



PARAGUAY – 2009 BUSINESS ENVIRONMENT

Currency: Paraguayan Guaraní (PYG)

Foreign exchange control: No

Accounting principles/financial statements:

Paraguayan GAAP, 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.

Foreign and domestic private entities may establish and own business enterprises. Foreign businesses do not need to be associated with Paraguayan nationals for investment purposes. Private entities may freely establish, acquire and dispose of interests in businesses.

TAX ID NUMBER

R.U.C. it is the number of identification - personal and intransferible- of all those national or foreign people and of all the legal people (companies, lenders of services, industries, etc.) that makes economic activities. Also the organizations without profit aims must have RUC.

The structure is as it follows:

Always is a 4 letter series followed by 7 numbers or 6 numbers and a random letter. That is to say, 11 characters.

Example:

Natural Persons

Santacruz Mendoza Blás Alberto

RUC: SAMB-900726J

SAMB: The first 4 letters: Indicates initials of the name of the company or person registered. In case of

natural persons "S": Surname, "A" second name, "M" Last name, "B" first name.

900726: Date of birth.

J: Random Verifying Number/Letter

For companies:

DISTRIPLAST SRL

RUC: DISB-9606068

DISB: The first three letters indicates the name of the company, and the fourth letter is a random letter.

960606: Date of establishment.

8: Random Verifying Number/letter

The RUC number is unique in all the country.

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 its main activities are carried out; and (3) the location of its representative address.

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 the contracts are concluded.

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

Taxation of dividends – Dividend distributions are subject to a 5% corporate income tax.



PARAGUAY – 2009 BUSINESS ENVIRONMENT

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

Losses – The carryforward and carryback of losses is not permitted.

Rate – 10% Surtax – No

Alternative minimum tax – No

Foreign tax credit – No

Participation exemption – No

Holding company regime – No

Incentives – Companies operating in free zones benefit from reduced taxation, and a maquiladora regime also exists.

Withholding tax:

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

Interest – Interest distributed to nonresidents are subject to a 30% withholding tax, which is imposed on 50% of the payment, resulting in an effective rate of 15%. The rate on payments to financial institutions is 6%. **Royalties** – Royalties paid to nonresidents 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 20% withholding tax plus the 10% corporate tax, resulting in an effective rate 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 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% (0.5% for certain rural property) of the cadastral value. Various real estate surtaxes also apply for specific types of property, and there is a 0.3% tax on the transfer of immovable property (calculated on the higher of the transaction price or the real property's cadastral value).

Social security – The employer's contribution to social security amounts to 16.5% of an employee's total salary (including bonuses, premiums, etc.). Employers also must withhold the employee portion (9%).

Stamp duty – No

Transfer tax – No

Other – Some small and agricultural businesses fall under special regimes other than the corporate income tax.

Anti-avoidance rules:

Transfer pricing – No

Thin capitalisation – No

Controlled foreign companies – No

Other – No

Disclosure requirements – No

Administration and compliance:

Tax year – The tax year generally coincides with the calendar year, but certain industries are required to keep specific tax years.



PARAGUAY – 2009 BUSINESS ENVIRONMENT

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

Filing requirements – A company must make 4 advance payments based on the previous tax year's liability. A return and balance sheet, at a minimum, must be filed for corporate income tax purposes. In general, the return is due within 4 months of the end of the taxpayer's tax year, but the taxpayer's identification number determines the exact due date.

Penalties – Penalties range from 4% to 14% on 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.

Value added tax:

Taxable transactions – VAT is levied on the supply of goods and services, and 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, interest and commissions on loans, and the transfer of the right to use goods or immovable property. Exports are zero-rated. Exemptions include raw farm products, some fuels, foreign currency, books and newspapers.

Registration – VAT 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 exact due date determined according to the registration number.

Source of tax law: Law No. 125/91 of Tax Reform (including all fiscal taxes), Law No. 2421/04 of Administrative Reordering and Fiscal Adequacy

Tax treaties: Paraguay has 1 tax treaty.

Tax authorities: *Subsecretaría de Estado de Tributación*

International organisations: Union of South American Nations, Mercosur, OAS (Organization of American States)

For further information about this issue, please contact: info@crlacorp.com

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PARAGUAY – 2009 BUSINESS ENVIRONMENT

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