



Why to invest in Paraguay?

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Introduction

Paraguay is a country that offers one of the best investment opportunities within the region, due to its financial advantages and because it is a country with three main characteristics, which are: (i) economic stability, (ii) low tax rate, and, (iii) simplicity of the tax system.

The economic system is one of free trade, free exchange, free import and export, and free movement of capital. No price controls or other types of restrictions. The main economic activity is based on agriculture, livestock, services and commerce. Industrial development is related to the production of meat, beverages, tobacco, machinery, equipment and derivatives of agriculture. The real estate market had an exponential growth in the last decades.

1. The macroeconomic model

Paraguay has a moderate debt and an orderly monetary policy. This offers advantageous conditions for the management of economic policy in face of adverse scenarios such as the one that the world has been going through since 2020. Low-cost debt was favored, well below that of other countries in the region.

In macro terms, a stable GDP growth and low inflation (which was 2.8% in 2019 and remains below the 4% goal more than 5 years ago).

2. Tax system

The Tax method to generate income is, one the territorial or the source of income.

In Paraguay the following taxes are paid:

2.1. Income Tax:

2.1.1. Personal Income Tax (IRP): Rate: 10%. They will be taxpayers of this tax, individuals whose gross income taxed for the provision of personal services, is higher than Gs. 80,000,000 annually.

2.1.2. Business Income Tax (IRE): Rate: 10%. It taxes for Paraguayan income source from economic activities that are not of a personal nature and the income generated by assets, rights, obligations, acts of disposition of these assets and all the capital increase in favor of the taxpayer. It is settled by affidavit, annually.

2.1.3. Tax on Dividends and Profits (IDU): Rate: 8%. for Natural Persons and **15%** for Legal Persons. This tax is levied on income from profits, dividends or returns, generated by sole proprietorships, companies and other entities with legal status, incorporated in the country, as well as the permanent establishments of entities incorporated abroad. The payment will be sole and definitive when: (i) the shareholder or partner is a natural person resident in the country, (ii) the shareholder is a person or entity not resident in the country.

2.1.4. Non-Resident Income Tax (INR): Rate: 15%. This tax is levied on the income that comes from the benefits obtained by individuals, legal entities and other non-resident entities in the Republic, included within personal and business income. Contribute all persons and companies domiciled or incorporated abroad, who do not have a permanent domicile in the country and who do not meet the status of residents.

2.2. Consumption Taxes:

2.2.1. Value Added Tax (VAT): Rate 10%. This tax is levied on the consumption capacity of the inhabitants. It is therefore a general sales tax. It is settled monthly, by affidavit.

2.2.2. Selective Consumption Tax (ISC): Specific on the sales of certain products and operations carried out with selected merchandise, distributed in groups.

3. The benefits and exemptions for investments

3.1. Equality for the investor

Investment Law No. 117/91 encourages and guarantees national and foreign investment without distinction. The basis of the guarantee is equality, exchange freedom, property rights, free contracting of investment insurance in the country or abroad.

3.2 Regime of Tax Incentives for Investment of National and Foreign Capital

Law No. 60/90 promotes and increases capital investments (national and / or foreign), by granting fiscal benefits to those who make investments in accordance with the government's economic and social policy.

Benefit those who make investments under any of the following procedures: a) In money, financing, supplier credits or other financial instruments; b) In capital goods, raw materials and inputs destined for local industry, for the manufacture of capital goods; c) In trademarks, drawings, models and industrial processes and other systems of technology transfer susceptible to licensing; d) In specialized technical assistance services e) In leasing of capital goods.

The exemptions are:

- a) **Total exemption from fiscal and municipal taxes** levied on the constitution, registration and registration of companies and corporations;
- b) **Total exemption from customs duties**, internal taxes of specific application on the importation of capital goods, raw materials and inputs destined for the local industry, foreseen in the investment project;
- c) **Release from the requirement** of any type of **bank reserve or special deposits** for the importation of capital goods;
- d) If the foreign investment and the activity benefited from the investment is less than US\$ 5,000,000, the payment of taxes on remittances and payments abroad **will be exempted as interest, commissions and capital of the same**, for the agreed term provided that the borrower is **a bank or financial institution or another credit institution** with a recognized track record in the financial market or multilateral credit organizations, based abroad.
- e) **Total exemption of taxes that affect dividends and profits from approved investment projects, for a term of up to ten years**, counted from the start of the project when the investment is at least US\$ 5,000,000 and the tax on such dividends and profits is not a tax credit for the investor in the country from which the investment comes or does not come from a territory with low or no taxation.

3.3 Free Zones Regime

Law No. 523/1995 establishes the **free zone regime**. It is an area duly delimited in the customs territory, in which commercial, industrial and service activities are allowed, free of customs duties and fiscal taxes. Those who act under this regime can avail themselves of the benefits of Law No. 60/90, for the investment of capital of national and foreign origin.

They are exempt from all import taxes on capital goods for infrastructure in Free Zones; Value Added Tax (VAT) for services rendered to users; all taxes on the port facilities that could be provided to the users.

3.4. Maquila Regime

Through **Law No. 1064 / 9 "On the Export Maquiladora Industry"**, investors can introduce goods, products or services to the country in order to be assembled, repaired, improved, worked or processed for subsequent export, **once incorporated the added value or "Paraguayan component"**.

Foreign companies that wish to carry out maquila programs can establish a national commercial company. **There are no restrictions or limitations on the participation of national or foreign capital in the maquiladora companies.**

Except for land use planning programs or environmental provisions, maquiladoras can be located anywhere in the country.

The maquiladoras act as Production Cost Centers, and a **special tax treatment is applied:** 1% rate on the value added in national territory on the value of the invoice issued on behalf of the parent company, whichever is higher. With the exception of the Single Maquila Tax and the tax treatment established by law for sales in the domestic market, the Maquila Contract and the activities carried out in its execution do not pay any other tax.

Exports made by the maquiladora are exempt from VAT. Regarding the recovery of the amount of the VAT tax credit that they accumulate for the purchases of goods and services they make; they can benefit from the recovery regime of the same.

3.5 Guarantees for Investments and Promotion of Employment Generation and Economic and Social Development

Law No. 5542/15 "On Guarantees for Investments and Promotion of Employment Generation and Economic and Social Development" projects of capital investment for creation of industries or other productive activities established in the national territory, when they contribute to the generation of employment and the economic and social development of the country, mainly, with the incorporation of added value to Paraguayan or imported raw materials. Natural and legal persons, nationals and foreigners, can benefit from this benefit.

4. Sectors to invest:

4.1. Farming

Agriculture has an important weight in the economy of Paraguay. According to a report by the Central Bank of Paraguay (BCP), the sector represented 6.8% of the Gross Domestic Product (GDP) in 2018 and 7.8% in 2019.

Much of agriculture is developed in the Eastern Region of Paraguay (which occupies almost 40% of the national territory), and the combination with technology is used in the Western

Region or Chaco (which occupies 60% of the national territory). The main agricultural crops in the country are: soybeans, corn, wheat and rice.

The main advantages are given by the natural conditions and production capacity; however, the biggest local challenge is to opening of new markets for: sorghum, sweet potato, sunflower, cassava, fruits and vegetables for self-consumption, peanuts, beans, sesame, tobacco and spurge.

4.2. Cattle Raising

The bovine population in Paraguay grew about 20% in the last 10 years. According to the SENACSA registry, the livestock stock in 2019 was 13.8 million head.

Investments in cattle raising are carried out in fields with lower productivity rates in which mega-thermal pastures yield less, both in the Eastern Region and in the Chaco region, especially in the Paraguay and Pilcomayo River basin, in Presidente Hayes department.

An extensive natural field production system is used with adequate veterinary and sanitary control, with access to genetic improvement, via artificial insemination.

The area with the highest livestock growth in the last decade has been **the Chaco**, with a growth of 83%, especially in Boquerón and Alto Paraguay departments.

The main advantages are given by the natural conditions and production capacity; however, the biggest local challenge is to introduce comprehensive traceability of all its herds in a fast and well-planned way.

4.3. Financial sector

It is the sector with the highest and best returns in the last 20 years in Paraguay. According to the Central Bank of Paraguay (BCP), the financial intermediation sector **represented 5.8% of GDP in 2018 and 5.9% in 2019.** In turn, according to the BCP report on Foreign Direct Investment (FDI), this sector was the one with the highest participation in the balance of **FDI (17.1%) of the total of 2018.** The rate of bad debts (arrears and unpaid) is low.

Currently it is possible to make **deposits and obtain loans in both local and foreign currency** and there is a free and fluctuating exchange system. The price of currencies is the result of the **free circulation of supply and demand, both for the import and export of goods and services** and for the movement of capital, including financial and public payment.

There are no limitations for incoming or outgoing foreign currency, nor regarding the amount involved, and **there is no obligation to record financial movements with other countries to the monetary authorities.**

4.4. Stock Market

In Paraguay, transactions with securities are carried out within a regulated and transparent framework, where the prices of securities are planned thanks to the action of market supply and demand. The decision to save is simplified by the concentration on the stock market of a wide variety of securities and **companies of all sizes**, which allow even the small saver to access profitable investments from large companies. **Better financial returns, exempt from taxes.**

High possibility of selling a title before its expiration, easing the three characteristics that every investment demand; liquidity, security and profitability. In addition, the risk is distributed in the investments.

In 2019, the stock market sector stood out as one of the most dynamic sectors of the national economy, according to a BVPSASA report, **the volume traded was more than USD 1,025,000,000,** which meant an increase of 87% in the volume traded per year above, and all this in a context of less economic activity.

4.5. Real Estate

It is a sector that has not stopped during the COVID 19 pandemic and that **had a 100% reactivation, with important benefits and tax exemptions** and with legal provisions that allow foreign investors the best conditions in the Latin American region.

Asunción city stands out for being the city that concentrates the largest number of real estate projects, being the place chosen for large investments in residential and office buildings. 39%

of the population of Asunción city is between 20 and 40 years old with an average income of 700 to 1000 dollars per month.

It is a sector with representation in the national economic structure, **in 2018 it had a participation of 6.6% in GDP and in 2019 of 6.7%**. In the last 10 years, a large number of real estates have been developed in Paraguay, **focused mainly on the upper-class population and the corporate sector**.

It has its advantages in the **increase in the Paraguayan middle class** that occurred as a result of the reduction in poverty levels, which has served to boost demand and generated important offers in the real estate sector, mainly in the country's capital.

In the corporate sector of Asunción city, between Santa Teresa Avenue and Aviadores del Chaco Avenue, **more than USD 1,100 million were invested in private development of shopping centers, offices and residences**, according to data from the Paraguayan Chamber of Real Estate Developers (CAPADEI). **10,000 new homes are needed every year**.

Currently, several real estate franchises have a presence in Paraguay.

4.6. Other investments

Specifically, investors have chosen the following sectors: fertilizers, motorcycle parts, auto parts, food, mining, logistics, connectivity, transportation, infrastructure, environmental services, agribusiness, forestry, call centers, alternative energy, pharmaceutical services, hospitals and solar panels. The amounts invested **amount to USD 1,083,280,781**.

5. How can you do business in Paraguay?

5.1 Sole proprietorship

The sole proprietorship is the legally easiest and lowest-cost way to open it. The natural person acts with Taxpayer I.D. (RUC) and develops the activity paying personal taxes on their income. However, there is no limitation of liability between the partner and the company.

It can also be negotiated by setting up a commercial company, mainly:

5.2 Public Limited Company: The capital contributed by the partners is represented by shares, the partners are only liable to third parties until the concurrence of their respective contributions, the limitation of liability is given and they are constituted by Notary Deed. Shares can be transferred freely, by endorsement.

5.3 Limited Liability Company: It limits the liability to the amount of the contributions, it can have no more than 25 partners, it is divided into non-representative shares of negotiable securities of the capital stock, there is no free transferability of the social shares and the capital is subscribed when the society was formed. They are prohibited from carrying out banking, insurance, capitalization, savings operations and any other activity required by another type of company.

5.4 Companies incorporated abroad to carry out acts must comply with Paraguayan law and must establish a branch, agency, or representation and prove that the company was incorporated according to the regulations of their country. They must appoint representatives.

5.5 Company by Simplified Shares (EAS): It was recently created by **Law No. 6,480 / 2020**. They can be constituted by one or more natural or legal persons. It is the first corporate-type legal person in which it is possible to constitute it with a single partner. They can be created by contract or unilateral act that is recorded in a Notary Deed or private instrument. There is a **limitation of liability of the partners**.

6. Conclusions:

The concrete advantages for the investor are:

- Excellent profitability and financing;
- Evident signs of recovery in his economy despite the pandemic;
- Expectation of growth;
- Monetary stability;
- Low inflation and low tax pressure;
- Easy procedure to obtain tax residence for foreign investors;
- Free repatriation of capital and dividends;
- Easy access to international markets through the Paraná and Paraguay rivers and a road system with international bridges.

In December 2020, Paraguay obtained the **stable investment grade granted by the risk rating agency NYC Standard & Poors Moodys and Fitch**. This qualification makes the nation an excellent option to invest.

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