customs taxes.

- Exemption of import tariffs on machinery, materials, instruments, tools and other effects related to the mining activity.

- Exemption from taxes imposed on company property, within the perimeter of the mining concession.

- Exemption from taxes or tax burden directly or indirectly applied on the minerals before extraction, on the right to extract them, on the extracted mineral, cartage, benefits, transportation or storage of the minerals, as well as its sale or export.
Temporary Admissions System (Law 382)

Companies that directly or indirectly export at least 25% of total production (no less than US$50,000 per year) may apply to the Temporary Admission System. This system allows both the entry of merchandise into the national customs territory, and the local purchase of goods or raw material without paying any kind of taxes or duties. This merchandise must be re-exported after being subjected to a process of transformation, repair or alteration. The company must request a suspension of duties and tariffs to competent authorities. If the company cannot apply for the suspension due to tax management reasons, it may later apply for a tax return, as long as it re-exports the merchandise that was temporarily admitted into the country. This system is managed by the National Commission for Export Promotion (CNPE).

International treaties to avoid double taxation

Currently, Nicaragua does not have any signed agreement or treaty with any country, to avoid double taxation.

Corporate deduction

Depreciation and depletion

Depreciation must be computed by the straight-line method. Depending on the type of construction and the estimated useful lives of fixed assets, annual rates for depreciation are as follows:

<table>
<thead>
<tr>
<th>Class</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>3,5,10</td>
</tr>
<tr>
<td>Vehicles</td>
<td>12,20,33</td>
</tr>
<tr>
<td>Plant and equipments</td>
<td>10,1420,50</td>
</tr>
</tbody>
</table>

Net operating losses

The carry forward of losses are deductible during the following three fiscal periods in which they were incurred. Losses are deductible on a stand-alone basis per year; therefore they cannot be aggregated and deducted in one single year.

Taxes

Payments for services made from affiliates to foreign related parties are subject to 15% withholding tax and deductible for income tax purposes provided the requirements below are met:

- The expense is needed to generate taxable income.
- The expense is duly supported (agreement, invoices, payments receipts).
- The expenses are incurred within the fiscal period.
- The withholding tax is applied and paid to Tax Authorities.

Limitations: income tax expense is not deductible for corporate income tax purposes. Municipal or local taxes (property tax, municipal monthly income tax, annual registration tax) are deductible for corporate income tax. Many types of penalties or charges made by tax, customs, Social Security or municipal authorities are not deductible for income tax purposes.
**Group taxation**

Group taxation is not allowed.

**Capital Incomes**

- Dividends, Royalties, Interest, Software Programs paid are subject to 10% withholding tax applicable for tax residents and 15% withholding tax for non-tax residents. Effective since December 18, 2014.

- Lease of property assets are subject to 10% withholding tax for tax residents (with 30% deduction) and 15% for non-tax residents. Effective since December 18, 2014.

- Lease of fixed assets is subject to 10% withholding tax for tax residents (with 50% deduction) and 15% for non-tax residents. Effective since December 18, 2014.

**Capital Gains**

In general, capital gains are subject to 10% withholding tax on net income. Net income is the difference between the selling price and acquisition value, applicable to residents and non-residents. Non-residents are not allowed offset capital losses.

- Sale of assets not subject to annotation before the public registry office is subject to 10% of net income.

- Sale of shares of a Nicaraguan company is subject to 10% with a 50% deduction. Such deduction is applicable only when taken place outside of Nicaraguan territory. When taken place within Nicaraguan territory assets are subject to 10% of net income.

- When the taxpayer has difficulty to prove its acquisition cost, the withholding tax is levied to the 60% of the selling price.

Interest paid to financial institutions (banks) founded by foreign Governments are non-taxable of withholding tax.

**Transfer pricing ruling**

According to the Tax Law No. 822, effective as of January 1, 2013, incorporated transfer pricing rules, are effective as from June 30, 2017.

**Tax incentives**

**Investment**

Under present law and on a case-by-case basis, new companies with tourism activities may request and the Government may grant, during the construction phase of the asset, total exemption of custom duties and, for income tax purposes, partial or total exemption for a maximum period of 10 years.

The renewable energy sector is covered by a special law that provides benefits or exemptions in corporate income tax, VAT, customs duties and municipal tax.
Free Trade Zone industries also have a special law with tax benefits or exemption in tax and custom duties in imports and corporate income tax, VAT and municipal taxes.

**Corporate Tax Compliance**

**Returns**

With some exceptions, corporations and individuals are required to file tax returns for a fiscal year within the following three months after the fiscal year ends, which is usually on December 31; however, companies can obtain authorization from tax authorities in order to change or have a different year-end.

**Payment of tax**

Corporations must pay fiscal-year income tax in monthly advanced payments. The monthly payable amount is calculated as 1% of gross income.

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

Section 50 of Law 822, states that the Nicaraguan ordinary tax year-end is calendar year, from January 1 to December 31. Additionally taxpayers can request to the Tax Administration a special tax year-end that could be as follows:

- From April 1 to March 31 of the following year.
- From October 1 to September 30 of the following year.
- From July 1 to June 30 of the following year.

**Individual taxation summary**

Nicaragua taxes its citizens and all residents and non-residents on their income originating in Nicaragua. Taxable income that originates in Nicaragua obtained by non-residents or non-domiciled persons is determined as a percentage of gross income, depending on the nature of the income.

Income from work: are those coming from every kind of compensation and remuneration, whatever their denomination or nature, money or kind, that derive of the personal work rendered on behalf of others, such as: salaries, variable salaries, seniority bonds, bonuses, allowances, performance recognition and any other remuneration derived from work. There are no concessions of any kind to foreigners. Total personal gross income can be estimated ex officio by the fiscal authorities.

Tax residence: For tax purposes, a resident is defined as the person who meets any of the following conditions:

- Nationals or foreigners from abroad that with a stay in the country for more than 180 days, whether continuously or not.
- When the main center of economic interest is located within the country, unless the taxpayer proves its residence or tax domicile in another country through the corresponding certificate issued by the competent tax authorities. This will not apply when the country is considered by the Tax Authorities as a tax haven.
Residents are subject to the income tax according to the progressive tax rates as shown below:

<table>
<thead>
<tr>
<th>Taxable income in US$*</th>
<th>Applicable Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>From</td>
<td>To</td>
</tr>
<tr>
<td>$0.0003</td>
<td>$3,274</td>
</tr>
<tr>
<td>$3,274</td>
<td>$6,549</td>
</tr>
<tr>
<td>$6,549</td>
<td>$11,460</td>
</tr>
<tr>
<td>$11,460</td>
<td>$16,371</td>
</tr>
<tr>
<td>$16,371</td>
<td>Or more</td>
</tr>
</tbody>
</table>

Non-residents, whether domiciled or not, that perceive Nicaraguan’s source income are subject to a 15% definitive withholding tax.

**Individual tax exemptions**

The following deductions will be effective as of year 2014:

- 25% of educational expenses, health and professional services, up to the amount of C$5,000 (approximately US$164) for the first year; this limit will be increased in the following 3 years for the same amount until reaching C$20,000 (approximately US$655) in 2017.

- The employee’s social tax (6.25%) of the gross income.

- The contributions from employees to saving funds and/or pension, other than social security, provided that these funds have the approval of the corresponding authority.

**Tax exemptions**

The following income from work is tax exempt:

- Up to the first C$100,000 (approximately US$3,274).

- The Christmas Bonus (1 month of salary) in accordance with the labor code.

- Compensation of up to 5 months of salaries and wages received by employees or their beneficiaries. The additional compensation (over 5 months) will also be exempt up to an amount of C$500,000 (approximately US$16,371); any excess will be taxed at 10%.

- Benefits in kind agreed in labor union agreements.

- Compensations granted by the social security regime.

- The benefits paid by the savings funds and/or pension, if duly authorized by the corresponding authority.

- The means and services necessary to carry out the assignment, such as: travel expenses, telephone, vehicles, fuel, depreciation expenses, vehicle maintenance, representation expenses and reimbursement of expenses, as long as such benefits are not considered a simulation or concealment of income from work.
Individual tax compliance

There are 2 mechanisms for individuals to pay taxes on their Nicaraguan source income:

- Withholding (Form IR-122): Mandatory system for taxpayers that obtain income from single employer and do not benefit from the deduction for expenses on education, health or professional services mentioned in the previous section. The employer through the payroll is responsible to withhold and pay the income tax on a monthly basis through withholding income tax return Form IR-122. Social charges should also be withheld.

- Remark. The employer must submit the Annual Income form Work within 45 days after year-end.

- Annual individual income tax return (Form IR-106): This is applicable for taxpayers that obtain income from two or more employers that in the aggregate exceed an annual income of C$100,000 (approximately US$3,274). The taxpayer should submit the Annual Income Tax Return through Form IR-106, within 90 days after year-end.
Contactos

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Panamá
Since their arrival to the New World, the Spanish conquerors found the sparsely populated region of Panama and dominated by independent chiefdoms whose culture was similar to the most advanced civilizations of the Andean Colombia. The first Europeans to explore the region were Rodrigo de Bastidas, Juan de la Cosa and Vasco Nunez de Balboa, who arrived in 1501 and explored the Atlantic coastal region. The former Spanish colonies in the region were established in 1510, near the Chagres River. However, the new arrivals faced great resistance from the indigenous tribes, so they were forced to move their colony to a place to the side of the Atrato River.

This colony called Santa Maria de la Antigua del Darien became the first permanent colony on the Isthmus. In 1513, Balboa led an expedition across the isthmus towards the Pacific Ocean, which he conquered in the name of the King of Spain. Spain increased its number of colonies in the region, until the end of the colonial era, the passage across the isthmus served as the largest trade route between Spain and its colonies western South America.

In 1519 the town of Panama was established (Panama City now) by ancient inhabitants of Santa Maria. The new town quickly became the center of commercial activity in the region and an important part of Spanish mercantile system in the New World. Nombre de Dios, a colony at the mouth of the Chagres River, was connected by a road with Panama and became famous for its fairs. The colony became a village but was destroyed in the late 16th century by the English explorer Sir Francis Drake. After the destruction of Nombre de Dios, the great fairs moved to Portobelo on the Caribbean coast.

The commercial activity growing in Panama and Portobelo attracted an increasing number of English pirates. Panama was destroyed in 1671, but was rebuilt near its original location two years later and for the next 120 years it was the largest settlement in the isthmus. Portobelo did not fare so well. It was destroyed by English pirates in 1739 and rebuilt in 1751, but by then the Spanish trade routes had changed. Instead of anchoring in Portobelo and take the merchandise by land to the western villages, commercial shipping route from Europe took the South Atlantic Ocean, around Cabo de Hornos at the tip of South America and up the West Coast of South America to anchor in commercial ports in the west. The result of this change was a large decrease in business income of Portobelo.
After the attack on Portobelo in 1739, Spain ceased Panama under the authority of the Viceroyalty of Nueva Granada. However, in 1821 the colony became independent from Spain, and was incorporated into the new union of Gran Colombia. In 1830, this union was divided into nations we know today as Venezuela, Ecuador, and Colombia, and authority was granted on Panama to Colombia. Although Panama was always allowed to choose its own governor after independence from Spain, a new constitution adopted in 1843 gave control of the territory back to Bogota. Eventually Panama was annexed to Colombia as a state.

In the mid-1800s, Colombia negotiated with private investors in the United States to build a railroad that would run on the isthmus, and provide a route that would connect the Pacific with the Atlantic Ocean via the Caribbean Sea. The railroad was widely used during the gold rush of 1849 and inspired the development of plans for the construction of a canal that would cover a similar route, and provide a direct connection between the two oceans. After much deliberation, the Colombian government granted him the rights to build a French company, which started work in 1880.

However, the project failed prematurely, the hot rain forests were breeding mosquito-borne diseases such as malaria and yellow fever, and soon workers were sick.

The Colombian government after that, saw the United States as a potential partner in the construction of the canal, but rejected his proposal in 1902. The failure of the government for not having secured the contract further encouraged the revolutionary movement that was already hectic enough other problems with Colombia. On November 3, 1903 a revolutionary meeting proclaimed the separation of Panama. Colombia sent armed forces to stop the rebellion, but were stopped by a number of U.S. interventions, and the separation of Panama was secured. The canal treaty was signed with the United States on November 18, 1903. Was agreed to establish a canal zone 10 miles (16 kilometers) wide, extending about 50 miles (80 kilometers) between Colon and Panama City. Control over this region was ceded to the United States, and this was not seen in good way by the Panamanian people. Construction began the following year, and in 1914 the Panama Canal was opened.

Following the success of the revolutionary movement to achieve separation of Panama, the new forces in the power instituted a new government. The first Constitution, adopted in 1904, instituted a centralized government headed by a President, who has the authority to appoint and dismiss provincial governors. It also gave permission to the United States to use its military force to intervene in any disturbance that occurs in the new nation, a situation that often occurred during the first quarter century.

The first President of the New Republic was Manuel Amador Guerrero, who was appointed by a constitutional convention in 1904. During his term as president, Guerrero focused on organizing the new branches of government, the Executive, Legislative, and Judicial, and made important changes in the structure of the presidential cabinet.

During the first three quarters of the 20th century, in Panama there were many political and military coups. Much of the dissatisfaction civil and political destabilization originated from the U.S. presence in Panama and other matters related to the Canal Zone. The original treaty was modified in 1936 by the Hull-Alfaro Treaty, which among other things asked the U.S. to give up its right to intervene militarily in Panama.
In 1940, the newly elected President Arnulfo Arias made a change in the constitution of Panama that extended the presidential term. Arias was a populist who led a violent coup in 1931 that overthrew the government of then President Florencio Arosemena. The presidential term of Arias was also relatively short.

In 1941 he was ousted from the presidency by the national police and replaced by Ricardo Adolfo de la Guardia, who gave permission to the United States to establish military protection of the canal and the Canal Zone.

Panama's political situation became very unstable after WWII. De La Guardia was removed from office in 1945 by the Legislature and appointed the diplomat Enrique A. Jimenez as Interim President. Arnulfo Arias returned to run for president in 1948 but was defeated in the elections by Domingo Diaz, who died in office the following year. After the death of Diaz, his two vice-presidents refused to replace it. After that there were some unusual handling of the 1948 election to claim the National Election Board, the body responsible for overseeing the electoral process in Panama that Arias had won the 1948 election. Arias won the presidency again.

In 1951, Remon led a coup that overthrew Arias, whom he had previously supported. The following year he was elected President Remon, to be murdered in 1955 and the following year Ernesto De La Guardia was elected President.

The Presidential term of De La Guardia had virtually no outstanding event, although the social dissatisfaction led to a wave of protests in 1958 that resulted in the imposition of martial law. In 1960 Roberto Chiari was elected President, he instituted a program of ambitious social reform regardless of the huge budget deficit and the national debt.

Government control was taken over by a military meeting led by General Omar Torrijos who made a change in the constitution that granted more powers.

Despite the serious financial problems of the country, Torrijos authorized large public works programs, gaining the approval of the people but increasing the Public Debt. In 1977, Panama has suffered economic decline and the following year began negotiations for new contracts for the control of the Panama Canal.

In 1979 a new treaty became effective authorizing the transfer of control of the canal to Panama in 2000.

After Torrijos tragic death in a plane crash in 1981, control passed to several military commanders before it was taken by Manuel Antonio Noriega in 1982. In 1988 the United States accused Noriega of drug trafficking charges and imposed severe economic sanctions on the country in an effort to force his resignation. As a result there was an increase in the unemployment rate and declining productivity and sales.

At the end of the 20th century, the political problems continued to plague the Panamanian government. At the end of 1989, Noriega survived an attempted coup by Panamanian soldiers, and on December 15, 1989 was elected to handle the “state of war” with the United States.

During those days US President George Bush authorized the dispatch of troops to invade Panama.
in an attempt to capture Noriega. Guillermo Endara, who won the last elections was quickly sworn in as President on Dec. 20 while U.S. soldiers invaded the headquarters of Noriega in Panama City.

Noriega, who had taken refuge in the Vatican Embassy in the capital, surrendered on January 3rd 1990 and brought to the United States to stand trial on charges of drug trafficking and organized crime. He was convicted in 1992 and sentenced to 40 years in Florida. In March 1990 the United States formed an aid package to help rebuild the economy of Panama.

The Democratic Revolutionary Party candidate, Ernesto Perez Balladares, won the 1994 elections. Balladares administration worked to heal relations with the United States and to make economic reforms, including the privatization of several companies. In September 1999, Perez Balladares was replaced as President by the first woman President in Panama, Mireya Moscoso, the widow of Arnulfo Arias. Moscoso promised that once the Canal passed to the Panamanians it would not belong to any politic party. She also promised to restore the economy and ensure the needs of the poor, particularly in rural areas.

On December 31, 1999, control of the canal passed to Panama and all U.S. military personnel was withdrawn. Since then, the Panamanians have managed the Panama Canal efficiently. There have been four elections (2001, 2004, 2009 and 2014) and during the global economic crisis, Panama has maintained a healthy growth.

Under the Panamanian Administration was completed and inaugurated the expansion of the waterway on 2016, after different vicissitudes, increasing the volume capacity and traffic in the Canal. The referred program consists in the following projects:

- Third group of locks, that is the construction of two new locks complex that generate a third traffic rail.
- Access to the Pacific Ocean, which consist in the excavation of a 6.1 Km channel through the new Pacific locks in Milaflores.
- Improvements in the water provision through the increase of the maximum operative level of Gatun Lake by 45 centimetres, in order to obtain a better water provision in the project.
Panama is located in Central America, bordered to the North with the Caribbean Sea, to the south by the Pacific Ocean, to the east by the Republic of Colombia and the West with the Republic of Costa Rica. The capital is Panama City.
Panamá

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- Population, form of government, language, currency.
- Education.

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Overview of the country

Climate

The climate is tropical, humid and cloudy with a long rainy season (May to December), and short dry season (January to May). The average humidity is 70%.

Population, government, language, currency, and others:

<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area</td>
<td>78,200 km²</td>
</tr>
<tr>
<td>Population</td>
<td>3,929,000 (2015)</td>
</tr>
<tr>
<td>Population per km²</td>
<td>147.5 inhabitants/km²</td>
</tr>
<tr>
<td>Population growth</td>
<td>1.41%</td>
</tr>
<tr>
<td>Political system</td>
<td>Representative Democracy</td>
</tr>
<tr>
<td>Form of government</td>
<td>Presidential</td>
</tr>
<tr>
<td>Language</td>
<td>Spanish</td>
</tr>
<tr>
<td>Currency</td>
<td>Panamanian Balboa (PAB), at par value with the US Dollar (USD)</td>
</tr>
<tr>
<td>Administrative division</td>
<td>10 provinces and 3 Indian reserves</td>
</tr>
<tr>
<td>Religion</td>
<td>Roman Catholic</td>
</tr>
<tr>
<td>Capital city</td>
<td>Panama City</td>
</tr>
</tbody>
</table>

Education

The illiteracy in the last three years has decreased significantly from 7.6% to 5.5%. Education is free and mandatory for children aged 6 to 15 years. In 2014 there were 75,558 students enrolled in elementary schools. School pupil-teacher ratio is estimated in 24 to 1 in 2014. Elementary education lasts for six years. Middle school and high school, have three years duration each one.

Source: Autoridad del Canal de Panamá website, https://canalampliado.com/es/
The leading higher education institution, the University of Panama, is a public university and was founded in Panama City in 1935.

**Political and legal system**

**Legal framework**

The political and legal structure of Panama is composed of three main branches – Legislative, Executive and Judicial – organized as follows:

The legal system is based on Napoleonic Code.

**Main political organizations**

Democratic Revolutionary Party – Partido Revolucionario Democrático (PRD)

Democratic Change – Cambio Democrático (CD)

Panameñista Party – Partido Panameñista

People Party – Partido Popular (PP)

Elections take place every five years. The last presidential elections were held in 2014, the upcoming elections are in 2019.

**The Economy**

Panama’s economy generated an annual growth of over 6% during the period between 1950 and 1981. However, economic growth stagnated at 1.9% per year during 1977-1987, caused by the result of the second petroleum crisis and debt. During the early years of the 1990s, in Panama bounces a new recession caused by the U.S. seizure and subsequent military invasion.

In May 1994, the economy continued to grow but at a slower rate during the first half of the 1990s. The main drivers of the economy of Panama (the Panama Canal, the Colon Free Zone and the International Banking Center) continued to lose competitiveness in the context of an
economy open to the world. The Administration of the President Ernesto Pérez responded to this in 1996 with a strong program of economic reforms including the privatization of two ports (Cristobal and Balboa), the enactment of antitrust law, the renegotiation of the foreign debt with commercial banks, privatization of electricity and telephone companies, and banking law reforms. In addition to these economic changes came the recovery of most traditional sectors, with the exception of the construction sector.

Between 1988 and 1998, the economy grew by 5% annually. In December 1999, in accordance with the Panama Canal Treaty of 1977, the Panama Canal and all U.S. bases were returned to Panamanian government, comprising 364,000 acres, and its cost is estimated at $4 billion. Real growth in gross domestic product (GDP) fell to 3.2% in 1999 with the government of Mireya Moscoso (below 4.4% in 1998) and then to 2.5% in 2000. In 2001, growth is bent beyond, as declining export demand and a dramatic drop in tourism that followed after the terrorist attack on the United States of September 11, 2001 were added to domestic demand declining, which presented Panama as a preferred destination.

During the Administration of the President Ricardo Martinelli, Panama began negotiating double taxation treaties with clauses related to information exchange, in order to meet the objectives of the OECD and stay out of the list of non-cooperative countries.

Panama’s economy is based on the operations of the Panama Canal, tourism, banking, the Colon Free Zone (which is the second largest free trade zone in the world after Hong Kong), insurance and ship registration, medical, health, and other businesses.

Panama has also obtained substantial income through the pipeline and licensing Panamanian-flagged ships worldwide. Another important but small sector of the economy is agriculture. The main products are: bananas, rice, corn, coffee, sugar, vegetables, meat and shrimp.

The clay, limestone, and salt are the main mineral products, and gold, sand ferrous and manganese have been small-scale mining. There are significant but untapped copper deposits, including the Cerro Colorado located in the province of Chiriquí. Some deposits of bauxite, phosphates and minimally carbon have been exploited, as well as other various construction materials such as stone and gravel. Oil reserves have been found in the Pacific and the Atlantic.

**Potential Growth Areas**

Economic activity measured by the Gross Domestic Product (“GDP”) at constant prices, with the methodology of chained volume measures to prices of 2015 and with year 2007 as reference, recorded an amount of B/. 38,134 million, with an increase of 4.9%, according to the preliminary amounts of the “Instituto Nacional de Estadística y Censo de la Contraloría General de la República”.

Between the economic activities that stood out with greater growth are the mine and quarries exploitation, by the impulse that gave construction projects and the construction that grew because of the government projects (standing out the “Línea 2 del Metro de Panamá”, “Renovación Urbana de Colon”, highways in the country, sanitation, among others) and the private investment.
Inflation

The consumer price index for fiscal year 2011 showed an increase to 5.9% over the previous year, in 2012 the consumer price index for fiscal 2012 recorded 6.1% over 2011, by 2013 the inflation 3.7% over 2014 and an increase over the previous year of 1.0% was recorded; meanwhile in 2015 it has a significant decrease reporting an annual result of 0.17%.

Doing Business in Panama

Government attitude toward foreign investment

Panama is open to foreign investment and does not discriminate as to foreign investors even when there are some restrictions for the exercise of retail business. The Strategic Plan 2009-2014 recognized its importance and focused on efforts to attract foreign investment in areas such as logistics service providers, hotels and fruit exporters.

Panama don’t issue paper currency, and the U.S. dollar is used as currency. The Balboa is at par value and U.S. dollar equivalent. Therefore, a control authority is not necessary.

There are no registration requirements for capital and the transfer of funds to the country is not taxable. There are no controls on the repatriation of capital or retained earnings different to applicable taxes according to the information described below.

The Government is encouraging foreign investment and working to position Panama as the primary destination in Latin America for foreign investors. However, the same business channels are open to domestic and foreign investors alike. There are no major restrictions on foreign investment, and investors can repatriate their profits and capital.
Special trading rules, granting migration, labor, and tax incentives for investment and creating the PROINVEX office are among the principal ways Panama has encouraged foreign investment.

PROINVEX is a “sole office” where every interested investor may obtain in one office all the information required to achieve a successful investment. Investors can also get updated information on special fiscal regimes such as the Multinational Headquarters (SEM), Panama Pacific Area (APP), The City of Knowledge, Colon Free Zone (ZLC), Investment Stability Law, and other Free Trade Zones.

The organization of commercial companies and commercial activities is mainly regulated by special laws created for these effects and additionally by the Commercial Code.

Price controls mainly on food, medicines and construction materials are given by the market interaction. In Panama does not exist a price control authority. We have a government authority in charge of surveillance against antitrust practices.

Up to date there are no restriction on mergers and acquisitions, neither special restrictions on foreign investment in this regard. Our legislation addresses both the merger with foreign entities as redomiciliation, and is currently permitted under Panamanian law the demerger.

One of the benefits provided in the development of industrial laws is the protection from foreign competition by establishing special rates on some sensitive products. There are imposed rates on all foreign goods entering the country, except those who are exempted by law or special contracts.

Tax rates are based on quantity, weight, size or volume. Rates vary from low to significant protectionist (0% - 33%). In terms of comparability, Panama applies the Harmonized Tariff System.

Panama has considered the advantages and disadvantages of requesting admission to the Central American Common Market. Not expected any immediate application for admission as any effective integration by Panama.

A seven percent (7%) tax is applied on the transfer of goods and services (ITBMS) on all imports except food, medicines and some other products. The documentation related to the payment of import duties and re-export shall be prepared and signed by a local customs broker.

**Free trade agreement and other agreements**

A Free Trade Agreement (FTA) is a regional or bilateral trade agreement to expand the market of goods and services between countries. Basically, is the elimination or substantial reduction of tariffs on goods between the parties, and agreements on services. This agreement is governed by the rules of the World Trade Organization (WTO) or by mutual agreement between the countries.

Panama has free trade agreements with Honduras, Costa Rica, El Salvador, Taiwan, Singapore, Nicaragua, Guatemala, Chile and other trade agreements with the Dominican Republic, Mexico and Colombia.

In 2008 Panama concluded negotiations regarding a Trade Promotion Agreement with the United States. This agreement will promote economic opportunities by eliminating tariffs and other barriers to trade in goods and services. To take effect, the agreement must be approved by the legislatures of both nations.
The treaty was approved by the President of the United States, Barak Obama and take effect from October 31st 2012.

**Foreign investment**

Since Panama’s incorporation into the World Trade Organization, domestic commercial protectionism has been decreased. The negotiation of Free Trade Agreements (FTA) has greatly contributed to the increase of foreign investment in Panama.

The government has incorporated into his banking legislation the Basel II recommendations to improve transparency in the Panamanian Banking System and to prevent money laundering.

Immigration legislation has been modified, improving the monitoring of foreign individuals in the country. The creation of the SEM Regime has been the most successful initiative to attract the establishment of multinationals in Panama.

**Destination of foreign investment**

According to information provided by the General Comptroller of the Republic of Panama, as of December 2013, Foreign Direct Investment in 2011 was B/. 32,073,224, and in 2014 increased to B/. 2.172 million.

**Restrictions on foreign investment**

Under the Panamanian Constitution, retail business is restricted for foreigners in Panama.

**Establishing Business in Panama**

**Business structures**

The Panamanian law recognizes five different forms of legal entities:

1. Corporations or Stock company (Sociedad Anónima)
2. Limited Liability Company (Sociedad de Responsabilidad Limitada)
3. General partnerships (Sociedad en Nombre Colectivo)
4. Ordinary Limited Partnership (Sociedad en Comandita Simple)
5. Joint – stock Company (Sociedad en Comandita por Acciones)

These five types of entities can be used for the operation of any type of commercial business. A business can also be operated by a single owner. Most businesses operate as corporations, partnerships or sole proprietor. Although some foreigners living in Panama conduct business in any of the ways described above, foreign businesses, with very few exceptions, exist in the form of corporations.

**Branch of a foreign company**

Foreign companies may establish branches or agencies in Panama who are intended to start operations within our territory, will need to file with the Public Registry of Panama their registration documents listed below.

**Branch and/or permanent establishment**

Foreign corporations can establish in Panama branches or agencies for the purpose of starting operations in our territory, which must present documentation (detailed below) for registration with the Panamanian Mercantile Registry.
Panama’s Commercial Code stipulates that foreign corporations “will not be able to perform activities not allowed in their home country”.

It is considered that the persons and corporations domiciled abroad has operations in Panama through a permanent establishment when they perform business either directly or by proxy, holding an employee or representative in Panama, in an office or place of business, where the activities are performed totally or partially.

**Registration procedure**

The registration procedure is established according the Commerce Code and the special rules governing LLC’s and Corporations. As a general rule, a document is drafted by an Attorney at Law appointing subscribers and approving the incorporation bylaws. This procedure allows a local attorney to get the deed ready without the foreign investor coming to Panama and sign. The board and the shareholders can be either nationals or non-nationals, and can be either individuals or entities. The incorporation takes one day and the incorporation of branches may take longer, but no more than three days on average.

**Joint-Venture**

Joint Venture is a contract between two or more persons (partners) with an interest in one or more specific and transitional business operations, which shall be run by one of them in his name alone and under his personal credit, with responsibility of dividing with the partners the gains or losses in the proportion agreed upon.

**Banking system**

**Central Bank**

There is no Central Bank in Panama.

Decree Law 9 of 1998 as amended by Decree Law 2 of 2008, along with the Cabinet Decree No. 238 of July 2, 1970 and Law No. 1, 1999 regulates the banking and created the Superintendence of Banks, which is autonomous from the Central Government. This law establishes three different types of banking licenses as described below:

**General:**

For banks organized under the laws of Panama and branches of foreign banks that have activities in Panama and internationally.

**International:**

For banks organized under the laws of Panama and with branches that only practice business abroad.

**Representation:**

For foreign banks that maintain offices in Panama, but that are not performing banking transactions.

The law provides various reserve and capital requirements and certain other conditions, depending on the type of license.
In Panama there are two national banks, National Bank of Panama (Banco Nacional de Panamá) and the other is the Savings Bank (Caja de Ahorros).

**Commercial banks**

The Superintendence of Banks is the government entity responsible for granting licenses to all the different banks located in Panama. Actually, Panama has one of the largest banking and financial centers of the region including banking institutions with worldwide presence.

The banking system in Panama is well established, composed by 78 authorized banks in Panama, 2 public banks, 47 with general license and 29 with international license.

(Source: www.superbancos.gob.pa)

**Labor and Social Security**

**Employment Offer**

According to the Ministry of Labor (Ministerio de Trabajo y Desarrollo Laboral – MITRADEL), employment statistics are the following:

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>TOTAL</td>
<td>280,113</td>
<td>276,949</td>
<td>226,503</td>
</tr>
<tr>
<td>Agriculture and others</td>
<td>339</td>
<td>399</td>
<td>328</td>
</tr>
<tr>
<td>Mining</td>
<td>106</td>
<td>95</td>
<td>54</td>
</tr>
<tr>
<td>Manufacture</td>
<td>8,790</td>
<td>8,574</td>
<td>6,737</td>
</tr>
<tr>
<td>Electricity, gas and air conditioning supply</td>
<td>1,207</td>
<td>1,473</td>
<td>1,477</td>
</tr>
<tr>
<td>Water and waste management</td>
<td>111</td>
<td>86</td>
<td>217</td>
</tr>
<tr>
<td>Construction</td>
<td>10,485</td>
<td>9,958</td>
<td>8,650</td>
</tr>
<tr>
<td>Commerce (retail and wholesale)</td>
<td>62,346</td>
<td>68,316</td>
<td>49,300</td>
</tr>
<tr>
<td>Transportation, warehouse and mail</td>
<td>5,965</td>
<td>5,147</td>
<td>8,354</td>
</tr>
<tr>
<td>Hotels and restaurants</td>
<td>18,350</td>
<td>16,949</td>
<td>13,477</td>
</tr>
<tr>
<td>Information and communication</td>
<td>4,421</td>
<td>4,883</td>
<td>4,070</td>
</tr>
<tr>
<td>Financial and Insurance activities</td>
<td>9,320</td>
<td>9,337</td>
<td>7,319</td>
</tr>
<tr>
<td>Real Estate activities</td>
<td>1,830</td>
<td>1,990</td>
<td>1,847</td>
</tr>
<tr>
<td>Professional, scientific and technical activities</td>
<td>3,909</td>
<td>4,047</td>
<td>3,196</td>
</tr>
<tr>
<td>Administrative Activities</td>
<td>26,822</td>
<td>29,652</td>
<td>23,016</td>
</tr>
<tr>
<td>Public Administration</td>
<td>2,374</td>
<td>2,536</td>
<td>1,455</td>
</tr>
<tr>
<td>Tutoring activities</td>
<td>5,450</td>
<td>5,868</td>
<td>4,704</td>
</tr>
<tr>
<td>Social and health services</td>
<td>1,903</td>
<td>1,776</td>
<td>1,847</td>
</tr>
<tr>
<td>Training and art activities</td>
<td>2,071</td>
<td>2,389</td>
<td>1,689</td>
</tr>
<tr>
<td>Other service activities</td>
<td>13,521</td>
<td>13,030</td>
<td>9,859</td>
</tr>
<tr>
<td>Home activities and other activities related to the production of goods and services</td>
<td>45</td>
<td>75</td>
<td>771</td>
</tr>
<tr>
<td>Other no declared activities</td>
<td>6,375</td>
<td>690</td>
<td>277</td>
</tr>
</tbody>
</table>

*Source: Ministerio de Trabajo y Desarrollo Laboral (MITRADEL)*
There are three different types of employment contracts established by Panamanian law: permanent contracts, defined termination contracts and contracts for defined services.

Companies that need to employ foreigners must obtain permission from the Ministry of Labor. Work permits issued to foreigners are valid for one year and may be extended for up to five years.

It is mandatory by law to give employees a day of rest per week as required by law, preferably on Sundays. However, if the type of employment requires to work on Sunday, another day should be given in lieu of it, and Sunday will be paid with an extra charge of 50% per hour. Each employee is entitled to thirty (30) days of paid vacation after eleven (11) months of continuous work.

In Panama is mandatory for the employer to pay a yearly additional month of salary (XIII Month) and shall be paid in three parts (April 15, August 15 and December 15). This salary is calculated based on the total wages received. The XIII Month is subject to social security contributions and income tax.

Labor Law Requirements

Please find below a summary of the most important requirements of the Labor Law.

Wages and salaries

Panama has a minimum wage system by economic activity, which is adjusted periodically. The minimum wage system is applicable in practice only to non–skilled employees. The effective average wages are substantially higher than the minimum wages, especially in metropolitan areas.

Profit sharing

Companies are not obliged to share the company’s profits with the employees.

Christmas bonus

Companies are not required to pay the worker a Christmas bonus.

Complementary Benefits

Housing and children education are among the most common complementary benefits, which are treated as salary in kind for both calculations: income taxes and social security contributions.

Paid Holidays and Vacations

Every employee has the right of 30 days full-paid for vacations after 11 months of continuous work.

Foreign Personnel

Panama recognizes joint investment with no restrictions. Labor Code is applied equally to Panamanian and foreigners. However, the exercise of retail trade is restricted for foreigners. Most foreign personnel wishing to work in Panama are required to have a work permit and/or resident visa.

Under the Labor Law, foreign personnel may not exceed 10% of a company’s total workforce, and the monthly payroll for foreigner employees, may not exceed the 10% of the total company payroll. In the case of technicians, up to 15% may be foreign personnel.
Under special regimens, foreigners may be able to work in Panama with a special immigration permit not requiring a work permit, granting this individual exemption from income tax and social security contributions.

**Social Security**

The Social Security is an autonomous government agency that provides retirement due to illness or maternity, age or disability pensions to widows and orphans, funeral assistance and compensation for occupational injuries and death.

Since the enactment of the Social Security Law (Law No. 51 of 2005), is mandatory for the employer the affiliation of its employees to the social security regime. This obligation applies to both national and foreign employees performing services in Panama. The current contribution for the employee is 9.75% and 12.25% for the employer.

**Accounting and Audit Requirements**

**Accounting**

The accounting principles accepted in Panama are the International Financial Reporting Standards (IFRS). For the banking sector and for entities supervised by the National Securities Commission, IFRS or US GAAP are used upon previous notification to the regulatory entity.

There are three active accounting professional organizations: the Certified Public Accountants Association, the Panamanian Association of Women Accountants and the Panamanian Authorized Public Accountants College. The three organizations appointed a Financial Accounting Standard Committee in 1978 to define generally accepted accounting principles in Panama.

A Panamanian company that operates in Panama, although it does not generate Panamanian source income may be subject to reporting obligations and / or preparation of audited financial statements. Panamanian companies operating in Panama, and companies in free zones and qualified foreign companies operating in the country require the filing of tax return.

The minimum corporate accounting books required for a Panamanian company are:

1. Shareholders Register
2. Acts Register
3. Journal
4. General Ledger

A company doing business in Panama must maintain their accounting records required by law, correspondence, and other supporting documentation in the country. You may request cancellation of the use of manual accounting records and instead ask the authorities the use of magnetic systems. According to the law, these certificates must be issued by a Panamanian CPA.

**Statuary audit requirements**

There are no requirements for filing statutory audits in Panama. However, the companies listed...
on the National Securities Commission, commercial and governmental banks and the insurance and reinsurance companies are required to provide to the authorities annual audited financial statements by independent auditors. If the capital of the taxpayer exceeds B/. 100,000.00 or the annual sales or gross income exceed B/. 50,000.00, the annual income tax return must be countersigned by a Panamanian Certified Public Accountant (CPA) and financial statements shall be also duly audited by a CPA.

**Accounting profession**

Licenses for Certified Public Accountants (CPA) are issued by the Ministry of Commerce and Industry. Candidates must have a university degree in accounting.

**Tax System**

The Panamanian tax system is regulated by the Tax Code and many other complimentary laws that regulate specific matters. Our most recent structural reform is Law No. 8 of 2010. It reduces tax rates, raising the overall rate of VAT, and sets the new Tax Tribunal, among other relevant provisions.

Additionally the Law 33 of 2010, adapts the Panamanian tax system, for the application of double taxation treaties and formally recognize the comprehensive legislation of transfer pricing rules included in the OECD regulations.

The main taxes you must pay in Panama are:

1. Income Tax
2. Corporate Annual Tax
4. ISC - Excise Tax
5. Fuel other Petroleum Derivatives Tax
6. Capital Gain Tax
7. Dividends Tax and Complimentary Tax
8. Operation Notice Tax
9. Stamp Tax
10. Real Estate Tax

**Corporate Income Tax**

The tax rate is 25%. For companies in which the State owns more than 40% of the shares, the tax rate will remain at 30%. The tax base (amount to which the tax rate will apply) for companies whose taxable income is greater than B/. 1,500,000 will be the greater of one of the following:

- Net taxable income calculated by the traditional method, or
• 4.67% of the gross taxable income (excludes exemptions of non-taxable income and foreign source of income) – this is called the Alternate Calculation of Income Tax Alternative Calculation (“Cálculo Alterno del Impuesto sobre la Renta” or CAIR).

If the entity's fiscal year results in a loss due to the alternative calculation or the effective tax rate calculated over the traditional method exceeds the 25% rate, the taxpayer may request from the Tax Authority (General Directorate of Revenues - DGI) the no application of the alternative calculation, in order to be taxed according to the traditional method calculation.

The DGI has a six-month period to decide on the request, otherwise the petition will be considered granted.

**Corporate Annual Tax**

Corporate annual tax must be paid by all corporations and private interest foundations. The deadline for payment depends on the date of the entities incorporation. If the company was incorporated during the first six months of the year, the due date for payment will be July 15th of each year. If the company was incorporated during the last six months, the due date will be January 15th of each year.

Non-profit organizations, cooperatives and partnerships are not subject to franchise tax.

**Dividend Tax**

Companies' profits are taxed, in addition to the corporate income tax, with a dividend tax of 10%. This tax is reduced to 5% in the cases of entities that operate in a Free Zone, if the income subject to dividends is considered an exempt income or from non-Panamanian source of income.

In cases where entities belong to tax residents in countries which Panama has subscribed a Double Taxation Treaty (DTT), tax rates over the dividends vary according to what is established in the applicable treaty.

Dividend tax foresee a presumptive annual distribution of 40% of the profits after income tax, and in case it is not executed, requires the tax payment according equivalent to the minimum distribution, which is the Complementary Tax of 4% (10% over the 40% of the profits).

**Excise Tax**

Is applied to goods (jewelry, automobiles, guns, tobacco, alcoholic beverages, etc.) and services (mobile telephone services or cable TV) that are considered as non –essentials. The tax base is the cost, insurance and freight (CIF) price, plus import duties for imported items and sales price for all the other activities. The tax is applied at only one stage: on the importation of the product or the sale of taxed goods produced in Panama; and for services, it may be applied at the same time when the service is provided, invoiced, completely rendered or upon receipt of advance payments, whichever occurs first.

**Stamp Tax**

Stamp duty is charged at a rate of B/.0.10 per B/.100.00 (or fraction thereof) only on certain commercial contracts.
**Movable goods transfer and provision of services tax (ITBMS)**

Is the Panamanian Value Added Tax (VAT). Tax rate is 7% effective from June 30th 2010, according to Law 8, 2010. Alcoholic beverages are taxed at 10% and tobacco and tobacco derivatives are taxed at 15%.

Exports are not taxed and the ITBMS paid to generate the exports are subject to a refund. The sale of goods such as medicines, food and certain products for babies are not taxed.

During 2016 was established the legislation related to VAT withholding agents, for taxpayers with income higher than B/.5,000,000.00 per year, which is summarized as follows:

1. Invoices issued from November 2015 and on are subject to a withholding of 50% of VAT, applied by the designated withholding agents.

2. No withholding will be applicable if the beneficiary of the payment is a withholding agent.

3. No withholding will be applicable to suppliers of goods and services, businesses or persons affiliated to entities that manage debit or credit cards that are not VAT taxpayers.

4. The withholding agent should issue certificates for the withholdings performed during the month to all the taxpayers that have been subject to the withholding.

5. The withholding agent must be designated by the Panama Tax Administration.

To improve the ITBMS collection and reduce the evasion, the Government modified Article 19 of the Executive Decree No.84, 2005, establishing the following rules:

**Withholding Agents**

A) State agencies, decentralized entities, public enterprises, municipalities and other public sector entities not exempt, making payments or managing State funds (regardless of the amount of the compensation).

Withholding amount: fifty percent (50%) of VAT included in the invoice or equivalent document. In case of professional services, the withholding will be applied to the one hundred percent (100%) of VAT included in the invoice or equivalent document.

<table>
<thead>
<tr>
<th>INVOICE</th>
<th>Professional Services</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>INVOICE</td>
<td>1,000.00</td>
<td>1,000.00</td>
</tr>
<tr>
<td>VAT (7%)</td>
<td>70.00</td>
<td>70.00</td>
</tr>
<tr>
<td>TOTAL</td>
<td>1,070.00</td>
<td>1,070.00</td>
</tr>
<tr>
<td>WITHHOLDING</td>
<td>70.00</td>
<td>35.00</td>
</tr>
<tr>
<td>SUPPLIER PAYMENT</td>
<td>1,000.00</td>
<td>1,035.00</td>
</tr>
</tbody>
</table>

**Exclusions:** Payments made through the petty cash are excluded according to the regulation of the Panama Tax Authority.
B) Paid or accrued amounts for taxable transactions with individuals or entities incorporated abroad, if these don’t have any branch, agency or establishment in Panama:

Withholding amount: will be applied over the total ITBMS caused. In this case, it is considered that in the invoice price includes the ITBMS, therefore a coefficient of 0.065421 should be applied to the total amount in order to obtain the ITBMS applicable.

<table>
<thead>
<tr>
<th>Invoice</th>
<th>1,000.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>ITBMS(0.065421)</td>
<td>65.42</td>
</tr>
<tr>
<td>Total</td>
<td>934.58</td>
</tr>
<tr>
<td>Withholding</td>
<td>65.42</td>
</tr>
<tr>
<td>Supplier payment</td>
<td>934.58</td>
</tr>
</tbody>
</table>

In this case, the withheld amount will be considered as a tax credit by the withholding agent.

C) Partnerships and Joint Ventures, as the entities described in the Panama Commerce Code, referred to in Article 7 from the Executive Decree No. 84, 2005.

D) Those who are or are not taxpayers of ITBMS, and in the immediately preceding fiscal period comply with the criteria of annual purchase of goods and services equal or over five million balboas (B/.5,000,000.00). The Tax Administration will determine the limits and conditions to lower purchases that are not subject to the withholding.

Withholding amount: it will be the fifty percent (50%) of ITBMS included in the invoice or equivalent document submitted by the suppliers.

E) Issuers or administrators of debit and credit cards responsible for processing payments to businesses and service providers, at the moment of the payment or deposit into the affiliated establishment’s account.

Withholding amount: it will be the fifty percent (50%) of ITBMS caused by taxable sales of goods or services.

Special report: these entities must submit a monthly report to the Tax Authority with the detailed sales performed by commercial establishments or individuals affiliated to the debit and credit cards payment system. The Tax Authorities will determine the guidelines for filing the referred report.

**Exclusions:** Goods and services Suppliers, or businesses or individuals affiliated to entities that process credit or debit cards that are not considered as ITBMS taxpayers are not included in the scope of these provisions. In these cases it will be necessary to prove the referred condition through an ITBMS non-taxpayer certificate or other certificate which is specified that the activity is not taxable; both certificates should be issued by the Panama Tax Administration.

**Other exclusions:**

No withholding applies to suppliers of goods, services, businesses or individuals affiliated to
entities managing credit or debit cards, if they perform exempt activities of ITBMS.

Companies under special tax regimes that are considered as ITBMS exempt subjects are not allowed to be withholding agents.

No withholding should be made to the source when the operation is performed between withholding agents.

Conditions for the ITBMS withholding

a) That a total or partial payment has been made or accrued.

b) That the payment refers to an ITBMS taxable operation.

c) That the person performing the payment has been designated as withholding agent.

d) That the beneficiary of the payment is not a state entity or a withholding agent designated by the Tax Authorities.

**ITBMS Return**

By Resolution 201-17687 from October 20, 2015, the Form 433 for Withholding ITBMS is created, used for filing and monthly payment of withholdings performed during each period, along with information of the concepts and amounts withheld (Official Gazette No. 27893-B).

**Capital Gain Tax**

The real estate transactions has a special tax treatment related to the number of transactions performed by the seller, the special rules are described as follows:

1. If the taxpayer’s ordinary business is not the real estate business, the income tax will be calculated on a ten per cent (10%) basis over the capital gains. The taxpayer should make an advance payment equivalent to three per cent (3%) over the gross value of the transaction or the cadastral value, whichever is the highest.

   The taxpayer can consider this as definitive payment for capital gain tax. When the amount paid according the 3% rate is over the amount that may result from applying the 10% rate over the capital gain from the transaction, the taxpayer may present an affidavit requesting the amount overdue. The taxpayer has the option to consider this amount as a credit for other tax payments or in cash.

2. If the taxpayer’s ordinary business is the real estate business, from January 1st, 2011, the capital gain tax will be calculated based on the total price of the transaction or the cadastral value, whichever is the highest, applying the following rates, applicable only for first sale of homes and commercial constructions:

<table>
<thead>
<tr>
<th>Value</th>
<th>Rate %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to B/.35,000.00</td>
<td>0.50</td>
</tr>
<tr>
<td>From B/.35,000.00 up to B/.80,000.00</td>
<td>1.50</td>
</tr>
<tr>
<td>More than B/.80,000.00</td>
<td>2.50</td>
</tr>
<tr>
<td>New commercial constructions</td>
<td>4.50</td>
</tr>
</tbody>
</table>
3. If at least one of the previous requirements is not met, the general regime would apply. An exemption of the Real Estate Transfer Tax (2%) established on article 1 of Law 106, 1974, applies on the first transfer of the real estate.

In case of the direct or indirect transfer of shares or securities from Panamanian source of income, the income tax is applied as follows:

a. The buyer must withhold a 5% over the total value of the transaction and submit it to the Tax Authority on behalf of the seller within the next 10 days after the transaction is performed.

b. The seller may accept the withholding as final tax payment.

c. If the seller didn’t accept the withholding as a final tax payment, can apply the 10% rate over the capital gain and applying as a credit the amount of the withholding and file a tax return at the Tax Authority for overdue payments.

In case of movable goods, the capital gain tax will be calculated at a 10% rate over the capital gain.

Real Estate Tax

Real Estate Tax applies to the value of the land and all registered improvements which are not exempted. Here is a list of Panama real estate tax rates:

<table>
<thead>
<tr>
<th>Value</th>
<th>Rate %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to B/.30,000.00</td>
<td>Exempt</td>
</tr>
<tr>
<td>From B/.30,000.00 up to B/.50,000.00</td>
<td>1.75</td>
</tr>
<tr>
<td>From B/.50,000.00 up to B/.75,000.00</td>
<td>1.95</td>
</tr>
<tr>
<td>Over B/.75,000.00</td>
<td>2.10</td>
</tr>
</tbody>
</table>

From January 1st, 2019 is exempted from payment of the property tax, properties which base value, including improvements, does not exceed B/.120,000.00 and become family tax patrimony or main home, stating a new tax rates:

<table>
<thead>
<tr>
<th>Value</th>
<th>Rate %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to B/.120,000.00</td>
<td>Exempt</td>
</tr>
<tr>
<td>From B/.120,000.00 up to B/.700,000.00</td>
<td>0.5</td>
</tr>
<tr>
<td>Over B/.700,000.00</td>
<td>0.7</td>
</tr>
</tbody>
</table>

Also, from January 1st, 2019 the combined progressive rate for commercial and industrial properties, other residences and land will be the following:

<table>
<thead>
<tr>
<th>Value</th>
<th>Rate %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to B/.30,000.00</td>
<td>Exempt</td>
</tr>
<tr>
<td>From B/.30,000.00 up to B/.250,000.00</td>
<td>0.6</td>
</tr>
<tr>
<td>From B/.250,000.00 up to B/.500,000.00</td>
<td>0.8</td>
</tr>
<tr>
<td>Over B/.500,000.00</td>
<td>1.0</td>
</tr>
</tbody>
</table>
Corporate Deductions

All expenses necessary to generate income or to preserve the source of income are deductible with some minor limitations.

Ordinary repairs and improvements

These are deductible in the way that does not increase useful life of assets.

Depreciation

The straight – line method and some accelerated methods are allowed, considering the useful life for movable property of 3 years and for immovable property 30 years.

<table>
<thead>
<tr>
<th>Category</th>
<th>% Straight – Line</th>
<th>Maximum years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td></td>
<td>3 1/3</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td></td>
<td>33</td>
</tr>
<tr>
<td>Furniture and fixtures</td>
<td></td>
<td>33</td>
</tr>
<tr>
<td>Vehicles</td>
<td></td>
<td>33</td>
</tr>
</tbody>
</table>

Investment credit or allowance

Some special investment credits are in effect for electricity generating activities only.

Depletion

Depletion is deductible over the useful life of mine, depending on State Contract methodology.

Insurance premiums

Insurance premiums related with risks associated with taxable activities are deductible. In special cases, it is possible to contract insurance for entities located abroad (special risk).

Bad Debts

The balance sheet allows establishing reserves for bad debts with a limit of 1% of credit sales and a minimum of 10% of accounts receivable at the end of the fiscal year, or direct charge against earnings and losses when an account is declared bad.

The taxpayer can deduct the bad debts by choosing one of the following systems:

a) Charging annually to taxable income the amount of the account in the fiscal year;

b) Charging annually one percent (1%) of taxable income for the constitution of a reserve destined to contingencies.

Adopted the reserve system, the taxpayer can change it doing the necessary adjustment so that the imputation to the profit and losses can only be done when the previously constituted reserve is over and notifying the Tax Authority of the change.

If the taxpayer opted for the system of constituting a reserve to do front to uncollectible, only can be deductible as a provision annual expense equivalent to one percent (1%) of the total credit
sales or services performed in each fiscal year. In any moment the balance of the reserve can be more than ten percent (10%) of the balance commercial receivables at the end of the fiscal year.

**Donations**

Are deductible for the taxpayer the expenses and expenditures of donations in money or in species to:

- Central government entities, autonomous entities, semiautonomous and decentralized entities of the State, as well as municipality and community boards.

- Education or benefit institutions with non-commercial purposes, as long as they are recognized by the government and the Tax Authority. For corporations, deductions are limited to 1% of the annual taxable income, as established on Article 699 of the Tax Code. For individuals, the deduction is limited to B/. 50,000.00 per fiscal year.

- Political parties or candidates for popular election positions. Each taxpayer can deduct, in each fiscal period, up to B/.10,000.00.

- The amounts paid to entities or associations with no commercial activity, as long as they are properly authorized to receive deductible donations by the Panama Tax Authority.

- Activities related to prevention of sexually transmitted diseases or human immunodeficiency virus (HIV), for the treatment or caring of the affected persons with HIV, up to B/.10,000.00 per fiscal year, according to Law No. 3, 2000. The donation should be received by the Ministry of Health and the taxpayer should prove the donation by a certificate granted by this entity.

- Other entities established in the Law.

When the donations are in species, for new goods, the value will be according to the invoice. In case of use goods, the value will be the acquisition value less the accumulated depreciation.

The donations in the time and exposure in social media and the services granted to individuals or entities mentioned above, are deductible for the value of the service if it was registered, invoiced and declared like income by the taxpayer.

**Net operating losses**

Net operating losses incurred by taxpayers may be deducted from the taxable profits within the next five (5) years at a 20% rent for each year, but limited to 50% of taxable income for each year.

**Withholding tax (WHT)**

Payments made by taxpayers for certain concepts should apply the following WHT rates:

<table>
<thead>
<tr>
<th>Recipient</th>
<th>Dividends %</th>
<th>Interest %</th>
<th>Royalties and services %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign entities</td>
<td>5, 10, 20</td>
<td>12.5</td>
<td>12.5</td>
</tr>
</tbody>
</table>

For dividends, the withholding should apply nevertheless that the beneficiary is a foreign or a domiciled entity.

For royalties and services, the withholding tax will be applicable as long as the payment is considered as a deductible expense for corporate income tax purposes. Nevertheless, Law 27 May,
2015, established that companies which are in a loss position, must apply the withholding tax regardless of the fact that the expenses was not considered deductible.

**Setup expenses**

Expenses arising from initial operations can be amortized over 5 years or charged against profits and losses in the first year.

**Interest, service fees and royalties**

In the case of royalties and services, withholding applies as long as the payment is considered a deductible expense in the affidavit of income tax. However, by Law 27 of May 4, 2015, companies that are in a loss position are required to make the retention whether the expense is not considered as deductible.

**Tax Incentives**

**Inward Investment**

Investment in industries, agroindustry, marine resources transformation, industries dedicated to extracting and transforming raw agricultural and forestry materials may get industrial promotion certificates which allow crediting the investment against taxes such as income tax, but limitation of depreciation of referred assets.

**Accelerated depreciation**

According to tax law, a taxpayer can apply accelerated depreciation depending on the use of the assets without any authorization from the Tax Authorities, but will be limited to minimum useful life period described by law.

**Tourism, industry and agriculture allowances**

Tourism development: The Law for Tourism Development grants several incentives and tax benefits, such as exemption from import duties on certain tourism service related goods for companies dedicated to tourism, but only for those corporations with a signed tourism agreement with the Tourism Authority. In some special cases, income tax exemptions apply.

Income related to forestry activities is totally exempt from income tax if the final disposition of the plantations derived from property are registered in the Forestry Registry of the Environmental National Authority from 2017 within the next 20 years.

**Corporate Tax Compliance**

**Returns**

Tax returns must be filed no later than 90 days after the end of the fiscal year. It is possible to request an extension for the filing, which rarely is denied. The extension for filing is one additional month. Tax authorities can perform audits under two timetables:

- **a.** If the taxpayer filed the return on time, it can be audited for up to 3 years for income tax and 5 years for VAT.
- **b.** If the tax return was not filed on time, it can be audited for up to seven years.
Tax Payment

Tax is paid via income tax return, and must be made no longer than 3 months after closing of the corresponding accounting period.

The tax can be paid in one payment or in three equal payments, in which case the payments should be done up to June 30th (first payment), September 30th (second payment), and December 31st (third payment). In addition, the taxpayer should pay the estimated income tax.

The taxpayer can request to the Tax Authority an special fiscal period of 12 months, different than calendar year, to comply with their tax obligations.

Individual Taxation Summary

Taxable income produced from any source within the territory of Panama, regardless of where it is received, is subject to income tax. Income tax is levied only upon net income derived from operations within Panama, by individuals and corporations, except those considered non-taxable or exempt by law, in accordance with the corporate and personal income tax rates.

In this sense, income derived from activities performed outside Panama is not considered taxable, although it may be subject to dividend tax.

The term “resident” refers to a person physically located and generating income in Panama for more than 183 days, continuous or cumulative in the same fiscal year. Likewise, “non-resident” refers to a person located in Panama and generating income for less than 183 continuous days or cumulative in the same fiscal year.

Gross income

Broadly, the entire remuneration for personal services rendered in Panama is subject to income tax. There are two different ways to calculate the income tax. When the person is an employee, the employer is responsible for withholding the corresponding taxes according to progressive rates. When the person is an independent contractor, a person with more than one job or an employee who has different types of income, distinct from this employment, an annual income tax return must be filed.

Panamanian law establishes that when the taxpayer has only one source of income related to his employment; he/she must not file an annual income tax return.

Current deductions/credits

Resident taxpayers will be subject to the normal tax rates on their net income arising from Panamanian sources. Panamanian legislation allows the following personal allowances and deductions to be deducted from resident taxpayer’s taxable income:

- Married couple filing a jointly tax return are entitled to an annual deduction of B/.800.00.
- Interest paid on mortgage loans for home improvements on residences located in Panama up to B/.15,000.00 per year.
- Interest paid for educational loans.
• Medical expenses incurred on the taxpayer’s behalf or for his/her dependents within the Republic of Panama. It will be necessary to prove through invoices or other documentation the expenses incurred, including the hospitalization and medical attention insurance premiums.

• Donations to local educational and charitable institutions authorized by the tax administration to receive such donations up to the amount of B/.50,000.00 per year.

**Individual Tax Compliance**

**Returns**

If a taxpayer receives income only from employment, he may choose whether or not to file an annual income tax return.

A foreign individual will be required to submit a tax return if he stays in the Republic of Panama for more than 183 days in the fiscal year, if the employee receives as part of compensation benefits – in kind or if he/she is employed by a foreign firm which has a permanent establishment in the Republic of Panama. The tax returns must be filed by March 15th following the end of the fiscal year in which the income is earned.

**Tax payment**

If tax payment is required, it must be made by March 31st at the latest, in order to avoid interest charges. These payments must be submitted to a specific bank with a special slip indicating that payment of taxes was made. If taxpayers request an extension, it will be granted only for filing and not for payment. Overdue payment will trigger interest charges (11% annual average rate).

**Current tax rates**

<table>
<thead>
<tr>
<th>If taxable income is:</th>
<th>Taxes payable will be:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to B/. 11,000.00</td>
<td>0%</td>
</tr>
<tr>
<td>More than B/. 11,000.00 up to B/.50,000.00</td>
<td>15% rate on amounts exceeding B/.11,000.00 up to B/.50,000.00</td>
</tr>
<tr>
<td>More than B/.50,000.00</td>
<td>B/. 8,850.00 for the first B/.50,000.00 and an applicable rate of 25% on amounts exceeding B/.50,000.00</td>
</tr>
</tbody>
</table>

**Special tax rates for representation allowances**

<table>
<thead>
<tr>
<th>If taxable income is:</th>
<th>Taxes payable will be:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to B/.25,000.00</td>
<td>10%</td>
</tr>
<tr>
<td>More than B/.25,000.00</td>
<td>B/.2,500.00 for the first B/.25,000.00 and a rate of 15% on amounts exceeding B/.25,000.00</td>
</tr>
</tbody>
</table>

**Transfer Pricing**

Transfer Pricing regulations in the Republic of Panama date back to 2010, and it bases its legal, theoretical and technique foundation in the Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations (“OECD Guidelines”).

Law 33 of 2010 includes the arm’s length principle. In this sense, operations carried out by taxpayers with their related parties should be determined considering the price or amount that would have been agreed by independent parties under the same circumstances in arm’s length conditions.
Law 33 of 2010 originally established that operations carried out with related parties of countries that have Treaties or Agreements that attempt to avoid Double International Taxation with the Republic of Panama, should be object of the aforementioned Law (this concept was later changed by Law 52 of 2012). Additionally, this Law established the formal requirement for the preparation of a Transfer Pricing Study. However, the taxpayer should only present the Study in case the Panamanian Tax Authority requires it, within forty five (45) working days, starting a day after the notification. This Law establishes that Tax Authorities are allowed to fine those taxpayers that fail to present the Transfer Pricing Informative Statement or any required documents before the deadline; fines ranging from B/. 1,000 to B/. 5,000 will be applied the first time, from B/. 5,000 to B/. 10,000 in case of recurrence and the closure of the establishment for 2 to 15 days in case of non-compliance.

Through Law 52 of 2012, the scope of application of the Transfer Pricing obligations is extended to all the transactions carried out with foreign related parties, in case these operations have effect in determining the tax base. At the same time, this Law establishes the obligation of the presentation of an annual Transfer Pricing Informative Statement (“Form 930”), which should include all the operations carried out with foreign related parties during the fiscal year under analysis. This report should be presented six months after the fiscal year has ended and the amount of the transactions must be informed in Balboas. Failure to submit or late submission of this Form will be penalized with a fine equivalent to 1% of the total sum of operations carried out with foreign related parties. For the calculation of this fine, the gross sum of the operations will be considered, independently of their nature (revenues, costs or expenses). Law 114 of 2013 established that the fine aforementioned will never exceed one million Balboas (B/. 1,000,000).

Executive Decree 958 of 2013 regulates how the operations have to be analyzed by the taxpayer and Executive Decree 390 of 24 October 2016 has introduced changes regarding the content of the Transfer Pricing Report by enlarging the information. Regarding to this, the information required, at the Group and taxpayer level, has been expanded and is more specific.

International Taxation

The Republic of Panama, through the reform carried out in 2012, established the rules for the application of double taxation for treaties signed by the Republic of Panama. This reform included the adoption of the terms tax resident, permanent establishment, certificate of Tax Residence and application of benefits of Double Taxation Treaties.

Up to date, Panama has a network of double taxation treaties covering 16 treaties with the following countries: Mexico, Barbados, Qatar, Spain, Luxembourg, Netherlands, Singapore, France, Italy, Korea, Portugal, Ireland, Czech Republic, United Arab Emirates, United Kingdom and Israel.

In addition to these countries, Panama has negotiated Information Exchange Agreements with the United States, Iceland, Canada, Finland, Sweden, Greenland, Faroe Islands and Norway.

The use of benefits contained in the Double Taxation Treaties need a previous notification of the use of the treaty benefits submitted at the Tax Authority, which include among other documents the tax residency certificate. The Tax Authority reserves the right to accept the request or perform additional researches in the process of acceptance of the use of the benefits.
**US Foreign Account Tax Compliance Act (FATCA)**

Panama signed the Model 1 Intergovernmental Agreement (IGA) for FATCA purposes with the US Treasury in order for Panamanian Banks to subscribe to the terms of FATCA. For this purpose, was created Law 51 of 2016 and Executive Decree 124 of 2017 that complement the IGA and establish the procedures and deadlines for the financial institutions obliged to perform the due diligence and send the reports to the Tax Authority.

In 2016, Panama was committed to automatically exchange information starting 2018, according to the Common Reporting Standards (CRS). Same as the IGA-FATCA, the CRS also includes the automatic information exchange of financial information for tax purpose, based on the agreements signed by the Tax Authority (DGI) and the CAAs.

To execute this compromise, Panama started an ambitious agenda of negotiations with the CAAs, signing five agreements and concluding other three. Also, there are eight open negotiations and fifteen programmed. The objective is to sign at least thirty agreements for the automatic exchange of information starting 2018.
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República Dominicana
The island was discovered on December 5, 1492 by Christopher Columbus, who named it Hispaniola. The Taino Indians, indigenous peoples were forced into and eventually annihilated introduced by the Spaniards and the abuses of slavery. Bartholomew, brother of Christopher Columbus, was appointed governor in 1496 and founded Santo Domingo, the capital city. The island of la Hispaniola remained under Spanish reign until 1697, when the western part of the island became a French possession. In 1804 it became the Republic of Haiti, and in 1809 the eastern part of the island returned to Spanish rule. In 1821, the Spanish settlers declared an independent state but just weeks later, Haitian forces invaded the eastern region and incorporated Santo Domingo, then known as Saint Domingue. For the next 22 years, the entire island was under the control of Haiti. The February 27, 1844, the eastern part of the island declared independence as the “Dominican Republic”. The next 70 years were characterized by political instability and civil war, mainly due to power struggles among Dominicans strongmen for control of the government.
Republica Dominicana

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Overview of the country

Brief history

The island was discovered on December 5, 1492 by Christopher Columbus, who named it Hispaniola. The Taino Indians, the indigenous people, were forced into slavery and eventually annihilated by diseases introduced by the Spaniards and by the abuses of slavery. Bartholomew, Christopher Columbus’ brother, was appointed governor and in 1496 he founded Santo Domingo, the capital city. The island of Hispaniola remained under Spanish reign until 1697, when the western part of the island became a French possession. In 1804 it became the Republic of Haiti, and in 1809 the eastern part of the island returned to Spanish rule. In 1821 the Spanish settlers declared an independent state, but just weeks later, Haitian forces invaded the eastern region and incorporated Santo Domingo, known then as Saint Domingue.

For the next 22 years, the entire island was under Haitian control. On February 27, 1844, the eastern part of the island declared independence as the “Dominican Republic.” The next 70 years were characterized by political instability and civil war, mainly due to power struggles among Dominican strongmen for control of the government.

In 1916, Dominican Republic was invaded by the United States Armed Forces until 1924, when USA withdrew its troops due to Harding Plan. In 1930, Rafael Trujillo came into power and established a dictatorship that ended with his assassination in 1961. In 1964, during a civil war, USA’s marine corps made a second intervention until April 1965 in which a truce was declared. Juan Bosch became the first democratically elected president in four decades.

In 1966, Joaquin Balaguer won a free election against Bosch. Since then the presidency has changed among three major parties: the Partido Revolucionario Dominicano (PRD), the Partido de la Liberación Dominicana (PLD) and the Partido Reformista Social Cristiano (PRSC).

Climate

The DR has a moderate tropical climate, even though it is located in a tropical zone. The northeast winds blow steadily from the Atlantic Ocean all year long, tempering the climate. The average temperature throughout the year is 75°F (25° C).
Population, form of government, language, currency:

<table>
<thead>
<tr>
<th>Area</th>
<th>48,442 km²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>9.9 million inhabitants</td>
</tr>
<tr>
<td>Population per km²</td>
<td>206 hab. /km²</td>
</tr>
<tr>
<td>Population growth</td>
<td>2.1%</td>
</tr>
<tr>
<td>Urban population</td>
<td>7,854,203 (est. 2015)</td>
</tr>
<tr>
<td>Political system</td>
<td>Democracy</td>
</tr>
<tr>
<td>Form of government</td>
<td>Presidential</td>
</tr>
<tr>
<td>Language</td>
<td>Spanish</td>
</tr>
<tr>
<td>Currency</td>
<td>Dominican peso (RD$ or DOP)</td>
</tr>
<tr>
<td>Administrative division</td>
<td>31 national provinces and 1 national district</td>
</tr>
<tr>
<td>Religion</td>
<td>Roman Catholic / Protestant</td>
</tr>
<tr>
<td>Capital city</td>
<td>Santo Domingo de Guzmán</td>
</tr>
</tbody>
</table>

Education

The educational system in the DR is regulated by Law 66-97, passed in 1997, and comprises the following levels:

- Birth - First grade (0 - 6 years old).
- First grade - 6th grade – Elementary (starts after initial level is completed and lasts 8 years).
- Middle level – High School (starts after basic level is completed and lasts 4 years).

Superior level (starts after the middle level is completed and last 4-5 years). Initial, basic and middle levels are officially free. The last year of the initial level and all years of the basic and middle levels are mandatory.

The Autonomous University of Santo Domingo (Universidad Autonoma de Santo Domingo), founded in 1538, is the oldest institution of higher education in the New World. It is the only public university in the Dominican Republic and has the largest student body and the highest number of graduates. There are numerous private universities, many sponsored by religious institutions. Among the well-known private universities regarded as high-quality education providers are: Pontificia Universidad Católica Madre y Maestra (PUCMM), Universidad Acción Pro- Educación y Cultura (UNAPEC), Universidad Católica de Santo Domingo (UCSD) and Universidad Iberoamericana (UNIBE).
## Political and Legal System

### Legal Framework

<table>
<thead>
<tr>
<th>Political and legal framework</th>
<th>Executive</th>
<th>Legislative</th>
<th>Judicial</th>
</tr>
</thead>
</table>
| Exercised by:                | The President | Bicameral National Congress | • Supreme Court of Justice (*)
|                              |            |             | • Constitutional Court |
| Composed of:                 | The President | The Chamber of Deputies, made up of 178 deputies, 1 deputy elected for every 50,000 citizens (including 1 deputy for every voting district of more than 25,000 citizens). The Senate, composed of 32 senators, one representing each province and the National District. | The Supreme Court of Justice and the Constitutional Court are composed of 16 and 13 judges respectively and the Electoral Court will be composed of no less than 3 judges without exceeding 5. The number of Courts of Appeals, District Courts and Small Claims Courts and the number of judges sitting on them are determined by law. |
| Elected or appointed:        | The President and Vice President are elected by direct vote every four years. | Senators and Deputies are elected by direct vote every four years. | Judges are appointed by the National Judicial Council. The Council is made up of five judges: two from the Supreme Court of Justice (one of them serving as President of the Council) and one judge from each of the other courts described above. |

The political and legal structure of the Dominican Republic (DR) is composed of three main...
branches – Legislative, Executive and Judicial – organized as follows:

The Dominican legal system is based on Napoleonic Code.

**Main political parties**

- Dominican Liberation Party (Partido de la Liberación Dominicana - PLD).
- Dominican Revolutionary Party (Partido Revolucionario Dominicano - PRD).

Elections take place every four years. The last presidential elections were held in 2016 and the last congressional elections in 2016.

**The Economy**

The DR’s economy is the largest in the Caribbean and Central America. It is an upper-middle-income country, reliant on the service sector. The most prominent economic activities are tourism, retail, manufacturing and financial services.

The country’s free zones and mining industries dominated exports for fiscal years 2015 and 2016.

**Inflación**

Inflation, as measured by the variation of the Consumer Price Index (CPI), reached 4.20% in 2017. This result was influenced by the substantial drop in oil prices in recent years.

**Doing Business in the Dominican Republic**

**Government attitude toward foreign investment**

The government continues to encourage foreign investment and to work in positioning the DR as the primary destination in the Caribbean for foreign investors. However, the same business channels are open to domestic and foreign investors alike. There are no major restrictions on foreign investment, and investors can repatriate their profits and capital.

The relaunching of free trade zones, incentives for investment in tourism and the signing of CAFTA-DR are among the principle ways the DR has encouraged foreign investment. Over the last ten years, there has been an emphasis on restructuring the current free trade zones and strengthening the textile free trade zone, the film industry and other sectors.

**Free trade agreement and other agreements**

The DR is a member of the World Trade Organization and has received preferred treatment. The country has access to the United States through the Caribbean Basin Trade Partnership Act (CBTPA), which was an extension of the Caribbean Basin Initiative (CBI) and the Preferred Generalized System GSP.

The Cotonou Agreement with the European Community allows preferential access to Dominican goods without quantitative restrictions.
DR-CAFTA (FTA between the US, Central American Countries and DR) was signed and implemented by the DR on March 1, 2007. In 1998, the DR signed a Free Trade Agreement with other Caribbean islands (CARICOM).

**Foreign investment**

The Export and Investments Center of the Dominican Republic (CEI-RD) is the official agency responsible for the promotion of international trade and foreign direct investment (FDI).

Foreign investment is regulated by Law 16-95, which sets the principle of equal treatment for domestic and foreign investments, guaranteeing the same legal protection for foreigners.

All foreign investments must be registered at CEI-RD. Foreign investors must notify the CEI-RD within 180 days of placing an investment in the country, and will then automatically obtain a Certificate of Foreign Investment Registration.

**Under Art.2 of Law No. 16-95, foreign investment may take the following forms:**

- Contributions in freely convertible currency, exchanged in a banking institution authorized by the Central Bank.
- Contributions in kind, such as industrial plants, new and reconditioned machinery, new and re-conditioned equipment, parts (including replacement and spare parts), raw materials, intermediate products and final goods, as well as intangible technological contributions.
- Financial instruments which the Monetary Board classifies as foreign investment, except those that are a result of contributions or internment of a transaction to restructure the Dominican foreign debt.

**Under Art.3 of Law no. 16-95, foreign investment may be directed as follows:**

- Investments in the capital of an existing, new or branch company based on the framework of the DR’s commercial code. Stock should be nominative shares for foreign investment in companies with share capital.
- Investments in real properties in the country.
- Acquisition of financial assets.

**There are certain constraints, which are standard in most countries:**

- Disposal of toxic, dangerous or radioactive waste not produced in the country.
- Activities affecting public health and the environment.
- Production of materials or equipment directly linked to national defense and security, except with the express authorization of the Chief Executive.

**Establishing Business in the Dominican Republic**

There are different business categories in the Dominican Republic – permanent establishment (PE), branch or subsidiary – as defined below.
Commercial societies

Under Law no. 479-08, the legal commercial societies are:
• General Partnership (Sociedad en Nombre Colectivo).
• Ordinary Limited Partnership (Sociedad en Comandita Simple).
• Joint-stock Company (Sociedad en Comandita por Acciones).
• Limited Liability Company (Sociedad de Responsabilidad Limitada -S.R.L.-).
• Stock company (Sociedad Anónima -S.A.-).
• Simplified Stock Company (Sociedad Anónima Simplificada -S.A.S.-).

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

Aside from the branch, the Limited Liability Company is the vehicle most frequently used by both domestic and foreign investors.

Incorporation procedure of a local entity

• Register the company name at the Trademark Office (ONAPI) and obtain the Business Name Certificate.
• Pay capitalization tax to tax authorities (branches are not required to make this payment).
• Submit to the Chamber of Commerce:
  - The articles of incorporation;
  - The list of shareholders and copies of their IDs or passports;
  - Documentation of the first general shareholder’s meeting.
• Obtain mercantile registration certificate from the Chamber of Commerce.
• Submit the RC-02 form to tax authorities and obtain the tax identification card.

Closing procedure

Liquidation or dissolution of a company in the DR is regulated by Law No. 479-08 and its Reform 31-11.

Branch and/or permanent establishment

A branch is created upon its registration with the Chamber of Commerce, whereas a permanent establishment (PE) is a fixed place where the business of the enterprise is wholly or partly conducted, such as: management offices; branches; a mine, oil or gas well, quarry or other location for extraction of natural resources; assembly projects, including monitoring the activities thereof; construction of or sales management of machinery or equipment when the cost exceeds 10% of the purchase price of such goods; business consulting services provided in excess of six months within a fiscal year; offices for staff or free-lance representatives or agents, when the latter work exclusively or almost exclusively on behalf of the company.
If a PE develops, the foreign company is subject to registration with the Chamber of Commerce and tax authorities. Both the branch and/or PE are considered an extension of the parent company. A PE has the same characteristics as a branch for tax and legal purposes.

**Registration procedure**
Submit to the Chamber of Commerce the following documentation:

- The Articles of Incorporation;
- An updated Certificate of Incorporation of the parent company;
- A power of attorney issued by the company designating a representative in the DR, including authorization for registering the branch and establishing the domicile in the DR.
- Copies of the ID’s or passports of the main shareholders and members of the board of directors.
  - *(Note: These documents need to be legal IDs in the country of origin and translated into Spanish by an official translator in the DR.)*
- Obtain Mercantile Registration Certificate at the Chamber of Commerce.
- Obtain Tax Identification from tax authorities by submitting the RC-02 Form.

It takes the same amount of time to incorporate a domestic company or to register of a branch in the DR, once the documentation is submitted to the DR authorities, and the same procedure is followed.

**Joint venture**
Joint Venture is a contract between two or more persons who are classified as partners with an interest in one or various specific and transitional business operations, which shall be run by one of them in his name alone and under his personal credit, with responsibility for tabulating and dividing with stakeholders the gains or losses in the proportion agreed upon.

**Banking System**

**Central bank**
The Central Bank of Dominican Republic (Banco Central de la Republica Dominicana / BCRD) was created on October 9, 1947 by Law No. 1529. Its main office is located in Santo Domingo, with a regional office in Santiago de los Caballeros.

The Central Bank is an autonomous institution responsible for executing policies issued by its Monetary Board. It oversees currency, credit and foreign exchange controls and closely regulates and supervises the activities of banks and other financial intermediaries.

**Commercial banks**
The banking system in the DR is well established, composed of a number of private institutions that are regulated by the Central Bank and the Superintendence of Banks.

**List of banks**

**Central bank**
- Central Bank of the Dominican Republic.
**Government-owned banks**
- Banco de Reservas de la República Dominicana.

**Foreign banks**
- The Bank of Nova Scotia.
- Citibank, N.A.
- Banco de las Americas S.A. (Bancamérica).
- Banesco, S.A.
- Banco Promerica de la República Dominicana, C. por A.

**Commercial banks**
- Banco Popular Dominicano S. A.
- Banco BHD León S.A.
- Banco Dominicano del Progreso S.A.
- Banco Santa Cruz, S.A.
- Banco Caribe Internacional, S.A.
- Banco BDI, S.A.
- Banco Vimenca, S.A.
- Banco López de Haro S.A.

**Labor and Social Security**

**Labor supply**

Employment statistics, according to the last National Workforce Survey, conducted every year by the Central Bank of the Dominican Republic, are as follows:

Economically Active Population (1) by age group, 2010-2016.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>15-19</th>
<th>20-39</th>
<th>40-59</th>
<th>60 y más</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>3,661,861</td>
<td>212,275</td>
<td>1,853,199</td>
<td>1,280,820</td>
<td>315,567</td>
</tr>
<tr>
<td>2011</td>
<td>3,830,009</td>
<td>230,014</td>
<td>1,865,110</td>
<td>1,360,648</td>
<td>374,237</td>
</tr>
<tr>
<td>2012</td>
<td>3,878,402</td>
<td>168,059</td>
<td>1,904,195</td>
<td>1,419,096</td>
<td>387,052</td>
</tr>
<tr>
<td>2013</td>
<td>3,969,443</td>
<td>174,771</td>
<td>1,958,490</td>
<td>1,430,737</td>
<td>405,445</td>
</tr>
<tr>
<td>2014</td>
<td>4,140,345</td>
<td>176,194</td>
<td>2,052,083</td>
<td>1,524,423</td>
<td>387,645</td>
</tr>
<tr>
<td>2015</td>
<td>4,303,642</td>
<td>196,524</td>
<td>2,078,836</td>
<td>1,614,487</td>
<td>413,795</td>
</tr>
<tr>
<td>2016</td>
<td>4,370,803</td>
<td>183,004</td>
<td>2,162,937</td>
<td>1,606,318</td>
<td>418,544</td>
</tr>
</tbody>
</table>

*Sources: Central Bank of the Dominican Republic.*
Labour law requirements

Below is a summary of the most important requirements of Labor Law no. 16-92, enacted on May 29, 1992.

Wages and salaries

Minimum wage is the lowest salary that can be agreed upon in an employment contract and is established by the National Salary Committee, a division of the Ministry of Labor, and varies according to different types of businesses and their installations and/or holdings.

Profit sharing

It is mandatory to share 10% of the company’s profits with employees.

Christmas bonus

In the month of December, the employer is obliged to pay the worker a Christmas bonus consisting of one-twelfth of the usual salary earned by the worker in the calendar year.

Fringe benefits

Non-cash compensations given to employees (benefits in kind) are taxed at a 27% rate in 2015, levied on the employer. This compensation includes cars, housing, relocation expenses, club memberships, etc.

Hours worked

The maximum work day is 8 hours, not to exceed 44 hours a week. The work week must end at noon on Saturday. Any change in the end of a work week has to be approved by the Ministry of Labor. In the case of overtime, the employer must pay all overtime hours at 100% the regular hourly wage plus 35%, and an additional 15% for night-time hours.

Paid holidays and vacations

After each year of continuous employment, employees are entitled to receive 14 days of paid vacation. More vacation time may be granted upon agreement between the employer and the employee, but the additional vacation days must total less than one week.

Termination of employment

The employment contract can be terminated with or without legal liability for both parties. Termination of the contract without legal liability can be done by mutual consent, under the terms of the contract or in cases where the contract cannot be fulfilled.

Termination of the contract with legal liability

- Dismissal without cause.
- Dismissal with cause.
- The worker’s resignation.
Termination due to incapacity or death of the employee

- In the event of the employee’s death or disability, the employer shall pay the employee, or his/her heirs, economic assistance in the amounts shown in the table below (Art. 82 DLC).

<table>
<thead>
<tr>
<th>Time employed</th>
<th>Assistance</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 to 6 months</td>
<td>5 days salary</td>
</tr>
<tr>
<td>6 to 12 months</td>
<td>10 days salary</td>
</tr>
<tr>
<td>Over 1 year</td>
<td>15 days salary per year</td>
</tr>
</tbody>
</table>

Severance payment

Severance payment varies depending on the duration of the employment contract as outlined in the Art.80 of the DLC. When applicable, any sums owed by the employer must be paid within ten days of the contract’s termination (Art. 86). Noncompliance entails a penalty of one day’s salary for every day of delay (Art. 86).

Technical education tax

Employers and employees are required to make payroll-based contributions to finance programs for technical instruction and training of workers. The contribution for employers is 1% of total monthly payroll and for employees 0.5% of bonuses received.

Foreign personnel

There is a limit on foreign personnel in a Dominican company, as the DLC requires that 80% of employees are Dominicans.

Wages received by the Dominican employees must amount to at least 80% of the company’s total payroll (Art.138 DLC). Employees with exclusively executive or managerial duties and those in technical positions that cannot be filled by Dominicans are exceptions to these rules (Art. 138).

Social security

The Dominican Social Security System (DSSS), established by Law no. 87-01 enacted on May 10, 2001, regulates and determines the mutual rights and interests of the state and the people with regard to a fund for protection against the risks of old age, disability, unemployment due to advanced age, illness, childhood disabilities and occupational hazards, and for provision of survivors’ and maternity benefits.

The DSSS is conducted and regulated by the National Social Security Board. The administration of the system is the responsibility of two autonomous agencies, the Superintendent of Pensions (Art. 06) and Superintendent of Health and Labor Risks (Art.175).

Social security law no. 87-01 introduces three benefits:
- Old-age, disability and survivors insurance (Pensions),
- Family health insurance, and
- Occupational hazard insurance
The system covers legal residents in the Dominican Republic (nationals and foreigners) and Dominicans residing abroad.

The SDSS, in the Resolution No. 322-02 of August 1, 2013, sets the official minimum wage to DOP 8,645.00 (monthly) to calculate the contributions on family health, occupational risks, and pensions. Nevertheless, from May 1 to October 30, 2017, minimum wage was RD$11,137, in accordance with resolution 371-04. In the same way, the official minimum salary starting from November 1, 2017 is RD$11,826.

**Pension**

The current applicable percentages for pensions are 2.87% (employee) and 7.10% (employer) of the employee’s taxable income. This contribution is mandatory. If the employee already contributes in another country (as a resident), a certificate of contribution from the relevant Social Security Ministry should be issued and filed in the Dominican Social Security Ministry, in order to avoid double contribution.

**Family health**

The current family health rates are 3.04% (employee) and 7.09% (employer) of the employee’s salary subject to Social Security deductions.

**INFOTEP**

A payroll tax is imposed on employees and employers to finance programs for the technical instruction and training of workers. The contribution by employers is 1% of monthly payroll (after employee social security); for employees it is 0.5% of bonuses received.

**Occupational hazard**

This contribution is covered 100% by the employer and has four different rates depending on the risk category assigned by the Social Security Treasury. It takes into account the type of activity performed by the company and its personnel. The rates for each category are defined as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage of salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>1.10%</td>
</tr>
<tr>
<td>II</td>
<td>1.15%</td>
</tr>
<tr>
<td>III</td>
<td>1.20%</td>
</tr>
<tr>
<td>IV</td>
<td>1.30%</td>
</tr>
</tbody>
</table>

**Accounting and Audit Requirements and Practices**

**Accounting**

The accounting principles followed in the DR are those established by the Institute of Certified Public Accountants of the DR (ICPARD). Under Minute No. 2010-004 (Resolutions 001 and 002), the ICPARD adopted the International Financial Reporting Standards (IFRS) in Spanish version for companies that are listed in the Superintendence of Securities or International Financial
Reporting Standards for Small and Medium Size Entities (SMEs) for the remaining companies as the accounting standard for companies operating in the DR.

Regulated companies must follow the accounting standards established by their respective regulatory bodies.

The ICPARD established January 1, 2014 as the date by which all companies operating in the DR should be following the IFRS or IFRS for SMEs, to allow adequate time for companies to adopt the new principles.

Previously, some companies used a set of accounting principles that can be characterized as generally accepted accounting principles in the DR. They were in accordance with many aspects of the IFRS, but do not comply with all of their requirements.

New standards, amendments and interpretations issued by the International Accounting Standard Board (IASB) should be applied six months after they have been translated into Spanish.

**Statutory audit requirements**

Art. 33/Law no. 31-11 of February 10, 2011, which amends the Law No. 479-08, regulating commercial entities and limited companies, indicated that companies should be required to prepare audited financial statements if one of the following conditions is met:

- Borrows from financial institutions or financial intermediaries.
- Issues any type of security.
- Shows annual income more than 100 times the official minimum salary.

In addition, companies are required to elect Statutory Auditors (comisarios) to oversee management’s actions on behalf of stockholders for S.A and optional for S.R.L.

**Books and records**

- Accounting records should be kept in Spanish and, as specifically required by the Commercial Code, should include two bound books of account, a daily journal (libro diario) and an inventory book (libro de inventarios). These books should be kept for at least ten years.
- Accounting books/records could be kept in a variety of ways, by digital or manual means. These methods meet the Commercial Code’s formal requirements.

**Accounting profession**

Licenses to practice as Authorized Public Accountant (Contador Publico Autorizado - CPA) are issued by the government’s executive branch. Candidates must obtain a degree in accounting, auditing or finance from a Dominican university. The accounting profession is regulated by ICPARD.

**Auditing standards**

The DR follows the International Auditing Standards issued by the International Auditing and Assurance Standards Board.
**Tax System**

The Dominican Constitution states that the National Congress is empowered to levy taxes. Taxes will be collected and administered by the Dominican Government through the General Directory of Internal Taxes (Dirección General de Impuestos Internos – DGII).

**Tax on corporate income**

The DR follows a territorial concept for the determination of taxable income.

The current corporate income tax rate is 27% in 2017.

Please note that the asset tax is an alternative minimum tax that is payable when it is higher than a company’s corporate income tax liability. See also asset tax in ‘Other Taxes’ section.

**Asset tax / Minimum tax**

Asset tax/Law No. 557-05 imposes a 1% tax on total assets. Share investments in other companies, land in rural areas, immovable property pertaining to livestock and agriculture, and advance tax payments are excluded from this tax base.

Depreciation, amortization and reserves for bad debts are allowable deductions for application of the 1% tax on total assets.

This tax shall be filed and paid in combination with the Annual Corporate Income Tax Return (Form 1R-2) and as follows:

*The asset tax is an alternative minimum tax.*

- The income tax is allowed as a credit against the asset tax.
- If the income tax is greater than the asset tax, the obligation to pay the asset tax is cancelled and the income tax is paid instead.

**Minimum tax test**

If the income tax is less than the asset tax, the difference (in order to complete the asset tax value) shall be paid in two equal installments as follows:

- First installment shall be paid within 120 days of closing date.
- Second installment shall be paid within six months after first quote’s due date.

Companies may request a temporary exemption from the asset tax. For example, companies that require large capital (among other requirements established by General Ruling No. 3-06) may make such a request, which shall be submitted at least 90 days before the filing due date. The Internal Revenue Agency shall evaluate the merits of the request and approve or deny it as appropriate.

If the company has an income tax credit arising from excess advance payments, it may request that the refund of such balance be applied against the asset tax.

In the case of financial institutions, power generation and distribution companies, pension fund entities and stock brokerage companies, the tax is calculated based on the book value of fixed assets. According to rule no. 07-2007, construction companies may seek exemptions from the asset tax, provided that they meet the requirements established in this rule.
Tax on branch income
The branch profits tax rate is 27% for 2017.

Free Trade Zone Tax
Law 139-11 establishes a 2.5% tax rate on sales of goods and services rendered by companies in free trade zones, traded in the local market with individuals and legal entities. Law 253-12 increased this tax to 3.5%.

Export free trade zones
Free trade zones are regulated by Law 8-90, which defines the special customs, tax and commercial rules that benefit entities classified as Free Trade Zone (FTZ). FTZs are expected to be in a specific geographical area within the DR, with special customs and tax controls, with the products introduced, stored or transformed in these areas to be located abroad, and the services provided therein to be rendered abroad.

The three types of free trade zones are as follows:
- Industrial or services free zones, located in specific non-metropolitan areas within the DR;
- Border free zones, located on the border of DR and Haiti; and
- Special free trade zones – those that must be located outside a FTZ park to be near the resources needed to manufacture goods.

The National Export Free Zone Council (CNZFE) is in charge of regulating and supervising the sector, and every 30 days the CNZFE Board meets to study and approve any operations in the Free Zone.

Special FTZs and call centers
There are over 20 legal entities acting as call centers, classified as Special FTZ, most of which are located in cities, even though there are no legal provisions for call center activities to obtain this classification. Special FTZs are only engaged in call center activities, in compliance with the FTZ Council requirement. No financial or other business operations different from call center activities are allowed to be performed.

However, Law 253-12 abolished Special FTZ classifications. Therefore, only FTZ located in specific geographical FTZ park will be eligible to apply for a classification under Law 8-90.

Excise tax
Excise tax (ET) is applied to the acquisition or import of certain goods and services.

Alcoholic products and cigarettes are subject to the Selective Consumption Tax, which adjusts to annual inflation:
- Alcohol: the tax per liter of alcohol for the first quarter of 2018 is RD$611.48
- Cigarettes: DOP 50.36 for a package of 20, and DOP 25.18 a package of 10, for fiscal year 2017.

Other products subject to this tax are:
- 7.5% on the transfer of alcoholic beverages, applied on the retail price. Imports and transfers made by domestic manufacturers are subject to this tax.
• 20% on the transfer of tobacco products, applied on the retail price. Imports and transfers by domestic manufacturers are subject to this tax.
• 19.50% to 130% on the consumption of certain imported goods (listed in the law) that are considered to be nonessential.
• 10% on telecommunications services, including cable TV.
• 16% on insurance services.
• 0.0015% on the value of checks or wire transfers made through financial entities (this tax does not apply to cash withdrawals or credit card use).

Value-added tax (VAT)
In the DR, VAT is known as Tax on the Transfer of Industrialized Goods and Services (ITBIS). The ITBIS is a value-added tax applied to the transfer and import of (movable) industrialized goods and the provision of services, with exemptions established by law for certain goods and services. The rate is 18%. Tax Reform Law 253-12 imposed 11% VAT for fiscal year 2014 to goods that were taxed at a 8% VAT rate in 2013, to be increased to 13% for 2015 and 16% for 2016. Amongst newly taxed goods are: dairy products, coffee, animal and vegetable fats, sugar, cocoa and chocolate.

Note: Given that the country did not reach the tax burden target established in Law No. 01-12 on National Development Strategy, the ITBIS rate will not be reduced, and will remain at 18% for all fiscal years from 2015 onwards.

Exports
Zero percent rates apply to exports, including sales to free trade zones.

Imports
18% VAT applies to imports, and it will also applies in the sale of goods to local market made by free trade zones.

Real estate transfer tax
This tax is assessed at the basic rate of 3%.

Other tax regimens
Simplified regimen
Taxpayers can apply for the simplified regimen, which consists of an estimated income tax payment, in accordance with rule no. 758-08. This regimen can be applied if at least one of the following conditions is met:

• Companies engaged in informal retail sales (groceries stores, markets, etc.).
• Companies engaged in wholesale and retail sales (groceries stores, markets, etc.) in which the inventory is normally acquired from domestic suppliers or identified as domestic suppliers based on their products.
• Companies engaged in manufacturing of goods sold to non-hosted in the simplified regimen and which purchase their materials in the domestic market.

**In addition, the following conditions should be met:**

• Purchases cannot exceed DOP 30,000,000.00 annually.

• If an invoice is issued with a NCF, and applied by other taxpayers as a credit for ITBIS (VAT) purposes, the company should pay the ITBIS (VAT) invoiced in the corresponding month and the estimated ITBIS (VAT) value established in rule no. 758-08.

• Companies must be registered in the National Taxpayers Database (Registro Nacional de Contribuyente - RNC).

• Fiscal year should be year ending December 31st.

• The registration form must be duly signed and filed.

• Tax obligations at the time of the application should be fulfilled.

**Simplified regimen for casino and slot machines**

The income tax rate is 5%, as established under Law no. 139-11 of June 29, 2011. Total operations or gross sales of operating and legally installed slot machines should be considered the taxable base, regardless of geographic location.

**Tax on slot machines February 2017 to January 2018:**

<table>
<thead>
<tr>
<th>Zone</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Santo Domingo:</td>
<td>DOP$ 10,543</td>
</tr>
<tr>
<td>Santiago (Province)</td>
<td>DOP$ 8,961</td>
</tr>
<tr>
<td>Remaining provinces</td>
<td>DOP$ 7,606</td>
</tr>
</tbody>
</table>

There is a simplified regime for income tax payments from casinos based on the number of tables in operation.

**Amounts from February 2017 up to January, 2018:**

<table>
<thead>
<tr>
<th>Tables No.</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-15</td>
<td>DOP$ 39,965</td>
</tr>
<tr>
<td>16-35</td>
<td>DOP$ 46,114</td>
</tr>
<tr>
<td>From 36</td>
<td>DOP$ 61,485</td>
</tr>
</tbody>
</table>

Simplified regimen for companies engaged in the lottery business Law no. 139-11 of June 29th, 2011, establishes a single annual tax of DOP 43,040 for companies engaged in the lottery business. This tax should be paid on a monthly basis. This tax amount is indexed annually according to the Consumer Price Index (CPI) published by the Central Bank.

**Single annual tax from February, 2017 to January, 2018: Lottery business DOP$ 43,040**

In addition, they must pay monthly taxes of 1% tax on gross sales or operations and DOP$ 200,000, and are obligated to meet the fiscal code requirements.

**Simplified regimen for companies engaged in the sports betting business**

Law no. 139-11 of June 29th, 2011, establishes that companies engaged in the sports betting
business (bancas de apuestas) with establishments in Dominican territory should pay an annual tax based on their geographic location, to be paid monthly.

**Single annual tax from February, 2017 to January, 2018:**

Sport business (Metropolitan area)  DOP$ 276,684
The remaining  DOP$ 184,456

In addition, they must pay monthly taxes of 1% tax on gross sales or operations and DOP$ 500,000.

**Income obtained by transportation entities**

Art. 274/ Law no. 166-97: Income obtained by foreign transportation companies through operations made from the Dominican Republic to other countries shall be presumed to be from Dominican sources and to be equivalent to ten percent (10%) of the gross amount of fares received for passengers and cargo. National transportation companies shall be subject to this presumption when the net income cannot be determined. Regulations shall establish pertinent provisions for the application of this provision.

**Income of insurance companies**

Art. 275/ Law no. 166-97: Foreign insurance companies, whether located within or outside the country, shall be presumed to have obtained a minimum net profit from Dominican sources equivalent to ten percent (10%) of the gross premiums charged by them to insure or reinsure persons, goods or enterprises located in the country. National insurance companies shall be subject to this presumption when the net income cannot be determined.

**International treaties to avoid double taxation**

On August 6, 1976, the Dominican Republic and Canada signed a tax treaty to prevent double taxation and tax evasion with respect to taxes on income and on capital.

The treaty covers all taxes imposed on total income, on total capital, or on elements of income or of capital, including taxes on gains from the alienation of movable or immovable property, taxes on the total amounts of wages or salaries paid by enterprises and taxes on capital appreciation.

**Corporate Deduction**

**Allowed deductions**

Art. No. 287 of the Dominican tax code specifies that all expenses incurred in order to obtain, maintain and preserve taxable income are considered deductible for tax purposes. Deductible expenses arising from company activities include the following:

**Interest**

Interest deductibility is limited to 2 criterion in which the most favorable one for Tax Authorities will apply:

- Deduction of interest paid abroad (or to resident physical persons) is limited to the amount resulting from the application of the quotient, resulting from 10% WHT and 27% corporate income tax to the interest expense.
Note: In case interest recipient is subject to taxation abroad on said income, this limitation to interest deductibility will not apply, provided that the final nominal rate is equivalent or exceeds the applicable rate in the Dominican Republic. If said rate is inferior, interest deductibility limitation will apply with nominal rate abroad and local corporate income tax rate as benchmark.

- Relation between nominal rate and effective rate and its implications: Nominal and effective rates are considered equivalent, unless tax resulting from the application of nominal rate is reduced by special tax incentives.

- Interest deduction limitation (Thin Capitalization): The deduction will be on the amount incurred but may not exceed the product of multiplying total interest amounts yielded during taxable period, times the value of three times the maximum annual average of accounting capital and the annual average of taxpayer’s total interest bearing debt (excluding those in which its creditors with local residency or domicile and are subject to corporate income tax).

Average accounting capital is obtained from the sum of the period’s initial and final balances, divided by two. This is comprised of the paid-in capital, legal reserve and retained earnings as reflected in the financial statements (excluding period’s earnings effect). Taxes expenses deduction: Deductibility of taxes will proceed if these were paid for the generation of taxable income, are part of its cost and do not represent a credit or advanced tax.

Taxes

In principle, taxes are not deductible, nor are interest and surcharges imposed on taxes, inheritances, donations, fringe benefits tax and penalties related to all taxes.

Insurance premiums

All insurance premiums that cover risks on goods that generate profits should be deducted.

Extraordinary damages

Extraordinary damages suffered by goods that produce profits as a result of accidental causes (force majeure) are deductible.

Depreciation and depletion

Depreciation allowances on fixed assets are determined by the declining balance method at the following rates:

<table>
<thead>
<tr>
<th>Class</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>5</td>
</tr>
<tr>
<td>Furniture, fixtures, computers, vehicles, etc.</td>
<td>25</td>
</tr>
<tr>
<td>Other assets not specified</td>
<td>15</td>
</tr>
</tbody>
</table>

The fiscal book value is adjusted to the annual inflation rate.
Amortization

Depreciation of the monetary cost of each intangible asset, including: patents; copyrights; drawings; models; contracts; and franchises with a finite term must reflect the life of said asset, using the straight line method over a recovery period.

Bad debts

These are deductible only in the year the loss is suffered. Authorization may be obtained to use an alternative method, which consists of a provision allowing the deduction only in the year the bad debt qualifies as doubtful, up to 4% of the balance of accounts receivable at year-end.

Other significant issues

• Changes in the inventory valuation method are not allowed without advance approval.
• Bonuses to employees are deductible within the year if paid within 120 days after year-end.
• Tax receipt (Comprobante Fiscal – NCF), documents that validate the transactions between two parties should meet all the requirements established in rule no. 254-06. If the requirements are not met, the income or expense should not be considered deductible for tax purposes.

Net operating losses

Carry forward losses by legal entities can be used to offset profits up to the fifth period following the period in which the losses were generated, with a maximum amortization of 20% in each period. For the fourth period the deduction allowed should not exceed 80% of the net taxable income. In the fifth period, the percentage is 70%.

Group taxation

When a person, company or group of persons, whether or not domiciled in the DR, conducts its activities through a company or business and other divisions associated, controlled or financed by them, the tax authorities may classify this as an economic unit. In this case, the Administration may contribute, assign or allocate gross income, deductions, and credits between such organizations or businesses if it determines that such distribution, adjudication or assignation is necessary to prevent tax evasion or to clearly reflect the income of any such organizations or companies.

Withholding tax (WHT)

The WHT on payments to foreign corporations which are not permanently established in the DR, are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Interest %</th>
<th>Dividends %</th>
<th>Royalties %</th>
<th>Technical %</th>
<th>Other services %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-treaty, basic</td>
<td>10 (1)</td>
<td>10 (1)</td>
<td>27</td>
<td>27</td>
<td>27</td>
</tr>
<tr>
<td>Treaty (Canada)</td>
<td>18</td>
<td>18</td>
<td>18</td>
<td>27 (2)</td>
<td>27</td>
</tr>
<tr>
<td>Treaty (Spain)</td>
<td>0-10 (3)</td>
<td>0-10 (3)</td>
<td>0-10 (3)</td>
<td>10-27 (3)</td>
<td>10-27 (3)</td>
</tr>
</tbody>
</table>
(1) This withholding is a sole and definite payment.
   • In the case of interests, this withholding tax rate applies to both financial and non-financial institutions.
   • Dividend distribution of shares is not subject to withholding tax.
(2) Technical assistance withholding tax could constitute a tax credit if certain conditions are met.
(3) It depends if you have a permanent establishment.

**Tax Incentives**

To promote the economy, the government constantly develops and amends incentive laws which benefit specific sectors. The main sectors that benefit from these incentives include tourism, industrial free trade zone operations, alternative energy, industrial renovation and modernization and border development.

**Law No. 158-01 – Tourist Development and its amendment Law No. 184-02**

Establishes tourism development for limited development poles and new poles in provinces and places of great potential, and creates the Official Tourism Promotion Fund.

Law 253-12 eliminated exemptions to resident physical/juridical persons that invest in tourism projects (directly to the promoters/developers) within the specified tourist development zones.

**Law No. 57-07 – Incentives for renewable energy and special regime**

Establishes the basic regulatory framework, to be applied throughout the nation, to encourage and regulate development of and investment in projects that develop renewable sources of energy and seek to benefit from such incentives.

**Tax Reform Law 253-12 eliminates:**

- Income tax exemption granted to companies generating renewable energy approved by the National Power Board (“Consejo Nacional de Electricidad”).
- Financing incentives granted to social and cultural institutions that develop renewable energy resources for community use, and
- Reduces to 40% the credit on investment expense granted to self power producers 40% (previously 75%).

**Law No. 392-07 – Industrial renovation and modernization**

It creates a new institutional framework and a regulatory body to allow the competitive development of the manufacturing industry. It suggests policies and support programs that will encourage renovation and industrial innovation, with a view to greater diversification of national production and strengthening of the manufacturing chain through the promotion of industrial parks and districts and links to international markets.

**Law No. 28-01 – Border development zone and it amendment Law No. 236-05**

Creates Special Zones for Border Development in order to attract new investment and development projects to those zones, such as industrial, agroindustrial, construction, free zone tourism, metal and energy companies, etc. It declares a national interest in the promotion and protection of such companies, to encourage the development of the border region with Haiti.

The border cities entitled to benefits under the law are: Pedernales, Independencia, Elías Piña, Dajabón, Monte Cristi, Santiago Rodríguez and Bahoruco.
Law No. 56-07 – Textile industry
Declares the textile sector a priority sector for the nation and creates a national regulatory regimen for the sector.

Law No. 84-99 – Reactivation and promotion of exports
It reintroduces a system which supports exports, consisting of the following new mechanisms: 1) Refund of customs duties and taxes, 2) Simplified Compensation for customs duties, and 3) Temporary Admission for Investment.

Law No. 480-08 – Law of international financial zone in the DR
Defines a legal framework for the establishment of International Financial Zones in certain geographic areas of the DR, which will be opened for offshore, financial services and related activities for persons who are not DR residents and citizens whose primary residence is outside the DR.

Law No. 179-09 – Deduction of educational expenses from personal income tax
Allows natural persons except sole-owner business tax filers to deduct from gross income the costs incurred in the education of their self-employed direct dependents.

Law No. 502-08 - Promotion on books and libraries aims to:
- Establish principles and standards to promote the foundation of an integral and sustainable policy that will lead to equal access to books in the DR;
- Achieve well-integrated development of all sectors of the Dominican publishing industry; and build a National Library as a means to the nation's social, educational, cultural, scientific, technological and economic development and its integration with the world.

Law No. 108-10 – Promotion of film activity and its amendment
Law No. 257-10 promotes progressive, well-integrated and equitable development of the domestic film industry, and generally promotes film production in the Dominican Republic.

Law No. 171-07 – Retirees and annuitants of foreign sources
Establishes certain benefits and exemptions for foreign retirees and self-supporting foreigners who wish to reside permanently in the DR, provided that they meet the requirements and conditions set by this law.

Law No. 8-90 – Development of free trade zone export incentives
Grants free zone companies a 100% exemption from the following for a 15-year period:

Income tax payment on:
- Construction and loans for registration and transfer of real estate through construction of the corresponding Free Zone Operator.
- Incorporation of commercial entities or their capital increase.
- Municipality tax payment.
- All import, tariff, customs rights and other taxes affecting raw material, equipment, construction material, buildings, office equipment, etc. for free zones.
- Tax on patent filings or patrimonies as well as tax on transfers of industrial goods and services (ITBIS / VAT).
• Custom duties related to:
  - Equipment and necessary tools for the installation and operation of affordable dining
    rooms, health services, medical assistance, nursery facilities and any other kind of
    equipment promoting the welfare of the workforce.
  - Transportation equipment, trucks, garbage collectors, and minibuses for employee
    transport to and from work centers, with the CNZFE’s prior approval in each case.

**Transfer pricing ruling**

Transactions between related parties in the DR must meet the requirements initially established
by general rule 04-2011 issued on June 2, 2011, further included in the Dominican Tax Code by
Law 253-12. This rule provides additional regulations for transfer pricing dispositions included in
Law no. 495-06, which were promulgated in 2006 and which introduced the concept of transfer
pricing in the DR.

Transfer Pricing regulations mainly adheres to the arm’s length principle and are in line with
the guidelines issued by the Organization of Economic Cooperation and Development (OECD),
referred to as the “OECD Guidelines”.

**These regulations mainly establish the following:**

- That the intercompany transactions subject to analysis include those that may take place with
domestic and foreign related parties, as well as any transactions with tax havens or operating
in free trade zones. The list of tax haven countries will be published by the DGII, taking into
considerations the OECD pronouncements on the matter.
- That even if there is no ownership, an exclusive relationship is considered a related party.

From the obligations perspective, an information return is required to be filed no later than 60
days after filing of the corporate tax return.

Also, Taxpayers should prepare a transfer pricing report, which will be provided to DGII
upon request. This report shall include: a functional analysis, details and quantification of
the intercompany transactions, method selected for the analysis, details on sources for all
information, inter-quartile ranges (if applicable) and details on adjustments that may have been
performed by the analysis.

**Corporate Tax Compliance**

**Returns**

The corporate annual tax return must be filed and tax paid within 120 days after year-end. Tax
authorities may allow extensions of up to 60 days, upon request. Tax returns are based on self-
assessment and must be filed on electronic forms supplied by the Internal Tax Department.

**Payment of tax**

The balance of any tax due must be paid no later than the due date for filing the return.
Corporations domiciled in the country and permanent establishment of foreign enterprises shall
be obliged to make monthly advance payments of tax related to the period in progress.
Year-end dates established by the DR tax code

Corporate bylaws should establish as year-end one of the following: December 31, March 31, June 30 or September 30. Once the year-end is selected, any changes must be authorized by the tax authorities.

Individual taxation summary

The DR follows a territorial concept for the determination of taxable income. Dominican citizens are subject to income tax on their income from Dominican sources and from sources outside the DR arising from investments and financial gains.

Foreign citizens will be subject to income tax on their income from Dominican sources from day one, regardless of where they receive the payment for their work in the DR. Additionally, income from sources outside the DR arising from investments and financial gains will be subject to income tax after the third year of becoming tax residents.

For tax purposes, an individual will be considered a resident of the DR if he/she spends more than 182 days in the country during one fiscal year, continuously or not. Resident individuals are taxed at graduated rates ranging from 0% to 25%. In principle, non-resident individuals are taxed at a flat 25%, however, the tax authorities apply a progressive scale of 0-25%. See also Current Tax Rates in Other Taxes section.

Gross income

Broadly, the entire remuneration for personal services rendered in the Dominican Republic is subject to income tax. The employer is taxed at 27% (on a monthly basis), as set forth by the tax code on fringe benefits. This additional compensation includes housing, living allowances and automobiles, among others. However, the calculation for the fringe benefits tax on vehicles is different and would be subject to further analysis.

Individual Deduction

Current deductions / credits

The personal deductions allowed include:

- Yearly exemption of DOP$ 416,220 (DOP 34,685 per month) for 2017 annually adjusted by inflation and the social security contributions.

- Deduction of educational expenses of direct/non-salaried dependents.

- These expenses include education at basic, medium, technical and college levels.

The deduction is limited to 10% of the individual’s total taxable income.

Individual Tax Compliance

Returns

Spouses are required to file separate income tax returns covering their respective income. Income from property held in common is included in the husband’s return, so it should not be included in the spouse’s return. Individuals are required to file a personal tax return (Form IR-1) only when income 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 on all earnings over and above DOP$ 416,220 annually (This amount is annually adjusted by inflation). Christmas bonuses, Social Security contributions, severance and termination payments are not subject to income tax, according to the labour code.

**Current tax rates**

Individuals pay tax on all earnings exceeding DOP$ 416,220 annually.

The following scale is for the year 2017-2018. After 2015, these figures will be adjusted to annual inflation.

<table>
<thead>
<tr>
<th>Scale</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to DOP 416,220.00</td>
<td>Exempt</td>
</tr>
<tr>
<td>From DOP 416,220.01 to DOP 624,329.00</td>
<td>15% of earnings over DOP 416,220.01</td>
</tr>
<tr>
<td>From DOP 624,329.01 to DOP 867,123.00</td>
<td>DOP 31,216.00 plus 20% of earnings over DOP 624,329.01</td>
</tr>
<tr>
<td>From DOP 867,123.01 and above</td>
<td>DOP 79,776.00 plus 25% of earnings over DOP 867,123.01</td>
</tr>
</tbody>
</table>

**Tax news**

To review updated information on taxes in the Dominican Republic, visit our web page, following the next link: http://www.pwc.com/ia/es/publicaciones/tax-news/index.jhtml.
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