

Country Guide

Honduras

Prepared by

GUFA Law



LexMundi
Bringing the
best together™

lexmundi.com

INTERNATIONAL GUIDE TO DOING BUSINESS IN HONDURAS

PRELIMINARY NOTE: Dear reader: please be advised that this Guide is not intended to be a substitute for detailed investigation of legal issues in Honduras. It is meant to be a guide with the sole purpose of providing a very general idea of what issues must be considered before conducting business in Honduras. We strongly recommend hiring reputable legal counsel before conducting business in Honduras. We have done our best to highlight the issues that we consider to be most important when doing business in Honduras.

Mauricio Villeda Jr. (Managing Partner); Julia Sandoval (Senior Associate); Javier López (Senior Associate); Marcela Barralaga (Senior Associate).

I. The Country at a glance**A. What languages are spoken?**

Honduras' official language is Spanish. Although the country's official language is Spanish, in the Bay Islands the main language is English. English is also a common language, having Honduras the biggest bilingual community (Spanish-English) in Central America.

B. What is the exchange rate for the U.S. dollar, the Euro?

During 2023, the exchange rate for the purchase of Lempiras (Honduran Currency) averaged 24.6141 Lempiras per 1 U.S. Dollar and 28.6952 Lempiras per 1 Euro.

C. Describe your country's geography, proximity to other countries and climate.

Honduras sits right in the middle of Central America. Our country shares borders with Guatemala in the North, El Salvador in the Southwest and Nicaragua in the Southeast. The Country is approximately 112,492 Km² in surface area. The terrain is very mountainous and has Coasts in both the Atlantic and the Pacific Oceans. The weather can drop to the 50's degrees Fahrenheit in the winter time and rise to 100's degrees Fahrenheit in the summer.

D. Are there cultural influences or prohibitions on the way business is conducted?

Generally speaking, business in Honduras is conducted in the same way it is conducted in the rest of Central America.

E. Are there religious influences or prohibitions on the way business is conducted?

Most of Honduran population is Christian: 41% Catholic and 48% Protestant. There are neither prohibitions nor special religious influences in business activity.

F. Explain your country's infrastructure. Be sure to explain which cities have airports, railroad systems, ports, and public transportation.

Honduras has international airports in 4 cities: Comayagua, La Ceiba, San Pedro Sula and Roatán. Tegucigalpa's airport now operates just for local and regional flights. Our country has ports in several cities, the most important ones being in Puerto Cortés, La Ceiba, Tela and Roatán, in the Atlantic and San Lorenzo and Amapala in the Pacific. Public transportation is provided via taxis and buses. The North Coast (San Pedro Sula, Tela and La Ceiba) has a rudimentary railroad system.

G. Explain the communication system.

Getting around Honduras is accomplished mainly by traveling by the country's roads and highways via cars or busses. All the main roads are paved. Airlines offer domestic flights between cities with airports. Ferries and charter boats provide transportation to the country's island territories.

H. Describe the public services – i.e. water, electricity, gas. Are they publicly or privately owned?

Electricity in Honduras is actually provided by a state owned entity called Empresa Nacional de Energía Eléctrica (ENEE). Nevertheless, an energy reform passed in the Congress some years ago and allows private owned companies to generate, distribute, transmit and sell energy to final users. Actually, several private parties generate power and sell it to the ENEE who supplies power to the public. Energy providers can now sell it to a spot market.

Water is most provided by a state owned entity called Servicio Autónomo Nacional de Acueductos y Alcantarillados (SANAA). There are, however, some cities where the SANAA has granted concessions to private parties to provide these services like the case of San Pedro Sula.

Telephone Services (mobile-line market) are mostly provided and dominated fully by two private telecommunications companies (TIGO and CLARO). There is a small participation by a state owned entity called HONDUTEL. The National Commission for Telecommunications (CONATEL,) has

licensed several private entities to operate mobile and fixed telephone lines.

The Honduran telecoms market remains predominantly prepaid in the mobile segment and with a relatively large base of legacy technologies such as 3G, despite the growth and expansion of 4G.

II. General Considerations

A. Investment policies

1. Does the country generally welcome investment? Are there governmental or private Agencies devoted to the promotion of investment?

Yes, Honduras generally welcomes foreign investment. There are both private and non-governmental agencies that promote investment. However, the “Commission for the Promotion of the Public-Private Alliance (COALIANZA), a government entity that promoted projects under the framework of Public-Private Partnerships (PPP), was abolished by Xiomara Castro’s administration. Likewise, the National Investment Council (CNI) is an entity with government and private participation that promotes private investment and qualifies special type projects for tax benefits. Private organizations like chambers of commerce in various cities also help investors and companies develop businesses. In its legal framework, Honduras has several laws that encourage national and foreign investment. To mention a few, the Law of Free Zones (zones for economic development), Law for the promotion and protection of investments and bilateral investment agreements and the accession of Honduras to the World Organization Trade (GATT/WTO). Currently, the draft law of the Tax Justice Law is being discussed by the Congress.

2. What is the rate of inflation?

According the Banco Central de Honduras, as of June 2022, total inflation was 10.22%, of which 4.23 percentage points (pp), equivalent to 41.4% of the total, corresponds to imported inflation.

3. Explain any sector exceptions, incentives or restrictions on foreign investment?

Generally speaking, foreign investors are free to own and operate any business they like. Manufacturing and tourism related businesses are offered particularly favorable investment incentives.

Renewable energy projects are also offered favorable incentives. Additionally, a reform to the energy sector was made through the Law to Promote Generation of Electrical Energy with Renewable Resources that include exemption from Income Tax and its withholdings on payments for services or fees contracted with foreign persons or entities, incentives regarding the sale of energy, and right to sell to the state entity through an energy supply contract (PPA), sale to Third Parties among others.

There are few limitations when it comes to the sectors where foreign investors can't participate freely; but they are the exception rather than the rule. For example, foreigner and/or foreign entities cannot own large pieces of land within 40Km of the nation's borders. Also, transportation companies and entities that provide armed guard services and are owned by foreign persons or entities must meet special requirements.

4. What types of businesses are conducted in the country?

Most foreign investment in Honduras is made in the industrial and tourism related sectors. Private telecommunications providers (Cellphones, Cable TV companies, internet providers, etc.) are mostly owned by foreign investors. Renewable energy projects are also very common. Contact centers, call centers are also common due to the fact that Honduras has a large bilingual community.

The private sector is trying to attract US investment from China through the “nearshoring” figure: Nearshoring happens when an organization decides to transfer work to companies that are less expensive and geographically closer. Using this model allows businesses to move their operations to a closer, more cost-effective location.

B. Diplomatic Relations

1. Diplomatic relations of foreign countries with Honduras.

According to the Ministry of Foreign Relations, among others, the following embassies currently operate in Honduras:

- German Embassy
- Argentina Embassy
- Brazil Embassy
- Korea Embassy
- Colombia Embassy
- Costa Rica Embassy

- Chile Embassy
- China Embassy.
- Dominican Republic Embassy.
- Ecuador Embassy.
- Spain Embassy.
- United States of America Embassy.
- El Salvador Embassy.
- France Embassy.
- Guatemala Embassy.
- Italy Embassy.
- Japan Embassy.
- Mexico Embassy.
- Nicaragua Embassy.
- Panama Embassy.
- Peru Embassy.
- Holy See (Vatican)
- Venezuela Embassy.
- Cuba Embassy.
- Royal Order of Malta
- Canada Embassy.
- Sweden Embassy.
- Israel Embassy.
- Russia Embassy.
- Organization of American States.

2. Are there prohibitions or restrictions on certain business dealings with the country?

In general terms no. There are, for example restrictions in business related to weapons and explosives: the Honduran Armed Forces is the only institution authorized to sell these products in the country.

3. Explain any travel restrictions to or within the country?

Most of the citizens of all the countries can come to Honduras without visa. But there are some specific citizenships of some countries that will need visa in order to enter to Honduras.

C. Government

1. Explain your country's election system and schedule. Is there an anticipated change in the present government?

Honduras' government is democratic. Elections are held every 4 years. Presidents cannot be reelected. There was one exception with Juan Orlando Hernandez' previous administration. Honduran democracy has been evolving recently. Congressmen and women as well as mayors are individually elected. Supreme Court Justices are appointed by the Congress. Elections took place in January 2022. Next elections will take place in 2025.

2. Is the present government stable?

Yes, at present our government remains stable. For the past decade great steps have been taken to strengthen our democratic tradition, with the exception of a political crisis that took place in 2009. Elections have been held regularly and on schedule.

The stability of our governments over the last decade is evidenced by the growth of foreign investment.

3. Explain your country's judicial system. Be sure to answer the following questions:

Efforts to improve Honduran Judicial System have been made. The Supreme Court Justices are elected separately from the President and Congressmen and women. The general perception is that the judicial system is ineffective and slow. This is the reason why most companies and investors prefer arbitration to solve disputes. Parties are free to select the country where their disputes are to be resolved and which is the applicable Law. Honduran Government can also be subject to foreign Law and jurisdiction when established so. Generally speaking, judgments made by courts or foreign nations are given the same validity as the judgments of Honduran courts are given in said nations. The Honduran Judicial System is divided in to four main branches Courts of Peace, Courts of Letters, Courts of Appeals and the Supreme Court.

4. Explain your country's legislative system.

Honduran Legislative system consists of a unicameral Congress with 128 congressmen and women, which represent all the 18 Departments and all the municipalities. The Congress has the sole power to create Laws. According to the Honduran Constitution persons having “Legal Initiative” must propose laws. These people are: The President through his Secretaries of State, Congressmen and women, the Supreme Court and Supreme Election Tribunal. Proposed laws are discussed and approved, or disproved, by the majority of Congress. Approved laws must be sanctioned by the President who may execute or veto them. Vetoed laws must return to Congress and be passed by 2/3 of the vote in order to become law. Laws are published in the country’s official newspaper, “La Gaceta”, and are compulsory to the population once the time period established therein goes by.

D. Environmental Considerations

1. What is the public/government attitude toward environmental regulation?

Environmental issues are getting more important in Honduras every day. Basically, all projects that will take place in the country has to have previously obtained an environmental license. Socialization of environmental issues is a must. Funders of the projects are very concerned with the socialization of the projects and if a project is not duly socialized, they will not fund the projects. Socialization involves the Government, Municipal authorities and the local residents of each community.

2. Explain any environmental regulations.

Environmental matters in Honduras are regulated by the “Ley General del Ambiente” and the “Reglamento General de la Ley del Ambiente”. A series of more specialized regulation stem from the bodies of law.

Generally, speaking all businesses that can potentially pollute the air, soil and or bodies of water need to have an environmental license. The process to obtain said license is very complicated and slow. Good legal counsel is a must in this area.

E. Intellectual Property

Intellectual Property in Honduras is mainly regulated by the “Ley del Derecho de Autor y de los Derechos Conexos” and the “Ley de Propiedad Industrial”. Both bodies of law have been amended to afford special protection to intellectual property belonging to persons or entities party to the RD-

CAFTA free trade agreement.

Honduras is party to the following Conventions in relation to Intellectual Property:

- The 1995 Convention between the World Intellectual Property Organization and the World Trade Organization.
- The 1994 Convention on Trade Related Aspects of Intellectual Property Rights
- The 1967 Paris Convention.
- The 1971 Bern Convention.
- The 1961 Rome Convention.

III. Investment incentives

Honduras has always welcomed foreign investment.

Investors who wish to manufacture products, for export purposes, may also apply for special tax treatment under the “Regimen de Importación Temporal (RIT)” and “Zona Libre (ZOLI)” regimes. All these regimes offer, among other benefits, exemption from import and export duties and income tax. The choice of regime depends on the investor’s specific needs. Applying for these regimes requires a petition to be filed by a Honduran attorney. All the required documentation must be duly legalized (either by a Honduran Consul or Apostille). With the exception of the boarder property limitation described above, there is rarely the need to have Honduran investors in order to apply for these benefits.

The initiative to promote special investment zones called ZEDES (Zonas Especiales de Desarrollo) granting concessions up to 100 years for companies to foster industrial parks and development areas, approved by the previous Government, was abolished by the Legislative power, through Decree No. 33-2022. It repealed in its entirety the Decree containing the Organic Law of the Employment and Economic Development Zones (ZEDE).

There are special tax incentives for investment activities related to PPP projects, mining, and special qualified projects. This incentives include Tax Stability Contracts. The duration of this contracts depends on the type of activity and of a resolution granted by the Consejo Nacional de Inversiones. In some cases, this incentives need also the approval of the Congress.

The Xiomara Castro’s Administration is actually trying to approve a new Tax Justice Law, that will have direct impact to the actual tax benefits that our country offers.

IV. Financial facilities

Honduran Law provides for three types of banking facilities: Banks, Financial Institutions and Savings and Loan Associations. All three types of entities make up the Financial System. The Financial System is supervised by two state run entities the Banco Central de Honduras (Honduran Central Bank) and the Comisión Nacional de Bancos y Seguros (National Commission for Banking and Insurance). The financial sector is perhaps the most heavily regulated area under Honduran Law.

Many laws and regulations are constantly being placed into effect and amended in order to maintain the system's stability and reliability. Insurer's deposits up to the equivalent of US\$10,000.00 are guaranteed by the Fondo de Seguro de Depósitos (Insurance Deposit Fund).

Financial Institutions deal mainly in retail credit for their clients. Savings and Loan Associations deal mostly in financing and mortgages for personal housing. Banks are the largest entities in the system. They can perform all financial operations including some that are exclusive to them such as factoring, leasing and trusts. Foreign banks are allowed to operate branches locally once they authorized to do so by the Honduran Central Bank.

Foreign regional institutions have operations in Honduras, as Citibank (USA), Banco de Bogotá (Colombia), Davivienda (Colombia), Banco Azteca (México), Bancolombia (Colombia), Banrural (Guatemala), Banco Industrial (Guatemala). Nevertheless, the biggest players in the system are local banks as Banco Atlántida, Banco de Occidente and Banco Ficohsa.

It is highly recommended for investors to maintain a bank account in the country for their operations, but it is also possible to operate with foreign accounts. There are no special restrictions for bank account operations, but it is important to comply with regulations for anti-money-laundering activities and to be advised that all bank account operations are charged with a tax called Tasa de Seguridad Poblacional.

V. Import/Export regulations

Honduras is member of the GATT since 1994. It has also signed many free trade agreements, being the most important one the DR-CAFTA. Actually there is a process of implementation of a treaty with the EU.

There are some regulations with exports related to the Central Bank's monetary policy, related to the income of US Dollars and other currencies. Every exporter needs an authorization from Central Bank and is obliged to notify its transactions.

In the case of imports, special licenses are needed for specific activities, as health and regulated products. There are various duties and quotas, depending on the type of product and regarding the rules of the Central American Unified Customs Code (CAUCA).

The product labeling needs to meet specific indications derived from the Health Code (for health products) and from the Consumers Law. The non-compliance with this standards may result in a fine or in the impossibility to commercialize such products in the country.

VI. Structures for doing business

According to Honduran commercial legislation, persons or entities that systematically conduct their business in Honduras must establish themselves as merchants. There are basically two ways to become a merchant in Honduras. The First is to open a local branch of a foreign entity. The second is to become a “regular merchant” under Honduran Law.

A. Branches for foreign entities.

Foreign entities wishing to open a branch are allowed to do so under the “*Ley para la promoción y protección de las inversiones*” (Promotion and Protection of Investments Law), Decree 51-2011, In order to open a branch, article 55 of this law states the following: “*Commercial corporations incorporated abroad will be able to join in Honduras by a simple accreditation in the Mercantile Registry of the jurisdiction which proves existence in the country of origin, which may be done by apostilled copy of the certificate of registration of the company, an assembly agreement naming a permanent resident representative in Honduras; and when appropriate, the statutes or articles of incorporation of the company. Registration must proceed immediately without any additional authorization from any entity of the Government. These documents must be duly translated into Spanish.*”

B. Regular Merchant Structures.

1. The Individual Merchant.

The simplest structure for conducting business in Honduras is the individual merchant. This structure

is limited to persons wanting to systematically dedicate themselves to commerce. The process to acquire this status is quite simple. The person wanting to adopt this structure must go before a Notary Public and sign an individual merchant's declaration. Publications must be made in local newspapers and the declaration must be registered in the Commercial Registry. The biggest problem with becoming an individual merchant is the fact that the person declaring him or herself a merchant is personally liable for all the obligations incurred by the business. The structure does not separate the person's personal assets from those of the business; it simply makes the individual a merchant. This structure is not generally advisable for conducting anything different from very small operations. By way of example, independent taxi cab drivers are usually individual merchants.

2. Entities.

i. Collective Society or Entity.

The collective society is formed by a group of investors who decide to form an entity while remaining jointly and severally liable, on a personal level, for the entity's dealings. The partner's names must be mentioned in the entity's name. Ownership in a collective society cannot be transferred without the approval of all the partners and requires the amendment of the articles of incorporation. The articles of incorporation cannot be amended without the approval of all partners as well. The entity is administered by all the partners by default. An administrator may be appointed. A comptroller may also be appointed but is not required.

ii. Comandita Simple Society or Entity.

The "comandita" simple entity is very similar to the collective society save for the fact that there are two types of shareholders. The "comanditado" partners are jointly and severally liable, on a personal level, for the entity's dealings. On the other hand, the "comanditario" partners are only liable for the entity's dealings up to the value of their shares in the entity. The "comanditario" partners may not be administrators in the entity and are simply considered investors.

iii. Comandita Society or Entity with Stock.

The "comandita" with stock is very similar to the "comandita" simple save for the fact that the shares in the entity are documented in stock certificates. These stock certificates are negotiable instruments. In the "comandita" with stock, stockholder approval for transfers is only required for "comanditado" stock.

iv. Sociedad de Responsabilidad Limitada.

The "sociedad de responsabilidad limitada", or "SdeRL" for short, is equivalent to the Limited Liability Company in other Jurisdictions.. Incorporating an "SdeRL" requires a minimum of two persons or

entities. There is a maximum of 25 shareholders. The Commercial Code, however allows for the co-ownership of participation or interest. The minimum capital required to incorporate is approximately US \$ 250.00. In the SdeRL owners are only liable, up to the value of their interest, for the entity's dealings. The corporate veil can only be pierced in the event that it can be proven that the shareholders have used the entity to defraud other parties. One of the advantages of an SdeRL is the simple administrative structure. The entity is run by the shareholders through the assembly of shareholders. Day to day management is handled by one or more managers. The appointment of a comptroller is optional for the SdeRL. In order to incorporate the entity, the shareholders can either come to Honduras and sign the necessary documentation or send a power of attorney issued to our members. As mentioned above, please note that all documents issued in other jurisdictions must be either legalized by a Honduran Consul or have an Apostille. Incorporation is completed in approximately 1 week. Generally, there are no limitations on the nationality of shareholders and managers.

The advantages to an SdeRL are its simple administrative structure and low initial capital requirement. There are some disadvantages to consider though. The main disadvantage is the transfer of ownership in the entity. Interests in an SdeRL are not negotiable instruments. Therefore, the sale or transfer of participation in an SdeRL requires the approval of the Assembly of Shareholders, the amendment of the articles of incorporation and registration of a contract of sale. The process takes approximately 2 weeks.

v. Sociedad Anónima

The “sociedad anónima”, or “SA” for short, is a more complex capital entity. Incorporating an SA also requires a minimum of two persons or entities. The SA does not have limit regarding the number of stockholders. The minimum capital required to incorporate is approximately US \$ 1,250.00. As in the SdeRL, stockholders are only liable, up to the value of their stock, for the entity's dealings. Also as is the case with the SdeRL, the corporate veil can only be pierced in the event that it can be proven that the stockholders have used the entity to defraud other parties. The SA has a more complex administrative structure. The entity's top authority is the stockholders through the assembly of stockholders. The entity is administered by a board of directors. Day to day management is handled by one or more managers who generally answer to the board of directors. The appointment of a comptroller is required for the SA. The comptroller is appointed by the stockholders and is in charge of supervising the board or director's actions and later reporting to the stockholder assembly.

As is the case with de SdeRL, in order to incorporate the entity, the stockholders can either come to Honduras and sign the necessary documentation or send a power of attorney issued to our members. As mentioned before, please note that all documents issued in other jurisdictions must be either legalized by a Honduran Consul or have an Apostille. Incorporation of an SA is also completed in

approximately 1 week. Generally, there are no limitations on the nationality of stockholders, members of the board of directors or managers.

The disadvantages to an SA are its more complex administrative structure and higher initial capital requirement. The main advantage is the ease related to the transfer of ownership in the entity. Stock certificates in an SA are negotiable instruments. Therefore, the sale or transfer of stock requires the endorsement and delivery of the share certificate and, in some cases, registration in the entity's stockholder registry book. The process generally takes hours to complete.

Some recent reforms regarding the minimum capital or the ways to dissolve or publish the incorporation of this entities has been passed.

vi. Single owned entities (sociedades unipersonales)

Recently single owned entities (sociedades unipersonales) have been approved by the law. The reform was passed on 2014 and tries to comply with international business practices in order to simplify the way business is handled in Honduras. The ruling for such law was recently published and until now the commercial registry is preparing the drafts of the formats for the registration of such entities. In general terms, such organizations are 100% owned by a sole member and don't require a minimum capital. No much is to be said about this, since the reform is recent and until now there hasn't been any incorporation of single owned entities and the commercial registry is pending to issue regulations on this way.

Joint ventures are allowed in the country as private agreements within parties to develop a specific business. There is no need of a special registration of ventures in the registry, but it is needed at the tax authority.

VII. Requirements for the establishment of a business

In the recent past, the Antitrust Law passed the Congress debate and is now enforceable. All companies that are going through M&A processes have to file a notification to the authority in order to receive authorization. This authority also acts preventing monopolies and promoting fair competition. Foreign companies have to be aware of this regulation, since all activities -even though held outside Honduras- that are capable of producing a legal or material effect in the country are subject of notification.

Regarding insurance matters, recently a new Law for the protection and promotion of investment made some changes in the insurance code. Now it is possible for foreigners to acquire foreign insurance for

their business in the country, while on the past, only local insurance duly registered at the Banking Commission was possible.

All business activities have to run a series of permissions or authorizations. The amount of it, depends on the type of business, but as a rule, all have to obtain at least a Municipal Operations Permit, a Tax Number and notification of beginning of business. Environmental regulations or special activities have to be studied on detail. The timeframe to obtain each permit varies from institutions, though it is true that the Government is making efforts improving such times.

VIII. Operation of the business

When operating a business managers should contact an attorney since most permits and relations with the local or national authorities require one. Local counsel may be found through the Internet. Fees may vary but there are minimum wages established by the Honduran Bar Association. Also it is a must to have an accountant (an individual or an accounting firm) that keeps the books. Honduras applies the IFRS and IAS.

Consumer protection Laws have to be considered in detail. Honduras has advanced a lot in this matter and the authorities are strict in the application of this regulations.

Regarding construction activities, the Municipality is the entity in charge of authorizing every construction. For this, they take into consideration E&S aspects, which the investor must also take in account prior to any other step.

Companies are authorized to contract freely. In Honduras, as in most Western countries, private companies and/or individuals have the faculty to engage freely in almost any business. There are few special areas (National Security, Health, Labor, and a few more) in which the Law regulates the minimum content of the agreements and thus the applicability of them.

Finally, all businessmen can be part of the local chambers of commerce or specialized business groups. They have benefits and can assist merchants on their business activities.

IX. Cessation or termination of business

When this occurs, corporate and tax matters have to be taken into special consideration. The process of dissolution of a mercantile entity has to comply with the Commercial Code and Decree 284-2013. Also, a notification to the tax authority has to be made in order to clear up all tax obligations. If the business is registered in other entities (municipalities, etc.) they must be notified also.

X. Labor legislation, relation, and supply

General information

Honduran Labor legislation should be seriously considered before doing business in Honduras. Our Labor Code, which dates back to 1959, is extremely protective of the employee. Special attention should be given to article 3 of the Code. According to Article 3, all acts or stipulations which imply waiver, diminution or curtailment of worker's rights are null and void. When disputes arise, the employee's statements are assumed to be true and the employer has to prove otherwise bearing the burden of proof. All employees must have a written contract. Said contract must be drafted in Spanish and in accordance with current labor laws according to Articles 21 and 37 of the Labor Code. The existence of said contract is the employer's responsibility. The lack of a written contract is considered the employer's responsibility. All statements made by the employee are considered to be true, unless the employer is able to prove otherwise. All companies which employ more than 5 employees must have an Internal Work Regulations. This manual must be approved by the Ministry of Labor according Article 88 of the Labor Code. Companies employing more than 10 employees must have a Hygiene and Security Manual. This manual must also be approved the Ministry of Labor according to Article 397 of the Labor Code. Minors under the age of 18 may not work unless they have a special authorization to do so according to Article 126. seq. of the Labor Code. The Honduran Labor Code imposes minimum of Honduran employees (90%) that must be hired by every employer in Honduras, under Article 11 of the Labor Code. All agreements that affect employee rights must be executed before an Inspector from the Ministry of Labor. Under Article 16 of the Labor Code all communications and instructions directed to employees must be in Spanish. Article 12 of the Labor Code forbids any kind of discrimination in the workplace.

Payment and Compensation.

Minimum wage is periodically set by the government. The set minimum wage is determined by several factors such as field of work and the place where company operates based on Article 383 of the Labor Code. Honduran employees must be paid a 13th month's bonus, in December of every year, and a 14th

month's bonus, in July of every year. These payments are equal to one month's pay and are paid proportionally to the time worked during the first year of service.

Employers are responsible for withholding income and municipal tax from their employees. Employers must register their employees with the Instituto Hondureño de Seguridad Social (Social Security), Instituto de Formación Profesional (Institute for Profesional Education) and Regimen de Aportaciones Privadas/Fondo Social de la Vivienda (Social Home Fund). Employers are responsible for withholding employee's contribution to these entities as well as paying a percentage of salaries paid on the employee's behalf.

Vacations, Holidays and Rest Periods.

Pregnant employees are granted special rest periods and time off before and after childbirth under Article 135 of the Labor Code. Pregnant employees cannot be fired before undergoing a special process before the Ministry of Labor.

The Labor Code imposes a maximum of work hours a week.

- Daytime (5:00 a.m. to 7:00 p.m.) work is 8 hours a day 44 hours per week.
- Nighttime (7:00 p.m. to 5:00 a.m.) work is 6 hours a day 36 hours per week and
- Mixed Time (day and night) is 7 hours a day and 42 hours a week under Articles 321 and 322 of the Labor Code.

Minimum paid vacation time is regulated as follows:

After 1 year of service 10 working days;
 after 2 years of service 12 working days;
 after 3 years of service 15 working days; and,
 more than 4 years of service 20 working days.

Please note that vacation days are consecutive under Article 346 of the Labor Code. Vacation time cannot be compensated with money or accumulated. January 1, April 14, May 1, September 15th, October 3, 12 and 21¹, December 25 and Thursday, Friday and Saturday of Easter Week are Holidays.

Severance and Termination.

All Honduran employees are entitled to severance pay in the event of termination of their employment contract without cause. This payment is equal to 1 month's pay for every year worked. The average monthly salary during the previous 6 months will be used to calculate severance. Entities with less

¹ October holidays are usually grouped in the first week of October.

than 10 employees can cap this payment at 15 years. Entities with more than 10 employees can cap this payment at 25 years under Article 120 of the Labor Code. Entities having more than 10 employees must also consider the following provisions:

(-) After 15 years of service any employee may quit and be entitled to 35% of his or her accrued severance.

(-) After 6 months of continued service in the event of an employee's death, their heirs are entitled to 70% of the accrued severance.

Hourly Employment Law

The hourly employment law, which allowed employers to hire workers on a temporary basis and pay wages for worked hours only, ceased to be in force by June 28, 2022. Consequently, only the hiring modalities established by the Work Code are valid.

XI. Tax on corporations

A. Taxes on corporations or commercial entities

Enforcement of Tax Laws in Honduras has improved on the past years. The Tax Authority (Servicio de Administración de Rentas) has made some internal changes in order to increase tax collection and the Congress has approved new regulations in order to reduce and punish tax evasion.

A new Tax Code was approved in 2016.

In 2017, the Tax Authority issued the regulations on invoicing requirements, which made mandatory the issuance of authorized fiscal documents, established the process to authorize them, and the information that the different types of fiscal documents must have (such as receipt, invoices, among others). The purpose of this regulation was to increase the traceability of transactions. Only expenses supported through duly authorized fiscal documents are deductible. Moreover, authorized fiscal documents can be verified through the Tax Authority's system. Hence, taxpayers are pushing their suppliers to issue authorized fiscal documents only, which, as explained before, can be easily traced by the authority.

Companies or commercial entities must be aware especially of the following taxes and concepts:

a) Income Tax

All entities must pay Income Tax. The rate of the income tax on corporations is currently 25% of their

net income. Net income is determined by the entity's gross income minus legally recognized deductions. Entities must file and pay for their taxes before April 30 of every year. Honduran Tax laws have established a system known as "Account Payments." This policy results in advanced income tax payments equal to 75% of the previous year's tax payment. These advanced payments are made during the months of June, September, and December. These advanced tax payments are later deducted from the taxes payable before April 30th of each year.

Article 22-A establishes a different mechanism to calculate Income Tax based on gross income instead of net income. Natural or legal persons with a gross income higher than L.1,000,000,000.00 in the years 2020 and after, will pay the highest between 1% of their gross income or 25% of their net income. Certain industries will pay 0.5% of their gross income.

b) Net Asset Tax

Is a kind of wealth tax only applicable to legal entities. The tax rate is 1% over the assets above 3 million Lempiras. Some exceptions are applicable depending on the business status.

c) Sales Tax

Under Honduran Law, the sale and import of products as well as the sale of certain services must pay a Sales Tax. Sales tax is currently 15% of the price of the products or services being sold or imported. Some products have a Sales tax of 18% (ex: alcoholic beverages). The sales tax in Honduras operates as a Value Added Tax, with credit-debit tax operations.

d) Temporary Solidarity Tax

Entities must pay a Solidarity Tax equal to 5% over net taxable income exceeding 1 million Lempiras.

e) Capital Gains Tax

This tax acts as a normal capital gains. It applies to operations not directly related to the main activity of the company, for example, the sale of real estate when this is not the company's main activity. The tax rate is 10% of the gain. In the case of non-resident companies, a withholding 4% of the transaction price is applied as a means to avoid evasion.

f) Population Security Tax

The Population Security tax is a tax withheld by banks and used as funds for security programs. The rate is 2 Lempiras per each 1,000 Lempiras on all banking transactions. Some exemptions apply to individuals or NGO's. No declaration or tax return must be done for this tax.

g) Withholding Tax

Entities are responsible for Withholding Income Tax from third parties. This includes services rendered

by non-residents. Services provided by foreign non-residents range from 10% to 25% depending on the service provided.

Entities must also withhold 12.5% from professional fees paid to local professionals, as well as income tax on employee income. Taxes on employee income range from 15% to 25% depending on the employee's salary.

Each month, relevant taxpayers must file a Withholdings Report (Declaración Mensual de Retenciones) before the tax authorities. The withholding report is a summary of all taxes withheld to third parties for any reason. Additionally, they must submit a monthly tax return with the same information, per type of withholding, and pay the corresponding amounts (Declaración Jurada de Selectivo al Consumo, Específicos y Retenciones).

The local tax authority classifies taxpayers into groups: large, medium, or small taxpayers. Large and medium taxpayers that are legal entities must file a Monthly Purchase Report. Entities must also file a form detailing information regarding their shareholders and the payment of dividends to the tax authorities before the last day of February each year.

h) Transfer Price Rules

Honduras has a Transfer Pricing law and regulations that are generally in line with the OECD Guidelines. The general criteria of this rules are that all transaction between related parties have to be supported with documentation that shows that it was made at arm's length; in any case, the tax to be paid must be the one calculated as if the transaction were done at market price.

i) Real Estate Transfer Tax

For all sales of real estate, the seller has to pay a transfer tax of 1.5% of the value of the transaction or the cadastral value of the land, whichever is higher.

j) Municipal Taxes

All businesses must have a valid operating permit issued by the corresponding Municipality. These permits must be obtained every year. Municipalities in Honduras are autonomous which means that they are free to determine the amount they charge for taxes. These amounts set for each year are published by each municipality in the country's official newspaper "La Gaceta".

Municipalities charge an Industry, Commerce and Services Municipal Tax. This tax is calculated over

the previous year's earnings. The tax, which depends on the municipality where the business operates, usually ranges from 0.30 per thousand to 0.15 per thousand of the entities gross income and must be paid once a year before April 30 of each year. In order to obtain an operating permit a business must pay its Industry, Commerce and Services Tax. The first year's tax payment is based on estimated earnings for the current year.

Businesses owning real estate of any kind must pay a Municipal Real Estate Tax. This tax is calculated over the "Cadastral Value" of the land owned by the entity. This tax is approximately 3.5 per thousand over the value of urban land and 2.5 per thousand over the value of rural land. Again, each municipality determines the amount that must be paid.

Municipalities also charge Solid Waste Management Contribution, Environmental Contribution, Fire Department Contribution, and others specifically determined by each municipality. The amount to be paid depends on the municipality as well as the entity's income.

Businesses are responsible for withholding the Municipal Tax on employee income. The tax ranges from 1.5 per thousand to 5.25 per thousand depending on employee's income and varies from each municipality.

k) Contributions and other Payments

Under Honduran Law, entities employing certain numbers of employees are responsible for withholding a percentage from employee's paychecks and paying that percentage to state entities. Employers must also, in some cases, pay set the employer's contribution to these entities.

Social Security Payment. The Instituto Hondureño de Seguridad Social (IHSS) provides medical attention for its members. All entities must enroll their employees in the IHSS.

Social Fund for Housing. The Regimen de Aportaciones Privadas/ Fondo Social de la Vivienda (RAP/FOSOVI) provides low interest loans to its members. Entities having more than 10 employees must pay 1.5% of salaries paid to their employees to the RAP/FOSOVI.

Institute for Professional Preparation. The Instituto Nacional de Formación Profesional (INFOP) is a state operated vocational school. Entities having more than 5 employees must pay 1% of salaries paid to employees to INFOP.

XII. Tax on individual's income

Individuals must also pay taxes on both the national and the municipal level. Generally, employers are responsible for withholding taxes from their employees. Unless employees whose income tax has been withheld and paid on their behalf by the employer receive additional income from a separate source, they are exempt from filing a yearly income tax return. Self-employed taxpayers must file their own tax returns.

On a national level, individuals must pay Income Tax. There is a personal allowance of US \$ 8,000.00 (approximately). Income above said sum is taxed from 15% to 25% depending on the person's income. Individuals are allowed to deduct up to the equivalent of US \$ 2,000.00 in medical expenses every year.

Individuals must pay Capital Gains Tax at the same rate as entities and a Sales Tax for all the goods or services they acquire at the same rate described for entities. They also must pay the Population Security Tax for transactions from bank accounts with an average balance of US \$ 6,000.00 or higher, either in savings or checks accounts. Real estate transfer tax is also applicable for individuals.

On the municipal level, individuals must pay a municipal tax on the personal income in the municipality in which they reside. Individuals owning real estate must pay a Municipal Real Estate Tax, as explained above.

XIII. Immigration requirements

A. Immigration Controls

- Are there immigration quotas?
No.

- Are vaccinations required?

A yellow fever vaccine is required when a person is travelling from an endemic country. There are additional vaccines that are recommended if a person travels to Honduras, but they are not mandatory: measles, rubella, rabies, hepatitis A, hepatitis B, typhoid.

- Are medical certificates required?

Medical certificates will be required by the Migration Office in case a foreign person applies for a Special Permanence Permit.

- Are entry permits required?

Entry permits are known as visas and are required for individuals of certain nationalities as explained above. It is important to understand that visas are merely a permit to enter the country. Upon being authorized entry to Honduras, the migration official will decide the authorized permitted stay in Honduras that can go from 1 - 90 days.

- If so, must you apply for an entry permit before entering the country?

Yes, visas will have to be requested before entering the country.

- Are exit permits required?

To depart from Honduras, travelers must clear Honduran Immigration. Travelers by air must return the copy of their immigration document received at entry. Travelers by land or sea must also return the entrance permit they received when entering Honduras.

- Are re-entry permits required?

No.

B. Immigration requirements/formalities

- Is a residence permit required?

According to the Honduran Migration Law, a residence permit can be granted for the following cases: a) rentiers, b) pensioners, c) investors, d) the spouse, minor children, older dependent children, and parents of the persons mentioned above, e) foreigners married to Hondurans by birth, f) foreigners who are parents of children born in Honduras, siblings, younger or older and grandparents of the latter, g) Foreigners who acquire the right of permanent residents after having remained legal residents or special permission to stay for a minimum of five years period and have complied with the laws of Honduras, e) any other case that does not fit in any of the previous category, granted at the discretion of the authority.

- If so, does the investor have to apply for one before entering the country?

The investor can apply for a residence permit before entering the country through a local lawyer's assistance, or he/she can apply for one, though a local attorney, within the 90 days tourist visa that he/she receives.

- What information must be supplied to the immigration authorities?

According to article 33 of the Honduran Migration Law, investors will have to fulfill the following conditions: a) invest their capital in the investment areas mentioned in article 31 of this law (any legal economic activity in Honduras or in certificates, security and government bonds); b) minimum investment of US \$ 50,000.00 or its equivalent in local currency; c) file at the corresponding authority (Secretaría de Gobernación, Justicia y Descentralización) a feasibility study and a chronogram as well as the amount of the investment; d) investor shall file bank deposit certificate no less than US \$ 5,000.00 or its equivalent in local currency issued by the Honduran Central Bank; e) Certificate of petition to be registered in the Investors Registry at the Economic Development Secretary.

- How long does it take to receive authorization?
Obtaining an Investor residency may take from 5-8 months.

C. Visas

- Is a visa required for travel or stay in the country?
Visas are required to enter Honduras for nationals of the following countries (please keep in mind that this information can change at any time):

Islamic State of Afghanistan, Albania, Republic of Angola, Argelia, Armenia, Azerbaijan, Republic of Bangladesh, Republic of Belarus, Kingdom of Benin, Kingdom of Bhutan, Bolivia, Bosnia and Herzegovina, Botswana, Burkina Faso, Republic of Burundi, Republic of Cabo Verde, Kingdom of Cambodia, Republic of Cameroon, Central African Republic, Republic of Chad, China, Colombia, Comoras, Congo, North Korea, Côte d'Ivoire, Cuba, Djibouti, Dominica, Ecuador, Egypt, State of Eritrea, Ethiopia, Philippines, Gabon, Gambia, Georgia, Ghana, Granada, Guinea, Guinea Bissau, Guinea Equatorial, Guyana, Haiti, Indonesia, Republic of Iraq, Republic of Iran, Jamaica, Jordan, Kazajstán, Kenya, Kirguistán, Kiribati, Lao People's Democratic Republic, Lesotho, Libano, Liberia, Libia, Malawi, Maldivas, Mali, Morocco, Mauricio, Mauritania, Micronesia, Moldova, Mongolia, Montenegro, Mozambique, Myanmar, Namibia, Nauru, Nepal, Niger, Nigeria, Oman, Pakistan, Palau, Papua Nueva Guinea, Peru, Republica Dominicana, Ruanda, Samoa, Senegal, Serbia, Seychelles, Sierra Leona, Siria, Somalia, Sri Lanka, Sudan, Suriname, Eswatini (former Swaziland), Thailand, Tanzania, Tayikistan, Timor-Leste, Togo, Tonga, Tunes, Turkmenistan, Uganda, Uzbekistan, Vietnam, Yemen, Zambia, Zimbabwe.

Some nationals of these countries will be allowed to enter Honduras if they have a valid US Visa. More information on the visa category for each nationality should be obtained by the interested party.

- If so, for how long is the visa valid?

Visas are usually granted for single entry or multiple entry for one year.

- How does the investor apply for a visa?

A visa can be a consular visa or a consulted visa. Consular visas are processed at Honduran consulates by scheduling an appointment, paying the corresponding fees, and presenting the necessary documents. Consulted visas must be requested at the Institute of Migration by an attorney in representation of the interested party. The type of visa will depend on the nationality of the investor.

A visa should not be mistaken for a residence or a special permanence permit. A visa is merely an authorization to enter Honduras and not to stay in Honduras.

- What documents are required?

Normal consular visa requirements include:

Registration Form
 1 Photo passport size
 Valid passport with an entire blank page
 Return ticket
 Evidence of sufficient funds for their stay
 Payment of the visa fee

Normal consulted visa requirements include:

Written visa request at the Institute of Migration
 Power of attorney
 Certificate of responsibility of the person that will be responsible for the investor in Honduras, along with a copy of their ID
 Applicant's passport copy
 Medical certificate processed by a doctor in the applicant's country of origin
 Police clearance processed by the corresponding authority in the applicant's country of origin
 Map of where the applicant will reside in Honduras
 Other documents are applicable, depending on the nature of the visit: for example, a work contract must be included if the visitor will stay in Honduras through a special work permit, a marriage license must be included if the visitor is married to a Honduran resident, etc.

*All documents issued by a foreign authority must be apostilled and officially translated to Spanish.

- How long does it take to receive a visa?
Processing times depend on the workload of each consulate. Consulated visas take 4-6 months or more, depending on the workload of the Institute of Migration.

- What fees are involved?

Generally, fees for consular visas are USD 30 for single-entry visas and USD 60 for multiple-entry visas. However, this information should be verified with the corresponding Honduran consulate. Fees for consulated visas are USD 100.

XIV. Expatriate employees

A. Cost of Living and Immigration

- How does the cost of living compare to that in the investor's home country?
Cost of living in Honduras will always be cheaper than the cost of living of North American or European countries.

- What is the rate of inflation?
The rate of inflation in Honduras, for 2014, was between 9 - 10%.

B. Drivers' Licenses

- Must the investor obtain a driver's license for that country?
If the investor is going to be in Honduras for more than 90 days, yes, local driver's license will be requested.

- How does the investor obtain a driver's license?
The driver's license must be requested at the Transit Police Department.

- What fees are involved?
Fees involved will depend on the type of driver's license that is requested. Fees may vary from US \$ 20 to US \$ 150.

- Is an examination, either practical or written, required?

Yes. Both.

C. Education

- What types of schools are available for the investor's family?

In Honduras there are public and private schools (bilingual, English-Spanish)

- What fees are involved?

The fees involved will be different in public and private schools. Normally private school will be more expensive. Bilingual schools are the most expensive ones.

- What is required for enrollment?

Each school (private) will have their own enrollment requirements.

- Can the investor or company receive a tax benefit?

No.

D. Housing

- What type of housing is available for the investor?

Chalets, townhouses, apartments.

- Can the investor own property?

Yes. There are restrictions for foreign investors to buy land near the borders and coastal areas.

- Must the investor have housing before entering the country?

No.

E. Medical Care

- What level of medical care is available?

Social security and private health insurance.

- Is there national health care?

Yes, social security for employees of local companies.

F. Work Contracts

- Does the investor need a work contract to work in the country?

A work contract is not necessary, but if the elements of a work contract are present (provision of a service, compensation for the provision of the service, and subordination with respect to the time and way of providing the service), then the investor *could* argue that they are an employee.

A work contract will be necessary if the investor is seeking to obtain a special permanence permit instead of an investor's residence.

- If so, does the contract have to be for a certain duration, for the performance of a specific job or for a specific position?

This must always be evaluated on a case-by-case basis. In Honduras, fixed-term contracts are the exception and not the rule.

- Does the contract have to be with a national or resident of the country or related state?

Yes.

G. Work Permits

- Does the investor need a work permit to work in the country?

The investor can either obtain an investor's residence, as explained above or a special permanence permit (under the category of foreigners hired through a work contract). If the investor obtains a special permanence permit as a local employee, then a work permit is required.

- How and where does the investor apply for the permit?

If the investor applies for an investor's residence, they will have to apply to the Secretary of Governance, Justice and Decentralization. If Investor applies for a special permanence permit under a category such as a work permit, they will have to apply at the Institute of Migration and then obtain a worker's card at the Ministry of Labor.

- What documents are required?

The documents will vary according to the type of authorization that the investor applies for.

- What fees are involved?

The fees for a special permanence permit are USD 100 per year of permit, plus approximately USD 15 for additional fees. The fees for an investor's residence are USD 300.

- How long does it take to receive the permit?
Normally these processes can take from 7-10 months.

- For how long is the permit valid?
There are options to request permits for 1 – 5 years. An investor's residence will be valid for an indefinite term.