

Maquiladora Regime in Paraguay

Benefits to obtain a competitive advantage



Regulatory backgrounds

The Maquila business in Paraguay

The detailed regulations of Law 1064/97 “On the Maquiladora export industry” were issued in July, 2000, with the objective of promoting the establishment and regulating the operations of maquiladora companies fully or partially engaged in production processes in Paraguay, which add value to the nation by combining temporarily imported foreign goods and services with national labor and other resources, the product of which is intended for export.

Currently, the Maquila business in Paraguay is operational and in full expansion with more than 85 Maquiladora companies having foreign capital ownership.

Which is the regulatory authority?

The Maquiladora activity is subject to the regulations of the National Council of Exporter Maquiladora Industries (acronym “CNIME”).

The CNIME oversees the import of raw materials for transformation and subsequent export.

Such activity requires the approval of CNIME, prior to export and to this effect, periodic reports are filed detailing raw material consumption, among other formal requirements.

The origin of Maquiladora products

In order to qualify for a certificate of MERCOSUR origin, Paraguay requires a minimum 60% regional (including Paraguay) added value plus a 40% “extra-zone” added value.

However, if the transformation process of goods within Paraguayan territory utilizing materials not originated from MERCOSUR countries achieves differential singularities for the product, it may qualify for the “certificate of national origin” provided a new tariff item is recognized by the authorities.

Main features

Involved actors

The regime is oriented to a model that consists of a head office and a maquiladora that operates in Paraguayan territory, where it is understood the following:

Head office

Contractor residing abroad.

Maquiladora

Contracted, domiciled in any part of the Paraguay territory.



Main features Maquiladora Regime

- Under a contract signed with the foreign head office, the Maquiladora carries out the partial or complete production of goods for export, or provides the service for export to foreign beneficiaries.
- The Maquiladora may, in turn, sub-contract certain processes specifically foreseen in the program of the Maquila contract with another company (the Sub-maquiladora).
- The head office may provide to its Maquiladora capital goods, raw materials and production inputs, directly or via other countries.
- The Maquiladora may contract the provision of goods, services, labor and other similar items within Paraguayan territory. The products resulting from the Maquila service are returned to the head office, or sent on behalf of it to a client domiciled in any location worldwide.



Main benefits

The companies that operates in Paraguay under the Maquila regime, could generate important benefits, which can be formalized with an adequate management of the variables involved in a constitution and operation process in Paraguayan territory, find below a summary of them:

Unified Tax at 1%- rate

The operations under the Maquila regime are exempted from all taxes or rates related to the production process. This tax substitutes Corporate Income Tax, and is levied either on the value added within Paraguayan territory or on the export price.

VAT Recovery

The Maquiladoras are exempted from Value Added Tax (VAT) on their exports of products or goods. They may recover the VAT paid on their purchases of goods and services in the form of Fiscal Credits, which may be applied to the payment of various taxes or transferred to third parties.

Suspension of import tariffs

The Maquila regime enables companies to import raw materials, machinery and the necessary inputs under a temporary admission system which is exempt from import tariffs and taxes.

Dividend remittances abroad

Maquiladoras are exempt from any tax or rates on dividend remittances abroad.

Other tax exemptions

- Customs Valuation Service fees.
- Consular fees.
- Port charges (50%) and Airport taxes.
- All taxation, rates and contributions levied on the guarantees.
- Taxes, rates and contributions levied on borrowings to finance Maquila's operations.
- Other tax exemptions (Municipal service rates, VAT levied on rental or leasing for equipment forming part of the Maquila Program).

Why invest in Paraguay?

Paraguay today is one of the countries in the region with the best macroeconomic profile, it has a very favorable environment for foreign investments due to the competitiveness from the perspective of both tax and labor costs, as well as certain components that are fundamental to production and/or Maquila, such as: energy costs, transportation, labor, among others.

Business Overview⁸

- A rebound in the economies of Paraguay's largest trading partners; Argentina and Brazil, and higher crop prices are expected to help bolster real GDP growth
- Government policies to redistribute land, increase FDI investment and create regulatory transparency are projected to aid Paraguay's long-term growth.

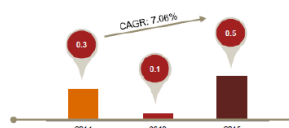
Primary Statistics 2016



Key Economic Indicators

1. GDP per capita ¹	US\$4,003
2. GDP (Nominal) in billions ¹	US\$27.44
3. Population between 15-54 ³	60.3%
4. Unemployment rate ³	6.2%
5. WEF Institutional capability ranking ⁴	131/138
6. WEF Infrastructure efficiency ranking ⁴	106/138
7. Ease of doing business ranking ⁴	106/190
8. S&P rating ⁷	BB
9. Internet penetration rate ⁸	44.4%
10. Average annual household expenditure per capita ⁹	US\$ 2,515

FDI Net Inflow: US\$ billion¹



GDP Growth Rate²



Other key tax drivers

1. Capital gains on share sales/transfers	• 10% on the capital gain in the event the sales done into Paraguay. Sales of shares performed abroad are not taxable
2. Thin capitalization rules	• No thin capitalization rules are in force in Paraguay. • As a general rule, interest expenses may be considered as deductible expenses.
3. General anti-avoidance rules (GAAR) Controlled foreign corporation (CFC) rules	• No GAAR in force in Paraguay. However GAAR rules are applicable to exports of agricultural goods (soy beans, soy flour and soy oil) • No CFC rules are in force in Paraguay

% Tax Overview

- Corporate income tax is assessed at 10% on annual taxable income plus dividend tax of 5%.
- High domestic law rates on certain cross-border payments.
- Only one tax treaty in force.

Withholding taxes (2016)

Key rates	Dividend	Interest	Royalties
1. Non-treaty	15%	0%/15%/30%	15%/30%
2. Treaty rate - Chile	10%	10%/15%	15%

Corporate tax (2016)

Key tax principles

1. Headline Tax Rate	• Commercial income tax for income from commercial, industrial, and service activities: 10% tax rate. Dividend distributions require an additional 5% tax paid by the local distributing company on the amount of dividends. • Agriculture income tax (AIT) for income from agricultural and cattle activities: 10% tax rate. Also, dividend distributions require an additional 5% tax paid by the local distributing company on the amount of dividends
2. Basis of tax	• Territorial system
3. Tax on branch income or foreign shareholders	• Taxable at the normal rates applicable to Paraguay legal entities. • Profits transferred or credited to the head office are subject to a 15% withholding tax when remitted to the head office abroad.
4. Permanent establishments	• The following activities may be considered as a PE in Paraguay: (a) branches or agencies; (b) factories, industrial plants, or cattle ranches, (c) mine activities, or any other natural resources extraction activities, (d) civil construction or assemble activities that exceed 12 months and (e) activities performed by the legal representative (individual), who acts on behalf of a foreign entity.
5. Tax residence	• Place of central management
6. Transfer pricing rules	• No transfer pricing rules currently in force, except for a general regulation applicable to imports and exports

Indirect taxes/other taxes

1. VAT	• General tax rate of 10%
2. Stamp tax	• There are no taxes on acts and documents in Paraguay.
3. Real state tax	• Real estate tax is levied annually at 1% of the fiscal value of the property

Individual income tax (2016)

Chargeable Income	Rate	Amount to be deducted to compute tax on resp. bracket	
From	To		
0	120 monthly salaries (*)	8%	-
120 monthly salaries	And above	10%	-
Responsibility to withhold payroll taxes:		Employer	

Individual/each taxpayer has to prepare, present and pay the Individual Income Tax. There is no responsibility to withhold payroll taxes in charge of the Employer

How can we support you?

PwC Paraguay has professionals with extensive experience in Tax, Legal, Outsourcing and Consulting business matters (Consultancy in financial, human resources, business plans, market studies, among others), our knowledge in local regulations allows us to support our clients effectively and with high quality standards. In that sense, we have the skills to accompany our clients throughout the joining Maquila Regime process and the viability analysis. In addition to this, we are able to support in: setting up the company, the start-up and the day-to-day operation:

Legal and Operational viability analysis

- Kind of Company applicable to the operation to be developed.
- Determination of the tax benefits and impacts.
- Legal and tax restructurings analysis.
- Financial Business Plan elaboration.
- Market researchs.

Legal and Operational corporate constitution support

- Company's constitution and registration in the Public Registries.
- Support for obtaining the Taxpayer card.
- Registration before the Labor authorities and social security.
- Search and identification of Chief Executives.
- Assistance to obtain Paraguayan residence for expats. (Work permit).

"Start-up" Support

- Project governance and Tax Services.
- Loan of staff (For Accounting, Human Resources and Finance matters).
- Headhunting.
- Software searches.
- Monitoring the necessary activities for the start-up.

Operations support

- Tax returns review and filing.
- Tax returns elaboration and filing.
- Outsourcing of Accounting services.
- Payroll service.
- HR tasks support.
- Internal Audit tasks support

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