Paraguay

Capital city:
Asuncion

Aera:
406,750 km^2

Population:
6,900,000

Language:
Spanish

Political system:
Presidential republic

GDP/capita 2015:
USD 4,081

Currency:
Guarani (PYG)

ISO Code:
PRY

Telephone code:
+595

National day:
15 May

Paraguay

1. Income tax

1.1 Income Tax on Commercial, Industrial or Non-Personal Service Activities (IRACIS)

Generators of the tax

This tax is levied on Paraguay-source income from commercial, industrial or non-personal service activities.

Taxpayers

Taxpayers liable to this tax are:

- sole proprietorships, companies with or without legal status, partnerships, corporations, and other private entities of any kind;
- state-owned companies, economically self-sufficient entities, decentralized agencies, and mixed-ownership (public/private) companies;
- persons domiciled or entities incorporated abroad and their branches, agencies or establishments that carry out activities taxed in the country. The parent company shall pay taxes on net income paid or credited to them by the latter;
- cooperatives, to the extent established in Law No. 438/94 on Cooperatives.

Paraguay Source

Only activities performed inside the country, regardless of the nationality, domicile or residence of those who are involved in the operations or the place where contracts are entered into, are subject to this tax.

However, there are some exceptions to this general rule, such as interest, commissions, yields or gains on capital placed abroad, as well as differences in exchange rates when the investing or beneficiary entity is incorporated or established in Paraguay.

Origination of the tax liability

The origination of the tax liability occurs at the close of the fiscal year, but the taxpayer has four months in which to file the sworn return and pay.

Advance Tax Payments

The law establishes that there shall be two-monthly advance tax payments based on tax assessed the previous tax year.

Definition of Gross Income

Gross Income is deemed to be the difference between total income from commercial, industrial or service operations and the cost of the same. Taxed revenue includes the sale of capital or any increase in equity, with the exception of revenue resulting from the revaluation of capital assets and contributions of capital or revenue from non-taxed activities or activities exempt from tax.

Deductible expenses

Deductible expenses are those that are necessary to obtain and maintain the source of production, provided they represent a real disbursement, are duly documented, and are at market prices, and when the expense does not constitute taxed revenue for the beneficiary.

International Income

Persons or entities established abroad, with or without a branch, that engage in taxed activities in Paraguay assess their income using the presumed system based on amounts received, with the payer becoming the Withholding Agent.

Presumed Income

The Tax Authority is authorized to establish net income calculated on presumed bases for taxpayers that are not under the obligation to keep accounting records.

Exonerations

Religious organizations of any faith, social welfare organizations, and nonprofit organizations are exonerated. Private educational establishments do not pay tax if they do not distribute profits.
There are also institutions that are exempt from income tax under special laws, such as cooperatives, capital investments, etc.

Rates

The general rate is 10% on Net Income if dividends are not distributed. If they are, an additional 5% is levied (total 15%). However, if profits are transferred abroad, another additional rate of fifteen% (15%) is levied, in which case the taxpayer pays a total rate of 30%.

Documentation

There are rules for controlling the issuing of documents with a view to avoiding the adulteration of the same.

Tax incentives

The law establishes tax incentives for those who make capital investments, whether national or foreign.

Incentives for creating sources of employment :
A special law has been passed to encourage employment of the domestic labor force under the In-bond Assembly (maquila) Act, with a minimum tax rate of one% (1%).

Double Taxation Agreements

Double taxation agreements have been signed with Argentina and Chile.

1.2 Income Tax on Agricultural and Livestock Rearing Activities (IMAGRO)

Types of income included

Income from agricultural and livestock rearing activities.

Taxpayers

All individuals and companies that engage in agricultural and livestock rearing activities in Paraguay.

Origination of the tax liability

The obligation to pay tax arises annually at the close of the tax year.

Gross Income, Net Income, and Tax Rate

Assessment of gross income must be made in all cases, regardless of whether there is efficient and rational productive exploitation of the property.
For the purposes of this law, efficient rational use is not being made of a proper-

ty unless at least 30% (thirty%) of its agrologically useful surface area is being exploited for production purposes.

Productive exploitation is understood to mean use of the rural property for agricultural, farming or livestock rearing activities, activities involved in the management and tapping of natural forests for production, reforestation or forestation, or a combination of agricultural activities.

Assessment of Gross Income, Net Income and Tax will be calculated based on the agrologically useful surface area of the property and its efficient and rational exploitation in accordance with the following criteria:

- Large Properties

  - Gross Income

Annual gross income for rural properties that individually or together have an agrologically useful surface area of more than 300 ha. in the Eastern Region and 1500 ha. in the Western Region where there is efficient and rational productive exploitation will be the total income generated by agricultural activities.

  - Net Income

Net income is established by deducting from gross income all disbursements relating to the line of business made as a result of expenditures and investments having to do with obtaining taxed income and maintaining the source of production, provided they are real and duly documented in accordance with the provisions of this law and its regulations.

1.3 Small Taxpayer Income

Generator of the tax

This tax is levied on income from commercial, industrial or non-personal service activities that does not exceed approximately twenty thousand dollars ($20,000) a year.

Taxable Base and Rate

The tax rate is also 15% and is assessed on a real or presumed basis, whichever the taxpayer chooses.

Real net income is deemed to be the difference between total receipts and disbursements, and presumed net income is 30% of annual gross billing.

1.4 Personal Service Income Tax

This tax was created in 2004 but has not been implemented to date. Every year Congress postpones putting it into force.

Generator of the tax

This tax is levied on Paraguay-source income from carrying out activities that generate personal revenue.

- Activities deemed to be included: those involved in exercising professions, trades or occupations and the provision of personal services of any kind independently or in a relationship of dependence, whether in public or private institutions, decentralized, autonomous or partially state-owned entities or bi-national entities, regardless of the name given to the benefit or remuneration.
- 50% on dividends.
- Interest, commissions or yields on capital and other receipts not subject to other income taxes.
- Capital gains from the occasional sale of real property and transfer of rights, and the rent from securities, shares and equity investments in companies.

Taxpayers

- Individuals
- Partnerships

Source

This tax is levied on income from personal services when they are provided inside Paraguayan territory, regardless of nationality, domicile or place where the contract is entered into.

Presumption of Taxable Income

It is presumed that all enrichments or increases in equity come from income that is subject to tax, unless there is proof to the contrary. This applies to all taxpayers.

Net Income

- In the case of Individuals

All personal expenses incurred and investments made by the taxpayer and his family, provided that the disbursements are for their support, education, health, clothing, housing and leisure, are deductible.

- In the case of Partnerships

All disbursements and investments that have to do with obtaining taxed income and maintaining the source are deductible.

Exonerations

Income from retirement and other pensions, remunerations paid to diplomats provided there is reciprocity, interest and commissions received on investments made in banks, etc. are exonerated from tax.

Untaxed bracket

Those persons whose income does not come to 120 minimum wages during the first year in which the law is in force will not be liable to this tax, and each year that amount will be reduced by 12 minimum wages until the ceiling of 36 minimum wages is reached.

Tax assessment and payment

The tax is assessed annually in accordance with the Sworn Return system. Another of the taxpayer's obligations is the filing of an initial Declaration of Net Worth and the filing of a declaration every year thereafter.

Tax Rate

The rate is 10% on taxable net income when revenue is more than 120 wages a year and 8% when it is less than that amount.

Persons not domiciled in the country

Individuals domiciled abroad who unexpectedly obtain income from engaging in any taxed activities within Paraguayan territory shall assess the tax by applying the rate of 20% to net Paraguay-source income, which shall constitute 50% of income received for this reason, with the person who pays, credits or remits said income becoming the Withholding Agent.

2. Tax on capital

2.1 Real Property Tax

(This tax is received by the municipalities not the central government.)

Generators of the tax

The real property tax is levied on properties located in Paraguayan territory.

Origination of the tax liability

This tax arises on the first day of the year and is annual.

Taxable Base

The taxable base is the valuation of properties for tax purposes established by the National Real Estate Registry Service.

Tax Rate

The tax rate is 1%. The tax rate for rural properties measuring less than 5 hectares is 0.5%.

Additional tax on idle land

Idle land attracts an addition tax of 0,4% in the capital and 0,1% in the municipalities in the provinces.

Additional tax on large properties and large estates (latifundios)

The additional tax is between 0.5% and 1% of the Tax Appraisal of the property depending on its surface area and location.

In the case of latifundios (large estates), the additional tax is 50%. There is a special law that clarifies the latifundio regime.

3. Consumption tax

3.1 Value Added Tax (VAT)

Generators of the tax

Value Added Tax is levied on the following activities:

- the sale of goods;
- the provision of services, except personal services provided in a relationship of dependence;
- the importing of goods.

Taxpayers

This tax is levied on individuals and all companies of any kind. The State, Central Government Services, and the municipalities are not included.

Origination of the tax liability

- In the case of the sale of goods, the tax liability originates with the handing over of the good or the issuing of the invoice, whichever is first.

- In the case of the provision of services, the liability arises with whichever of the following occurs first:

  - issuing of the invoice;
  - receipt of the agreed price, either partially or in full;
  - upon the expiry of the lapse of time established for payment;
  - upon completion of the service provided.

Importing of goods

The liability arises when the Customs Declaration is numbered.

Territoriality

Sales of goods and provisions of services performed inside Paraguayan territory are liable to value added tax, with some exceptions.

Taxable Base

In the case of operations subject to payment, the taxable base is the net price received. All amounts charged to the buyer, user of the service or importer are added in to this price.

Exonerations

The following are exonerated: the sale of agricultural products in their natural state, foreign currencies, public and private securities, inherited wealth, capital

goods that enjoy tax incentives under special laws, and others.
All nonprofit entities, such as educational establishments, religious establishments, and others, are also exonerated from value added tax on their normal operations.

Exports

Goods exports as well as the freight charges allocated to them are exempt from value added tax. In the case of purchases of raw materials and inputs to be used in producing goods for export where VAT is charged, there is a mechanism for refunding the VAT.

Assessment of VAT Value added tax is assessed and paid monthly; the amount paid is the positive difference between the tax debit and the tax credit.

VAT Rate

- 5% on lease contracts for moveable and real property and the sale of goods included in the family basket, pharmaceutical products, and loans;
- In all other cases, 10%.

3.2 Selective Consumption Tax

Generators of the tax

This tax is levied on nonessential products, both on the importing of goods and the sale of domestic goods. Basically, this is levied on tobacco products, alcohol, soft drinks, jewelry, perfumes, weapons, watches, etc.
On an exceptional basis, this tax is levied on certain essential products, such as fuels, the idea being rather to facilitate the collection of the tax.

Tax Rates

These tax rates have the peculiarity in that they only have maximum rates, it being the responsibility of the Executive Branch to establish these percentages by decree.

In this context, the reference rates for tobacco products are established at 10% on average, whereas other products have minimum rates of 1%, 2%, 3%, 4%, 5%, etc. As for products derived from oil, the rate can go as high as 50%.

4. Other taxes

4.1 Social Security

Social security covers the health of the worker and his family as well as the right to a pension.
To that end, the worker contributes 9% of his wage and the employer 16.5%.

4.2 Municipal License

This tax is paid in the municipality where the business is located and is levied on the capital registered on the commercial and industrial activities balance sheet.

Rate

The rate is very low. It is not more than 1% of capital. If it is a new industry and its expansions, they enjoy a reduction of 25% for the first three years.

4.3 Special incentive for industries

Law No. 60/90 and its amendment establish tax incentives for the investment of domestic and foreign capital.

The incentives are as follows:

- total exoneration of fiscal and municipal taxes levied on the incorporation and registration of partnerships and companies;
- total exoneration of customs duties and other charges having an equivalent effect, including internal taxes applicable specifically to the importing of capital goods, raw materials and inputs intended for local industry, provided for in investment projects;
- release from the requirement of any type of bank reserve or special deposits for importing capital goods;
- when the amount of financing from abroad and the activity benefiting from the investment is at least US$5,000,000, it will be exonerated from payment of taxes levied on remittances and interest, commission and capital payments made on the loan abroad for the agreed period of time, provided the borrower is one of the entities indicated in paragraph g), Article 10 of Law No. 125/91;
- total exoneration from taxes levied on dividends and profits from approved investment projects for a period of up to ten years from the startup of the project when the investment is at least US$5,000,000 and the tax on said dividends and profits is not a fiscal credit of the investor's in the country from which the investment came.