# Table of content

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>The PwC Network</td>
<td>3</td>
</tr>
<tr>
<td>Preface</td>
<td>4</td>
</tr>
<tr>
<td>Foreword</td>
<td>5</td>
</tr>
<tr>
<td>Honduras</td>
<td>6</td>
</tr>
<tr>
<td>Honduras chapters content</td>
<td>8</td>
</tr>
<tr>
<td>Contacts</td>
<td>34</td>
</tr>
</tbody>
</table>
PwC, the world’s leading professional services firm, helps organisations and individuals create the value they’re looking for. We’re a network of firms with more than 180,000 people in 158 countries who are committed to deliver quality in assurance, tax and advisory services.

PwC Interamericas is a regional entity comprised of seven firms: PwC Panama, PwC Costa Rica, PwC El Salvador, PwC Nicaragua, PwC Honduras, PwC Guatemala and PwC Dominican Republic with more than 30 partners and more than 1,000 professionals of diverse areas. We work to support our clients by leveraging the knowledge and skills of our local people and professionals through our global network. In this way we strive to provide quality services to all our clients.

A constant demonstration of excellence and technical expertise has positioned PwC Interamericas as the number one in our region, providing our principal lines of services Assurance, Tax and Legal, Advisory and Business Process Outsourcing, which include a wide range of solutions for our clients.
Preface

We are honored to publish the first edition of the PwC Honduras Doing Business Guide, a book prepared for the assistance of those interested in doing business in Honduras. This guide will provide you with an overview and insights of the key aspects for starting a business or investing in this country. It covers economic, legal, fiscal, and statutory aspects that will help you understand and evaluate the framework in each particular case. However, we will always invite you to refer to concrete laws, regulations and also to obtain advice when possible. In the last 10 years Central America and the Caribbean have been attracting investors due to their location, human and natural resources as well as the opportunities that are present. This Guide contains materials gathered before March, 2013 and, unless otherwise indicated, is based on information available at that time of writing.

Our Tax & Legal line of service at PwC Honduras serves the main corporations and clients in the country. I am proud to introduce our Tax & Legal team, which is comprised of highly experienced professionals in various fields: accountants, lawyers, economists, business managers, among others; with extended degrees and masters. This mixture of professionals is what allows us to provide a better and value-added service to our clients and makes us different from our competitors. PwC Honduras has been an active participant in comparative studies in the region regarding business competition. PwC Honduras has a trajectory and experience offering a range of services that include internal audits, external audits; accounting advisories, tax consulting, management advisory, business management, due-diligence, information technology and human resources, among others.
Foreword

We are pleased to launch this first edition of the Honduran Doing Business Guide 2013, which offers information to investors who wish to carry out business in this country regarding the culture, investment climate and taxation system, including answers to most frequently asked questions, as a result of our cumulative knowledge and experience working with leading companies. We know how important and reassuring it is to find someone you can trust when you arrive at a new location and to receive timely advice on all your issues such as what to do, where to go, and how to do things right, while respecting and understanding the local culture.

Our extensive expertise in mergers and acquisitions has led us to become the preferred advisor for the main business transactions taking place in Honduras.

At PwC we take great pride in having a team that works hard to differentiate our firm from a crowded marketplace and are truly "Second to None". We enthusiastically strive to make your tax compliance efficient and are genuinely motivated to exceed your expectations on each engagement. PwC is a firm you can trust and rely upon to help solve complex business problems, always acting within our strict code of conduct and independence policies.

We look forward to assisting you in your business endeavors and to help you prosper and succeed while strengthening mutually beneficial relationships.
Honduras

Geographic background

Honduras is the second largest of the Central American countries, bordered on the west by Guatemala, on the southwest by El Salvador, on the southeast by Nicaragua, on the south by the Pacific Ocean at the Gulf of Fonseca, and on the north by the Gulf of Honduras, a large inlet of the Caribbean Sea.

Honduras has a strategic location and boasts the main seaport in the Central American region: Puerto Cortés is the main port certified by the U. S. government in Latin America.
**Honduras chapters content**

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

**Political and legal system**
- Legal framework
- Main political parties

**The economy**
- Inflation

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

**Banking system**
- Central bank
- Commercial banks
- List of banks
Labor and social security
- Labor supply
- Labor law requirements
- Social security

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

Tax system
- Other tax regime
- Corporate deduction
- Tax incentives
- Transfer pricing ruling
- Corporate tax compliance
- Individual taxation summary
- Individual deduction
- Individual tax compliance
Overview of the country

Brief history

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.

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:

<table>
<thead>
<tr>
<th>Area</th>
<th>112,492 km²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>8,296,693 millions of inhabitants (2013)</td>
</tr>
<tr>
<td>Population per km²</td>
<td>114.4 hab. /km²</td>
</tr>
<tr>
<td>Population growth</td>
<td>1.88% (est. 2013)</td>
</tr>
<tr>
<td>Urban population</td>
<td>55% (2013)</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>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>
**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 6 years old).
- 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 6 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 245 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>Executive</th>
<th>Legislative</th>
<th>Judicial</th>
</tr>
</thead>
</table>
| Exercised by the: | 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: DCH).
- Democratic Unification (Partido Unificación Democrática: UD).
- Anti-Corruption Party (Partido Anti Corrupción: PAC).

The last presidential and congressional elections were held on November 2009. Next elections will be held on November 2013.
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>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal GDP (US$ m)</td>
<td>11,000 (*)</td>
<td>1,100 (*)</td>
<td>9,000 (*)</td>
<td>17,669 (*)</td>
<td>18,379 (*)</td>
</tr>
<tr>
<td>Real GDP growth (%)</td>
<td>3.97</td>
<td>(2.10)</td>
<td>2.8</td>
<td>3.6</td>
<td>3.5</td>
</tr>
<tr>
<td>Prices and financial indicators</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exchange rate Ps:US$ (end-period)</td>
<td>18.89</td>
<td>18.89</td>
<td>18.89</td>
<td>18.89</td>
<td>20.24</td>
</tr>
<tr>
<td>Current account (US$ m)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goods: exports fob</td>
<td>2,783.4</td>
<td>2,238.2</td>
<td>2,664.8</td>
<td>3,657.8</td>
<td>4,093.5</td>
</tr>
<tr>
<td>Goods: imports fob</td>
<td>8,207.9</td>
<td>5,698.9</td>
<td>6,659.2</td>
<td>8,239.8</td>
<td>8,645.7</td>
</tr>
<tr>
<td>National Income (US$ m)</td>
<td>11,693</td>
<td>12,386</td>
<td>13,139</td>
<td>14,480</td>
<td>14,791</td>
</tr>
<tr>
<td>Current transfers balance</td>
<td>2,973.4</td>
<td>2,639.0</td>
<td>2,760.5</td>
<td>3,058.5</td>
<td></td>
</tr>
<tr>
<td>Current-account balance</td>
<td>(2,127.9)</td>
<td>(515.6)</td>
<td>(954.8)</td>
<td>(1503.2)</td>
<td></td>
</tr>
<tr>
<td>Unemployment</td>
<td>3</td>
<td>4.4</td>
<td>4.6</td>
<td>4.4</td>
<td>4.4</td>
</tr>
</tbody>
</table>

Sources: Central Bank of Honduras, and Ministry of Finances

(*) Approximate figure
Inflation

Inflation in 2012, as measured by changes in the Consumer Price Index (CPI), reached an average of 5.2%, 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 have been passed recently, with highly favourable incentive packages.

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.

**Foreign trade and balance of payments**

Honduras’ exports, imports and trade balance in millions of U.S. dollars for 2010 are summarized below (latest data available):

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance</td>
<td>US$(3.606.5)</td>
<td>US$(3.117)</td>
<td>US$(2.624)</td>
</tr>
</tbody>
</table>

Honduras depends heavily on imports of machinery and transport equipment, industrial raw materials, chemical products, fuels and foodstuffs, while exports mostly consist of coffee, shrimp, bananas, palm oil, fruit, lobster and lumber. The country’s major trading partners are the U.S., Guatemala, El Salvador and Costa Rica, accounting for 72% of total imports, and the U.S., Guatemala and El Salvador which account for 77% of total exports.

**Other free trade agreements currently in effect:**

- Free Trade Agreement with United Mexican States 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.

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.

**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 and services.

**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 July 15, 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 Citibank de Honduras
- Banco de Occidente
- Banco Hondureño del Café
- Promerica
- Ficohsa
- Banco del País
Labor and social security

Labor Supply

Employment statistics, according to the last National Survey of Workforce conducted in May 2010, are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>Employed</th>
<th>Unemployed</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>2,860,866</td>
<td>2,773,492</td>
<td>87,375</td>
</tr>
<tr>
<td>2008</td>
<td>2,990,408</td>
<td>2,900,950</td>
<td>89,458</td>
</tr>
<tr>
<td>2009</td>
<td>3,236,860</td>
<td>3,153,564</td>
<td>101,296</td>
</tr>
<tr>
<td>2010</td>
<td>3,387,717</td>
<td>3,253,980</td>
<td>133,737</td>
</tr>
</tbody>
</table>

Source: Instituto Nacional de Estadística

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 Social Security Institution (“Instituto Hondureño de Seguridad Social”) is the state-owned institution responsible for the medical, disability and retirement benefits of all its affiliates.

Under the law, employees must pay 2.5% of their gross monthly salary for medical and maternity benefits. Additionally, employees pay 1% of the gross monthly salary for disability, retirement and death benefits. The law also establishes that these percentages must be calculated on the first HNL 7,000.00 of each employee’s monthly salary. 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 employer, meanwhile, must pay 5% for medical and maternity benefits, and an additional 2.2% for disability, retirement and death benefits.

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

Accounting and audit requirements and practices

Accounting

Honduras approved a new law for auditing and accounting principles establishing that in future, 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 of the same, thereby generating the necessary national and international confidence in this information. These rules became effective in 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, 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.

**Statuary audit requirements**

Only financial institutions are required to prepare audited financial statements that must be published. In addition, they are required to publish their annual financial statements and submit to the regulators.

Audited financial statements are normally required for companies and partnerships, banks, insurance companies.

**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 (“Dirección Ejecutiva de Ingresos” or DEI).

**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 10% for 2010 and 2011 to 6% for 2012 and will decrease as follows: 5% for 2013, 4% for 2014 and 0% for 2015. This is levied on all companies with taxable income in excess of HNL one million. For 2009 this tax was 5%. 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.

Honduran resident companies are taxed on their worldwide income. 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 to the tax authorities within the following ten days of the transaction.

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 is 12%. It applies 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. From time to time, the Honduras Government performs a review process of the sales tax exempted products and services, for accuracy, interested parties should confirm this end.
The import and sale of beer, other alcoholic beverages, cigarettes and other tobacco products are subject to 15% sales tax.

There is a 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.

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 January 25, 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 and slot machine companies taxed with a 1% rate on their monthly gross income; and,
- Special contribution on the cooperative sector taxed with a 3.6% rate on their net annual surplus.
The following table summarizes other significant taxes

<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 7.2% with a ceiling of HNL 7,000.</td>
</tr>
</tbody>
</table>

**Municipal taxes:**

- **Real estate tax; imposed on companies and individuals owning real estate.**
  - L.1.5 to L.5 per every thousand calculated on the cadastral value of the real estate (refer to Municipality Tax Plan).

- **Industry trade and service municipal tax; imposed monthly on income derived from the operations of companies; rates vary according to the annual production volume, income or sales:**
  - **Varios**
    - Up to HNL 500,000: 0.0003
    - From HNL 500,001 to HNL 10,000,000: 0.0004
    - From HNL 10,000,001 to HNL 20,000,000: 0.0003
    - From HNL 20,000,001 to HNL 30,000,000: 0.0002
    - Over HNL 30,000,000: 0.00015

**Corporate deduction**

**Allowed deductions**

The net taxable income of an enterprise is determined by deducting all the ordinary and necessary expenses incurred in the creation of income, including amortization and depreciation; municipal taxes; donations made in favor of the State, the Central District, the Municipalities, and legally recognized educational institutions, charities and sporting facilities; mandatory employer-employee contributions to the social security system; and “reasonable” charges for royalties and management services. In general, all expenses incurred in the generation of taxable income are considered deductible for income tax purposes. However, there are some “non-deductible” expenses, even if incurred in the generation of income, for example: a) interest paid to owners or shareholders; b) capital losses.
Inventories are generally valued using the first-in, first-out (FIFO), last-in, first-out (LIFO) and weighted-average cost method. However after the adoption of the International Financial Reporting Standards on 2012, the only two methods accepted will be the FIFO and weighted-average cost method.

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

**Depreciation and depletion**

Depreciation may be computed using the straight-line method. Companies may obtain authorization from the tax authorities to use a different depreciation method. However, after a company selects a depreciation method, it must apply the method consistently thereafter. The following are the applicable straight-line method rates for some common assets.

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

Companies engaged in agriculture, manufacturing, mining and tourism may carry forward losses from three years if the tax authority so authorizes. Losses may not be carried back. Some restrictions apply.

With the exception of the solidarity tax, net asset taxes, income tax and sales tax, taxes and contributions paid to district or municipalities are deductible expenses when determining taxable income.

Capital losses are not deductible to determine the net taxable income. Capital losses can only be netted against capital gains. Capital gains are subject to a tax rate of 10%.
Net operating losses

The carry forward of losses of individuals or legal entities engaged with agricultural, agro-industrial, manufacturing, mining and tourism activities, can be used to offset profits up to the third period following the period in which the losses were generated, with a maximum amortization of 50% in each period.

Group taxation

No provisions exist for group taxation.

Withholding tax (WHT)

The WHT on income obtained from Honduran source by non-residents were reformed on December 4, 2012 by Decree 182-2012 and some tax rates were increased from a 10% to a 25%.

The percentages are detailed as follows:

<table>
<thead>
<tr>
<th>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>
**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**

**Drawback 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 “Dirección Ejecutiva de Ingresos” (DEI) is the tax authority in Honduras. It is responsible for the administration of the tax and customs system. Taxpayers may request approval from the DEI 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 January 1 through December 31. However, taxpayers may apply to use a special tax year requesting an authorization from the DEI. Companies must file and pay income tax on April 30 every year. Mandatory advance installments are payable each quarter, based on the income tax paid for the proceeding tax year.

**Returns**

The corporate Annual Tax Return must be filed and paid by April 30th each 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**

Honduras follows a territorial concept for the determination of taxable income. Honduran citizens are subject to income tax on their income from Honduran sources and from sources outside Honduras arising from investments and financial gains.

Foreign citizens are subject to income tax on their income 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 graduated rates ranging from 0% to 25%. Currently, non-resident individuals are taxed at a flat 10%, however this may change.
**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**

Effective December 4, 2012, 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.

**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 HNL110,000 Honduran Lempiras. The following scale is currently in effect.

<table>
<thead>
<tr>
<th>Scale</th>
<th>Rate %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to L. 110,000.00</td>
<td>Exempt</td>
</tr>
<tr>
<td>From L. 110,000.01 to L. 200,000.00</td>
<td>15</td>
</tr>
<tr>
<td>From L. 200,000.01 to L.500,000.00</td>
<td>20</td>
</tr>
<tr>
<td>Over L. 500,000.01</td>
<td>25</td>
</tr>
<tr>
<td>Tools</td>
<td>25</td>
</tr>
</tbody>
</table>
Contacts

PwC Honduras
Col. Loma Linda Norte, Diagonal Gema
Nº 1, Bloque F, 3era Calle
Tel: (504) 2231-1911 / 2239-8707 al 09
Fax: (504) 2231-1906
Apartado postal 3700
Tegucigalpa – Honduras

Entrada Principal Col. Orquidea Blanca
14 Ave. Circunvalacion Noroeste, 10 Calle
Tel: (504) 2553-3060
Fax: (504) 2552-6728
Apartado postal 563
San Pedro Sula – Honduras

Wilfredo Peralta
Partner
Assurance (Tegucigalpa)
T: (504) 2239-8712
wilfredo.peralta@hn.pwc.com

Ramon Morales
Partner
Tax & Legal Services/Outsourcing services
(San Pedro Sula)
T: (504) 2553-3060 ext. 2204
ramon.morales@hn.pwc.com

Roberto Morales
Partner
Assurance Services (San Pedro Sula)
T: (504) 2553-3060 ext. 2206
roberto.morales@hn.pwc.com
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