

# SETTING UP BUSINESS IN PARAGUAY



## General Aspects

Paraguay is located in the center of South America, borders Bolivia, Brazil and Argentina. With approximately 406.752 square kilometers, the total population is around 6.6 million people. According to the Population Projection, Paraguay is a predominantly urban country, with 58.9% population concentration in this area and 41.1% in the rural area. The official language is Spanish and Guarani. Its monetary unit is the guarani.

## Legal forms of Commercial Entities

Legal form	Characteristic	Observations
<b>Anonymous society</b>	<p>Commercial companies in which the capital contributed by the partners is represented by shares.</p> <p>It has no limitation regarding the number of members, nor limitation regarding the amount of capital.</p> <p>It is represented by a Board of Directors, whose members may not be shareholders.</p>	<p>The partners only respond to third parties up to the concurrence of their respective contributions. This is so, because the corporation responds to social obligations only with its assets.</p>
<b>Limited Liability Company</b>	<p>This type of company is characterized by limiting the liability to the amount of contributions, by having a reduced number of partners (no more than 25), by the division into non-representative shares of negotiable securities of the share capital, as there is no free transferability of the social parties, by the total subscription of the capital when the company is formed, because it does not have a minimum capital limitation and, because of its simplicity of constitution and operation.</p>	<p>The Limited Liability Companies (LLCs) must be constituted by two or more people, which can be physical or "legal" (a "legal entity" is in general, any company or branch legally constituted and registered), through a social contract that must be extended by Public Deed.</p>
<b>Branches of Foreign Entities</b>	<p>They may operate in Paraguay by establishing a branch, agency, or representation. For these purposes, you must:</p> <ul style="list-style-type: none"> <li>• Establish a representation with domicile in the country.</li> <li>• Prove that the company has been established in accordance with the laws of your country.</li> <li>• Justify the agreement or decision to create the branch or representation, the capital assigned to it, and the appointment of its representatives.</li> <li>• Ordinary and extraordinary assemblies are not required. Nor do they require carrying corporate books</li> </ul>	<p>Companies incorporated abroad, for the habitual exercise of the acts included in their corporate purpose, shall comply with the legal provisions in force in Paraguay.</p> <p>However, in terms of its existence and capacity will be governed by the laws of the country in your home.</p>

There are other types of companies in Paraguay:

<b>Society Collective</b>	They comprise two or more partners that are subsidiaries, unlimited and jointly and severally liable for social obligations.	
<b>Limited Partnership Simple</b>	In this type of company there are collective partners who are jointly and severally liable for social obligations, and limited partners who are liable for them up to the limit of their contributions.	
<b>Limited Partnership by Shares</b>	Also has joint and limited partners, the contributions of the latter represented by shares being found.	
<b>Simple Societies</b>	Is one that does not have the characteristics of any of the other companies regulated by the Civil Code and that does not have the purpose of carrying out a commercial activity.	
<b>Individual Limited Liability Company</b>	The assets that form the capital will constitute a separate or independent patrimony of the other assets belonging to the person. The responsibility of this is limited to the amount of capital affected to the company.	It can be constituted by any physical person capable of exercising trade, assigning a certain capital.

## Organizational Questions

Theme	Characteristic	Observations
<b>Public Registry of Commerce</b>	Companies must be registered in the public registry of commerce, for which they must fill out legal forms. The registration is processed before the Ministry of Industry and Commerce.	The unipersonal ones transact independently before the Ministry of Industry and Commerce and the companies are already automatically enabled at the time of the constitution.
<b>Single Taxpayers Registry</b>	All economic activities carried out in the national territory must have this registry. Issued by the Ministry of Finance.	The registration is done electronically through the website of the SST (Secretary of State for Taxation).
<b>Settle down</b>	It is the definitive residence authorization granted to foreign citizens of any nationality who wish to settle in the Paraguayan territory as permanent residents and with the purpose of occupying an activity useful for the development of the country, in accordance with the requirements established in the Law. Nº 978/96 of Migrations.	The forms to process the filing are provided by the Migration General Directorate at the moment of initiating and processing.
<b>Bank account</b>	To open a bank account, people need permanent filing or national identity document. Companies need to be commercially active to operate in the country and the company's bylaws.	For deposits of accounts of more than US\$ 10,000.00 or its equivalent in local currency in cash, banks must verify the identity of the depositor and the origin of the funds to avoid money laundering.

<b>Free zone regime</b>	In this area you can develop all kinds of commercial, industrial and service activities. The scheme provides several advantages in terms of tax exemptions, as well as having a special tax regime that determines the payment of an income tax of 0.5%	At the moment there are two free zones installed in the Alto Paraná area (northeast of the country, near the border with Brazil and Argentina) in which national and multinational companies are actively operating.
<b>Maquila</b>	It is a reliable and effective regime for businesses from Paraguay to the world. With the Law of the Maquiladora Industry, the payment of the common external tariff for MERCOSUR is exempted from the temporary importation of capital goods, inputs, parts and components.	Through the Maquila, investors can introduce goods or products to the country for the purpose of being assembled, repaired, improved, worked or processed for subsequent export. It is subject to a special tax regime, paying a tax of 1% on the amount of value added in the national territory.
<b>Registry of Service Providers</b>	For individuals and legal entities. It is OBLIGATORY in nature. It was created by Decree No. 6866 dated July 5, 2011, of the Presidency of the Republic, which establishes its obligation.	All natural and legal persons, national or foreign, who provide services in the country and are taxpayers of the Value Added Tax (VAT) are required to register.

## Employment

Issue	Characteristic	Observations
<b>Workday</b>	The day shift may not exceed 8 hours a day or 48 hours a week; the night shift 7 hours a day or 42 hours per week; and the mixed day 7.5 hours or 45 hours per week.	Overtime in no case may exceed 3 hours per day.
<b>Work contract</b>	Provided that, between who lends a service and who receives it, there is dependency or subordination, by the principle of the primacy of reality, the existence of an employment relationship is presumed. The subordination can be technical, legal, economic, hierarchical or social.	The current legal minimum wage is Gs. 2.041.123 approximately US\$ 369,10
<b>Household allowance</b>	Every worker has the right to receive an allowance equivalent to 5% of the minimum wage for each child under 18 years of age. This subsidy is automatically extinguished when the conditions stipulated by law for its granting disappear, or when the worker's salary exceeds 200% of the legal minimum.	
<b>Extra special payment</b>	Additional annual remuneration equivalent to one twelfth of all remuneration accrued in the calendar year in favor of the worker in all concepts and must be paid before December 31 of each year.	
<b>Social Security</b>	Contributions to social security (IPS) are composed of: employer contribution (16.5%) and worker contribution (9%)	
<b>Holidays</b>	Rest period to which every worker is entitled after one year of continuous service under the same employer, and depends on the worker's seniority: <ul style="list-style-type: none"> <li>• Up to 5 years: 12 days</li> <li>• More than 5 years and up to 10 years: 18 days</li> <li>• After 10 years: 30 days</li> </ul> The reference days are working days.	

# Taxes

Most of the tax collection in Paraguay comes from national taxes. The municipal or regional taxes are not very significant.

Likewise, there is a special tax called for Small Taxpayers, which taxes income originated in commercial, industrial or non-personal service activities. Taxpayers are individual companies located in the country, which have an accrued income in the previous calendar year, which does not exceed the amount of Gs. 500.000.000 approximately. US \$ .83,000. The rate of this tax is 10%.

Theme	Characteristics	Rates and Observations
<b>Income Tax on Commercial, Industrial and Services Activities</b>	This tax is levied on Paraguayan source income from taxpayer activities in the commercial, industrial and service sectors that are not personal. Agricultural – livestock activities are outside the scope of this tax.	<p>Tax rates</p> <p>The general rate is 10% (ten percent).</p> <p>When the profits are distributed, the rate of 5% (five percent) is applied additionally to the net amounts credited or paid to the owners, partners or shareholders. The profits destined to the reserve account of legal, or to facultative reserves or to capitalization will not be subject to the tax indicated in this paragraph.</p>
<b>Income Tax from Activities</b>	<p>This tax is levied on income from agricultural activity carried out in the national territory. The agricultural activity is conceptualized by law as all that is done with the aim of obtaining primary products, vegetables or animals, by using the factor land, capital and labor, such as:</p> <p>Breeding or fattening of cattle, cattle, sheep and horses.</p> <p>Production of wool, leather, bristles and embryos.</p> <p>Agricultural, fruit and horticultural production.</p> <p>Milk production.</p> <p>It is also considered taxed by this tax, the income from the sale of asset assets affected to the taxed activity.</p>	<p>The general rate of the tax will be 10% (ten percent), on the net income determined.</p> <p>The parent companies, partners or shareholders domiciled abroad must pay the tax corresponding to the profits or dividends credited by the branches, agencies or establishments located in the country, applying the rate of 15% (fifteen percent) on the net amounts credited. , paid or remitted, of them the previous one.</p>
<b>Personal Income Tax</b>	<p>This tax is levied on income from Paraguayan sources that come from carrying out activities that generate personal income. The presentation of the Annual Sworn Affidavit will be suspended when the taxpayer's income does not exceed the affected range during 2 consecutive years.</p> <p>The general rate is 10% on the net taxable income when the total income has exceeded 6 monthly minimum wages, and is 8% when the total of those income would have been equal to or less than that amount.</p>	<p>The general rate is 10% on the net taxable income when the total income has exceeded the</p> <p>6 monthly minimum wages, and it is 8% when the total of those income would have been equal to or less than that amount.</p>

<b>Value Added Tax</b>	<p>This tax taxes the consumption capacity of the inhabitants. It is therefore a general sales tax. The VAT mainly taxes the following acts:</p> <ul style="list-style-type: none"> <li>• Disposal of property</li> <li>• Provision of services</li> <li>• Import of goods</li> </ul>	<p>a) 5% for contracts of assignment of use of goods and transfer of real estate.</p> <p>b) 5% on the alienation of agricultural, fruit, horticultural products, in a natural state and live animals, from the proceeds of hunting and fishing, live or not, virgin vegetable oil, or raw degummed and of the following goods of the family basket: rice, noodles, yerba mate, edible oils, milk, eggs, uncooked meats, flour and iodized salt.</p> <p>c) 10% on interest, commissions and surcharges on loans and financing.</p> <p>d) 5% for sale of pharmaceutical products.</p> <p>e) 10% for all other cases.</p>
<b>The Selective Consumption Tax</b>	<p>The selective tax on consumption is a specific tax on sales, insofar as it is limited to operations carried out with selected merchandise, distributed in groups. The activities subject to the ISC are the importation of the goods designated by law and the first transfer of goods of national production. In the imported merchandise, it is configured at the time of the opening of the registration of the goods in the customs.</p>	<p>Taxed assets</p> <p>Tobacco in general and cigarettes 20%</p> <p>Soft drinks and soft drinks 5%</p> <p>Beers in General. 9%</p> <p>Alcoholic beverages in general. eleven%</p> <p>Champagne and equivalent 13%</p> <p>Alcohol in general: absolute, rectified or fuel 11% Fuels derived from petroleum 50%</p> <p>Perfumes, pearls, precious and semiprecious stones, precious metals, horns, ivory and other animal materials for carving, watches, weapons, ammunition, their parts and accessories. 5% Air conditioners, washing machines, scanners, photocopiers, electrical materials, recorders, players, mobile telephones, toys and other articles to play, their parts and accessories. 1%</p>

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