



Paraguay

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GUIDE TO LEGAL ASPECTS OF DOING BUSINESS IN PARAGUAY 2017

This is a general guide to certain applicable laws for doing business in Paraguay. The information contained in this publication is given by way of general reference only, it is not intended to provide legal advice, and is not to be relied upon in any factual situation as it does not cover all laws or regulations that may be applicable in all circumstances. No responsibility will be accepted by the authors or publishers for any inaccuracy, omission or statement which might prove to be misleading. You are advised to seek your own professional advice before proceeding to invest or do business in Paraguay. © All rights reserved to Peroni Sosa Tellechea Burt & Narvaja.

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Firm Overview

PERONI SOSA TELLECHEA BURT & NARVAJA (PSTBN) is one of the largest and most prestigious firms in Paraguay. Founded in 1968, the firm's reputation stems from its commitment to serving the needs of clients in diversified areas of specialization. Over the last five decades PSTBN has been an active participant in legal innovation in Paraguay, advising the Government on development strategies, working closely with Congress in drafting and enacting new legislation, and has taken an active role in supporting University education.

PSTBN offers a broad range of legal services for clients involved in international and local transactions in Paraguay. Firm specialization includes mergers and acquisitions, foreign investment, maritime and aviation, telecommunications, banking and international finance, mineral and oil exploration projects, labor relations, general civil litigation, taxation, counseling before local government agencies and legislative bodies, maquila projects, franchising and licensing agreements, and intellectual property matters.

Representation in the courts and administrative agencies of the Government is an important activity of PSTBN, as plaintiffs or defendants in landmark cases. The Intellectual Property department, supported by the latest technology, covers every aspect of trademark, copyright and patent practice, and commercial use within Paraguay by foreign and local companies.

PSTBN is the exclusive member firm in Paraguay for Lex Mundi, the world's leading network of independent law firms with in-depth experience in 100+ countries worldwide. As part of the Lex Mundi global network, we can provide our clients with preferred access to more than 21,000 lawyers around the world, all from a single point of contact.

PSTBN specializes in foreign investments, and has published an important reference book titled *Paraguay, Laws and Economy, Commercial and Investment Law* (Paraguay).

Chambers Latin American Awards recognized PSTBN as "Paraguayan Law Firm of the Year" 2009, 2012 and 2014. Several researchers and comparative guides have awarded PSTBN as well:

- Legal 500's Top Tier Firm in Corporate/M&A in 2017, 2016 and 2015;
- Legal 500's Recommended Firm in all other Practice Areas in 2017, 2016 and 2015;
- Latin Lawyer 250's Leading Business Law Firm in 2017;
- Latin Lawyer 250's Recommended Firm in 2016 and 2015;
- IFLR1000's Recommended firm since 2015.

THE COUNTRY AT A GLANCE

A. Languages

Spanish and Guaraní are official languages.

B. Currency and Exchange Rate

The official currency is the Guaraní (Gs.) and it is quoted every day by banks and exchange houses against US Dollars, Euros, Brazilian Reales, Argentinean Pesos, and many other major currencies of the world, without restrictions.

Guaraní (PYG; symbol Gs.) notes are in denominations of Gs. 100,000, 50,000, 20,000, 10,000, 5,000 and 2,000.

Paraguay, since 1989, maintains a free monetary exchange policy. The purchase and sale of foreign currencies is not subject to any controls or regulations, except for transfers over U\$S 10,000 which are subject to a sworn declaration stating the origin and destination of the transfer. Transactions over U\$S 10,000 or even less are subject to money laundering controls and documentation stating the origin of said amount may be asked for. US Dollars and other foreign currencies are widely accepted throughout the country.

Updated exchange rate indicators may be seen at the Paraguayan Central Bank web page: www.bcp.gov.py

C. Geography, climate and time zone

With an extension of 406.752 square kilometres, Paraguay occupies the central plain of South America. It has one of the world's largest fresh water reserves, known as "Acuífero Guaraní". The country's fertile soil is one of the major resources for agriculture and cattle farming.

Enjoying a privileged location at the heart of South America, between the south of Brazil, the north of Argentina and the South-East of Bolivia, Paraguay is a full member of MERCOSUR, occupying an axial position in the regional market, being the ideal starting point to trade, and a great gateway into the markets of Argentina, Brazil and Uruguay, by hosting activities and processes complementary to other MERCOSUR located companies.

Paraguay is located at the confluence of an important river system and bi-oceanic corridors. This situation favours the logistics potential to link many of the main production/consumption centres of South America, providing an easy access to the major ports and markets in the region.

The average summer temperature is between 25°C and 35°C while the average winter temperatures are between 10°C and 20°C.

Paraguay is located in the GMT -04:00 time zone (winter) and GMT -03:00 time zone (summer). General business hours are from 8:00 a.m. to 12:00 p.m. and from 3:00 p.m. to 7:00 p.m.

Banking hours are from 8:45 a.m. to 2:45 p.m.

D. Official Holidays

January 1	-	New Year's Day
March 1	-	Heroes Day
May 1	-	Labour Day
May 15	-	Independence Day
March 28	-	Maunder Thursday
March 29	-	Good Friday
June 12	-	Signing of Peace Treaty of the Chaco War
August 15	-	Foundation of Asunción
September 29	-	<i>Boqueron War</i>
December 8	-	Virgin of <i>Caacupe</i>
December 25	-	Christmas Day

E. Population and Culture

Paraguay has approximately 6.9 million inhabitants of whom about 500,000 live in Asunción, the capital of the country.

The population is young and homogeneous. About 70% is less than 30 years old.

According to the latest census: Roman Catholic 85%, Protestant 11%, other or unspecified 2%, none 2%. There is freedom of religion.

F. Important cities and infrastructure

Asunción is the capital city of Paraguay and it is the economic, political and cultural centre of the country. It is the most convenient place to reach most of the other Business Centres of the country such as Ciudad del Este, one of the most important commercial places of the region, located at the eastern border of the country with Brazil near Itaipú Dam, the Yguazú Waterfalls, and many other attractions for business and tourism. Encarnación is in the southern tip of Paraguay, presently a main agricultural center with soybean, corn and rice predominantly, has several ports on the Parana River. It is also the site of the old Jesuit Missions. Other important cities are Santa Rita, Filadelfia (at the centre of the Occidental Region, Chaco), Concepción, as well as Salto del Guairá and Pedro Juan Caballero on the border with Brazil, amongst others.

Paraguay has the privilege of having the cheapest electric power in the Region and at the same time having an impressive electricity production capacity. The Itaipu Hydroelectric (bi-national hydroelectric with Brazil) is one of the world's largest hydroelectric power dams, with capacity of 14,000 MW hour. Paraguay is also part of the bi-national venture with Argentina producing 4,500 MW hour mostly sold to the Argentine market.

G. Communication System and public utilities companies

Paraguay has a legal entity that controls the telecommunications services called *Comisión Nacional de Telecomunicaciones (CONATEL)*.

Four main companies offer the mobile phone service in Paraguay. The coverage of mobile services is 85,5% of the population. Different companies provide Internet service with the Dial-Up, Wireless, ADSL, technologies.

Public utilities companies: *Electric Power (ANDE), Water Supply (ESSAP) and Phone service (COPACO)*.

H. Diplomatic Relations

Paraguay is member of the United Nations and several of its specialized agencies. It is also member to the Organization of American States (OAS), the Latin American Integration Association (ALADI), the Rio Group, INTERPOL, and MERCOSUR (the Southern Cone Common Market). Paraguay is closely aligned with its MERCOSUR partners on many political, economic, and social issues.

I. Government

Present Constitution was enacted in 1992. It establishes a Presidential Government System, with three independent branches: Executive, Legislative and Judicial.

Executive Branch

The President heads the Executive branch, is the chief of staff and commander of the armed forces and is elected by popular vote to serve a five-year term. No re-election is allowed. President and Vice president are elected together by popular vote.

The current President is Mr. Horacio Cartes, of the Colorado Party, who will hold office until August 15, 2018.

Judicial Branch

The Supreme Court of Justice that is composed of nine members heads the Judiciary system. Lower courts include Court of Appeals, Courts of First Instance and Justice of the Peace Courts. The courts are divided depending on the matter, such as civil and commercial, criminal and labour courts. The legal system is unified within the country, as Paraguay is a non-federal country. In general terms it would be safe to say that a court case can last anywhere between 1 to 5 years.

Paraguayan legislation allows the practice of Arbitration as an alternative dispute resolution method. Foreign judicial decisions and arbitral awards may be enforced in Paraguay pursuant to the New York Convention for Recognition and Enforcement of Foreign Arbitral Awards, which Paraguay ratified on 1996.

Depending on the type of activity, foreign investors may choose to be or not to be subject to the country's jurisdiction, but in some particular cases the Paraguayan jurisdiction is of mandatory application.

Legislative Branch

The bicameral Congress is made up of the Chamber of Senators (Cámara de Senadores) with 45 members and the Chamber of Deputies (Cámara de Diputados) with 80 members; the legislators are elected by popular proportional vote to serve a five-year term.

INVESTMENT INCENTIVES

A. Basic Principles

The Paraguayan Constitution proclaims that all people have the right of choosing the economic activity that they wish, under an equal opportunity regime, provided that the activity is legal.

Paraguay actively promotes foreign investment in the industrial and service sector. Foreign Investment Law 117/91 grants foreigners the same guarantees, rights and obligations enjoyed by any Paraguayan investor. Law 60/90 and Law 5542/15 grant tax incentives for investments in areas of preferential development as determined by the Executive. Law 1064/97 allows a local company, subsidiary or branch to sign a contract with a foreign entity to produce goods and/or provide services for export only.

Paraguay is a party to International Agreements and Treaties for the promotion and protection of investment. The most important are:

Multilateral Investment Guarantee Agency (MIGA)

The Multilateral Investment Guarantee Agency Agreement (MIGA), created under the umbrella of the World Bank, insures investors against political risks such as expropriation, currency inconvertibility and damages caused by revolution, war or civil strikes. In 2015, the Paraguayan Central Bank announced that MIGA would start an initiative to support a public tender in Paraguay through a public private partnership¹.

Overseas Private Investment Corporation (OPIC)

The Overseas Private Investment Corporation (OPIC) is a United States Government agency that provides tools for investors to participate in Paraguayan markets through financing, political risk insurance, advocacy and by partnering with private equity investment fund managers. OPIC has been active in Paraguay since 1992 -when both countries signed an investment guaranty agreement- and has since financed telecommunications, forestry, and various renewable energy projects in Paraguay, even collaborated with local banks to support loans². The US Agency has lifted restrictions regarding investments in Paraguay in recognition of its progress.

Paraguay has also signed agreements and bilateral treaties with several countries such as Austria, Belgium, Bolivia, Chile, Costa Rica, Cuba, Czech Republic, Denmark, El Salvador, France, Germany, Hungary, Italy, Korea, Netherlands, Peru, Portugal, Romania, South Africa, Spain, Switzerland, Taiwan, United States, United Kingdom and Venezuela, regarding reciprocal protection for investments.

¹ <http://www.ultimahora.com/bm-ofrecera-garantias-las-inversiones-paraguay-n950081.html>

² <https://www.opic.gov/blog/photos/featured-photo-guaranties-for-small-business-lending-in-paraguay>

B. Paraguayan Investment Laws

Paraguay offers one of the world's most comprehensive legal systems regarding foreign investments, since, unless an application is filed for incentives granted under Law 60/90 or the Maquila or Free Trade Zone Laws, investors need no governmental approval to invest. Besides the Border Security Law, explained ahead, there are no restricted areas, no discrimination and no limitations.

B1. Law 60/90 for the Promotion of Investments

The provisions of Law 60/90 stimulate investment and reinvestment of capital directed towards various objectives, mainly the creation of jobs, production increase of goods and services, modern technology incorporation and export increase.

Law 60/90 has significantly widened the scope benefits of incentives granted by former laws and simplified the application procedure for obtaining such benefits. The Investment Council analyses the investment project and if approved, grants irrevocable tax incentives by a Bi-Ministerial resolution of the Ministries of Industry and Commerce and of Finance. Investment projects are usually approved within a term of 45 days after filing the project.

Investments made using (i) money, suppliers' credit, or financing; (ii) capital goods such as transportation or industrial equipment, office electrical and electronic machinery, equipment; (iii) trademarks and other forms of technology transfer; and (iv) leasing of capital goods (especially applicable to river shipping and air transportation) are applicable under this legislation, and may allow total exemption from the following:

- All taxes when incorporating corporations and companies;
- All taxes and charges applicable to foreign exchange transactions arising out of capital contributions or operations contemplated in investment project;
- Customs duties and similar taxes on imports of capital goods;
- All taxes and other levies on remittance of interests and fees related to foreign loans³;
- All taxes applicable to dividends and profits generated by investment project⁴;

In leasing of capital goods, they are admitted into the country for the term of the lease agreement, with suspension of import duties and VAT, and upon its expiration, if not extended, the goods may either be re-exported or nationalized. Payments made abroad under lease agreements are subject to withholding taxes (6% Corporate Income Tax and 10% VAT).

Requirements included registry at the Paraguayan Central Bank of foreign capital entering the country under the provisions of Law 60/90.

³ During entire term of loan, provided that (i) loans are at least US\$5 million, (ii) lenders are well known financial institutions.

⁴ For maximum term of ten years, provided that (i) investment be superior to US\$5 million, (ii) taxes paid in Paraguay cannot be considered tax credit in the country origin of the investment.

B2. Maquila

The Maquila Regime is regulated by Law 1064/97 -inspired in the Mexican Maquiladora System- by which a local company/subsidiary/branch (“Maquiladora”) signs a contract with a foreign entity (“Matriz”) to produce goods and/or provide services for export only, operating “for account and risk of” the foreign entity, who can supply all the raw materials and other inputs to the Maquiladora from any local or foreign supplier.

Any person/company, national or foreign, with domicile in Paraguay may be licensed for a Maquila export program; such companies may be incorporated under any form: corporations, limited liability companies, foreign branches, or individual limited liability enterprises, without any ownership restrictions, having total or partial foreign, national or joint venture participation. There are no restrictions as minimum capital or minimum/maximum production.

The Maquiladora must file an application for a Maquila Program to the Maquila Council with details of the estimated operation. Once the program is approved, it can be modified as necessary, and it grants the following benefits:

- Suspension of all the applicable taxes and duties on raw materials and other inputs required for the performance of the Maquila Program can enter Paraguayan territory with;
- Fiscal exemptions on taxes including but not limited to income tax, value added tax, customs duties, port and airport taxes and duties and any type of tax, rate or charge applied to loans financing Maquiladora operations.
- No taxes applicable on production, except a 1% tax on the value added in Paraguayan territory.
- Cost excluded when the Head Office of the Maquiladora for the value added in Paraguay only, subject to 1% tax.
- Either the Maquiladora or the Head Office may issue export invoices.
- Maquiladoras can perform production by themselves or can subcontract other local companies, and tax benefits might extend to subcontractors under certain conditions.

Requirements include a guarantee (insurance policy, warrant or bank guaranty) for National Custom, for a value equal to the suspended taxes.

There are no restrictions to use capital goods incorporated under other regimes, like the Law 60/90 regime.

C. Exceptions: Border Security Law

The Border Security Law 2532/05 is a legal regulation that creates a “security area” of 50 kilometres wide, adjacent to land and rivers that form the border of Paraguay with its neighbours.

Upon this law becoming effective, within this 50 kilometres stripe, it is forbidden to any foreign natural or juridical person, to acquire, jointly own or usufruct rural real estate.

The only exception to this was granted by the Executive Branch through a Decree, which allows the aforementioned through a waiver, based on grounds of “public interest”.

D. Investment Dispute Settlement

Paraguay is party to several international conventions and treaties intended to recognize and enforce awards, thus protecting foreign investment, such as:

- New York Convention for Recognition and Enforcement of Foreign Arbitral Awards (ratified under Law 948/96);
- Washington Convention on the Settlement of Investment Disputes between States and National of other States (ratified under Law 944/82);
- Inter-American Convention on International Commercial Arbitration (ratified under Law 611/76);
- Inter-American Convention on the Extraterritorial Validity of Foreign Judgements and Arbitral Awards.

Other elements of protection for investors in matter of investment disputes we adopted in 1982, when Paraguay ratified an agreement to form part of the International Center for the Settlement of Investment Disputes (ICSID), an international agency created by the World Bank in 1965 for that objective.

Limited Liability Companies

A. Incorporation

Two or more persons may establish a partnership in the form of a Limited Liability Company (Sociedad de Responsabilidad Limitada or SRL), may use any name, including the one of a partner, preceded or followed by the words "Sociedad de Responsabilidad Limitada" or "SRL".

The incorporation contract is a public deed (*escritura publica*) drawn up by a Notary Public and recorded in the Public Registry, procedure which takes approximately 45 to 60 days.

The costs include the legal fee of the notary public that amounts to 0.75% of the corporate capital, publication expenses, and lawyers' fees for drafting of all necessary documents, among others.

B. Capital

The capital is represented in nominal quotas of at least Guaraníes 1,000 or multiples thereof, and may be represented in cash, goods or fixed assets. There are no minimum capital requirements, but it must be adequate for the type of business the SRL will engage in.

At least 50% of the capital must be subscribed and paid in at incorporation. The SRL capital must be deposited with the *Banco Nacional de Fomento* during the incorporation process. The money is reimbursed in local currency.

Transfer of quotas among partners is unrestricted and five percent of net profits must be set aside annually to create a reserve fund of not less than 20% of SRL's capital.

C. Administration

Partners may be represented by proxies. Administration and representation of an SRL is delegated to one or more managers, who may be partners or not, and who have the same rights and duties as the directors of corporations. There are no limitations to their terms.

Managers may not act on their own initiative in any business transaction that is not included within the purpose for which the SRL was formed, nor may they assume the representation of another person of commercial entity with similar business without express authorization of the partners. Managers are personally and severally liable before the SRL in case of mismanagement or violation of the company charter.

All partners have the right to take part in decisions of the company. If SRL's contract does not determine how partners will reach decisions, the rules for general meetings of corporations (*sociedades por acciones*) will apply. All resolutions to change the purpose of the company, or to transform, merge, or amend the SRL's charter, which will impose more

responsibility to the partners, require unanimous consent. Any other resolution is passed by majority of capital. Each quota represents one vote.

In order to be appointed as Manager, foreigners must obtain for Paraguayan residence. The residence requirements are indicated in a chapter below.

D. Restrictions

A Limited Liability Company may not engage in banking, insurance, or savings and loans business.

Lack of registration of the SRL contract does not make it void and, even though the partners are not compelled to register it as a commercial entity, failure to do so creates joint and unlimited responsibility of all partners towards third parties for all acts, transactions and operations in the corporate name prior to registration.

Export and import companies must meet certain requisites imposed by the Central Bank of Paraguay.

If an SRL has more than five members, partners that represent 3/4 of capital must approve transfer of quotas to third parties. If it has less than five partners, vote must be unanimous.

E. Dissolution

An SRL is not dissolved by death, interdiction or bankruptcy of a partner, neither by dismissal of manager(s), or partners appointed in the contract, unless stipulated to the contrary. Bankruptcy of SRL does not imply the bankruptcy of the partners.

Corporations

A. Incorporation

At least two persons or more may establish become shareholders of a Corporation (*Sociedad por Acciones*, f.k.a. *Sociedad Anónima* or *SA*), may use any name but it must include the words "Sociedad Anónima" or "SA".

The Bylaws of incorporation are contained in a public deed (*escritura publica*) drawn up by a Notary Public and, if authorized by the pertinent entity, recorded in the Public Registry, procedure which takes approximately 45 to 60 days.

Corporation Bylaws, according to provisions of the Paraguayan Civil Code, must include several data, including but not limited to full information on shareholders and number of shares subscribed and paid up by each one; nature of the business; duration of the corporation; amount of subscribed and paid in capital, and others.

The costs include the legal fee of the notary public that amounts to 0.75% of the corporate capital, publication expenses and lawyers' fees for drafting of all necessary documents, among others.

Corporations acquire separate legal status from that of its shareholders upon registration at the Public Registry. Lack of registration will not make the corporate contract void, but it may not be opposed to third parties. Shareholders, directors and any person who have authorized acts, transactions and operations in the corporate name prior to registration of the corporation are jointly and severally liable for these.

B. Capital

The capital is represented in nominal shares⁵, and may be represented in cash, goods or fixed assets. There is no minimum capital requirement, but it must be adequate for the type of business the SA will engage in.

100% of the capital must be subscribed at incorporation. Share certificates must be numbered and signed by one or more directors, and contain several data established in the Paraguayan Civil code. By-laws may establish different kinds of shares with or without different rights. Transfer of shares may be subject to special conditions.

A corporation may acquire its own shares when authorized by an extraordinary shareholders meeting, and such purchase must be made with liquid earnings provided shares have been paid-in full.

Five percent of net profits must be set aside annually with the purpose of a creating reserve up to 20% of the subscribed capital. Dividends may only be paid to stockholders

⁵ As per Act 5.895/2017

out of corporation's net profits. Any infringement makes directors jointly and severally liable.

C. Administration

Shareholders may be represented by proxies. Directors, Trustees, Managers or other employees of the corporation may not be proxies. One or more directors elected by the shareholders' ordinary meeting or designated in the incorporation documents exercise management and administration of the corporation. Their number is decided by the general meeting if not specified in the bylaws.

Directors can be shareholders or not. They may be re-elected, but appointment is revocable by a Shareholders Meeting. Term of directors shall be of one fiscal year unless the bylaws establish otherwise. Directors must be Paraguayans or foreigners with legal residence in country.

Directors may only engage in business transactions with the corporation under special circumstances. They are forbidden to execute any business on behalf of the corporation not related to the purpose for which it was incorporated.

Corporate administrators are responsible before creditors for negligence in their duty to safeguard the integrity of corporation's assets. Administrators are not liable for obligations of the company except in case of non-performance of their duties, mismanagement, and personal breach of law or corporate by-laws. In such instances administrators are jointly and severally liable before the corporation and third parties for their acts, but directors who opposed, voted against or were not present when unlawful acts were approved, are exonerated.

Various subjects concerning administration of the Corporation are discussed in both ordinary and extraordinary shareholders meetings, either according to provisions established in the applicable legislation. To participate in meetings, shareholders must before the meeting deposit their share certificates.

In order to be appointed as Director, foreigners must obtain for Paraguayan residence. The residence requirements are indicated in a chapter below.

D. Supervision

To supervise management of the corporation, one or more trustees must also be appointed by the ordinary shareholders meeting. They must be capable of undertaking duties assigned by the by-laws, and domiciled in Paraguay. By-laws shall determine duration of their terms, which may not exceed three fiscal years and they may be re-elected. Trustees' powers and duties are established in the applicable legislation.

E. Dissolution

A SA shall be extinguished by maturity of the period for which it was formed, or by fulfilling the condition to which its existence was subject; in both cases, even if

negotiations are not concluded; by the realization of the business purpose; by the physical or juridical impossibility of attaining such purpose, as well as by the complete loss of the capital, of a portion thereof which impedes attainment of it, or by bankruptcy; by unanimous resolution of the shareholders; if it was formed by two persons, by the death of one of them; and by the other causes provided in the Bylaws.

Branches/Representative Offices

Companies incorporated in foreign countries, which will conduct regular business in Paraguay, may establish a branch office or a representative office in the country. These are subject, like Paraguayan companies, to the provisions of the Paraguayan Civil Code regarding publication of corporate documents and registration at the Public Registry.

Foreign companies are deemed to be domiciled where their principal place of business is located, but branch offices established in Paraguay are considered domiciled in the country for the purpose of transactions and business carried out within its territory, and, therefore, must comply with all formalities and obligations established by Paraguayan law for similar entities.

Representatives of foreign companies are authorized to engage in all transactions and acts which company is capable in its own country. Any limitations to such capacity are null and void. Representatives are subject to the same responsibilities set forth in the Civil Code for administrators in general.

To register a branch office, several documents must be prepared by the company, certified by a notary public, and legalized by a Paraguayan Consulate or apostilled⁶, including the Bylaws of the company, a Board of Directors resolution which resolves to establish a branch office in the Republic of Paraguay, powers of attorney granted to branch office managers and attorneys, among others.

After the branch office has been registered and accounting forms have been filed with tax authorities and other public offices, it is ready to commence operation and carry out business transactions. Authorization from the Government is not required.

A branch office must comply with the taxation and disclosure requirements of local companies. Publication and registration of balance sheets, reports and statements are also controlled by the Ministry of Finance, although, as branches of foreign companies, they do not hold annual shareholder's meetings, therefore control is less severe.

The incorporation of a Branch takes approximately 45 to 60 days.

In order to be appointed as Branch Managers, foreigners must obtain Paraguayan residence. The residence requirements are indicated in a chapter below.

⁶ For more information on signatory countries and documents that may be apostilled go to:
<http://www2.mre.gov.py/index.php/tramites/la-apostilla>.

Distributors, Dealers and Agents

Law 194/93 governs the relationship between foreign companies and local representatives, agents and distributors.

A. Definitions

Representation is the authority granted by contract to Dealer to negotiate and carry out commercial transactions for promotion, sale or distribution of products or services provided by Principal. Agency is contractual relationship whereby Principal grants Dealer authority to act as intermediary in negotiations or contracts with clients for the promotion, sale or distribution of products and services, contemplating payment of commission. Distributorship is contractual relationship between Principal and Dealer for purchase or consignment of products, with objective of reselling same.

B. Application of Paraguayan Law

Parties may freely regulate their rights by contracts governed by the Paraguayan Civil Code, but waiver of rights recognized by Law 194/93 is not allowed.

C. Termination without Cause

Principal may cancel, revoke, amend or refuse to renew the Representation, Agency or Distributorship, without statement of cause, but with obligation in such case to pay Dealer a minimum compensation pursuant to following criteria: a) duration of relationship; b) average gross benefits derived from relationship during last three years of activity.

D. Termination with Cause

Representation, Agency or Distributor relationship may be cancelled, revoked, amended or not renewed for just cause, without obligation to pay compensation for following reasons: a) noncompliance of contract clauses; b) fraud or breach of trust on part of Dealer. c) Inability or negligence of Dealer in sale of products or services. d) Continued reduction of sales or distribution of products or services for reasons attributable to Dealer; except if caused by quotas or restrictions on imports and sales, fortuitous events or force majeure. e) Any act attributable to Dealer that affects or prejudices marketing, sale, or distribution of products or services; f) conflict of interest due to the representation, agency or distribution of products or services that may be in competition with the products or services contemplated by relationship.

Prior to termination, Principal shall require Dealer to cure the cause invoked within a term of 120 days. Noncompliance by Dealer allows Principal to exercise its rights immediately. Curing period not required if termination is related to fraud or breach.

Stated causes shall be proved before Paraguayan courts or by arbitration if thus agreed; otherwise, cancellation, revocation, amendment or refusal to renew shall be deemed to be unjustified.

E. Purchase of Inventory

At termination, Dealer, regardless of compensation that may correspond, has option to sell to Principal its inventory at market price.

F. Jurisdiction

Parties shall submit to the territorial jurisdiction of the courts of Paraguay or to arbitration. Parties may compromise in all patrimonial matters or submit to arbitration before or after suit is filed, provided that no judgment shall have been issued.

G. Evidence of Relationship

From the date of enactment of the Law, the documents and contracts shall be recorded in the Public Registry of Commerce. Dealer who invokes relationship by virtue of acts occurred or documents granted prior to the enactment of the Law, may use all types of evidence established in laws, and particularly any of following: a) Letters of authorization from Principal to act as Dealer for promotion, sale or distribution of products and services. b) Purchase invoices evidencing those commercial operations that have been carried out on the basis of authorization, at least during two years prior to the enactment of Law. c) Payment of commissions to Dealer by Principal for commercial operations carried out for at least two years prior to the enactment of Law. d) Advertising by Dealer incurred at his own account and expense indicating representation, agency or distributorship of goods and services in knowledge of but without opposition of Principal. e) Payment or credit of commissions or compensation to Dealer by Principal for operations not carried out in their territory.

Environmental Regulations

Law 294/96 and Law 1561/01 and their regulations govern environmental issues in Paraguay, and are regulated by the Secretary of Environment (*Secretaría del Medio Ambiente "SEAM"*), as an independent regulatory institution, along with the support of the National System of the Environment (*Sistema Nacional del Medio Ambiente*), which is integrated by representatives of private and different public sectors.

According to the Environmental Law, any natural or juridical person that performs industrial or agricultural activities must file at SEAM an Environmental Impact Assessment to obtain an Environmental License. Said permits are required for any kind of activity that may affect the environment in any way, because they ensure that all environmental implications are taken.

Paraguay also has in force the "Zero Deforestation Law", promulgated in 2004 and in force until 2018⁷, which promotes the conservation, preservation and management of native forests in the eastern region of Paraguay. The Law prohibits transforming and converting surfaces covered up with forest for activities such as agriculture, livestock activities or for the so-called "landless campesinos".

In Paraguay, violation of legal environmental regulations may imply civil, administrative and criminal sanctions. SEAM may apply sanctions that range from warnings and fines to suspensions or revocation of licenses and permits, temporary or permanent suspension of activities and even retention or seizure of goods.

Law 716/96 also establishes sanctions for crimes against the environment, which include but are not limited to imprisonment from 5 to 10 years for the introduction of toxic waste to Paraguayan territory.

- Imprisonment from 3 to 8 years and a fine of 500 to 2.000 minimum daily wage for: (i) deforestation or burning of forests affecting the ecosystem; (ii) transformation of forests that have been declared as "Reserve Areas"; (iii) illegal commercialization of wooden logs; (iv) the alteration or modification of the natural course of water systems.
- Imprisonment from 1 to 5 years and a fine of 500 to 1.500 minimum daily wage for the adulteration of the Environmental Impact Assessment (*Evaluación de Impacto Ambiental* or for its acronym in Spanish "EIA").

Directors, Managers and other legal representatives are responsible for the environmental crimes that are carried out by legal entities.

SEAM may also request from the corresponding authority the application of preventive measures in order to impede illegal activities that violate Environmental Regulations.

⁷ <http://www.diputados.gov.py/plenaria/140409-SO/pdf140409so/03.pdf>

Labour Legislation

Employer/Employee Relations

The terms of the Labour Code (Law 213/93) governs the relationship between employers and dependent workers, which relate to subordinated and remunerated services rendered, and affect all intellectual or manual workers and those with whom the employer may have entered a labour contract.

The Code defines labour as all conscious and voluntary human activity, rendered in a dependent and remunerated manner, for the production of goods or services.

An Employer is any natural or juridical person who utilizes the services of one or more workers by virtue of a labour contract. A Worker is any person executing work or rendering other services by virtue of a labour contract.

The existence of a labour contract between a person providing work or using a service and a person rendering the same is presumed. The law acknowledges guarantees, benefits and rights of the workers that cannot be subject to waiver, accommodation or limitation pursuant to agreement. Any covenant to the contrary shall be null and void and shall not obligate the contracting parties.

The Labour Code does not govern (1) directors, managers and other officials of a firm because of the status of representative of the firm, the importance of their remuneration, the nature of the work performed and their technical capacity enjoy notorious freedom in their work, and in general all persons who perform management or administrative functions by express delegation of the employer; (2) services rendered sporadically; (3) public officials and employees of the Central Administration of the State; (4) personnel enjoying expatriation or the protection of diplomatic privileges.

Work capacity is achieved at 18 years of age.

Law 1680/01, "Child and Adolescent Code" governs protection of work of minors as: (a) self-employed, (b) employed with others (c) domestic workers.

Minimum Wage

Salaries shall be stipulated freely but they cannot be under the minimum wage established by law. The legal minimum monthly wage is Gs. 2.042.000 per month (approx. US\$ 365), Gs 78.505 per day. Wages are paid by time units (month, fortnight, or day), by work units (piecework, assignment or jobbing), additionally by sales commissions or collections or percentage of future profits.

Law 5764/16 provides the annual increase of the minimum wage based on the Consumer Price Index (IPC for its acronym in Spanish) published annually by the Central Bank of Paraguay.

Annual Bonus

The law establishes an additional annual remuneration equal to one twelfth of the total earnings for the calendar year, to be paid before Christmas.

Working Hours

Law imposes time limitations on working hours:

(a) Daytime work: eight hours per day or 48 hours per week. Daytime is from 6 a.m. to 8 p.m. (b) Night-time work: seven hours per day or 42 hours per week. Night shift is from 8 p.m. to 6 a.m. (c) Mixed working time: 7½ hours per day or 45 hours per week. Includes parts of night and day times.

Working hours must be distributed in two sessions at least, with a half-time break. Break time is not included as working hours.

Overtime is allowed under special circumstances but they cannot exceed three hours per day, three days per week, or 57 hours per week, and must be paid extra. Not allowed for employees under 18.

Vacations

Workers have right to a paid vacations period after each year of continuous work for the same employer.

Holidays will depend on the seniority of the worker:

1 year to 5 years = 12 working days

5 to 10 years = 18 working days

10 years or more = 30 working days

Leave Days

Paraguayan law grants different kinds of leave days for each case. During this period, the contract is suspended, which means that employees do not lose seniority or any other right. The employee can request family or medical leave in the following cases:

- Family Leaves
 - a. Marriage: three (3) leave days to get married.
 - b. Childbirth: The male workers are entitled to a paid fourteen (14) leave days of paternity in case of childbirth. Women have the right to a paid maternity leave of eighteen (18) weeks after the date of childbirth, plus thirty (30) more days per child in case of multiple birth. In case of adoption or legal foster family, women are entitled to a leave depending of the child's age up to the same time as childbirth.
 - c. Deaths: Three (3) leave days for the death of a direct relative (spouse, child, parents, grandparents, brothers and sisters)

- **Medical Leaves**

The case must go through the National Social Security System (*Instituto de Previsión Social* or IPS for its acronym in Spanish) in order for the employee to receive a medical certificate and a subsidiary amount during leave days.

- a. Professional sickness or working accident: An employee is entitled to a medical leave for any illness or accident incurred during working hours plus one (1) hour prior and after those (in itinere).
- b. No professional illness or accidents: An employee is entitled to a medical leave for any illness or accident incurred beside the previous scenario being different only in the amount paid off by IPS.

Discrimination

The law prohibits any kind of discrimination on the basis of age, sex, nationality, religion or politics and, as the case may be, labour union activity.

Labour Conflicts

The Labour Code recognizes the right to strike and right of employers to lockout. Waiver of these measures may be provided for in collective labour contracts in case of conflicts arising out of their enforcement. A strike is defined as a simple act of peaceful suspension of work. To be considered legal, a strike shall be designed to achieve the acceptance of a collective labour contract or its compliance, or eventually to demand an amendment upon its termination.

In order to call a strike a General Meeting of workers is required, in order to designate the members of the Strike Committee, when there isn't a Union to represent them. The Meeting must comply with the following requirements:

- A notice;
- Attendance of an absolute majority and a favourable decision made by more than half of those present;
- Minutes duly executed;
- The decision must be taken by secret vote of all participants;
- Prior Notice: The strike shall be notified to the Labour Administrative Authority and the employer no later than 72 hours in advance.

Layoff and Compensation

The law provides for rules applicable in the case of layoff, on the basis of seniority and salary received by the affected worker. Compensation is fixed on the basis of the average salary received at the time by the worker during the past six months or by the total average in the case of shorter employment.

Layoff notice shall only be paid when the same has been omitted. The amount is equal to the worker's salary corresponding to the notice period. Notice periods are:

- from the end of the trial period up to one year of service, 30 days;
- from one to five years seniority, 45 days;
- from five to ten years seniority, 60 days; and,

- over ten years seniority, 90 days.

Compensation for unjustified layoff is equal to 15 days salary for each year or fraction of six months that the worker has been employed. If the worker has achieved labour stability (10 years or more seniority), he shall not be subject to layoff except by reason of just cause approved by decision of a Judge in Labour Jurisdiction. Should the cause of layoff not be proved, the worker shall be restored to his employment or by the worker's choice, the labour contract may be terminated, in which case the employer shall pay all back salaries, compensation and fines levied upon.

Social Security

The Social Security Institute or IPS is an independent Government entity that directs and administers the social security system, which covers liabilities for sickness or injury of the worker and family, maternity, work accidents and professional illness, and pensions for disability, old age and death, retirement and complementary pensions.

All persons performing services or work by virtue of a labour contract, either oral or in writing, whatever their age or remuneration, shall be included in the social security system and obliged to make their contribution. This includes (1) paid workers; (2) apprentices; (3) personnel of government enterprises; and (4) teachers of elementary, secondary, professional, and languages schools and university professors of public and private institutions.

Registration with IPS is mandatory. Non-compliance is subject to fine. Also, the employer who fails to register or notify the hiring of a worker, or fails to pay the corresponding contribution shall be responsible to IPS in case of injury, or death derived from a work accident.

Employer's Responsibility

IPS shall assume the cost of injuries, disability and indemnity in case of death.

The employer's contribution to IPS is 16.5% of all salaries and wages paid during each month, and shall retain the workers' contributions, which amount to 9%.

Contract Termination

In the case of terminating an employee for a justified cause not proved in a legal proceeding, the employer shall pay all salaries, compensation and fines levied upon during the suspension of the contract, or terminate the labour contract, in which case he is entitled to the indemnification for unfair dismissal.

If the worker has achieved labour stability (10 years or more seniority), he cannot be subject to dismissal except by reason of just cause approved by decision of a Judge in Labour Jurisdiction.

Neither party to a labour contract may terminate the contract without prior notice.

The prior notice must be given according to the following rules, depending on seniority: (a) Up to one year, 30 days'; (b) up to five years, 45 days'; (c) Over ten years, 90 days'.

Labour Unions

The law recognizes the rights of workers and employers, without distinction as to sex or nationality and need of prior authorization, to freely constitute organizations aimed at the study, defence, promotion and protection of their professional interests as well as the social, economic, cultural and moral improvement of their members. Unions may be of employers or workers. These may constitute federations. Legalization and registration of unions of workers or associations of employers shall be filed with the Labour Administrative Authority.

Taxation

Administration and application of Tax Law 125/91 and its amendments by Law 2421/2004 corresponds to Tax Office (*Subsecretaría de Estado de Tributación*), from the Ministry of Finance (*Ministerio de Hacienda*).

Tax on Business Income

Taxable Income. –All income from Paraguayan sources derived or earned from commercial, manufacturing or service activities other than personal services; sale-purchase of real estate when activity is carried out as permanent business; use of assets, and other income such as extractive industries (mining); forestry; flower growing, forestry; bee keeping, poultry farming and others; consignment of merchandise; supply of certain services, provided that they are to be combined with capital factor. Excluding: (i) income from farming and livestock which is governed by specific rules applicable to sector; (ii) income from small taxpayers (those whose annual income is less than approx. US\$ 20,000 per year); (iii) income subject to personal income tax.

Taxpayers. –Individual businesses, partnerships, associations, corporations and other private businesses; government-owned enterprises, decentralized government corporations, and mixed capital corporations; branches, agencies or businesses owned by foreign corporations. Corporations incorporated overseas shall pay tax on income paid or accredited to them once they obtained Paraguayan sources income. Individuals applying capital resources and personal labour jointly, for purpose of obtaining economic gain, except those involving strictly personal services or those engaged in farming. Non-profits entities, when performing same activities as other commercial/industrial companies.

Paraguayan Sources. - Business carried out, income obtained from goods located in or from entitlements used for gainful purposes in Paraguay; interest on securities and movable properties; technical assistance provided within the country or when utilized or applied in it; assignment of goods or rights when used even partially during agreed period, such as use of trademark or patent; international freight on goods carried with a taxable base determined by the country of destination of the goods. Interests, fees and capital gains obtained abroad, provided that investor or beneficiary is established in Paraguay.

Gross Income. –Defined as difference between total earnings and cost thereof. In sales, difference resulting from deducting from gross sales any returned goods, gratuities and price discounts as applied in local business usage or custom; in sale of fixed assets, difference between sale price and cost or revalued cost of assets, minus amortizations or depreciations allowed by law. Also: Proceeds from sale of movable property or real estate received in payment, proceeds from payments to partners or shareholders; any exchange rate differences resulting from transactions in foreign currencies; net benefits resulting from collection of insurance or indemnities; proceeds from any transfer of enterprise or business firms; interest on loans or investments (advances paid to partners or employees are excluded as well as deposits placed in financial entities); any increase in net worth occurring during fiscal year other than that arising from revaluation of fixed assets or capital contributions or from exempt or non-taxable businesses.

Net Income. —Calculated by deducting from gross income all expenses incurred to obtain such income and to maintain source of income, provided they are real expenditures, duly documented, and at market price, as follows: Taxes and social benefits excluding business income tax; operating expenses of business; personnel compensation provided that (i) contribute to social security, and/or, (ii) are taxpayers of personal income tax, organization or incorporation expenses; interest and rentals or sums paid for assignment of assets and rights; losses suffered through casualties not covered by insurance; reserves or write-offs for bad debts; losses incurred as result of criminal acts; depreciation; amortization of incorporeal rights such as trademarks and patents; expenses and payments incurred overseas associated to taxable income from export and import operations; travel expenses, per diem, and other similar payments in cash or kind; gifts to State, municipalities and religious entities or to entities dedicated to social welfare or education, recognized by Tax Administration; professional fees and other compensation for personal services not subject to taxation; expenses and contributions paid to staff for health care, education, cultural development, or training. Losses incurred in any fiscal year cannot be set off.

Nondeductible Expenses. —Interest on loans or advances from owner of business, partners or shareholders if they are not taxpayers of personal income tax, and if interest rates are higher than average for Paraguayan banking system, but this restriction is not applicable to owners/shareholders of banks and other financial institutions regulated by Law 861/96; penalties for tax offenses; earnings in any fiscal period retained in business as capital increases or reserve accounts, excluding those retained by financial institutions in order to comply with minimum capital level according to regulations; amortization of payments for goodwill; personal expenses of owner, partners, or shareholders, and funds drawn on account of future earnings; direct expenses involved in earning nontaxable income; losses incurred in previous fiscal year; indirect expenses are proportionally deductible; Value Added Taxes (VAT), except for transactions not affected directly or indirectly by Income Tax.

Beneficiaries Not Domiciled in Paraguay. —Beneficiaries of Paraguayan sourced income domiciled abroad are subject to withholding tax, separately from their local branch. Law establishes presumptive profit margin to which rate is applied, as follows:

10%: Insurance or reinsurance premiums; sales of airline tickets, international freight, radio message services, telephone calls, Internet services and other similar services sent overseas from Paraguay; freight on international shipments.

15%: Gross income earned by international news agencies; gross income earned by leasing of shipping containers.

40%: Rentals on motion picture films or television programs or those of any other projection medium.

20%: Interest or commissions for loans or similar credit operations, paid, accredited or remitted to recognized banks or financial entities, domiciled in other countries.

50%: Income earned from any other source not indicated before.

100%: Gross income paid or credited abroad, arising from branches, agencies, or subsidiaries located in country. Taxpayers may in such cases choose to pay taxes according

to general rules governing tax by keeping adequate books of account for verification of expenses and income.

Presumptive Income. –Taxpayers who do not keep regular books of account run risk that Tax Administration may establish presumptive income on which to apply net income that in turn shall be subject to tax rate established by law. Taxpayers engaged in businesses character of which places difficulties to application of generally accepted accounting principles might request Tax Administration to apply tax regime based on presumptive income.

Tax Exempted Income. – Local companies that, due to their status as shareholders, receive dividends or distributions from other local companies are taxed at rate of 10% on that income, provided amount of that income does not exceed 30% of annual gross income of taxpayer's parent company. Once said income exceeds 30% of parent company's annual gross income, all profits obtained from other local companies would be taxed. Please note that only 10% general tax rate could be exempted; not 5% additional tax on profits distribution, nor 15% withholding tax on profits credited or submitted abroad (with exception of entities granted with 60/90 Law Investment Promotion Law); contributions to government and other social security funds, provided they are created or approved by Law (health, retirement or pension funds). Financial revenues obtained by such funds; interests and/or profits obtained from sales of bonds through stock market; international freight operations for export; nonprofit entities; provided that do not engage in activities taxed by Income Tax.

Revaluation of Fixed Assets. –Annual revaluation of fixed assets is mandatory and updated value shall result from applying to book value shown in previous fiscal year at percentage variation based on consumer price index as determined by competent government body.

Value of Inventories. –Merchandise in stock is carried on books either at cost of production, cost of acquisition, or at market cost at close of fiscal year, at taxpayer's option. Tax Administration may accept other systems of inventory valuation. Negotiable securities and valuables shall be booked at their market value at close of fiscal year. If not quoted on market, purchase price is used. Fixed assets and intangible assets are carried at purchase cost without prejudice of annual revaluation.

Reinvestment exemption. - Was replaced from fiscal year 2005 by reduction on general tax (from 30% to 10%), but distribution of profits is taxed from fiscal year 2006 with additional 5% rate. A 15% withholding tax is also applicable when owners/quota holders/shareholders are nonresident entities.

Branches or agencies of companies incorporated overseas shall keep accounts separate from those of their head office. Payments of interest, royalties and for technical assistance made by branches or agencies to their head office are deductible items for payees but taxable for payees.

Tax Rates. – Normal tax rate is 10%. Distribution of net profits to owners, shareholders or partners is subject to 5% additional tax. Sums paid or credited to head offices, partners or

shareholders by branches, agencies, or businesses located in Paraguay are subject to 15% tax.

Tax on Farm Income

Farming defined as business conducted for purpose of obtaining primary products, either vegetable or animal, by utilization of land, excluding (i) business of handling, processing or treating farm products unless carried out by same producer; (ii) activities subject to other income taxes are as Business Income Tax, Personal Income Tax and Small Income Tax.

Taxpayers. –Individuals; partnerships, whether incorporated or otherwise; associations, corporations, and other private entities; government enterprises, self-governing agencies, decentralized entities; individuals or corporations conducting taxable businesses, including corporations incorporated overseas and their branches and agencies; owning or leasing rural land.

Usable land (SAU) is considered for application of this tax; SAU = total surface of real estates (minus): (a) areas occupied by natural or planted forests, permanent ponds, lakes, everglades; (b) other non-usable areas (as rocky and salty areas); (c) protected areas under environmental legislation; and (d) roads and highways; (i) For surfaces with SAU in excess of 300 hectares in Eastern Region and 1,500 has. in Western Region: annual gross income equals total income rendered. In order to determine net income, all expenses and investments related to tax activities are considered deductible, provided that they are duly documented according to law. For cattle raising 8% per annum of female cattle in stock is considered deductible, and maximum of 3% of mortality is admitted as deductible expense, unless proven before authorities. There are other deductible expenses according to specific activities and subject to previous approval by Secretary of Agriculture and Livestock. If net income is negative, losses could be compensated in maximum of five successive fiscal years.

Tax rate is 10% on net income, (ii) for surfaces with SAU less than 300 has. in Eastern Region and 1,500 has. in Western Region: annual taxable income is determined on basis of presumptive income, according to specific zoning as follows: Zone 1, with productivity coefficient (COPNA) from 0.555 to 1.000, equivalent to 1,500 kilograms of soybean per hectare area per year; Zone 2, COPNAs from 0.31 to 0.54, equivalent to 600 kilograms of cotton fiber per hectare per year; Zone 3, COPNAs from 0.20 to 0.30, equivalent to 50 kilograms of live weight gain (for cattle) per year. Productivity coefficient applied to average (annual) prices for each product to determine annual taxable income. Tax rate is 2.5% applicable to tax income. VAT paid on purchase of inputs required by exploitation is considered tax credit, (iii) surfaces smaller than 20 has. in Eastern Region and 100 has. in Western Region are exempted.

Small Businesses Tax

This tax applies to commercial, manufacturing and service businesses other than personal services, conducted by individuals using their personal labor and capital to pursue economic gain, provided their total income in previous year did not exceed amount of

Gs.100 million (equivalent to approx. US\$ 20,000), adjustable by price index. Individuals performing import/export activities are excluded.

Tax base will be smaller amount between (i) 30% of annual gross income (presumptive) and; (ii) gross income (minus) documented expenses.

Tax rate is 10% applicable on tax base.

Personal Income Tax

The Personal Income Tax is in effect as of September 1, 2012.

Taxable Income. —All income from Paraguayan sources derived from personal services or generating personal income: practice of professional activities, performances of personal services; 50% of income obtained as partners and/or shareholders of entities which are taxpayers of Tax on Business Income; capital gains earned occasionally through transfer of real estate, stock (quotas, shares) when not subject to Tax on Business Income (presumptive profit margin is 30%); interest and commissions; any other income not subject to Tax on Business Income and Small Business Tax.

Exempted Income. —Retirement pensions granted for extraordinary services; pensions for old age, employee death benefits, compensation for accident injuries, indemnification for maternity, indemnification for unjustified firing of employee; interests and commissions from deposits on investments in financial or cooperatives institutions, revenues from debt instruments issued by public companies regulated by Stock Exchange Commission.

As from the date that this Tax is in force, individuals who will not be subject to Personal Income Tax, are as follows: 1st Year: individuals with Annual Gross Income (AGI) of less than 120 minimum monthly wages (MMW); 2nd Year: those with AGI of less than 108 MMW; 3rd Year: individuals with AGI of less than 96 MMW; 4th Year: individuals with AGI of less than 84 MMW; 5th Year: individuals with AGI of less than 72 MMW; 6th Year: individuals with AGI of less than 60 MMW; 7th Year: individuals with AGI of less than 48 MMW; and 8th Year and after: individuals with Annual Gross Income of less than 36 Minimum Monthly Wages.

Taxpayers. —Individuals, non-commercial partnerships or professional firms (law firms, accounting firms).

Deductible Expenses. — Compulsory contributions (eg. Social Security contributions); donations (limited by regulations yet to be issued); expenses made abroad when related to taxed income, local expenses related to taxed when they are duly documented; personal and dependent family documented expenses including education, housing, health, clothing, recreation, and alimentary expenses; up to maximum of 15% of gross annual income for (i) deposits in financial institutions, cooperatives, (ii) investments on shares of public corporations, (iii) contributions to private retirement funds. Deductions are limited to amount of Gross Income (losses are not admitted).

Tax Rate: 10% is the tax rate on Personal Income, depending upon the taxpayer's annual income.

Consumption Taxes

Value Added Taxes (VAT)

It is applicable to transfer of ownership of goods from one person or company to another; rendering of personal services and importation of goods. Excluded are personal services performed under Labor Code.

Taxpayers. –Individuals providing personal services when their gross income in previous year exceeded average of one minimum monthly wage (approx. US\$280/month); cooperatives; individual businesses engaged in commercial, manufacturing or services businesses; partnerships and private entities in general; independent government entities, government enterprises and decentralized agencies engaged in businesses; importers of goods; nonprofit organizations (NGO) when performing commercial/industrial/services activities, subject to Business Income Tax.

Source of Tax Liability. –For sales of goods tax obligation arises upon delivery, issue of invoice or equivalent act, whichever happens first, for public services, on due date of invoice; for services, upon issuance of invoice or collection of full or partial payment for service, upon expiration of term for payment or upon termination of service; for items of personal consumption, at moment of purchase; for imports, at time register of entry of goods into Customs is opened.

Territoriality. – All sales of goods and services in Paraguay are taxable. In case of technical assistance from abroad, when used or profited from in country; in case of assignment of rights or lease of goods, when used within national territory; in case of insurance and reinsurance when they cover risks within country or when goods or persons covered are situated in or residents of country.

Tax Base. – *On* transactions for consideration, tax base is billed net price for goods or services. To establish net price and in determining price of goods used or consumed privately same rules apply as income tax, in addition to any special provisions. In case of imports, base is Customs value plus Customs duties in addition to other taxes applicable to delivery of goods (Customs and dock fees) and internal revenue taxes, but excluding value added tax. For loans, interest, commissions and other charges accrued monthly. For real estate lease, monthly lease payment; for transfer of real estate, taxable income base is 30% of transfer price. For transfer of stock (quotas and/or shares), excess of transfer value over book value, provided seller notifies Tax Authority.

Exemptions. - (1) Sale of Goods: Farm products in their natural state; foreign currencies, government or private bonds, securities; petroleum based fuels; goods received through inheritance; assignment of credits, capital goods manufactured locally provided they are applied to industrial/agriculture projects granted with benefits of the 60/90 Investment Promotion law. (See category Foreign Trade and Commerce, topic Foreign Investment.) (2) Services: Interest on government or private bonds; services rendered by personnel of embassies, consulates and multilateral agencies accredited before government; fee of charge, services rendered by NGOs, political parties and other nonprofit organizations, deposits in financial institutions authorized by Central Bank of Paraguay, and in cooperatives, Home Savings and Loan system, and Public Financial Institutions. (3)

Imports: Travelers baggage; diplomatic service imports; capital goods to be applied directly to productive cycle in manufacturing or farming in projects benefitted by incentives offered under Law 60/90. Goods imported to render services are not exempted even if benefitted by Law 60/90; (4) nonprofit entities; provided that they do not engage in activities taxed by Income Tax.

Payment of Tax. —Fiscal debit is sum of taxes accrued (invoiced as opposed to collected) by taxable transactions in each month. Fiscal credit is sum of taxes included in purchases of goods and services on local market during month, or on imports. Tax shall be appraised on sum representing difference between fiscal debits and fiscal credits. Deduction of any fiscal credit is conditional on such credit arising from goods or services devoted directly or indirectly to transactions subject to taxation. Taxpayers rendering personal services may deduct fiscal credits up to Gs. 100.000.000 (approximately US\$ 20.000) every 5 years arising from purchase of motor vehicles. When fiscal credit exceeds fiscal debits surplus may be carried over to future liquidations.

Tax Rates. —5% for assignment of rights of use of goods; 5% for transfer of real estate; maximum of 5% for sales of basis alimentary goods; 5% on interests, commissions and charges for loans; 5% for sales of pharmaceutical products; 10% for rest (general tax rate is 10%).

Employment Taxes

Incidence of contribution on salary is 16.5% to employer and 9% to worker, the minimum base over which day laborers doing work must contribute. In no case will contributions be calculated over amounts smaller than minimum legal wage.

Local Government Taxes

Municipal taxes and fees are paid to each city for wide range of services and activities. Main taxes are Commercial Licenses, Real Estate Tax, Constructions and Properties Tax.

Property Taxes

Real Estate Tax. — Applies to real estate property located in national territory, and taxpayers are owners or users thereof. When ownership is shared tax is paid by any one of owners.

Exemption. — Real estate owned by State and municipalities; real estate owned by religious entities recognized by competent authorities devoted on permanent basis to public service; lands declared to be historic national monuments, lands owned by recognized public welfare associations and in general any piece of land devoted to hospitals or public welfare services; real estate owned by foreign governments; real estate used as permanent premises by political parties and education, cultural, social, sports or labor unions whether owned or held in usufruct; properties of Chaco War veterans provided they or their surviving spouse live thereon; properties owned by Rural Welfare Institute and lands set aside for settlement by INDERT; national parks and nature conservation reserves. In event of natural disasters such as floods landowners may request and government may reduce this tax by as much as 50%.

Tax Base. — Fiscal valuation of real estate as set by National Survey Service. Property values shall be increased until they match prices set by market following consumer price index, but increases shall not exceed 15% per annum. In case of rural properties any improvements or buildings shall not be computed in tax base.

Tax Rate. — 1% of fiscal value per year, reduced by 50% in case of rural properties under five hectares in areas utilized for small scale farming, and rural properties with approved forestation/reforestation programs, under Law 536/94.

RESIDENCE, IMMIGRATION AND VISAS

Foreigners may reside in Paraguay, provided they comply with the requirements established by Law 978/96 that governs immigration and residence of foreign nationals.

Foreigners enjoy the same rights and have the same obligations as nationals, with the limitations and exceptions established by the Paraguayan Constitution and laws. For example, they do not have an obligation to perform military service, the right to vote in national elections or to hold judicial and political office.

Foreigners holding a degree from a foreign university should have their degree revalidated by the National University in accordance with international agreements.

Precarious Residence Permits

It is a special residency permit in Paraguay. It's given to foreign people who due to work issues, must stay in the country for short periods of time, less than the period allowed by a temporary residency and more than the period established for tourists (90 days).

Validity: 6 months - renewable for another period.

Documents required:

- Simple copy of Identification Document (passport or any other);
- 4 ID photographs in color 2,5 x 2,5 inches
- Proof of legal entrance to the country (visa or sealed passport), issued by the immigrations authorities at the control posts (airports and border)
- Authenticated copies of your passport vital data pages.

Permanent Residence Permits

In case a foreigner is appointed Director of a Paraguayan company, he should obtain permanent residency in Paraguay⁸.

The requirements and procedures necessary to obtain permanent residence in Paraguay for foreign citizens are divided between documents that must be obtained in the country of origin and documents to be obtained in Paraguay, detailed below.

Documents to be obtained in the country of origin.

1. Identification document: Passport or Identification Card from country of origin or residency.
2. Criminal History Record of the country of origin of the applicant evidencing good conduct and lack of criminal records for the last five years⁹.

⁸ Although there is still no clear and uniform criteria in this regard, foreigners who fulfil the function of Directors in a company must apply to the Permanent Residence in the Republic of Paraguay. The Immigrations Department considers that it is a migration requirement, since -even if the director does not perceive any remuneration as such, thus not being a lucrative activity- the Director has a subsidiary responsibility for his acts as such, especially for possible eventual negligence that may constitute criminal offenses, as well as tax, environmental, labour obligations, among others. The Ministry of Industry and Commerce and the Ministry of Finance also request residency of foreign Directors.

3. Birth certificate*.
4. Civil status justification: if married, Marriage certificate; if divorced, Divorce judgment; if widowed, spouse's death certificate; and if single, any document is needed*.
5. Four ID photographs in colour (size: 3 cm x 4 cm).

*Observation: The documents mentioned in points 2, 3, 4 and 5 must be original copies or copies duly certified by a Notary Public and must be legalized before the Paraguayan Consulate in the country of origin of the document or, if it is a signatory country of the Hague Convention, must be apostilled¹⁰.

In order to be more effective in the process of requesting the Permanent Residence card, we suggest that you send us the aforementioned documents beforehand by email in order to verify if they are correct.

Documents that will be obtained in Paraguay

Minimum time required to obtain all documents herein in five business days. The applicant's presence is mandatory to obtain the clinical analysis, which is why we request the applicant's presence for at least two entire business days in the country to apply for the Permanent Residence.

1. Certificate issued by Paraguayan Police Department.
2. Foreigner's Criminal Record issued by the Paraguayan Police Department and Interpol Paraguay. This document is issued in a minimum of 48 hrs and the applicant's presence is mandatory.
3. Health Certificate issued by a Paraguayan doctor, countersigned by the Ministry of Public Health, where diagnosis must indicate that the applicant is in good physical and mental health as well as not being a carrier of infectious-contagious diseases. The applicant's presence is mandatory.
4. Bank Deposit as economic solvency statement of Gs. 27.500.000 (Guaraníes twenty seven million five hundred) equivalent to US\$ 5,200 (United States dollars five thousand two hundred) approximately. Said amount will be deposited by the applicant at *Banco Nacional de Fomento*. Once the Permanent Residence is obtained, the amount is returned to the applicant, in Guaraníes. If the applicant does not wish to make the aforementioned deposit, he or she may present before the Immigrations Department, a certified copy of his or her Studies Degree Certificate, which has to be certified by a Notary Public in the country of origin. The document must necessarily be apostilled or legalized.
5. Residence Certificate, issued by the local Police.
6. Sworn Statement issued by a Notary public that the applicant will comply with our laws and National Constitution. (Law 978/96, Art. 43 inc. "e" in agreement with art. 23 of same Law).

Terms

Once the documents on the country of origin and in Paraguay are obtained, the request is presented before the Immigrations Department. The applicant's presence is required in

⁹ For Brazilian citizens: Certificates issued by the *Policía Federal* or *Poder Judicial - Justicia Federal*; for Argentina citizens: Certificates issued by the *Policía Federal* or *Ministerio de Justicia y Derechos Humanos* (with a duration of 6 months); and for United States citizens: Certificates issued by the Federal Bureau of Investigation.

¹⁰ For more information on signatory countries and documents that may be apostilled go to <http://www2.mre.gov.py/index.php/tramites/la-apostilla>.

Asuncion to request residency and sign all necessary forms. Also, the applicant must grant Special Power in Paraguay to our Lawyers in order to grant all faculties necessary to obtain Paraguayan Residence and Paraguayan ID.

Later, the Immigrations Department will grant the applicant a password that enables him or her to circulate within the country legally until obtaining the Permanent Residence. Overall, the procedure takes up to 3 or 4 months approximately.

After the applicant obtains Permanent Residence, the Paraguayan ID must be obtained as well, within 30 business days. In order to do so, the applicant's presence will be once required in Asuncion when making the request for the documents before the National Police Identification Department.

Naturalization

Foreigners may become naturalized citizens, entitled to all rights granted to natural born Paraguayans three years after obtaining their Certificate of Residence. The procedure requires intervention of the Supreme Court, and subsequently the applicant can request issuance of a Paraguayan passport. Paraguayan passports are valid for five years.

Procedure

The naturalization or residence procedure requires personal presence of the applicant in Asuncion, for a period of 7 to 15 days with the documentation mentioned above. It is convenient that the applicant also have bank references issued by first class banks and certified copies of degrees, if any.

Once resident status is granted, the Police Department issues an identity card (Cédula de Identidad).

Visas

Visitors coming from MERCOSUR countries, Chile and Bolivia only need their national identity card or valid passport. Citizens from other countries need valid passport with or without visa depending on the country of origin. For more information, please contact the Foreign Affairs Ministry at visas@mre.gov.py or +595 21 414 8771.

A visa is required for all countries except Nationals of:

Andorra	Costa Rica	Greece
Argentina	Croatia	Guatemala
Austria	Cyprus	Holland
Belgium	Denmark	Honduras
Bolivia	Ecuador	Germany
Brazil	El Salvador	Hungary
Bulgaria	Estonia	Ireland
Chile	Finland	Iceland
Colombia	France	Israel

Italy
Japan
Korea
Latvia
Liechtenstein
Lithuania
Luxembourg
Malta
Mexico

Nicaragua
Norway
Panama
Peru
Poland
Portugal
United Kingdom
Czech Republic
Republic of South Africa

Romania
Slovakia
Slovenia
Spain
Sweden
Switzerland
Turkey
Uruguay
Venezuela

Transit passengers continuing their journey by the same or first connecting aircraft within six hours provided holding onward or return documentation and not leaving the airport.

Note: Nationals not referred to in the chart above are advised to contact the embassy to check visa requirements.

Land Investment

Paraguay has an extraordinary demand of land for soya cultivation and cattle farming. Presently a large entry of foreign funds and multinational corporations to acquire large land extensions is being experienced in Paraguay.

Ownership of real property is only conveyed by public deed (Escritura Pública) drawn by a Notary and recorded in the Public Registry of Property. There is an ongoing reform of the land filing system on the basis of real estate survey aerial mapping, to prevent duplicate filings.

Under the Paraguayan Civil Code seller guarantees eviction by reasons of title and money paid can be recovered. The Civil Code also establishes a 30-year limitation for claims on land related to title and possession, so it is common practice that before acquiring a property the Notary Public will do a 30 year revision of past ownership.

Paraguay has a free system of land ownership except for a restriction placed on land within 50 kilometres of the Brazilian, Argentinean and Bolivian borders. The Border Security Law 2532/05 is a legal regulation that creates a "security area" of 50 kilometres wide, adjacent to the terrestrial and rivers that form the border of the country with its neighbours. Upon this law becoming affective, within this 50 kilometres stripe, it is forbidden to any natural or juridical person, born or originating from neighbouring countries (Argentina, Bolivia and Brazil) whether they be individuals or legal entities composed in their majority of foreign citizens of the mentioned countries, to acquire, jointly own or to usufruct rural real estate, with an exception of a waiver granted by the Executive Branch through a Decree, based on grounds of "public interest" defining same as activities which generate employment for Paraguayan labour, inside the border security area.

Any act performed in violation of the Border Security Law, may be declared void, and any judge, public notary and/or public official involved in such act, will be liable of sanctions and penalties. Acts declared void are liable to a fine equivalent to double the value of the transaction annulled.