

Setting up your business in Paraguay

Issues to consider



Paraguay is a landlocked country in South America with a population of just under 7 million. It is one of world's leading food producers and exporters, as well as one of the world's biggest renewable energy suppliers.

With the most competitive tax regime in the region, and strategic location at the heart of the South America's continent with easy access to both the Pacific and Atlantic Oceans, Paraguay it is a nation that offer many opportunities of business because everything, is being prepared so that any investment can be a reality.

Paraguay currently has a Ba.1 rating from Moody's and a stable outlook. The Infrastructure, Transport and Logistics framework aims to ensure that the country plays a key role in regional connections. The macro economic conditions are stable with an annual inflation rate over the last 5 years of approximately 4% and local currency growth in the region of 4% per annum.

The main economic activities in Paraguay are agriculture and livestock. The Maquila Industry, producing goods and services for the international market, is a focus for the further industrial development of the country.

What type of Business Structure should we use?

There are advantages and disadvantages to all of them, and there is no one correct answer, it's all dependent on your specific business circumstances and needs. A brief overview of the main structures is below:

Stock Company (unlimited Liability)

- A Stock Company is established by public deed and the capital contribution is divided into shares and the law requires at least 2 partners; they can also have unlimited shareholders and these types of companies must hold annual meetings of shareholders by law.

Limited Liability Company

- Constituted under public deed.
- Contribution is divided into quotas and there can be from 2 to 25 partners.
- It does not require an annual meeting and contributors are only liable for their contribution.
- 50% of the total capital of the company must be contributed in cash.
- As a guarantee of incorporation, 50% of the capital stock in cash is temporarily deposited in a state bank (Banco Nacional de Fomento), and once the capital stock has been totaled in the fund, it can be withdrawn.

For local legislation there is no difference between a subsidiary and a branch for tax and tax treatment.

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How much Corporation Tax will the business pay?

The basis for determining the tax is the Paraguayan source income derived from commercial, industrial or non-personal services.

Summary of fiscal obligations

It is applicable to	Cost for the Business?	Description
Rent	Yes	Income Tax on Business Activities, Industries and Services (IRACIS), Income Tax on Agricultural Activities (IMAGRO), Small Business Tax (IRSCP)
	Yes	Income Tax on Personal Service (IRSCP)
Inheritance, Legacies and Donations	Yes	It is up to the situation, can be: IRACIS or IRSCP
Consumption Expenses	Nil	Nil
	Yes	Value Added Tax (VAT)
Specific taxes	Not	Selective Consumption Tax (ISC): Tobacco, Alcohol, Alcoholic Beverages, Luxury Goods, Electronic Products, Liquid Fuels and Compressed Natural Gas.

Law 1064/97 of Maquila: There is a special regime that establishes that maquiladoras and sub-maquiladoras will pay a single tax established by applying the rate of 1% on the amount of value added in the national territory or the value of the invoice issued by account and order of the matrix, whichever is greater. This payment will be unique and definitive in relation to the income generated under the Maquila Regime.

Ley 60/90: This Law aims to provide, promote and increase capital investments of national and/or foreign origin. To this end, fiscal benefits will be granted to physical and legal persons residing in the country, whose investments are made in accordance with the economic and social policy of the National Government and aim to increase the production of goods and services, the creation of a permanent labour force, the national energy resources, and the investment and reinvestment of the capital goods profits. The benefits include the following:

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- Total exemption from tax and municipal taxes that tax the constitution and registration of companies.
- Total exemption from customs duties and other equivalent effects, including specific internal taxes on the importation of capital goods, raw materials and inputs for local industry, provided for the investment project.
- Release of the requirement of any type of bank reserve or special deposit for the importation of capital goods.

Property Taxes

Base	<ul style="list-style-type: none"> • Trade and Industrial Patents • Real Estate Tax
Tax payer	<ul style="list-style-type: none"> • For payment of the commercial patent, taxpayers are individuals and entities of trade, industries, professions and trades for profit gains. • For the payment of Real Estate Tax, taxpayers are individuals, legal entities and entities in general.
Taxable Base	<ul style="list-style-type: none"> • For the payment of commercial and industrial patents, the taxable amount is the total amount of the asset, after deduction of contingent accounts, losses, nominal accounts and depreciation of assets. • For the payment of the Real Property Tax, the taxable amount is the fiscal value of the property determined by the National Land Registry Service.
Rate	<ul style="list-style-type: none"> • For the payment of the Commercial Patent, the rate varies depending on the value of the assets. The rate ranges from 0.05% to 1%. • For the case of Real Estate Tax, the general rate is 1%. For rural properties, less than 5 hectares, the tax rate is 0.50% provided it is a unique property dedicated to agricultural activity.

Employment Taxes And Social Security

It is employers' legal responsibility to pay employee's social security deductions to the social prevision authorities. Both employers and employees must pay social insurance, which is called the Institute of Social Security (IPS)

Current Social Security rates

Obligated subjects	Amount to be paid	Rate
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Employers	Over the total amount of the monthly payroll.	16.5%
Employees	Over the total amount of the monthly salary.	9.0%



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Non-Domiciled Income Tax

Name	IRACIS or IRSCP, According to the case												
Generator Fact	Income generated by services rendered within the Paraguayan territory. In the case of special agreements, the freight provided by companies domiciled in the countries that are part of the special treaties is considered exempt.												
Rate	<table border="0"> <tr> <td>General</td> <td>15,00%</td> </tr> <tr> <td>Interests</td> <td>6,00%</td> </tr> <tr> <td>Dividends</td> <td>15,00%</td> </tr> <tr> <td>Canons / Royalty</td> <td>15,00%</td> </tr> <tr> <td>Insurance</td> <td>3,00%</td> </tr> <tr> <td>Freight</td> <td>3,00%</td> </tr> </table>	General	15,00%	Interests	6,00%	Dividends	15,00%	Canons / Royalty	15,00%	Insurance	3,00%	Freight	3,00%
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Interests	6,00%												
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Insurance	3,00%												
Freight	3,00%												
Miscellaneous	Agreements have been concluded with various countries to avoid double taxation, generally in the area of freight.												

Personal Income Tax (IRSCP)

Generator Fact	Income from Paraguayan source that comes from the realization of activities that generate personal income.
Tax base	In the case of Individuals, the expenses allowed by law are deducted from their taxable income. * In the case of simple companies, deducted from their taxable income are all expenditures and investments related to the collection of taxable income and the maintenance of its source, provided that these are real expenditures and are properly documented. The fees of diplomats, for the performance of their functions, whenever it exists in the country of the latter, reciprocal treatments with Paraguayan officials of the same class.
Exempt income	Compensation received on account of death or incapacity, illness, maternity, accident or dismissal. Interest, commissions on investments, deposits or placements of capital in banking and financial institutions in the country, and exchange differences on placements in domestic and foreign entities, as well as the valuation of equity.
Rate	Rate of 10% for people who earn more than 120 minimum monthly salaries within the fiscal year. Rate of 8% for people who earn less than 120 monthly minimum wages in the fiscal year. In the case of simple companies, the applicable rate is 10%.

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Value Added Tax(VAT)

Generator Fact	Sale of goods, provision of services, except the tax Personnel, and the importation of goods. The configuration of the taxable event occurs with the delivery of the asset, the issue of the invoice, the equivalent act, whichever was earlier. In the case of public services, when the deadline for payment of the fixed price occurs. In the case of services, which occurs first among the following acts: the issuance of the invoice, the receipt of the total importation or partial payment of the service rendered, the expiration of the period foreseen for the payment, the termination of the service borrowed. In cases of imports, at the time of the numbering of the customs declaration of goods in Customs.
Recognition of Obligation	
Tax period	Monthly General rate of 10%.
Rate	1) 5% for contracts for the assignment of the use of goods and disposal of real estate, and for the disposal of pharmaceutical products. 2) up to 5% on the sale of goods from the family basket
Special Regimes	Specific Regime of Imports. Decree No. 6406 (1).

- (1) Decree 6406 establishes a specific system of liquidation of internal taxes that tax the importation of certain goods (established by the Administration) destined for commercialization in the country, exclusively to Individuals not domiciled in the country. It applies to Legal Entities and / or individual limited liability companies that are engaged in the commercialization of these goods. These taxpayers will tax VAT in the customs area, applying the 10% tax on the tax base of 15%, this payment will be a single and definitive payment, provided that the sales are made to Individuals not domiciled in the country by registered distributors, subject to this regime. In the event that sales are made to Individuals domiciled in the country, the taxpayer must issue proof of sale for each sale made, which will be recorded by VAT, according to the general regime.

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Shares' option plans to the staff

Many companies view stock option plans as an important way to attract, motivate and retain key personnel.

In Paraguay there are no "approved" stock option plans that grant tax benefits to employees and employers. This is a very complex area from the technical point of view, so it is necessary to carry out careful planning as soon as you are considering stock option plans for implementation in Paraguay.

How can to compensate to the employees?

Usually in Paraguay it is customary to pay a bonus to the main executives determined on a relevant percentage of the profits obtained by the companies. However, Paraguay also has a range of compensation options and benefits available to companies to offer their employees.

Pensions, private health insurance, life coverage and disability are now common benefits provided by many Paraguayan companies to their workforce.

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