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Investment and tax incentives for foreign investors in Paraguay

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Introduction

Paraguay has a good quality of life and a business-friendly environment, offering an array of opportunities in terms of leisure, sports and the most captivating ecotourism and adventure travel experiences. Its climate and variety of natural resources provide an attractive environment, enhancing business potential.

In addition, the country has a privileged location given the confluence of two important rivers (Paraguay and Parana River waterways) in its territory and the fact that it is situated along the inter-oceanic corridor which grants access to the most important ports and markets in the region, such as Brazil and Argentina.

Paraguay has youthful, inexpensive human resources given that minimum wage is approximately US\$400 per month and the social security burden amounts to 25.5%.

The cheapest electric power within the MERCOSUR region is found in Paraguay. Itaipú – a joint undertaking with Brazil – is one of the largest hydroelectric power plants in the world in terms of installed capacity (14,000 MW). Paraguay is the largest exporter of electric power worldwide. In addition, the country is one of the top global soybean producers with beef, corn and sunflower exports gaining equal importance over the past few years.

Paraguay, characterized by a stable economy and controlled levels of inflation, offers macroeconomic stability which provides a secure environment for investment.

Main investment incentives

The investment law provides equal treatment to locals and foreigners. New tax laws have considerably reduced the income tax rate (from 30% to 10%) and there are several incentives in place, such as the “maquila” program, free trade zones, Investment Incentive Act 60/90, etc.

1. Free Trade Zone Regime

These areas, where all types of commercial, industrial and service activities may be carried out, constitute a relevant incentive for business.

The legal framework governing such zones offer several advantages in terms of tax exemptions as well as a special tax regime with an income tax rate of 0.5%.

The main purpose of free trade zones is the development of activities in connection with foreign markets, however, operations within the country are also allowed.

Act 523/95 – “Which authorizes and establishes the Free Trade Zone Regime” and its regulatory decree 15.554/96 – “Which regulates the Free Trade Zone Act”, among others, establish the guidelines related to activities within Free Trade Zones.

The aforementioned regulation establishes two main entities, the CONCESSIONAIRE, responsible for providing the necessary infrastructure for freight operational management and the USER, responsible for carrying out the commercial, industrial or service activity. The regulation therefore establishes the administrative measures that enable operations in free trade zones and its supervision, control and development.

Main investment incentives

1. Free Trade Zone Regime (Cont.)

There are currently two free trade zones located in the Alto Paraná region (northeastern region, in close proximity to the border with Brazil and Argentina), in which national and international companies actively operate.

2. “Maquila” Regime

The “maquila” regime is a reliable and efficient alternative for Paraguay to conduct business overseas. The “Maquila” Industry Law exempts payment of the MERCOSUR common customs tariff applicable to temporary imports of capital goods, inputs and components.

Under the “Maquila” Regime, investors may import goods or products to be assembled, repaired, improved, worked on or processed with the purpose of exporting such goods or products, prior addition of value or the “Paraguayan component”. This regime is subject to a special tax treatment: a 1% tax rate applies to the value added within Paraguayan territory.

Innovative regulations have been recently introduced, allowing for virtual commerce between “maquila” factories which improves the utilization of goods imported under the temporary regime (called “virtual maquila”).

This regime also establishes the service “maquila”, which enjoys the same tax benefits and its main purpose is to provide support to entities abroad (currently, there are call centers which benefit from this regime).

Main investment incentives

2. “Maquila” Regime (Cont.)

Paraguayan legislation does not impose restrictions in terms of the types of products and services that the “maquila” industry may comprise. The “maquila” activity’s national policy is regulated and supervised by the Consejo Nacional de la Industria Maquiladora de la Exportación (CNIME, National Council of the Maquila Industry for Export). Both individuals and legal entities domiciled in Paraguay – whether national or foreign - may take advantage of these regulatory benefits.

This industry has been receiving broad government support, given that it is considered an element of social interest in the strive to combat unemployment. There are currently over 40 maquila companies in the country.

3. Export Incentives Regime

Exports are VAT exempt. The legislation recognizes a tax credit for pre-production stages. A Temporary or Provisional Admission Regime is also in place, which exempts imports from import tariffs and VAT.

4. National and Foreign Investment Tax Incentive Regime (Act 60/90)

The main objectives of this regime are:

- To increase production of goods and services.
- To create permanent employment sources.
- To promote exports and import substitution.

Main investment incentives

4. National and Foreign Investment Tax Incentive Regime (Act 60/90) (Cont.)

- To incorporate technology that increases productive efficiency and enables increased and improved utilization of raw materials, labor and national energy resources.
- To promote investment and reinvestment of profits in capital goods.

The tax exemptions established by Law are applicable to investments in the following, among others: financing, capital goods, industrialization of products, specialized technical assistance, mining, hotel industry, leasing of capital goods, services such as freight and passenger air transportation, river transportation, freight ground transportation, public transportation of passengers, health, radio, TV, press, urban and rural landlines and mobile communications, scientific investigations, silos, storage and data transport services.

Authorized investment projects, depending on their characteristics, may benefit from several tax exemptions such as:

- VAT on acquisition of imported capital goods for industrial or agricultural production. As of 2006, the exemption also applies to capital goods manufactured in Paraguay.
- All taxes applicable to the incorporation or registration of companies.
- Tariffs or internal taxes on imports of capital goods, raw materials and inputs utilized in investment projects related to the manufacture of capital goods.

Main investment incentives

4. National and Foreign Investment Tax Incentive Regime (Act 60/90) (Cont.)

- Taxes and other fees on remittances and payments abroad of interest, commissions and capital required for investments, in which case the minimum investment shall amount to US\$ 5,000,000 (Five million United States Dollars).
- This benefit applies only to investments made by a foreign banking or financial institution.
- Income tax withholdings on remittance abroad of dividends derived from the foreign investment, provided such tax does not constitute a tax credit in the investor's host country.

5. Additional issues to be considered (Representation, Agency and Distribution Law)

The Representation, Agency and Distribution Act regulates the promotion, sale or placement within the country of products and services from foreign manufacturers or companies through local Representatives, Agents or Distributors. This act establishes the compensation guidelines applicable in case of termination without cause of the contractual relationship between the parties involved.

Foreign investment

5. Additional issues to be considered (Representation, Agency and Distribution Law) (Cont.)

Fundamental Principles governing Investments in Paraguay.

The National Constitution establishes that every person has the right to devote him or herself to the lawful economic activity of his or her preference, within an equal opportunity framework. That is, there are no restrictions to foreign investment, discriminatory treatment or limitations.

In addition, the Investment Act (117/91) sets forth the following principles:

Equality: Local and foreign investments are treated equally. As a consequence, more favorable or discriminatory conditions and treatment of foreign investors is not admissible.

Property Right: Local and foreign investors may acquire assets in Paraguay without further limitations than those established by Law and the Constitution.

There are certain limitations to the acquisition of land in proximity to borders (buffer strip) in line with local agricultural and livestock production health control and care.

Free foreign exchange market: The inflow and outflow of capital, the remittance abroad of dividends, interest, commissions and royalties due to the transfer of technology, among others, are guaranteed without restriction, provided all

Foreign investment

5. Additional issues to be considered (Representation, Agency and Distribution Law) (Cont.)

Fundamental Principles governing Investments in Paraguay. (Cont.)

foreign exchange, remittance and transfer operations comply both with related tax obligations as established by Law and with money laundering related regulations.

Freedom to procure investment insurance locally or abroad.

Free trade: Free trade, which comprises the following, is guaranteed:

- Freedom to produce and market overall goods and services,
- Pricing freedom, except for those goods and services for which production and commercialization are regulated by Law (such as pharmaceuticals, etc.), and;
- Freedom to import and export goods and services except those prohibited by Law.

These guarantees are subject to compliance by both local and foreign investors with the country's current Tax Regime and Employment and Social Security Regime.

Universality: Foreign investments in all economic sectors are welcome. However, permits, licenses and concessions specially granted by the authorities are required to carry out certain activities such as the prospection, exploration and exploitation of fossil fuels, mining, cement, telecommunications, forestry exploitation and reforestation, among others.

Foreign investment

5. Additional issues to be considered (Representation, Agency and Distribution Law) (Cont.)

Fundamental Principles governing Investments in Paraguay. (Cont.)

Automaticity: With the exclusion of the above mentioned exceptions, foreign investors are authorized to invest in all other sectors of the economy without requiring prior authorization, provided the investment is not subject to a special regime, in which case the investor must abide by the regime applicable to such investment.

Currency Exchange Regime: Currency exchange freedom is one of the guarantees provided by the Investment Act, meaning that foreign exchange operations are carried out in a free currency exchange market. The exchange rate applied is that which is agreed upon by the parties involved in accordance with supply and demand.

Exchange operations include purchase and sale of foreign currency and in general, the obligations payable in such currency, even when there is no transfer of funds abroad or vice versa. Juridical acts, obligations and agreements stipulated in foreign currency are valid and shall be payable or claimed in the currency agreed.

Foreign investment

5. Additional issues to be considered (Representation, Agency and Distribution Law) (Cont.)

Judicial System

The Paraguayan judicial system is governed by the following principles:

- Principle of equality granted to all Paraguayans and foreigners, be they individuals or legal entities.
- Three level court system principle (Trial Court, Second Instance Court or Court of Appeals and Supreme Court)
- Principle of division of power, by which neither the Executive Power nor the Legislative Power may influence judge decisions.

6. Business organization

Paraguayan Law establishes 5 (five) types of commercial businesses: general partnership, limited partnership (simple or including share capital), limited liability partnership and corporation, as well as a special class called branch, agency or representative office.

Partnerships and limited partnerships are usually the forms of business organization chosen by small companies. Limited liability partnerships are chosen by small to mid-sized companies and corporations is the figure adopted by larger enterprises.

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6. Business organization

Below is a description of the main aspects related to the three most common types of business organizations chosen by undertakings in the country: Limited Liability Partnerships, Corporations and Branches of Foreign Corporations.

Limited Liability Partnership (L.L.P.).

Characteristics:

- Partner liability is limited and in proportion to the value of partner capital contributions.
- Partner capital contributions are represented by partnership interest shares.
- Must have a minimum of two (2) and a maximum of twenty five (25) partners.
- The law does not specify nationality requirements for partners; however, directors and syndics (statutory auditors) are required to be temporary or permanent residents in Paraguay.
- Share capital is divided into partnership interest shares of equal value, none of which may be represented by transferable equity securities.
- Share capital must be fully subscribed upon partnership constitution.

Foreign investment

6. Business organization (Cont.)

Limited Liability Partnership (L.L.P.) (Cont.)

Characteristics: (Cont.)

- At least 50% (fifty per cent) of initial capital contributions must be paid up and the remaining amount must be fully paid within two (2) years. Paid up capital is accredited by depositing the contributions with the Banco Nacional de Fomento (National Development Bank), amount which may be recovered upon completing registration of the Partnership with the Public Commercial Registry.
- There are no minimum or maximum capital requirements.
- Partnership interest shares may not be transferred to third parties without the consent of partners which, jointly, represent $\frac{3}{4}$ of the company's capital if the partnership has more than five (5) partners. Otherwise, unanimous partner consent is required.
- Banking, insurance, savings and capitalization activities may not be carried out by this type of legal entity.

Corporation (Corp.)

Characteristics:

- Corporate partner participation is represented by shares.
- Shareholders are liable for the obligations of the corporation in proportion to their contributions.

Foreign investment

6. Business organization (Cont.)

Corporation (Corp.) (Cont.)

- It must have at least two (2) shareholders (may be individuals or legal entities).
- The law does not establish requirements in terms of shareholder nationality, however, at least one director is required to have Paraguayan nationality or have a permanent or temporary residence.
- Appointment of a Syndic, in order to look after the best interests of the shareholders, is mandatory. This role must be carried out by a knowledgeable individual with Paraguayan nationality or permanent residence.
- The capital must be fully subscribed and issued as shares of equal value.
- Shares may be registered shares or bearer shares, except in the case of banks, financial institutions, insurance companies and publicly traded companies, for which only the issue of registered shares is allowed.
- Shares may be transferred unless a right of first refusal among partners is in place.

Foreign investment

6. Business organization (Cont.)

Branches, Agencies and Representation Offices of Foreign Corporations

Local regulation applies to the normal business activities carried out in Paraguayan territory by branches of corporations constituted abroad, as stipulated in the bylaws defining the company's business purpose. Such activities must be in line with legal dispositions currently in force in Paraguay. However, the existence and capacity of the corporation are governed by the laws of the country where the company's headquarters are domiciled.

In order to operate in Paraguay, the company must:

- Establish a representative office domiciled in Paraguay.
- Submit proof of incorporation in accordance with the laws of the country of origin. A copy of the Bylaws of the parent company duly registered in the country of origin must be submitted.
- Justify the agreement or decision for the creation of a branch or representative office, the capital allocated to such and the designation of its representative in Paraguay including its legal domicile.
- A power of attorney must be granted to an individual (national or foreign with local residence), simultaneously or in a separate legal act, so that such individual can take care of the procedures and paperwork required to constitute the branch, agency or representative office.

Foreign investment

6. Business organization (Cont.)

Branches, Agencies and Representation Offices of Foreign Corporations. (Cont.)

The documentation required for branch registration must be legalized by the Paraguayan consulate in the country of origin or in the nearest country where it is available and by the Ministry of Foreign Affairs. In addition, the minutes recording the decision to establish a branch or a representative office must be notarized and registered with the pertinent Public l Registries.

Requirements for the constitution of the different types of Entities mentioned

Requirements

- Original Deed notarized by a local notary public. The notary must also issue: a) a formal petition header; b) in the case of LLPs and corporations, a petition for resolution addressed to the Treasury Attorney Office.
- 2 (two) authenticated copies of the Deed
- 1 (one) authenticated copy of the valid Identity Card of the legal representative.
- 1 (one) copy of the valid Identity Card of each partner.
- 1 (one) copy of the lease agreement or property tax bill or copy of the water, electricity or phone bill.
- Payment of legal and registration fees.

Foreign investment

6. Business organization (Cont.)

Requirements for the constitution of the different types of Entities mentioned. (Cont.)

Requirements (Cont.)

If the company has employees, the following documentation must be submitted: a) employee roster, b) employee registration form (one for each employee declared) and c) copy of Identity Card of each employee.

Foreigners: submit proof of residence (temporary or permanent). In addition, foreigners must submit 1 (one) authenticated copy each, of the Identity Card or Passport from the country of origin and of a valid Immigration Card.

L.L.Ps: submit original BNF deposit slip of the paid-up capital in cash (original and authenticated copy). In the case of non-cash contributions, legal documentation as proof of the fair market value of such contributions must be presented.

Time Frame

The registration process of the different types of entities mentioned takes 20 to 45 working days.

Foreign investment

6. Business organization (Cont.)

Other Common Procedures for all Types of Commercial Companies

Certification of Accounting Records.

Once the company has been registered, it must submit of a letter addressed to the General Public Registry Office and signed by a sponsoring attorney requesting the certification of the following accounting books: journal, inventory and general ledger. The following must be filed with the letter:

- All above mentioned accounting books (available in office supply stores)
- Authenticated copy of the constitutional documents of the company and proof of Tax ID Form issued by the Tax Authority.
- Legalized copy of the legal representative's identity card.
- Fee payment applicable to each accounting book.

Accounting record certification takes approximately 20 to 30 calendar days.

Obtaining a Commercial License.

In addition to the above, all commercial companies must obtain municipal authorization to carry out commercial, industrial and service activities.

Foreign investment

6. Business organization (Cont.)

Obtaining a Commercial License. (Cont.)

In the Asuncion Municipality, applications must be filed with the Agency of Urban Administration (D.A.U.) of the Urban Development Agency (D.G.D.U.). The following documents must be submitted upon filing:

- Completed Form No 1 D.G.D.U.—D.A.U.
- Form No 2 authorizing use of premises. If the company does not own the property, an authenticated copy of the identity card of the property owner and a copy of the lease agreement must be attached.
- Form “Sworn Statement of Assets”
- Authenticated copy of Paraguayan Identity Card of Partners/Directors or Immigration Card if foreign.
- Copy of payment receipts of Property Tax bill and Special Rates for the business premises.
- Authenticated copy of the constitutional documents of the company duly registered with the Public Commercial Registry;
- Proof of Tax Identity Document authenticated by a Notary Public.

Foreign investment

6. Business organization (Cont.)

Obtaining a Commercial License. (Cont.)

- Technical layout plan or sketch of premises, to scale, with corresponding measurements. If the layout is of a larger property, the area to be used for commercial purposes must be identified (for commercial premises located in buildings of 200 square meters or more, an approved fire safety layout – “PCI” - is required).

Obtaining a commercial license may take from 30 to 45 working days.

7. Employment related issues and social security.

Social Security Agency.

Companies with one or more employees are required to file the employer registration form with the Social Security Agency and pay social security tax on a monthly basis. The form must be filed with the Employer Registration Department of such entity.

The Employer Registration Form and the Employee Enrollment Form (three copies required) must be completed and the latter signed by the Company’s Representative.

The following documentation must be attached upon filing:

- Company’s Constitutional Documents duly registered with the Public Commercial Registry;
- Tax ID Form;

Foreign investment

7. Employment related issues and social security. (Cont.)

Social Security Agency. (Cont.)

- Opening Balance Sheet.
- Paraguayan Identity Card or Immigration Card of each employee;
- Employee roster including Identity Card number or Immigration Card number.

Completion of this procedure takes between 1 and 2 days and all documents must be notarized prior to filing.

Department of Justice and Labor.

All companies with one or more employees must register with the Ministry of Justice and Labor, prior registration with the Social Security Agency. Filing takes place in the Labor Office. In order to apply for registration, the corresponding form must be completed and signed by all authorized legal representatives. The following documents must be submitted along with the application form:

- Copy of the company's constitutional document duly registered with the Public Commercial Registry.
- Copy of the Tax ID Form.
- Copy of the Paraguayan Identity Card or Immigration Card of each of the company's employees and legal representatives,
- Employee roster including Identity Card number or Immigration Card number.
- Proof of Registration of Employee and Employer Contribution to Social Security with the Social Security Agency.

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7. Employment related issues and social security. (Cont.)

Department of Justice and Labor.

The procedure is completed in 1 or 2 days and the documents must be notarized prior to filing.

8. Tax issues

Acts 125/91 and 2.421/04 “on Administrative Reorganization and Fiscal Adjustment” constitute the tax legal framework in Paraguay.

Personal Income Tax was introduced in 2004; however, it was not until August 1st that it came into force with certain modifications imposed by Congress to the original 2004 regulation.

Certain modifications were also introduced to Income Tax on Commercial, Industrial or Service Activities, Income Tax on Agricultural Activities, VAT, Selective Consumption Tax and the Unified Tax applicable to Small Taxpayers was replaced by the Income Tax to Small Taxpayers.

Stamp Duties on acts and documents are currently revoked.

Below are the most relevant characteristics of the main taxes that may affect investments in the country.

Foreign investment

8. Tax issues (Cont.)

Income Tax.

a. Income from Commercial, Industrial or Service Activities.

Taxable Income:

The Income Tax on Commercial, Industrial or Service Activities is levied on the following, among others:

- Income from Paraguayan source derived from commercial, industrial or service activities that are not of a personal nature.
- Income generated by the purchase and sale of real estate property when such activity is common practice, except in the case of commercial companies, which are required to calculate the income obtained by the purchase and sale of property, regardless of whether it is common practice or not.
- Income generated by capital goods, except activities that generate goods related to activities subject to Income Tax on Agricultural Activities, Income Tax on Small Taxpayers and Personal Service Income Tax.
- All income of individuals and companies, as well as income of companies constituted abroad or their branches, agencies or establishments in the country, except those that generate goods related to activities subject to Income Tax on Agricultural Activities, Income Tax on Small Taxpayers and Personal Service Tax Income.

Foreign investment

8. Tax issues (Cont.)

Income Tax. (Cont.)

a. Income from Commercial, Industrial or Service Activities. (Cont.)

Taxable Income: (Cont.)

- Income resulting from extractive activities, rabbit breeding, poultry farming, apiculture, flower growing and forestry.
- Income obtained by consignees of goods.
- Income resulting from the following activities:
 - Repair of goods, overall.
 - Carpentry.
 - Transportation of passengers and goods.
 - Insurance and Re-insurance.
 - Financial intermediation.
 - Vehicle parking.
 - Security guard services and related activities.
 - Movie rental and exhibition.
 - Lease of property or rights.
 - Night clubs.
 - Hotels, motels and similar establishments.
 - Assignment of use of intangible goods, such as trademarks, patents and privileges.
 - Property leasing, provided the lessor owns more than one property.
 - Travel Agencies.

Foreign investment

8. Tax issues (Cont.)

Income Tax. (Cont.)

a. Income from Commercial, Industrial or Service Activities. (Cont.)

Taxable Income: (Cont.)

- Funeral services and related activities.
- Laundry, dry cleaning and dye works on garments in general.
- Advertisement.
- Construction, remodeling and demolition.

- Dividends and earnings obtained by shareholders or partners of companies with activities subject to Income Tax on Commercial, Industrial or Service Activities or on Agricultural Activities.

Taxpayers

- Sole proprietorships, companies with or without legal status/capacity and all other private entities of any nature.
- Government-owned enterprises, self-regulatory entities, decentralized institutions and mixed-economy companies.
- Individuals domiciled abroad and entities constituted abroad and their branches, agencies or establishments carrying out activities subject to taxation in Paraguay. Headquarters are taxed on the net income paid or credited by the latter.

Foreign investment

8. Tax issues (Cont.)

Income Tax. (Cont.)

a. Income from Commercial, Industrial or Service Activities. (Cont.)

Taxpayers (Cont.)

- Headquarters abroad will be taxed on income obtained independently.
- Cooperatives

Tax Rates

- General Income tax amounts to 10% (ten per cent).
- When earnings are distributed, an additional 5% (five per cent) rate is levied on the net amount paid or credited to owners, partners or shareholders. This tax is levied on the entity domiciled in the country.
- Headquarters, its partners and shareholders domiciled abroad shall pay the tax levied on earnings or dividends credited by branches, agencies and establishments located in Paraguay, at a 15% (fifteen per cent) rate on net amounts credited, paid or remitted, whichever occurs first.
- Individuals domiciled abroad or entities constituted abroad with or without branches, agencies or establishments located in Paraguay shall calculate the tax by adding the aforementioned rates over earnings, regardless of the existence of the mentioned branches, agencies or establishments.

Foreign investment

8. Tax issues (Cont.)

Income Tax. (Cont.)

b. Income from Agricultural Activities.

Taxable income.

- Income from agricultural activities such as those described below, carried out in national territory with the purpose of obtaining primary products of plant or animal origin, through the use of land, capital and labor factors, such as:
 - Bovine, ovine and equine breeding and fattening.
 - Wool, leather, bristle and embryo production.
 - Agricultural, fruit and vegetable production.
 - Dairy farming
 - Possession, use, lease or ownership of rural property even when no activity is carried out in such property.

Non-taxable Income

The tax does not affect income derived from the manipulation, processing or treatment of goods carried out by the producer in order to preserve such goods, nor are these activities subject to Income Tax on Commercial, Industrial or Service Activities, Income Tax on the Small Taxpayer or Personal Service Income Tax.

Foreign investment

8. Tax issues (Cont.)

b. Income from Agricultural Activities. (Cont.)

Taxpayers

- Individuals
- Companies, associations, corporations and all other private entities regardless of their nature.
- Government-owned enterprises, self-regulatory entities, decentralized institutions and mixed-economy companies.
- Individuals domiciled abroad or entities constituted abroad and their branches, agencies or establishments in the country.

Classification of taxpayers according to property size (mid and large)

Classification becomes necessary given that there are specific regulations for each type of taxpayer according to the size of the property in which the productive activity is carried out in addition to a distinct applicable rate.

For this purpose, the usable farmland (from the agrologic perspective) and the rational exploitation of the rural property are considered.

Foreign investment

8. Tax issues (Cont.)

b. Income from Agricultural Activities. (Cont.)

Classification of taxpayers according to property size (mid and large) (Cont.)

Classification is as follows:

- Large property: comprises 300 Has. and 1500 Has. or more of usable farmland in the western and eastern regions, respectively.
- Mid-sized property: comprises less than 300 Has. and less than 1500 Has. of usable farmland in the western and eastern regions, respectively.

Income Tax. Large properties.

Income tax amounts to 10% (ten per cent) over net earnings.

Income Tax. Mid-Sized properties.

Amounts to 2.5% (two and a half per cent) over taxable income.

c. Personal Service Income Tax - IRP

Tax generating fact

- Income of Paraguayan source resulting from activities that generates personal income, such as:

Foreign investment

8. Tax issues (Cont.)

c. Personal Service Income Tax – IRP. (Cont.)

Tax generating fact (Cont.)

- Professional practice, practice of crafts and trades or occupations or provision of services of any nature, independently or as an employee, in government or private entities, regardless of the earnings or pay.
- 50% (fifty per cent) of dividends, earnings and surpluses distributed to shareholders or partners of entities carrying out activities subject to Income Tax on Commercial, Industrial and Service Activities, Income Tax on Agricultural Activities as well as those derived from cooperatives.
- Capital gains resulting from the occasional sale of property, assignment of rights or the sale of securities shares and partnership interest shares.
- Interest, commissions, return on capital and other income not subject to Income Taxes on Commercial, Industrial or Service Activities, Agricultural Activities and on Small Taxpayers.
- Any other income of Paraguayan source, provided that during a given fiscal year the sum of such income exceeds thirty (30) minimum monthly wages (aggregating approximately US\$ 12.000).

Foreign investment

8. Tax issues (Cont.)

c. Personal Service Income Tax – IRP. (Cont.)

Tax Rates.

Taxpayers shall apply a 10% (ten per cent) general tax rate on Net Taxable Income when their income exceeds 10 minimum monthly wages and 120 minimum wages over the fiscal year or 8% (eight per cent) if their income does not exceed the aforementioned values.

NOTA DE TRADUCCIÓN. ¿NO HAY UN MÍNIMO NO IMPONIBLE?

Foreigners Personal Income Tax

Foreigners residing in Paraguay are subject to this tax on income of Paraguayan source. Non-resident foreigners with income of Paraguayan source are subject to the Personal Service Income Tax. The applicable rate is 20% on 50% of the previously described income (10% effective rate).

Consumption Tax

Value Added

Taxable operations:

Transfers for a consideration:

- Company assets commissioned for the use of the owners, partners, directors and employees.
- Leases with purchase option or that in some manner

Foreign investment

8. Tax issues (Cont.)

c. Personal Service Income Tax – IRP. (Cont.)

Taxable operations: (Cont.)

- Company transfers; assignment of ownership interest and shares of companies with or without a legal entity status when such transfers are not notified to the Tax Authority.
- Adjudications to the owner, partners and shareholders resulting from the closure, total or partial dissolution or final liquidation.
- Contractual agreements leading to transfer of holding rights
- Goods or assets delivered on consignment.

Services:

- Loans and financing.
- Contract work and construction services with or without delivery of material
- Insurance
- Intermediations, overall.
- Assignment of use of assets such as real estate, chattel or intangible property.
- Exercise of professions, arts or crafts and trades.
- Passenger and freight transportation.

Foreign investment

8. Tax issues (Cont.)

c. Personal Service Income Tax – IRP. (Cont.)

Taxable operations: (Cont.)

Services: (Cont.)

- Personal use by owners, partners and directors of services provided by company.

Taxpayers

- Individuals exercising degreed professions, regardless of their income, and all other self-employed individuals rendering personal services provided the gross income of the latter for the preceding calendar year exceed one minimum monthly wage on average or when an invoice is issued in excess of such amount. The minimum monthly wage is approximately US\$ 400.
- Cooperatives
- Sole proprietorships domiciled in the country carrying out commercial, industrial or service activities.
- Companies with or without legal status, private companies in general as well as individuals domiciled abroad or entities constituted abroad or their branches, agencies or establishments provided they carry out taxable activities, including imports and exports.
- Not-for-profit organizations

Foreign investment

8. Tax issues (Cont.)

c. Personal Service Income Tax – IRP. (Cont.)

Taxpayers (Cont.)

- Self-regulatory entities, government-owned enterprises, decentralized institutions, mixed-economy companies carrying out commercial, industrial and service activities.

Rate – general 10% rate – differential 5% rate

- 5% (five per cent) on contractual assignment of use of goods and sale of real estate property.
- Up to 5% (five per cent) on transfer of the following goods comprised in the CPI consumption basket: rice, pasta, yerba mate (regional herb), edible oils, milk, eggs, raw meat, flower, iodized salt.
- 5% (five per cent) on interest, commissions, and delinquency charges on loans and financing.
- 5% (five per cent) on sale of pharmaceutical products.
- 10% (ten per cent) on all other cases.

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