



## International tax

# Paraguay Highlights 2016

### Investment basics:

**Currency** – Paraguayan Guaraní (PYG)

**Foreign exchange control** – No

**Accounting principles/financial statements** – Paraguayan GAAP, which is based on IAS/IFRS. Financial statements must be prepared annually.

**Principal business entities** – These are the corporation, limited liability company, partnership and branch of a foreign corporation

### Corporate taxation:

**Residence** – Residence is determined in order of priority according to: (1) the place of a company's management or direction; (2) the place where the company's main activities are carried out; and (3) the address of the company's representative.

**Basis** – Corporate income tax is levied on a territorial basis. Tax is due, with some exceptions, on business income derived from activities performed, property situated or economic rights used in Paraguay, regardless of the nationality, domicile or residence of those participating in the operations or where contracts are signed.

**Taxable income** – Taxable income is the difference between total earnings from commercial, manufacturing and service activities and expenses incurred to derive the income.

**Taxation of dividends** – Dividends received by a resident company are exempt if certain requirements are met; otherwise, they are subject to a 15% tax. A 5% tax is levied on the distributing company upon distribution to resident shareholders.

**Capital gains** – Capital gains derived from the sale of fixed assets, immovable property and securities are taxed as ordinary income at the general corporate rate.

**Losses** – Tax losses cannot be carried forward or back.

**Rate** – 10%

**Surtax** – No

**Alternative minimum tax** – No

**Foreign tax credit** – No

**Participation exemption** – No

**Holding company regime** – No

**Incentives** – Incentives regimes offering reduced taxation include free trade zones, a maquila regime and a special regime for local or foreign investment in the country.

### Withholding tax:

**Dividends** – Dividends distributed to a nonresident are subject to a 15% withholding tax.

**Interest** – Interest paid to a nonresident is subject to a 30% withholding tax imposed on 50% of the payment, resulting in an effective rate of 15%. A 6% withholding tax applies to payments made to a financial institution.

**Royalties** – Royalties paid to a nonresident are subject to a 30% withholding tax imposed on 50% of the payment, resulting in an effective rate of 15%.

**Technical service fees** – Technical service fees, whether paid to a resident or a nonresident, are subject to a 30% withholding tax imposed on 50% of the payment, resulting in an effective rate of 15%.

**Branch remittance tax** – Profits remitted to a head office are subject to a 15% withholding tax, plus the 10% corporate tax and an additional 5% tax on dividend distributions, resulting in an effective of 30%.

### Other taxes on corporations:

**Capital duty** – There is no capital duty per se, but certain fees apply (e.g. registration and publication) upon the formation of a company.

**Payroll tax** – No

**Real property tax** – Real property is subject to an annual tax, collected by the local authorities, at a rate of 1% of the cadastral value of the property (0.5% for certain rural property). Real estate surtaxes also apply for specific types of property, e.g. a tax rate of 0.3% on the transfer value of immovable property (calculated on the higher of the transaction price or the cadastral value of the property).

**Social security** – The employer is required to pay social security taxes for each employee at a rate of 16.5% on the gross employment income (including bonuses, premiums, etc.). The employer also must withhold 9% on the gross employment income.

**Stamp duty** – No

**Transfer tax** – No

**Other** – Special regimes apply to some small and agricultural businesses.

### Anti-avoidance rules:

**Transfer pricing** – Transfer pricing rules apply only to exports of commodities.

**Thin capitalization** – No

**Controlled foreign companies** – No

**Disclosure requirements** – No

### **Compliance for corporations:**

**Tax year** – The tax year generally coincides with the calendar year, but certain industries (e.g. assurance, beverage and agricultural and industries) are required to use specific tax years.

**Consolidated returns** – Consolidated returns are not permitted; each company must file a separate return.

**Filing requirements** – A company must make four advance payments based on the previous tax year's liability. A return and balance sheet, as a minimum, must be filed for corporate income tax purposes. In general, the return is due within four months of the end of the tax year, but the taxpayer's identification number determines the exact due date.

**Penalties** – Penalties range from 4% to 14% of the total tax due, plus monthly interest at 1.5%.

**Rulings** – Taxpayers may request a ruling from the tax authorities on the tax consequences of a proposed transaction.

### **Personal taxation:**

**Basis** – Tax is levied on Paraguay-source income from services and certain investments, provided the taxpayer's income exceeds the monthly minimum wage by a certain amount (72 times for 2016, to be reduced by 12 per year until the factor reaches 36 in 2019).

**Residence** – An individual is resident in Paraguay if he/she is in the country for more than 120 days in a calendar year or in the previous 12-month period.

**Filing status** – Joint filing is not allowed. Each person must file a return tax if his/her individual income exceeds the relevant threshold.

**Taxable income** – Income from services and certain investments is taxable. This includes personal services income; benefits in kind; dividends, profits and share price surplus (50% is subject to tax if derived from a resident company subject to corporate or agricultural income tax and 100% is subject to tax if the resident company/enterprise is not subject to corporate or agriculture income tax); certain capital gains (see "Capital gains"); and interest, commissions and other income that has not been subject to the corporate or agriculture income tax.

Nonresidents deriving business or professional income in Paraguay are subject to withholding tax at an effective rate of 10% (20% on 50% of the gross amount).

**Capital gains** – Capital gains from the disposal of real property located in Paraguay and shares of Paraguayan companies are subject to individual income tax if they are occasional; otherwise, they are subject to the corporate, agricultural business tax or small business tax.

**Deductions and allowances** – Domestic and foreign expenses are deductible if directly related to the taxable activity generating domestic-source income. The taxpayer and his/her dependents are entitled to personal deductions (education, health, clothing, recreation, charitable, etc.). A deduction of 15% on annual gross income is allowed if invested in certain entities where the taxpayer does not contribute to the social security system.

**Rates** – The individual income tax rate is 10% if the income exceeds 120 times the minimum wage; otherwise, the rate is 8%.

Capital gains derived by nonresidents are subject to tax at an effective rate of 10% (20% on 50% of the gross amount).

### **Other taxes on individuals:**

**Capital duty** – No

**Stamp duty** – No

**Capital acquisitions tax** – No

**Real property tax** – Real property is subject to an annual tax, collected by the local authorities, at a rate of 1% of the cadastral value (0.5% for certain rural property). Real estate surtaxes also apply for specific types of property, i.e. a tax rate of 0.3% on the transfer of immovable property, calculated on the higher of the transaction price or the cadastral value of the property.

**Inheritance/estate tax** – No

**Net wealth/net worth tax** – No

**Social security** – The employee contribution is 9% (3% is applicable to pension and retirement funds), based on total remuneration, including bonuses, premiums, etc., and is withheld by the employer.

### **Compliance for individuals:**

**Tax year** – Calendar year

**Filing and payment** – The annual income tax liability should be paid when the annual tax return is filed (i.e. in March of the year following the tax year).

**Penalties** – Penalties range from 4% to 14% of the total tax due, plus monthly interest at a rate of 1.5%.

### **Value added tax:**

**Taxable transactions** – VAT is levied on the supply of goods and services, and on the import of taxable goods and services.

**Rates** – The standard rate is 10%, with a lower 5% rate applying to supplies of basic foodstuffs, pharmaceutical products, raw farm products, fruit and vegetable products, and the transfer of the right to use immovable property. Exports are zero-rated. Exemptions include some fuels, foreign currency, books and newspapers.

**Registration** – VAT registration is compulsory for all companies and unincorporated businesses whose taxable turnover exceeds a certain amount.

**Filing and payment** – VAT filing and payments are due monthly, with the due date determined according to the taxpayer's identification number.

**Source of tax law:** Law No. 125/91 on Tax Reform, Law No. 2421/04 of Administrative Reordering and Fiscal Adequacy, Law No. 4673/12 regarding Individual Income Tax and Law No. 5061/13 regarding the new fiscal regime

**Tax treaties:** Paraguay has concluded four tax treaties

**Tax authorities:** *Subsecretaría de Estado de Tributación*

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