

Doing Business in

PARAGUAY

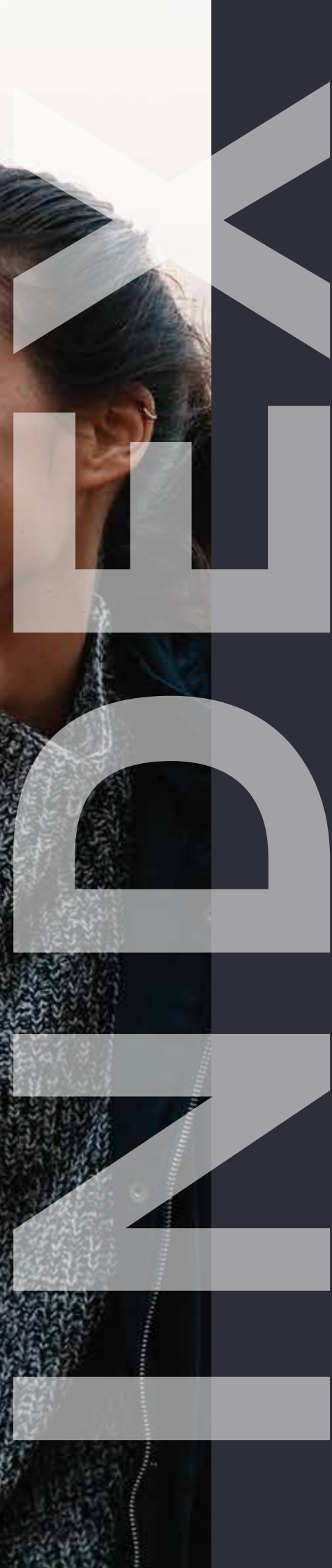
2023



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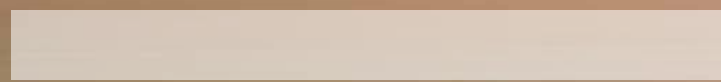
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Country Profile

Country Profile

Location and Language

The Republic of Paraguay is a landlocked country located in South America. It is bordered by Argentina, Bolivia and Brazil.

The official languages are Spanish and Guaraní.

Form of Government

Paraguay is a sovereign republic, governed by a President. Also, it is constituted as a unitary, indivisible and decentralized social state governed by the rule of law. General elections are held every five years to choose authorities.

Political System

It is a representative democracy. There are several political parties representing different political trends.

State powers are divided into:

- Executive
- Legislative
- Judiciary

Political/Administrative Division

Paraguay is politically divided into seventeen departments and a capital city, which is Asunción.

The main cities where different types of businesses are conducted are:



Climate and Natural Resources

The country's weather is framed in an area of high humidity and warm temperatures most of the year.

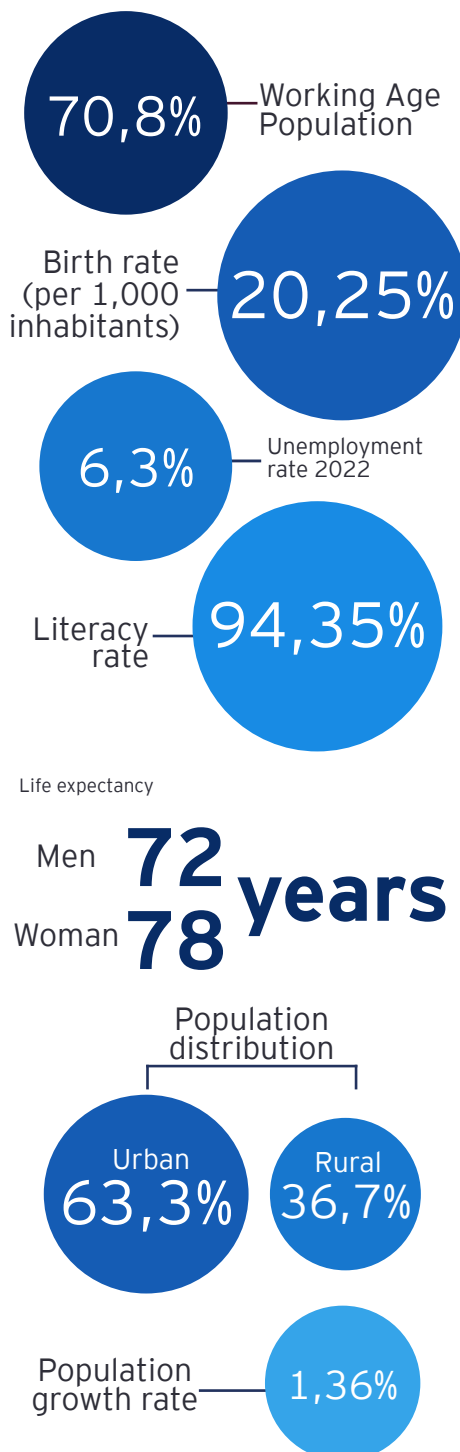
Average summer and winter temperatures are 31°C (about 88°F) and 15°C (about 60°F), respectively.

Paraguay's main natural resources are:

- Hydrological
- Agricultural
- Livestock
- Forest
- Mineral

Geographic and population data

Paraguay's population amounts to about 7,4 million inhabitants





Economy

Economy

Currency

Paraguay's currency is the Guaraní.

Exchange rates are free and the parity to US\$ dollar is US\$ 1 = Gs. 7.305,94 (as of January 31, 2023).

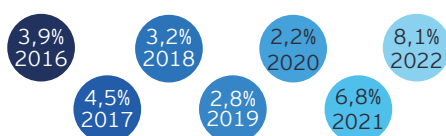
Main Economic Sectors

The main economic sectors of Paraguay are:

- Agribusiness (soybean, cotton and livestock activities)
- Forestry
- Real estate

Inflation rate, business climate

The latest annual inflation rates were:



Source: Exchange rates per day available on the website of [Banco Central del Paraguay](#)

Trade Balance

The following information is provided in FOB US\$:



Source: Annual and Monthly data on exports and imports are available on the website of [Banco Central del Paraguay](#)

Monetary Policies

Paraguay's monetary policy is controlled and monitored by the Central Bank of Paraguay (BCP for its acronym in Spanish).

The BCP has the power to:

- Design Paraguay's monetary policy.
- Control financial institutions (local and foreign banks, savings and loan institutions, insurance brokers, exchange offices, goods guaranty warehouses, etc.); among others established by the law.

Banking and Financial Framework Trade opportunities

Paraguay's banking and financial structure is made up of:

- Local capital banks (private and state-owned)
- Foreign capital banks
- Savings and loans institutions
- Cooperatives
- Exchange offices
- Goods guaranty warehouses
- Pension fund managers
- Investment fund managers

Credit Lines

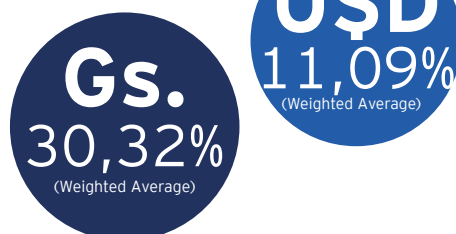
In the local market, loans are granted by private and state-owned banks.

State-owned banks strongly support the domestic productive sector (agribusiness and industry), funded by international entities (international private banks, bilateral and multilateral funding agencies).

Private banking mainly supports the commercial and service sectors. In addition, there is currently a great deal of economic support for the empowerment of micro, small and medium-sized enterprises (MIPYMES for its acronym in Spanish).

Average rates are:

Interest rates on loans



Interest rates on Deposits

(% Demand Deposits Accounts (DDA))	
0,58	Gs. (Weighted Average)
0,30	USD (Weighted Average)

(% Certificate of Deposit (CD) applicable for 365 days or more)	
10,23	Gs. (Weighted Average)
5,83	USD (Weighted Average)

Note:
Provisional data as of February 2023.
Just applicable for Banks

Among the main investment attractions of Paraguay, we can name the richness of natural resources, the abundant electrical energy, the ample advantage and benefits for foreign and domestic investments, and the mainly trainable young population. The construction and maintenance of the infrastructure are considered major priorities.

Opportunities are also appealing in the agribusiness sector and livestock activities, as Paraguay is one of the world's top exporters of soybean and beef.

Paraguay has an open economy and is a founding partner of MERCOSUR that is the most important preferential trade agreements of Paraguay. MERCOSUR's objective is to create a common market and ensure the free movement of goods, services, capital and labour among member countries.

Likewise, Paraguay has enacted several laws and programs to promote domestic and foreign investment by means of tax exemptions and other incentives.

On the other hand, the last few years the Free-Trade Zone in Paraguay and type "B" companies (friendly environment) have also consolidated as a key investment destination for the country.

A person is walking on a beach at sunset. The sky is a mix of blue and orange, and the water is calm. A large, semi-transparent number '03' is overlaid on the image. A horizontal bar is positioned below the number.

03

Business Presence

Business Presence

Types of Business Presence

The most common business forms of organization are:

- Joint Stock Corporation (Stock Corporation)
- Limited Liability Company (Limited Liability Society)
- Branch
- Simplified Stock Company (EAS for its acronym in Spanish)

Auditing mandatory presentation

According to tax law and regulations in force, taxpayers who invoice

Guaraníes

9.2 billion

(approximately USD 1.3 million)

or more, are obligated to be audited by registered and independent auditors who must issue a Tax Compliance Report and inform the Paraguayan Tax Authority directly.

Control Entities

For companies in general, the applicable regulatory entity is the Ministry of Finance through two bodies:

- Treasury Advocacy (Abogacía del Tesoro), for corporate issues; and
- Subsecretaría de Estado de Tributación, for tax issues.

Banks, savings and loans companies, exchange agencies, general bonded warehouses and insurance companies are controlled by the Banks and Insurance Superintendence, an agency reporting to the BCP (Central Bank of Paraguay). Also, there are other regulatory bodies related to, for example, stock exchange companies, cooperatives, etc.

Depending on the type of business, the companies may also be controlled by:

- National Competition Commission (CONACOM for its acronym in Spanish)
- Consumer and User Defense Secretary (SEDECO for its acronym in Spanish)
- Ministry of Industry and Commerce (MIC for its acronym in Spanish).

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Foreign
Investment
and Exchange
Control

Foreign Investment and Exchange Control

Foreign Investment Presence in the economy

Foreign capital has significant presence in the local economy.

There are many foreign companies subsidiaries and branches operating in the trade, bank and service areas at the domestic market.

Requirements and Restrictions for the Foreign Capital

The main procedure to make a foreign investment begins with the incorporation and organization of a company under local legislation.

The local company will have to be registered with the local authorities governing the activity to be performed.

Likewise, the shareholding in local companies or the signing of joint venture agreements under the principle of equal treatment and the guarantee of enjoyed the same rights of national investors.

Paraguayan economic sectors are opened to foreign capital. There are no restrictions on capital inflows and outflows.

Paraguayan law guarantees equal treatment for foreign and domestic investment, except for the ownership of land near borders by foreigners.

Certain sectors reserved for the Paraguayan Government are not opened to private investment (either domestic or foreign). Accordingly, pursuant to the Paraguayan Constitution, Paraguay owns all deposits of hydrocarbons and solid, liquid or gaseous minerals, except for rocky, earthy or calcareous substances, and may grant concessions by law for their prospection, exploration and exploitation.

Exchange Controls

The exchange system is free and fluctuating and there is no exchange control. The monetary authority participates in the exchange market as another operator.

The banks, savings and loans companies and exchange agencies may operate at the exchange market.

Foreign currency circulates freely in the country. Contracts may be executed in local and/or foreign currency, indistinctly.

05

Taxation

Taxation

General description of the Tax System

Paraguayan Tax System is divided in two principal types of taxes that would normally affect a company: central government taxes and municipal taxes.

Corporations, Limited Liability Companies and branches of companies incorporated abroad have the same tax treatments. Taxes usually apply to these entities generated incomes and purchase operations.

The Paraguayan Tax Authority is a dependent unit of the Ministry of Finance. It is responsible for the collections and administration of all tax laws in force related to central government.

The Paraguayan tax system is classified into:

- Income taxes**
- Business Income Tax;
 - Dividends and Profit Tax;
 - Personal Income Tax; and
 - Non-Resident Income Tax.

- Indirect taxes**
- Value Added Tax; and
 - Excise Tax.

Equity tax (Real Estate Tax ruled and collected by City Hall).

Direct Taxation

Business Income Tax

Business Income Tax levies income, profits or gains of Paraguayan source that come from all types of economic activities, primary, secondary and tertiary. This tax includes all the agricultural, commercial, industrial activities and services, excluded those income taxed by Personal Income Tax.

The tax rate

10%

Foreign Tax Treaties and Tax Credit

The Paraguayan taxpayers can deduct from the Business Income Tax obligation, the Income Tax paid abroad, whatever its denomination and liquidation on those same incomes, provided that the discount does not exceed the amount of the tax that the taxpayer must pay in the country for said income.

This will be equally applicable to the income obtained related to agreements in force to avoid double taxation in Paraguay.

Paraguay has general Double Tax Treaties in force with Taiwan, Chile, Uruguay, Qatar and the United Arab Emirates.

Income Tax Incentives

The country has one of the broadest laws on foreign investment. The Investment Law No. 117/91 guarantee a free exchange regimen without restrictions on inflow and outflow of capital, as well as freedom for remittance abroad of dividends, interest, commissions, and royalties for technology transfer and other items, which, however, are subject to the taxes established by law. Paraguay allows free contracting of investment insurance in the country or abroad, and the establishment of joint ventures.

There are certain tax incentives for investors, both local and foreign, such as the provided by Law No. 60/90 its amendments and regulatory decrees. The purpose of this Law is to promote investment and reinvestment of capital by granting special tax benefits. To obtain these advantages the foreign investor must submit its investment project to the Ministry of Industry and Commerce and the Ministry of Finance. The benefits granted are irrevocable provided investors comply with the obligations established by the Law. Investment projects under this regimen are exempt from certain taxes on the investment for a period of up to 5 years, under certain conditions. There are no restricted sectors, discriminatory treatment or limitations. The foreign investor does not require any government authorization different from local investors to make investments. Profits and dividends are tax-free for 10 years if the investment falls under Law 60/90 and the project involves over US\$ 13 million (according to Decree No. 8894/23) and if the country of origin cannot allow the use of the local taxes as tax credit in their own jurisdiction.

In sum, the most significant benefits are the exemptions of:

- Customs duties and VAT on local purchases and importation of machinery;
- WHT on loan interest when issued by well-known international financial institutions and the project of investments is more than US\$ 13 million; and
- 15% WHT on dividends remitted abroad when the investment is higher than US\$ 13 million.

To qualify for the above-mentioned tax benefits, investors are required to prepare and file an investment project which will be analyzed for approval by local authorities.

Transfer Pricing

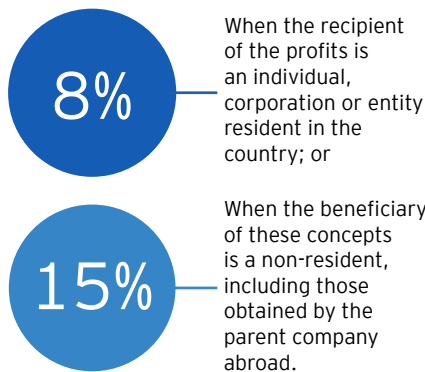
Paraguayan legislation calls them "Special Norms for the Valuation of Operations" and establishes that the taxpayers of the Business Income Tax that carry out operations with related parties residing abroad or in the country, will be obliged for the purposes to determine their income and deductions, considering for those operations the prices and compensation that they would have used with or between independent parties in comparable operations, under similar conditions.

Taxpayers who carry out operations with related parties residing in the country (in this case when the operation for one of the parties is exonerated, exempt or not reached by the BIT) and abroad, must obtain and keep a Technical Study that includes the supporting documentation that demonstrates compliance with these standards as long as they have surpassed PYG 10.000.000,000 (USD 1.5 million) in the previous year. The Tax Administration will establish a registry that will include the professionals qualified to prepare the Technical Study.

Dividends and Profits Tax

Dividends and Profits Tax levies earnings, dividends and revenues (hereinafter profits) made available or paid to the owner, the consortium, partners or shareholders of entities established by law, as well as the permanent establishments of entities incorporated abroad, will be subject to this tax.

The rate is:



Personal Income Tax

Personal Income Tax is classified in two categories:

- Income and capital gains; and
- Income derived from the provision of personal services in an independent or dependent manner.

Income and capital gains be understood as the income, in money or in kind, derived directly or indirectly from assets, goods or rights, owned by the PIT taxpayer. The PIT rate for the income and capital gains is 8%.

Personal services, is calculated by the difference between the actual income received and the deductible expenses incurred (cash basis) during the fiscal year (January-December).

For personal services, a progressive tax rate will apply:

Incomes until Gs. 50.000.000	8% Tax Rate
From Gs. 50.000.001 to Gs.150.000.000	9% Tax Rate
Equal or more than Gs.150.000.001	10% Tax Rate

Non-Resident Income Tax

Non-Resident Income Tax (INR for its acronym in Spanish) levies income, profits or benefits obtained by individuals, corporations and other non-resident entities in Paraguay, coming from taxable events provided in the Business Income Tax and Personal Income Tax.

The tax rate is 15% on taxable base. The taxable bases are established presumptively according to the law provision.

Indirect taxation

Value Added Tax

VAT is applicable to:

- Sales
- Services rendered, other than personal services rendered under payroll-employee relationship
- Imports

Applicable rates

VAT rates are 10% and 5%. Basically, the latter rate is applicable to family housing leases and sales of real state, some agricultural products, basic family products and pharmaceutical goods.

Incentives related to this tax

Exports are VAT-exempted.

The VAT paid on goods and services incorporated into exports is recoverable through Credit Memos called Tax Credit Certificates issued by Tax Authorities; such certificates may be transferred or used to pay other taxes.

Excise Tax

Excise Tax (ISC for its acronym in Spanish) is applicable to the importation or first sale in factory of the following goods:

- Cigarettes;
- Tobacco;
- Beer, fruit juice, beverages in general;
- Various types of alcoholic beverages;
- High calorie products;
- Petroleum-derived products;
- New and used aircraft and ships;
- Weapons and its accessories; and
- Electric appliances such as dishwashers, laundry machines, sound recording devices, cellphones, among others.

Exemptions

Exports are exempted of Excise Tax.

Import duties and taxes

Imports in general are subject to the following taxes:

- Customs duties;
- Tax on selected consumer items, if applicable; and
- Value-added tax, if the product is subject to this tax.

The Mercosur Treaty provides that goods originated in the member countries may circulate freely within the territory of the five-member countries and that goods that do not originate within them are usually subject to "Common customs duties for external products".

Other Tax Regimes

Free Trade Zone Regime

The following activities performed in the established Free-Trade Zone areas are considered covered by this regime:

- Business
- Industries
- Services

Tax benefits under Free-Trade Zone Regime

The activities performed under the Free-Trade Zone Regime mentioned above developed in a pre-determined Free-Trade Zone area are exempted from any kind of tax, including national, regional or municipal taxes; such as the following:

- Entity Constitutions;
- Taxes on dividends remitted abroad;
- Payment of royalties, commissions, fees, interests and any other remuneration for services, technical assistance, technology transfer, loans and financing, equipment rental and every other service provided from third countries to Users of the Free-Trade Zone.

Users that carry out commercial, industrial or service activities dedicated to exports to third countries, shall pay a unique tax on this regime of 0.5% on the total invoicing amount. This tax will be paid at the time of the formalization of each Export Office.

Maquila Regime

The Maquila Regime allows the introduction of machinery into Paraguay on a temporary basis (Maquila temporary importation) during the production process.

The Maquila Law offers important advantages, among others, the geographical location of the country (center of South America and of the Mercosur) and a preferential taxation treatment.

Maquila Unique Tribute: payment of a tax corresponding to 1% on value added in Paraguayan territory, or on the value of the invoice issued by order and account of the Head Office, whichever is greater





06

Labor
Legislation

Labor Legislation

General Description

Labour relations are regulated by a "Labour Code" applicable to the relationship between employers and payroll employees.

The type of labour relationship that may be established are:

- For an indefinite term
- For a fixed term
- Piecework

The current Labour Code is not applicable to Directors, Managers, Administrators and other executives of companies, provided that their representation, amount of remuneration, nature of job, technical capacity, and especially independence in the job does not imply subordination.

Working Week

The normal working day has 8 (eight) hours, with a maximum of 48 hours a week for daytime work, and 7 (seven) hours a day and 42 (forty-two) hours a week for nighttime work.

For part-time modality, the worker shall work between 16 hours and a maximum of 32 hours per week. The maximum monthly load will be 128 hours.

Monthly Minimum Wage

The minimum wage is

G\$ 2.550.307

=

USD 348,94

approximately.

According to the Law No. 6338/19 that modifies art. 10 of Law No. 5407/15 "Of Domestic Work", domestic workers will also be benefited with the legal minimum wage in force for non-specified diverse activities.

For part-time modality, the calculation of monthly remuneration will be based on the legal minimum wage and will be paid according to the number of hours worked.

Annual statutory Christmas bonus or 13th salary ("Aguinaldo")

Is equal to a twelfth of the employee's compensation accrued during the calendar year (including salary, overtime, commissions or other compensation). The annual statutory bonus must be paid before December 31 or, proportionally, upon termination of the labour relation.

Social Security

Contributions are calculated based on the employee monthly salary.

16.5% [Employer's contributions amount
and the employee's is] **9%**

Social Security coverage encompasses health care and pension benefits.

The banking sector has its own social security,

17% [Employer's contributions
and the employee's is] **11%**

Foreign employees from countries with Social Security Agreements with Paraguay may be exempted from local Social Security contribution through a Certificate of Coverage issued by the Social Security Authority of the country of origin.

Vacation

Vacation pay varies according to the employee's seniority:



Teleworking

Teleworking is a special type of employment relationship regulated in 2021. This modality of work, consists of performing an activity, producing a product or providing a service remotely, without requiring the physical presence of the worker, through the use of Information and Communication Technologies (TIC for its acronym in Spanish), carried out at the worker's home or in an establishment other than the employer's workplace, under a system of control and supervision of their work through the use of technological means.

This modality applies to workers in a relationship of dependency both for labor relations in the public and private sector, however, it is not mandatory for either the employer or the worker.

The employer may make visits to monitor compliance with occupational health and safety standards, as well as the maintenance of computer equipment, subject to prior notification and agreed with the teleworker. A right to digital disconnection of workers is guaranteed, which allows employees to not answer work communications, calls, emails, messages, WhatsApp, etc, outside their working hours.

Foreign Worker

The Paraguayan government published a new Migration law ("the Law") on 18 October 2022 that introduces changes to the rules governing foreign nationals who seek to enter and/or establish residence in the country.

The aforementioned Law sets forth the statutory rules related to foreign immigration, migration and repatriation of nationals.

A foreign individual can live and work in Paraguay after obtaining their residence. The residence is applicable to foreigners of all nationalities, as established by the mentioned Migration Law.

Types of Filing:

Temporary: a foreigner who enters with the intention of temporarily residing in the country for the duration of the activities that gave rise to the admission is considered a temporary resident. The maximum term of duration in this category of residence is 2 (two) years. It can be renewed up to one time, for period equal to that authorized. This residence is a previous requirement for the Permanent Residence application.

Permanent: residence authorization granted to foreign citizens of any nationality who have fulfilled the condition of temporary resident for two years and wish to settle in Paraguayan territory on a permanent basis, to carry out any type of lawful activity, in accordance with the provisions of the Migration Law. Notably, foreigners are exempt from the two-year residence requirement if they can reliably prove the realization of investments in Paraguay or are qualifying dependents of a Paraguayan national.

The maximum term of duration in this category of residence is 10 (ten) years.

Spontaneous or Occasional: its purpose is to document foreign citizens who wish to settle for a period of no more than 90 (ninety) days to engage in remunerated or unremunerated work activities in Paraguay. This Filing can be extended only once, for the same period of time.

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