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## DOING BUSINESS IN PARAGUAY

October, 2020



## PARAGUAY

### Geographical location

Paraguay is located at the heart of South America, between parallels 19° 18' and 27° 30' South latitude and meridians 54° 15' and 62° 38' longitude West of Greenwich.

It is bounded by Argentina to the South East, South and South West; by Bolivia, to the North and by Brazil to the East. Given its navigable rivers, particularly the Paraná and Paraguay rivers, it has a fluvial outlet to the Río de la Plata which in turn discharges into the Atlantic Ocean.

Asunción is the capital city, located on the left margin of the Paraguay river, where 37% of the population is concentrated. Other important cities are: Ciudad del Este, Encarnación, Pedro Juan Caballero, Salto del Guairá, some of which share their boundaries with Brazil and Argentina, with which it has a fluid commercial, social and cultural exchange.

### Language

The Spanish and Guaraní are the official languages spoken by most of the population whereas the Guaraní prevails in the rural areas.

### Climate

The Tropic of Capricorn passes practically through the center of the country, and determines hot temperature in the North and mild temperature in the South.

The average annual temperature is 22° C; with an annual average of 310 sunny days and an average annual rainfall of 1,400 mm.

The highest rainfalls are recorded in January, April and October whereas July and August are dry months.

### Population

The current population of Paraguay is 7.2 million inhabitants (with an average population density of 17.3 inhab./sq km), unevenly distributed across the territory. The largest population of Paraguay lives in Asunción in the Western region, as well as in the big cities close to Argentina and Brazil.

The informal economic activity proportion in Paraguay is high, and it is estimated at 39% of the GDP. The working population aging more than 15 years is 70% and the unemployment rate reaches 6.9%.

The Paraguayan labor market is featured by a high underemployment rate and a predominance of activities requiring lower labor force qualifications.

### Political system

Paraguay is a presidential republic where the President is the Head of Government.

The current Constitution enacted in 1992 sets the main principles of the Republican and pluralist democracy of a social State based on the rule of law .

Legal age is 18 years old and people aging 18 or more are entitled to vote

through direct and secret universal voting for the election of the President and Vice president, who shall hold office for five-year terms.

The Congress is made up of two Chambers, namely: the Senate staffed by 45 members elected for a term of 5 years, and the Chamber of Deputies, staffed by 80 members and with a departmental base.

The Judicial Branch's main body is the Supreme Court of Justice, whose members are elected by the Senate as proposed by the Superior Council of the Magistrature. The 1992 Constitution introduced the Ombudsman Figure.

## Economy

Paraguay's economic system is based on free trade, which entails a free foreign exchange rate, unrestricted imports and exports, a release of tax on investments and a free capital flow, without there being any price control or any other type of restrictions.

The official currency is the Guaraní and

inflation rates remain at moderate levels with an annual average of around 4% during recent years.

Based on International Monetary Fund's projections, for the year 2020, the total economy of Paraguay would equal 42,826 million dollars (Gross Domestic Product), with a GDP per capita of 5,905 dollars (nominal value).

Paraguay has achieved significant economic growth and prosperity in the latest 15 years with a growing economy at rates of an average annual 4,5 % (2004- 2017), a substantially higher pace than most of the countries in the region.

The agricultural and animal husbandry, commercial and services sectors are predominant in the country's economy, which is ranked fourteenth in Latin America in terms of nominal gross domestic product (GDP).

The Paraguayan industrial sector is moderately developed and is based mainly on the processing of raw materials for agriculture and animal husbandry.

Paraguay is one of the largest world exporters of: (1°) sugar, (4°) soybean and its by-products, (4°) starch, (4°) yerba mate, (6°) rough rice, (8°) beef meat, (10°) wheat.

At present, Paraguay is the country with highest economic growth in the region and has been placed in the fifth position in America since 2013 as it is the second country in terms of return on investment in Latin America.

Furthermore, it has the third largest barge fleet world-wide and is the largest producer and exporter of clean renewable electrical energy.

Paraguay imports mainly oil and its by-products; capital goods, insecticides, fungicides, herbicides and fertilizers.

Principal economic ratios:

### Monetary policy ratios

Target inflation rate	4,00%
2019 Inflation rate	2,8%
Target policy rate	1,25%
Interbank rate (at 04/30/2020)	0,85%

### Economic ratios

Projected GDP for 2020	4,10%
Projected GDP for 2019	4,00%
May 2020 inflation rate	0,20%

## TYPES OF COMPANIES

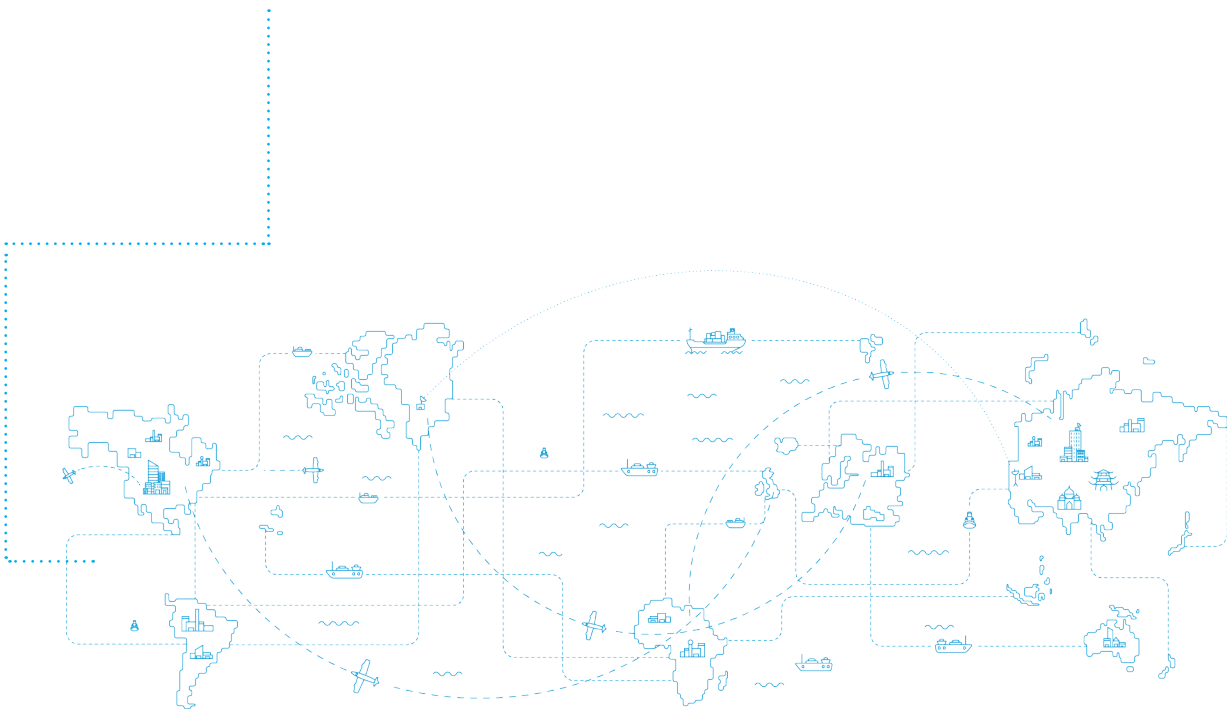
There is a wide range of companies in Paraguay which enable carrying out our clients' operations.

The most attractive companies for investors, from the perspective of guarantees provided, include but are not limited to the following:

- Limited Liability Companies (S.R.L. for its Spanish acronym)
- Simplified Stock Corporations (a new type created in 2020, E.A.S after its Spanish acronym)
- Corporations (S.A. after its Spanish acronym)

## Limited Liability Companies

Limited Liability Companies, hereinafter S.R.L	
Generalities	<p>The company must be incorporated by public deed.</p> <p>At least two shareholders are required to establish a S.A , who may be either national or foreign individuals or legal entities.</p>
Management	<p>The management and representation of limited liability companies rest with one or more directors/managers, who may be foreign individuals as long as they have a residence permit. Directors/managers are severally and unlimitedly liable before the company.</p>
Capital stock	<p>There is no minimum start-up capital required for incorporating a company.</p>



## Simplified Stock Corporations

Law 6480/20 was enacted in 2020 whereby the Simplified Stock Corporations (EAS after its Spanish acronym) were created.

Through this option, the government of Paraguay created an innovative type within the Paraguayan statutory system, whereby investors may carry transactions fully online, in few hours and at low cost.

Simplified Stock Corporations, hereinafter E.A.S.	
Generalities	En un único formulario se inscribe en los principales organismos de control (SET, IPS, MTEyS, ABTy MIC). Dicho formulario ya contiene el estatuto modelo.
Directors and Syndics	<p>The Board of Governors of the E.A.S may be self-convened and shall be duly constituted provided that the members holding 100% of the shares entitled to vote are present.</p> <p>The Surveillance Committee or any other similar body are optional.</p>
Capital stock	Regarding the subscription of capital stock, those E.A.S. classified as MIPYMES shall not be required to subscribe any start-up capital.
Others	<p>The E.A.S. may at any time transform into any of the company types foreseen in the Civil Code or special laws. In addition, any company incorporated under another type may be transformed into a E.A.S.</p> <p>The meetings / Shareholders' Meetings may be held by telematic means.</p>



## Corporations

Corporations, hereinafter “S.A”	
Generalities	<p>The company must be incorporated by public deed.</p> <p>At least two shareholders are required to establish a S.A , who may be either national or foreign individuals or legal entities.</p>
Management and representation	<p>The management and representation of corporations rest with one or two directors/managers, who may be foreign individuals provided that they have a residence permit.</p> <p>Directors/managers are severally and unlimitedly liable before the Company, its shareholders and third parties for non-performance or under performance of their mandate, any infringement of statute or by-laws and any and all damages arising from fraud, gross negligence or abuse of authority.</p>
Capital stock	<p>There is no minimum capital required for incorporating a company or any of its branches. The capital should be fully subscribed upon incorporation. Contributions in kind should also be fully subscribed upon incorporation.</p>
Other	<p>A S.A. is subject to more formalities than those of a S.R.L. for operating. Some of the additional requirements for a S.A. include but are not limited to the following: recording on the minute book of decisions made by Directors and Shareholders' Meeting resolutions, and appointment of syndics.</p>

## Other companies

Other options are also contemplated by the Paraguayan regulations:

- General Partnership;
- Limited Partnership;
- Stock-issuing Limited Partnership;
- Individual Limited Liability Company;
- Labor-Capital Partnership;
- Direct branches of companies established abroad;
- Sole Proprietorships.

## TAXATIONS SYSTEMS

IRE	IDU	IRP	INR	VAT	ISC
<b>Business income tax (IRE after its Spanish acronym)</b>  Rate: 10%	<b>Dividends and Profits Tax (IDU after its Spanish acronym)</b>  8% rate for residents and 15% rate for non-residents	<b>Individual Income Tax (IRP after its Spanish acronym)</b>  a) Earned income. Rates ranging between 8% and 10%  b) Capital Gains Rate: 8%	<b>Tax assessable on non-residents</b>  Rate: 15%.  Some income has a lower tax base which results in an effective tax rate of 4.5 or 7.5%	<b>Value Added Tax</b>  Rate: 10% and 5%	<b>Selective Excise Tax</b>  (ISC after its Spanish acronym)  There are different rates depending on each kind of product. Ranging between 1% and 24%.

### Business Income Tax – IRE

The IRE is under a General Simplified Regime for Medium-sized Companies (SIMPLE); a Simplified Regime for small companies (RESIMPLE), the Notional Net Income Tax Regime; and Net Income from International Operations and Special Regimes.

As far as the General IRE is concerned, taxpayers under this regime have billing of over 2,000,000,000.

In addition, the SIMPLE regime include taxpayers billing up to 2,000,000,000.

The RESIMPLE, in turn, takes into account a fixed monthly amount, depending on the previous year's gross income amount, offering several advantages to MiPymes and small companies, without requiring keeping books, but only paying a fixed tax amount every year.

### Dividends and profits tax – IDU

Taxpayers assessable to dividends tax are individuals or legal entities resident in Paraguay or abroad, who obtain dividends, profits or yields as owners, joint venture members, partners or shareholders of sole proprietorships, corporations, limited liability companies, limited partnerships, labor-capital partnerships, public works joint ventures or any other similar private entities.

IDU tax rates are as follows:

1. 8% (eight per cent), when the beneficiary of dividends, profits or yields is an individual or legal entity resident in the country.
2. 15% (eight per cent), when the beneficiary of dividends, profits or yields is a non-resident individual or legal entity, including those obtained by the Head Office overseas.

### Individual Income Tax – IRP

The IRP has been assessed since 2020 to individuals whose taxable earned income exceeds 80 million guaraníes counted as from January 2020.

### Tax assessable on non-residents – INR

This tax is levied on income obtained by individuals, legal entities and other non-residents in the Republic, which is included in the individual and business income.

Non-residents are assessable to tax on Paraguayan Source Income by means of a single and final payment Withholding System.

The INR rate is 15%.



Value Added Tax – VAT

The VAT is mainly assessable on the sale of goods, rendering of services and imports of goods at the following applicable rates:

Lease of property used solely for dwelling, including the use and usufruct of those assets.	5%
Sale of real property	5%
Sale and import of agricultural products, fruits and vegetables; live animals and their by-products, and the following basic food basket products: rice, noodles, yerba mate, vegetable oil, milk, eggs, flour and iodized salt.	5%
Sale and import of goods registered as medicines for human use with the Department of Public Health and Social Welfare.	5%
The remaining cases	10%

Selective Excise Tax – ISC

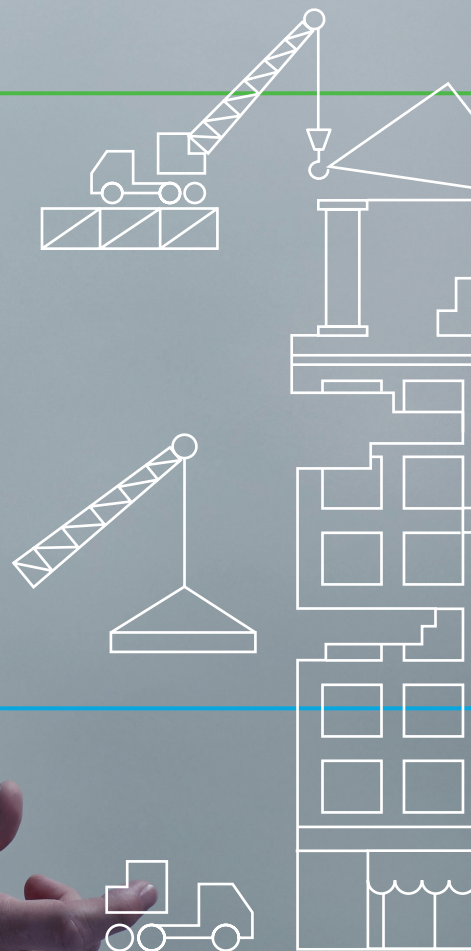
The ISC is assessable on locally imported or manufactured goods which are not regarded as basic food basket products, such as alcohol beverages, jewelry, firearms, musical instruments, etc.; as well as goods which contribute to environmental pollution as is the case of oils.



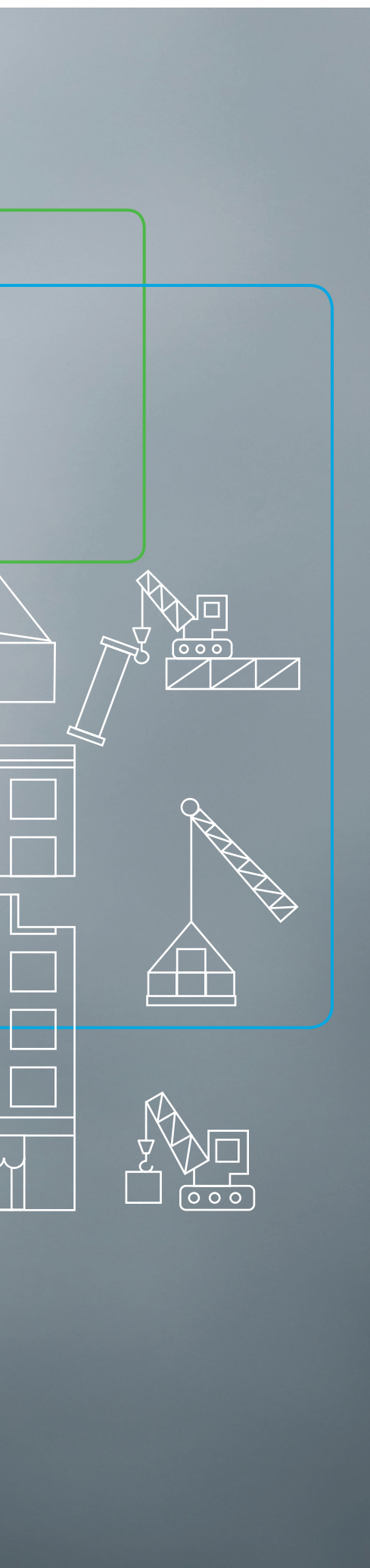


We help you to invest  
in Paraguay.

Get in touch.







## PROMOTION REGIME

### Special Regimes

Law N° 60/90 of Tax Incentives for National and Foreign Investments

- Exemption of customs and excise taxes.
- Exemption of taxes on remittances and payments abroad.
- Exemption of taxes on dividends and profits.

Law N° 523/95 establishing the Free Zone Regime

- Tax exemptions for companies which operate in the Free Zones and for remittance of profits or dividends to third countries.
- Free Zone rate of 0.5% for those making exports exclusively to third countries.

Investment Law N° 117/91

- Law N° 117/91 guarantees equal opportunities to both domestic and foreign investments that promote social and economic growth in the country.
- Law N1 117/91 promotes non-discrimination as regards the source of investments.

Law N° 5542/2015 of Guarantees for Investments and Promotion of Employment and Social and Economic Growth.

- This Law protects capital investment in productive industries contributing to the employment and economic and social growth in the country.

## SOCIAL SECURITY

The relationship between employers and employees in Paraguay is governed by the Labor Code, which mainly addresses the remunerated work on an employment basis .

Payroll may be established by time units (hour, wage, bi-monthly or monthly payment), by work units and by sales commissions as well.

The minimum salary amounts to Gs. 2,192,839 (approximately USD 320).

Normal working hours are 8 and 48 hours a day and week, respectively. In the case of night shift workers, this time limit is reduced to 7 hours a night and 42 hours a week, while in the case of workers under a mixed working time regime, that limit is 7.5 hours a day/night and 45 hours a week.

The social security system is run by the Social Security Institute (IPS after its Spanish acronym).

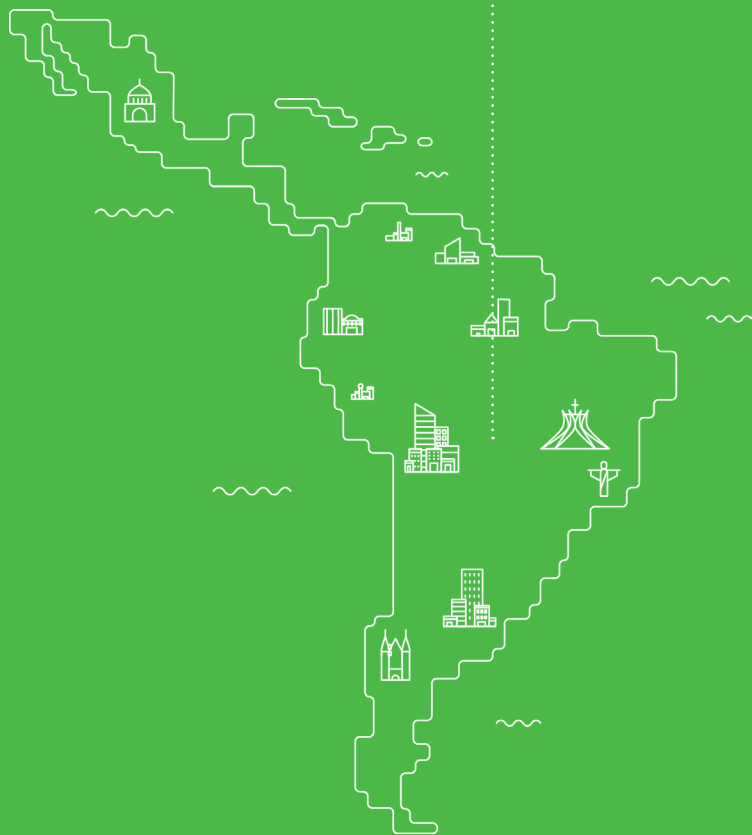
All Paraguayan employees must register with the IPS, to which a monthly salary percentage is contributed (16% by the employer and 9% by the employee).

### Employees' benefits

- Paid vacation
- Annual Bonus or thirteenth salary
- Family Allowance
- Maternity Leave
- Paternity Leave
- Medicare

## WHY INVEST IN PARAGUAY?

- Minimum income tax rates, ranging between 5 and 15%.
- Even lower effective tax rate (in some cases lower than 5%).
- There is no wealth tax; only property tax.
- Tax benefits by means of preferential regimes with minimum tax rates.



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