Maquiladora Regime in Paraguay

Benefits to obtain a competitive advantage
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.

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.

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.

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.

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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.
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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