



Doing Business in Paraguay 2004

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This is a general guide to certain applicable laws to doing business in Paraguay. The information contained in this publication is given by way of general reference only, is not intended to provide legal advice, and is not to be relied upon in any factual situation as it does not cover all laws or regulations that may be applicable in all circumstances. No responsibility will be accepted by the authors or publishers for any inaccuracy, omission or statement which might prove to be misleading. You are advised to seek your own professional advice before proceeding to invest or do business in Paraguay.

TABLE OF CONTENTS

- 1. Introduction**
- 2. Economic and Financial Framework**
- 3. Foreign Investments Incentives**
- 4. Formation of Corporations**
- 5. Limited Liability Companies**
- 6. Branch Offices**
- 7. Labor Laws**
- 8. Taxes**
- 9. Immigration Laws**
- 10. Distributors, Dealers and Agents**
- 11. Appendix**

1. Introduction

New Government, New Business Opportunities

On August 15, 2003, Paraguay inaugurated a new administration under President Nicanor Duarte Frutos. Unlike his predecessors, President Frutos proposed major changes to the economic and political situation. Tax reforms presented to Congress, a letter of intent with IMF, the renewal of the Supreme Court – with the removal of six of its nine members - and other changes to the judiciary system, a new internet-based government purchase system and other administrative anti-corruption measures are signs of progress. One of the results has been a 44% increase in tax collection rates compared to a similar period a year before.

Paraguay is a full member of Mercosur, together with Argentina, Brazil and Uruguay. Mercosur is the largest commercial area in South America, with more than 11 million square kilometers, 200 million consumers and a combined GDP of more than \$ 1 trillion. Paraguay recently obtained a special treatment for origin rules within Mercosur for 10 years (beginning in 2004). By this agreement, goods made in Paraguay need to be added with just 40% of their final (cost) value, between any or all the four countries members of Mercosur in order to be considered Made in Paraguay (up to 2008) – that means zero duties on imports of Paraguayan products into the Mercosur countries. From 2008 to 2014, this percentage will rise from 40% to 50%. General rules applied to the other Mercosur countries require the addition of at least 60% of the value in the region (20% higher). That makes Paraguay an interesting option for the production of those products or components currently imported into the region.

Paraguay's new government has launched an ambitious reform program intended to raise economic growth, reduce poverty, and improve governance. First results are encouraging and a better climate for investment can be felt. New agreements set the best conditions ever to take advantage of the country's Mercosur membership. Confidence, transparency and internal broad consensus are being actively sought both by government and civil society organizations. Hopefully, Paraguay is entering a new era.

Paraguay and the IMF

On December 15 2003, the IMF Executive Board approved a 15-month standby arrangement for Paraguay to support the country's economic program. This program is intended to create better conditions for sustained economic growth and poverty reduction, addressing long-standing governance problems by improving the efficiency and transparency of government operations. Fiscal surplus is one of the program's goals and, as tax collection this year has shown a 40% average improvement compared with last year's, success seems more likely. The program also aims to attain structural reforms in the public sector and the public banking system.

This arrangement is opening the doors for new credits from international agencies, mainly for infrastructure improvement. Some of these disbursements have already been made and the balance is expected for 2004.

Protecting Foreign Investors

Foreign Investment Law 117/91 gives foreigners the same guarantees, rights and obligations enjoyed by Paraguayan investors. Paraguay has signed the Multilateral Investment Guarantee Agency Agreement (MIGA) of September 13, 1991. The MIGA, created under the umbrella of the World Bank, insures investors against risks such as expropriation, currency inconvertibility and damages caused by revolution, war or civil strikes. A similar agreement with the Overseas Private Investment Corporation of the United States is in effect. The US Agency has lifted restrictions regarding investments in Paraguay in recognition of its progress.

Dispute Settlement: Arbitration

Paraguay is a party to several international conventions and treaties intended to protect foreign investment: the World Bank Center for Settlement of Investment Disputes as an independent international agency was ratified under Law 944/82; the Inter-American Convention on International Commercial Arbitration was ratified as Law 611/76; and the New York Convention for the Enforcement of Foreign Arbitral Awards and Judgments was ratified as Law 1.879/02.

Immigration

Nationals and foreigners are equal before the law. Foreigners can become residents if they comply with formalities and requirements established in Law 978/96. Foreign directors, managers and employees can apply for residence in the country, and a special temporary visa is granted to Maquiladoras employees.

Investments and Exports Promotion Program

The Investment Promotion Law 60/90

Paraguay actively promotes foreign investment in the industrial and service sectors. Investment projects require a presentation to the Investment Council, in charge of its evaluation. Formal approval needs a bi-ministerial Resolution, signed by the Ministry of Industry and Commerce and the Ministry of Finance. Some of the benefits of this law are: exemption of 95% of the corporate income tax on net profits for five years (and in some cases up to a maximum of 10 years) (the general tax rate is 30%, reduced to 1.5%); total exoneration of importation duties on capital goods (including VAT in some cases); duty free importation of raw materials and other inputs could be granted (application required); remittance of profits abroad is free (general withholding tax rate is 5%); exoneration of municipal taxes and tax on loans are available under certain conditions.

Maquiladora in South America: The Maquila Law 1064/97

The Maquila Law regulates the manufacture of goods for export. Some services are also eligible as long as they are exported. The Maquila Law requires a manufacturing contract between a nonresident person or company with a Paraguayan counterpart, and presentation of an investment proposal to the Maquila Council for its approval by bi-ministerial resolution (again, signed by the Ministry of Industry and Commerce and the Ministry of Finance). Among the benefits of the Maquila program are: substitution of the corporate tax on net profits (30%) by a 1% tax on national value added; importation of capital goods, raw materials, parts, components and inputs is duty free; and exemptions including VAT. The import taxes and duties are suspended, and a guarantee for the same value is needed.

Duty Free Areas

The introduction and storage of goods in the Paraguayan territory is permitted through the duty free areas, with suspension of all import taxes. They must operate in private properties and be approved by presidential decree. Commerce, industry and services could be performed into those areas. Tax rate is 0.5% on invoices, and no other tax applies as long as the goods are not sold in Paraguayan territory. There are two duty free areas in the eastern area, near the borders with Brazil and Argentina.

Strategic Location

Enjoying a privileged location in the heart of South America, between the south of Brazil, the north of Argentina, and the South-East of Bolivia, Paraguay is a member of MERCOSUR, occupying an axial position in the regional market, being the ideal starting point to trade, and a gateway into the markets of Argentina, Brazil and Uruguay, by hosting activities and processes complementary to other MERCOSUR located companies.

Besides, Paraguay is located at the confluence of an important river system (the Paraná and Paraguay Rivers Hidroway) and bi-oceanic corridors. This situation favors the logistics potential to link many of the main production/consumption centers of South America.

Basic Geographic and Demographic Data

With an extension of 406.752 square kilometers, Paraguay occupies the central plain of South America. It has enormous hydric resources both on the surface (with important and mostly navigable rivers), and the undersurface with the "Acuífero Guaraní", the world's largest fresh water reserve. Paraguay has impressive electricity production capacity of 8000 MW (the world's largest producer per capita) with two hydroelectric power plants shared with Brazil (Itaipu) and Argentina (Yacyreta). The country's fertile soil also constitutes one of the major resources. In the year 2003, the Soybean production was of 4.518.015 TN ranking Paraguay in the 10th position as producer and 6th as exporter in the world.

Paraguay has approximately 6 million inhabitants, mostly concentrated in the eastern part of the country. Its population is young and homogeneous. About 70 % of the population is less than 30 years of age. There are no religious or racial discriminations.

Asunción is the capital city and the economic, political and cultural center of the country, with a metropolitan population of approximately 1.5 million inhabitants. It is the nearest point to reach most of the other Business Centers of the region.

There are other important cities in the country like Ciudad del Este, one of the most important commercial places of the region, located at the eastern border of the Country with Brazil near Itaipú, the Yguazú Waterfalls, and many other attractions for business and tourism. Encarnación, is in the south of the Country, site of the old Jesuit Missions. Other important cities are Santa Rita, Filadelfia (at the center of the Occidental Region), Concepción, and Pedro Juan Caballero bordering with Matto Grosso State, Brazil, between others.

Office Hours and Time Zone

Paraguay is located in the GMT -04:00 time zone. General business hours are from 8:00 a.m. to 12:00 p.m. and from 3:00 p.m. to 7:00 p.m., although some businesses may remain open from 12:00 p.m. to 3:00 p.m.. Banking hours are from 8:45 a.m. to 2:45 p.m..

Government and Legal System

Present Constitution was enacted in 1992. The current Constitution establishes a presidential system government, with three independent branches: the Executive, the Legislative and the Judicial.

The President heads the Executive branch and is the chief of staff and commander of the armed forces, is elected by popular vote to serve five-year term. The Legislative branch is composed of the Upper Chamber (Senate, 45 seats) and the House of Representatives (Chamber of Deputies, 80 seats); members are elected by popular vote to serve five-year terms. The Judiciary branch is headed by the Supreme Court which is composed of nine members and by courts established by law.

2. Economic and Financial Framework

Paraguayan currency is the "Guaraní". Average annual inflation rate has been approximately 10% per year for the past 10 years, GDP was US\$ 7.2 billion in 2003. The main resources are: fertile soil, in 2003 the Soybean production was of 4.518.015 TM; water (both surface and subsoil, sharing the largest fresh water reserve in the world with neighbor countries: the "Acuífero Guaraní"; electricity, with more than 8000 MW Production capacity, with two huge Hydroelectric Power plants shared with Brazil –*Itaipu*- and Argentina –*Yacyretá*- , and smaller plant the *Acaray*. Paraguay has a young population (25% or its near by 6.2 million inhabitants is between 15 and 29 years of age, the average age being 21.1 years, and the population growth rate is of 2.51%) without racial and social conflicts.

Current Economic Trends

Between 1995 and 1997 the economy grew by an average of approximately 3% per year, it slightly declined between 1998 and 2000, recovered on 2001, to fall back again on 2002. During 2003 and 2004 there are positive signs of economic recovery, with greater stabilization at the macroeconomic level variables and a sustained increase of the productive activity.

Foreign Exchange Market

Decree 216/89 and Central Bank Circular 9/89 established a Free Fluctuating Exchange System for all imports and exports of goods and services and for capital movements, including public and private financial payments. The system is regulated by the Central Bank of Paraguay by intervening in the market, but rates of foreign currencies are determined by offer and demand. Import and export operations, payments of services in general and private capital movement must be channeled through banks. Authorized Exchange Houses operate also in the exchange market, buying and selling foreign currencies with no restrictions.

On 2003 the exchange rate has been stable, having registered a 15 per cent appreciation of the Guaraní against the US Dollar. The short-term expectations indicate stability at the regional market level, constituting a stimulating factor, since it would appear that external factors will not exert pressure upon the currency market at a domestic level.

Increase of International Reserves

During 2003 Net International Reserves of the Central Bank increased to over USD 300 million. By the end of 2003, Net International Reserves reached US\$ 960 millions, the highest level since 1999, year of the disbursement of a Chinese Credit of USD 400 millions.

3. Foreign Investment Incentives

Paraguay offers one of the world's most comprehensive legal systems regarding foreign investments, since, unless an application is filed for incentives granted under Law 60/90, investors need no governmental approval to invest.

There are no restricted areas, no discrimination and no limitations. The only difference between foreign investments and those made by locals, lies in taxation on net profits (Income), as foreign investments are subject to an additional five percent tax of dividends to non resident beneficiaries. Profits (Income) or dividends generated by investments made under Law 60/90 are not subject to this tax during their exemption term.

The Investment Law passed in late 1991 as Law N° 117/91 provides national and foreign investors equal guarantees, rights and obligations. This law allows investors to obtain local or foreign investment insurance's.

Law 60/90 for the Promotion of Investments

Purpose

The provisions of Law 60/90 aim at stimulating the investment and reinvestment of capital directed towards the following objectives:

- Increase the use of domestic raw materials and energy resources;
- Create jobs;
- Increase production of goods and services;
- Increase exports;
- Substitute imports;
- Incorporate modern technology;
- Improve productive efficiency.

Law 60/90 has significantly widened the benefits scope and incentives granted by former laws and simplified applications procedures to grant benefits. The initial step is to provide a feasibility study containing essential data required by said Law. The investment project is then analyzed by the Council and if approved, tax incentives are granted by a joint resolution of the Ministries of Industry and Commerce and of Finance.

Types of Investments

Investments may be made using any of the following:

- Money, suppliers' credit, or financing;
- Capital goods such as transportation or industrial equipment, office electrical and electronic machinery, equipment, etc.;
- Trademarks and other forms of technology transfer;
- Leasing of capital goods, especially applicable to river shipping and air transportation.

Fiscal Incentives

Fiscal incentives granted under said law are one or more of any of the following:

- Exemption from all taxes on the incorporation, recording and registration of corporations, companies or other enterprises;
- Exemption from all taxes levied on:
 - a. Capital increase provided for in the articles of incorporation or by-laws;
 - b. Capital contribution in the form of movable goods, immovable properties, entitlements and assignments of other goods or rights;
 - c. Issue, purchase and sale of bonds, debentures and other debt securities;
- Total exemption of all taxes and customs duties on: Capital goods imports for the initial installation and its Value Added Tax;
- Exemption on loan tax, credits and guarantees thereon, until the project is commissioned;
- Exemption of 95% of Income Tax for a period of five years;
- Exemption of taxes levied on the remittance of dividends and profits abroad;
- Exemption from taxes levied on leases, royalties, rights to the use of trade marks and patents, industrial drawings and models and other forms of technology transfer;

- Total exemption from taxes on Acts and Documents (Law N° 125/91, articles 127 and 128) payable by the beneficiary on acts, contracts and obligations documenting investments.

A novelty not usually offered by investment promotion regulations is the specific adoption of leasing of capital goods as a form of investment contemplated by the Law, which allows the introduction into the country of capital goods under the rules of temporary admission for the term of the lease agreement.

Upon expiration of the agreement, if not extended, the leased goods may either be re-exported or nationalized. Foreign registry of vessels and aircraft chartered or leased for a term not exceeding two years, may be registered in the country without waiving its original registration, provided the government of the country where the original registry was obtained so permits.

Granting of benefits is entrusted to the Investment Council, an agency composed by representatives of the Ministries concerned with production and by representatives of the private sector. The representative of the Ministry of Industry and Commerce is the Chairman of the Investment Council.

Provided the investor complies with all the obligations established by law, rights acquired or benefits granted are irrevocable.

Investment projects are usually approved within a term of 45 days after filing the project.

Repatriation of Capital and Remittance of Dividends

Repatriation of capital and profits is unlimited in time or amount. Nevertheless it is our understanding that foreign capital entering the country under the provisions of Law 60/90 should be registered at the Central Bank of Paraguay. In the same way, when investments are financed through overseas loans, the loan agreement should be submitted to the Central Bank for approval, particularly regarding grace periods, interest rates, spreads, punitive interest and other terms affecting Paraguay's foreign currency position.

Under the foregoing framework we have analyzed the tax benefits granted to investments, whether by domestic or foreign capital or combinations thereof. Companies may be established under any of the forms recognized by our legislation, such as corporations, limited liability partnerships, branches of foreign corporations, or as an individual limited liability company as provided by the "Ley del Comerciante".

Investment Guarantees: OPIC & MIGA

Paraguay signed the Multilateral Investment Guarantee Agency Agreement on September 13, 1991, ratified by Congress on 1992 by Law 124/92. The "MIGA" agreement created under the umbrella of the World Bank, insures investors against risks of expropriation, currency inconvertibility and damages produced by revolution, war or civil strike.

A similar agreement with the Overseas Private Investment Corporation of the United States of America is in effect, as that country has lifted the restrictions imposed by the Agency regarding investments in Paraguay, in a clear sign of acknowledgment of the progress that Paraguay has made under President Rodriguez in respect of human rights and freedom of speech.

Foreign Investment Law N° 117/91 gives foreigners the same guarantees, rights and obligations enjoyed by Paraguayan investors

The International Center for the Settlement of Investment Disputes

One of the main objectives of the World Bank is to promote foreign investments in both the public and private sectors. Political uncertainties in developing countries, and the fact that investors have to face non-economic risks, including expropriation and other government actions not subject to protection by the courts, led the World Bank to provide some element of protection to temper situations that may arise. In 1965 the World Bank, after holding four meetings to discuss the establishment of a Center for Settlement of the aforementioned differences, drew up the agreement providing for the creation of the International Center for the Settlement of Investment Disputes as an independent international agency. Paraguay ratified this agreement by Law N° 944 on October 22, 1982.

International Agreements for the Protection of Foreign Investments

Law 948/96 grants the recognition and execution of foreign arbitration awards. In all agreements subscribed by Paraguay regarding investments, the investor has the option to choose for:

- National Jurisdiction; or
- International Arbitration.

If chosen the International Arbitration, the investor may then choose either:

- The International Center of Adjustment of Differences related to Investment (ICADI), created by the Convention related to the adjustment of differences between the State and nationals of different State;
- A Court, set up under the rules of arbitration of the Commission of the United Nations International Mercantile Rights (C.U.N.I.M.R.).

Maquila

Under the special incentive regime of Maquila, a local company, called Maquiladora may undertake the production of goods or services by transforming, elaborating, repairing or assembling foreign-produced inputs which are temporarily imported into Paraguay for such purpose.

Therefore, the Maquila process must have at least two parties, a local firm (Maquiladora) and a foreign company (Home Company).

The Home Company provides the local firm with specific products or services, without any limit or requirements on the quantity or type, the local firm undertakes specific value-added services, such as product transformation, processing, etc., at which time, the final product is exported.

There are no specific requirements as to the legal incorporation of the local firm, as there is no minimum capital requirement. It may be entirely owned by foreign entities. Finally, the local firm may undertake not only Maquila activities but also other business interests, for which separate accounting books will be required.

A local Maquiladora pays 1% tax of on the local value added to the products and are exempt from all other taxes from such activity, either from the central, regional or municipal government. The Paraguayan added value is the value of the raw materials and other inputs

purchased in the country and all production costs, such as electricity, water, transport, salaries and fees. Fiscal recovery of value added tax paid on Paraguayan Maquila inputs is allowed.

The Maquila regime allows temporary import of machinery, equipment, parts, raw materials and components needed for the Maquila process, being exempt from any tariffs or import cost.

The machinery and the equipment may remain in the country for the full Maquila period, after which they must be re-exported or sold in Paraguay at a cost including the related import duties.

The raw materials and other components must be used within six months following their import, but a six-month extension of this period is possible when justified. The extension is made in through a bi-ministerial resolution granted by the Ministry of Industry and Commerce and the Ministry of Finance.

4. Formation of a Corporation

The Paraguayan Civil Code sets forth the procedures to be followed in the formation of corporation (Sociedad Anónima), wherein the participation of incorporators is represented by shares. The guidelines below outline this procedure and should be followed when forming a corporation in Paraguay.

Corporate Name

The corporate name must include the denomination "S.A." (Sociedad Anónima).

Organization

The following conditions are indispensable when organizing an "S.A.":

- There must be a minimum of two shareholders; (may be represented by proxy);
- Capital stock must be completely subscribed;
- Authorization from the courts to be recorded at Public Records. Authorization will be granted if the corporate organization and by-laws comply with the provisions of the Civil Code and its purpose is not contrary to public policy.

Corporate by-laws

The following must be included in the by-laws:

- Full name, nationality, profession, civil status, domicile of shareholders, and number of shares subscribed and paid up by each one;
- Name of the corporation and its domicile within the country or abroad;
- Nature of the business of the corporation;
- Specified duration of the corporation;
- Amount of subscribed and paid in capital;
- Nominal value of the shares, and indication of whether these are bearer or nominal;
- Value of assets contributed in kind; if any;
- Basis on which distribution of profits will be made;
- Special privileges and rights, if any, conferred on founders or shares;
- Dispositions regarding management and supervision, their respective powers and duties, and the number of administrators;
- Powers conferred on stockholder's meetings, provisions regulating exercise of stockholder's right to vote, and the procedure for decisions taken at such meetings;
- Basis on which the corporation is to be liquidated.

Formalities required to establish a Corporation

Shareholders must enter into a corporate contract in the form of a public instrument, with intervention of a Notary Public. Corporations acquire separate legal status from that of its shareholders upon registration at the "Registry of Juridical Persons and Associations" and the "Public Registry of Commerce".

Lack of registration will not make the corporate contract void, but it may not be opposed to third parties. Shareholders, directors and any person who have authorized acts, transactions and operations in corporate name prior to registration of the corporation are jointly and severally liable for these.

Management and Administration

Management and administration of the corporation is exercised by one or more directors elected by the shareholders' ordinary meeting or designated in the incorporation documents. Their number is decided by the general meeting if not specified in the bylaws.

Directors need not be shareholders. They may be reelected, but appointment is revocable by a Shareholders Meeting. Term of directors shall be of one fiscal year unless the bylaws establish otherwise. Directors must be Paraguayans or foreigners with legal residence in country.

Directors may only engage in business transactions with the corporation under special circumstances. They are forbidden to execute any business on behalf of the corporation not related to the purpose for which it was incorporated.

Corporate administrators are responsible before creditors for negligence in their duty to safeguard the integrity of corporation's assets.

Supervision

To supervise management of corporation, one or more trustees must also be appointed by the ordinary shareholders meeting. They must be capable of undertaking duties assigned by the by-laws, and domiciled in Paraguay. By-laws shall determine duration of their terms, which may not exceed three fiscal years and they may be reelected.

Trustees have the following powers and duties:

- Supervise administration and management of corporation, and participate without vote in the Shareholders and Board of Directors meetings;
- Examine corporations books and papers whenever they deem advisable, at least once every three months;
- Call extraordinary shareholders meetings when they consider necessary and ordinary meetings when the Board of Directors fails to do so;
- Ensure that corporation complies with all obligations under law, as well as with the decisions of shareholders meetings.

Responsibility of Administrators

Administrators are not liable for obligations of the company except in case of non-performance of their duties, mismanagement, personal breach of law or corporate by-laws. In such instances administrators are jointly and severally liable before the corporation and third parties for their acts, but directors who opposed, voted against or were not present when unlawful acts were approved, are exonerated.

Shareholder's Meetings

Called "Asambleas Generales", may be ordinary or extraordinary, and must take place at the corporate domicile.

Ordinary meetings must be called at least once a year by directors or trustees, to consider and resolve the following:

- Annual report of directors, statement of accounts, balance sheet, distribution of dividends, trustee's report, and any other issue within its competence according to law and by-laws;
- Election of directors and trustees, and determination of their compensation;
- Responsibilities of directors and trustees, and their removal;
- Issue of shares

Extraordinary meetings may be called by Board of Directors at any time or by trustees when deemed necessary or convenient or at request of shareholders representing at least 5% of corporate capital, unless by-laws set other limits, to resolve on any of the following:

- Modification of by-laws;
- Increase or reduction of corporate capital;
- Redemption, reimbursement or amortization of shares;
- Merger, transformation or dissolution of corporation; all matters related to liquidation and liquidators;
- Issue of debentures or exchange of these for shares;
- Issue of participation bonds.

Notice of meetings, including full agenda and any special requirements set forth in by-laws for participation, shall be published for five days, at least ten days before meeting. Should the meeting not take place, a second meeting must be called within thirty days. Decisions on matters not listed in agenda are null and void.

To participate in meetings, shareholders must, three days before meeting, deposit their shares or share certificates at the Corporations Secretary or present a certificate from the local or foreign bank that holds them. Shareholders may be represented in meetings by proxy, but not by directors, trustees, managers or other employees of the corporation.

Ordinary meetings on first call require a quorum of shareholders representing majority of shares with voting rights; any number of shareholders forms quorum for second call. In either case, resolutions require absolute majority of votes present unless by-laws call for different majority.

Extraordinary meetings on first call require presence of shareholders representing sixty percent of shares with voting rights; on second call quorum is thirty percent. By-laws may establish higher percentages.

Shares

Corporation ownership is represented by bearer or nominal shares. Share certificates must be numbered and signed by one or more directors, and contain: Name of corporation, date and place of registration, subscribed capital, number, par value and type of share. Share certificates may only be issued once they are paid in full, until such time, shareholders are given nominal provisional certificates and remain liable for payment. By-laws may establish different kinds of shares with or without different rights. Transfer of shares may be subject to special conditions.

A corporation may acquire its own shares when authorized by an extraordinary meeting of shareholders, and such purchase may be made with liquid earnings provided shares have been paid-in fully.

Accounts

Directors are required to prepare each year an inventory, a detailed statement of account, a report on its tenure and other relevant documents to demonstrate the condition of the corporation. Such documents must be approved at the annual ordinary shareholders meeting.

Dividends

Five percent of net profits must be set aside annually with the purpose of creating a reserve up to 20% of the subscribed capital. Dividends may only be paid to stockholders out of the corporation's net profits. Any infringement makes directors jointly and severally liable.

Time Required

The incorporation of a "Sociedad Anonima" takes approximately 45 to 60 days.

5. Limited Liability Companies

Two or more persons or corporations may establish a partnership in the form of a limited liability company. Limited liability companies (Sociedad de Responsabilidad Limitada) may use any name, including that of one or more of the partners, preceded or followed by the words: "Sociedad de Responsabilidad Limitada" or "SRL". An SRL may not engage in banking, insurance, or savings and loans business.

An SRL may not operate unless its corporate contract has been recorded at the Public Registry. It is not compelled to register as a commercial entity, but failure to do so creates unlimited responsibility of all partners towards third parties.

Company Capital

Capital may not be represented by nominal, endorsable or bearer shares. It is divided into nominal quotas of 1,000 Guaranies or multiples thereof, indicated on the incorporation contract.

Constitution of an SRL

An SRL may be formed by two (but not more than twenty-five) partners upon formalization of an incorporation contract in the form of a public deed (escritura pública).

The company capital must be fully subscribed and at least 50% paid-in in cash. There are no minimum capital requirements, but it must be adequate for the type of business the SRL will engage in. Export and import companies must meet certain requisites imposed by the Central Bank of Paraguay.

Capital may also be incorporated in goods or fixed assets, which must be transferred to the company through the incorporation documents or when the company's contract is recorded at the Public Registry. Partners remain jointly and severally liable towards third parties for the value of goods and assets incorporated.

If an SRL has more than five members, transfer of quotas to third parties must be approved by partners that represent 3/4 of the capital. If it has less than five partners, the vote must be unanimous. Transfer of quotas among partners is unrestricted.

The partner wishing to transfer quotas must advise others, who must reply within fifteen days. Assent is presumed if no opposition is filed. A partner who doesn't obtain the necessary consent to transfer his quotas may be authorized to do so by a judge in summary proceedings. If opposition is deemed to be without cause, other partners of the SRL may acquire quotas in the

same conditions as offered to or by third parties. SRL may also acquire its own quotas with net liquid profits or by reducing its capital. Transfer of quotas must be made by a Notary Public, but will not be effective until recorded in the Public Registry.

Managers

Administration and representation of an SRL is delegated to one or more managers (gerentes), who may be partners or not and who have same rights and duties as the directors of corporations (sociedades anónimas). There are no limitations to their terms.

Managers may not act on their own initiative in any business transaction that is not included within the purpose for which the SRL was formed, nor may they assume the representation of another person of commercial entity with similar business without express authorization of partners. Managers are personally and severally liable before the SRL in case of mismanagement or violation of the company charter.

All partners have the right to take part in decisions of the company. If SRL's charter does not determine how partners will reach decisions, the rules for general meetings of corporations (sociedades anónimas) will apply. All resolutions to change the purpose of the company, or to transform, merge, or amend the SRL's charter, which will impose more responsibility to the partners, require unanimous consent. Any other resolution is passed by majority of capital; Each quota represents one vote.

Reserve Fund

Five percent of net profits are required to be set aside annually to create a reserve fund of not less than 20% of SRL's capital.

Dissolution

An SRL is not dissolved by death, interdiction or bankruptcy of a partner, nor by dismissal of manager(s), or partners appointed on the contract, unless stipulated to the contrary. Bankruptcy of SRL does not imply the bankruptcy of partners.

6. Branch Offices of Foreign Companies

Companies incorporated in foreign countries which will conduct regular business in Paraguay must establish a branch office in the country. These are subject, like Paraguayan companies, to provisions of Paraguayan Civil Code regarding publication of corporate documents and registration at the Public Registry of Commerce (*Registro Público de Comercio*) and the Registry of Legal Entities and Associations (*Registro de Personas Jurídicas y Asociaciones*).

Foreign companies are deemed to be domiciled where their principal place of business is located, but branch offices established in Paraguay are considered domiciled in the country for the purpose of transactions and business carried out within its territory, and, therefore, must comply with all formalities and obligations established by Paraguayan law for similar entities.

Representatives of foreign companies are authorized to engage in all transactions, acts and things which company is capable in its own country. Any limitations to such capacity are null and void. Representatives are subject to same responsibilities set forth in the Civil Code for administrators in general.

To register a branch office, the following documents must be prepared by the Company, all certified by a notary public, and legalized by a Paraguayan Consulate:

1. The Articles of Incorporation and by-laws of the Company;

2. A certification that Company is validly existing and registered in country of origin;
3. A Board of Directors resolution which:
 - Resolves to establish a branch office in the Republic of Paraguay;
 - Assigns capital to branch office, adequate for its purposes, not less than US\$ 10,000;
 - Establishes the domicile of the branch office in Asunción, Paraguay;
 - Designates the person or persons who will manage the branch office and grants powers of attorney as required by Paraguayan law;
 - Grants powers of attorney to the attorneys in our firm for the purpose of performing the registration of the branch office.
4. The powers of attorney granted to branch office managers and attorneys.

Once the documents are received in Paraguay, they are translated into Spanish by a certified translator before being controlled by the Internal Tax Office and Ministry of Foreign Affairs. The documents are recorded through a Notary Public and registered at Public Registries.

After the branch office has been registered and accounting forms have been filed with tax authorities and other public offices, it is ready to commence operation and carry out business transactions. Authorization from the Government is not required. The process requires approximately 45 days.

A branch office must comply with the taxation and disclosure requirements of local companies. Publication and registration of balance sheets, reports and statements are also controlled by the Ministry of Finance, although, since branches of foregoing companies, they do not hold annual shareholder's meetings, therefore control is less severe.

7. Labor Law

The terms of the Labor Code (Law No. 213/93) govern the relationship between employers and dependent workers which concern subordinated and remunerated services rendered, and affect all intellectual or manual workers and those with whom the employer may have entered into a labor contract.

The Code defines labor as all conscious and voluntary human activity, rendered in a dependent and remunerated manner, for the production of goods or services.

An Employer is any natural or juridical person who utilizes the services of one or more workers by virtue of a labor contract. A Worker is any person executing work or rendering other services by virtue of a labor contract.

The existence of a labor contract between a person providing work or using a service and a person rendering the same is presumed. The law acknowledges guarantees, benefits and rights of the workers which cannot be subject to waiver, accommodation or limitation pursuant to agreement. Any covenant to the contrary shall be null and void and shall not obligate the contracting parties.

The Labor Code does not govern:

1. Directors, managers and other officials of the firm who because of the status of representative of the firm, the importance of their remuneration, the nature of the work performed and/or their technical capacity, enjoy notorious freedom in their work and in general any person who performs management or administrative functions by express delegation of the employer;
2. Services rendered sporadically;

3. Public officials and employees of the Central Administration of the State;
4. Personnel enjoying expatriation or protection of diplomatic privileges.

The Labor Procedural Law (Law No. 742/61) establishes that the labor jurisdiction cannot be delegated nor its competence extended as being considered of public order. The jurisdiction is applied upon individual and collective legal conflicts, in first and second instances, by judges and courts and in the case of collective economic conflicts by the Permanent Conciliation and Arbitration Commission.

Work Shift

The law places limits upon the work shift.

- Daytime shift: Eight hours daily or 48 hours weekly, between 0600 and 2000 hours.
- Nighttime shift: Seven hours daily or 42 hours weekly, between 2000 and 0600 hours.
- Mixed shift: seven and a half hours daily or 45 hours weekly. This includes daytime and nighttime hours.

Overtime work is permitted in special circumstances but in no case may these exceed three hours per day or a total of 57 hours per week. Overtime work shall be subject to extraordinary pay. Overtime work of minors below 18 years of age is no permitted.

Salaries

Salaries shall be stipulated freely but they cannot be under the minimum wage established pursuant to the terms of the law. Salaries may be paid per unit of time (month, fortnight, day or hour), per unit of work (piece, work or task) and/or as commissions on sales or collections for the account of the employer or on account of future earnings.

The Labor Administrative Authority regulates the minimum wages for workers of the Republic pursuant to the activity performed, on the basis of prior cost-of-living studies carried out by the National Economic Coordination Council.

Minimum Monthly Wage: Gs. 972,413 (approx. US\$ 166)

Annual Bonus

The law establishes an additional annual remuneration equal to one twelfth of the total earnings for the calendar year.

Labor of Minors

Work capability is achieved at 18 years of age. Minors below 18 years of age but over 12 years shall require authorization of their parents or guardians and cannot undertake work that may endanger their life, health or morals.

Minors being 12 years of age but less than 15 years may only work:

- a) In family enterprises and in occupations that do not endanger their life, health or morals;
- b) Activities aimed at professional training;
- c) On agricultural and animal husbandry activities under certain conditions.

Labor of Women

Woman, obviously, upon reaching 18 years of age achieves work capability. Married women do not require the consent of their husbands in order to enter labor contracts and perform the actions arising from such contracts. Women may not engage in work that may endanger their life, health or morals.

In case of pregnancy, the working woman shall have the right to maternity leave as from six weeks prior to the estimated date of childbirth and six weeks after the same. Industrial and commercial establishments employing more than 50 women are required to provide nurseries for children less than two years of age.

Discrimination

The law prohibits any kind of discrimination on the basis of age, sex, nationality, religion or politics and, as the case may be, labor union activity.

Labor Unions

The law recognizes the rights of workers and employers, without distinction as to sex or nationality and need of prior authorization, to freely constitute organizations aimed at the study, defense, promotion and protection of their professional interests as well as the social, economic, cultural and moral improvement of their members. Unions may be of employers or workers. These may constitute federations. Legalization and registration of unions of workers or associations of employers shall be filed with the Labor Administrative Authority.

Labor Conflicts

The Labor Code recognizes right to strike and right of employers to lockout. Waiver of these measures may be provided for in collective labor contracts in case of conflicts arising out of their enforcement. A strike is defined as a simple act of peaceful suspension of work. To be considered legal, a strike shall be designed to achieve the acceptance of a collective labor contract or its compliance, or eventually to demand an amendment upon its termination.

In order to call onto strike the following is required:

A General Meeting of workers of the work center in order to designate the members of the Strike Committee, when there isn't a Union who to represent them.

The Meeting must comply with the following requirements:

- Call in the manner and notice established in the by-laws;
- Attendance of an absolute majority and a favorable decision made by more than half of those present;
- Minutes duly executed;
- The decision must be made by secret vote of all participants;
- Prior Notice: The strike shall be notified to the Labor Administrative Authority and the employer no later than 72 hours in advance.

Layoff Compensation

The law provides for rules applicable in the case of layoff on the basis of seniority and salary received by the affected worker. Compensation is fixed on the basis of the average salary received by the worker during the past six months or by the total average in the case of shorter employment.

Layoff notice shall only be paid when same shall has been omitted. The amount is equal to the worker's salary corresponding to the notice period. Notice periods:

- 1) from the end of the trial period up to one year of service, 30 days;
- 2) from one to five years seniority, 45 days;
- 3) from five to ten years seniority, 60 days;
- 4) over ten years seniority, 90 days.

Compensation for unjustified layoff is equal to 15 days salary for each year or fraction of six months that the worker has been employed. If the worker has achieved labor stability (10 years or more seniority), he shall not be subject to layoff except by reason of just cause approved by decision of a Judge in Labor Matters. Should the cause of layoff not be proved, the worker shall be restored to his employment or by worker's choice, the labor contract may be terminated, in which case the employer shall pay all back salaries, compensation and fines levied upon.

Social Security

The Social Security Institute is an autarkic entity of the Government designed to direct and administer the social security system which covers liabilities of sickness or injury of the worker and family, maternity, work accidents and professional illness, and pensions for disability, old age and death, retirement and complementary pensions.

All persons performing services or work by virtue of a labor contract, either oral or in writing, whatever his age or remuneration, shall be included in the social security system and obligated to make their contribution. This includes (1) paid workers; (2) apprentices; (3) personnel of autarkic or mixed enterprises; and (4) teachers of elementary, secondary, professional, and languages, university professors of public and private institutions.

Registration in the Social Security Institute is mandatory. Defaults are subject to fine. Also, the employer who fails to register or notify the hiring of the worker, or fails to pay the corresponding contribution shall be responsible to the Social Security Institute in case of injury, or death from a work accident.

Employer's Responsibility

The employer assumes no responsibility for accidents sustained by his employees even if the result in their death, since its liability is covered by the Social Security Institute which shall assume the cost of injuries, disability and indemnity in case of death.

The employer shall contribute, on his own account, to the Social Security Institute 14% of all salaries and wages paid during each month, and shall retain the workers' contributions, which amount to 9%. An additional contribution of 2,5%, at the employer's account, shall be added (for the Ministry of Health, SENEPA and SNPP) bringing the total contributions to 16,5% from the employer and 9% from the worker.

8. Taxes

Tax Reform Law N° 2421/04

In July 2004, a Tax Reform Law was approved by Congress which presently is not fully in force. The executive branch must put in force each of the new regulations through Executive orders (Decreets) up to one year from the publication of the Law. The Maquila Law will retain all of its benefits, and the Investment Promotion Law N° 60/90 will continue in force but without the exoneration of 95% of the Taxes on Net Profits for 5 years; meaning that instead of paying a 1.5% effective rate for 5 years and 30% from 6th year and after, there will be a 10% permanent Tax rate as from 2006.

A. Tax on Business Income

Taxable Income

All income from Paraguayan sources derived or earned from commercial, manufacturing or service activities other than personal services:

- Sale-purchase of real estate when activity is carried out as permanent business;
- Use of assets, and other income shown on commercial balance sheets, excluding income from farming which is governed by specific rules applicable to sector;
- Commercial partnerships, as well as foreign corporations or their branches, agencies, or business establishments in Paraguay;
- Extractive industries such as mining and forestry, and certain farming activities (flower growing, forestry, bee keeping, poultry farming and others);
- Income earned by consignees of merchandise;
- Supply of certain services listed in law, which are subject to amendment and regulations.

Taxpayers

- Individual businesses, partnerships, associations, corporations and other private businesses;
- Government-owned enterprises, decentralized government corporations, and mixed capital corporations;
- Branches, agencies or businesses owned by foreign corporations;
- Corporations incorporated overseas shall pay tax on income paid or accredited to them;
- Individuals applying capital resources and personal labor jointly, for purpose of obtaining economic gain, except those involving strictly personal services or those engaged in farming.

Paraguayan Source

The following incomes shall be deemed to proceed from Paraguayan sources:

- Those obtained from business carried out from goods located in or from entitlements used for gainful purposes in Paraguay;
- Interest on securities and movable properties;
- Technical assistance provided within country when utilized or applied in it;
- Assignment of goods or rights when used even partially during agreed period, such as use of trademark or patent;
- International freight on goods carried to bordering countries or Uruguay deemed as 50% from Paraguayan sources;
- Other freight deemed 30% from Paraguayan sources.

Gross Income

Is defined as the difference between total earnings and cost thereof. In sales, it's the difference resulting from deducting from gross sales any returned goods, gratuities and price discounts as applied in local business usage or custom; in sale of fixed assets, it's the difference between sale price and cost or revalued cost of assets, minus amortization or depreciation allowed by law.

- Proceeds from sale of movable or real estate received in payment;
- Proceeds from payments to partners or shareholders;
- Any exchange rate differences resulting from transactions in foreign currencies;
- Net benefits resulting from collection of insurance or indemnities;
- Proceeds from any transfer of enterprise or business firms;
- Interest on loans or investments (advances paid to partners or employees are excluded as well as deposits placed in financial entities);
- Any increase in net worth occurring during fiscal year other than that arising from revaluation of fixed assets or capital contributions or from exempt or nontaxable businesses.

Net Income

Is calculated by deducting from gross income all expenses incurred to obtain such income and to maintain source of income, provided they are real expenditures, duly documented:

- Taxes and social benefits excluding business income tax;
- Operating expenses of business;
- Personnel compensation;
- Organization or incorporation expenses;
- Interest and rentals or sums paid for assignment of assets and rights;
- Losses suffered through casualties not covered by insurance;
- Reserves or write-offs for bad debts;
- Losses incurred as result of criminal acts;
- Depreciation;
- Amortization of incorporeal rights such as trademarks and patents;
- Expenses and payments incurred overseas associated to taxable income from export and import operations;
- Travel expenses, per diem, and other similar payments in cash or kind;
- Gifts to State, municipalities and religious entities or to entities dedicated to social welfare or education, recognized by Tax Administration;
- Professional fees and other compensation for personal services not subject to taxation;
- Expenses and contributions paid to staff for health care, education, cultural development, or training.

Losses incurred in any fiscal year may be set off against earnings generated in three following fiscal years.

Nondeductible expenses

Non deductible expenses include:

- Interest on loans or advances from owner of business, partners or shareholders;
- Penalties for tax offenses; earnings in any fiscal period retained in business as capital increases or reserve accounts.
- Amortization of payments for goodwill.
- Personal expenses of owner, partners, or shareholders, and moneys drawn on account of future earnings.
- Direct expenses involved in earning nontaxable income.

Beneficiaries Not Domiciled in Paraguay

Beneficiaries of Paraguayan source income domiciled abroad are subject to withholding tax, separately from their local branch or agency. Law establishes imputed profit margin to which rate is applied.

Imputed profit margin varies as follows:

- 10%: Insurance or reinsurance premiums; sales of travel tickets, radio message services, telephone calls and other similar services sent overseas from Paraguay; freight on international shipments.
- 15%: Gross income earned by international news agencies; Gross income earned by leasing of shipping containers.
- 40%: Rentals on motion picture films or television programs or those of any other projection medium.
- 50%: Income earned from sources other than branches, agencies or businesses located in Paraguay.

- 100%: Income earned by any other business arising from branches, agencies, or businesses located in country. Taxpayers may in such cases choose to pay taxes according to general rules governing tax by keeping adequate books of account for verification of expenses and income.

Presumptive Income

Taxpayers who do not keep regular books of account run at risk that Tax Administration authorities may establish a presumptive income on which to apply net income which in turn shall be subject to the tax rate established by law. Taxpayers engaged in businesses character which places difficulties apply generally accepted accounting principles, may request the Tax Administration to apply a tax regime based on presumptive income.

Revaluation of Fixed Assets

Annual revaluation of fixed assets is mandatory and updated value shall result from applying the to book value shown in previous fiscal year a percentage variation based on consumer price index as determined by the competent government body.

Value of Inventories

Merchandise in stock is carried on books either at cost of production, cost of acquisition or at market cost at close of fiscal year, at taxpayer's option. Tax Administration may accept other systems o inventory valuation. Negotiable securities and valuables shall be booked at their market value at close of fiscal year. If not quoted on market, purchase price is used. Fixed assets and intangible assets are carried at purchase cost without prejudice of annual revaluation.

Reinvestment Exemption

It benefits manufacturing and reforestation projects. In the first case, the investment must be applied to installation, expansion or renewal of fixed assets devoted directly to production of manufactured goods; in the latter case, to forestation or reforestation projects in rural areas.

Investments must be in new productive assets or in case of imported assets goods must be prime condition and well maintained, suitable for manufacturing process. Reinvestments must be carried out in same fiscal period, extendable to following fiscal year and may not be distributed as dividends but kept in a reserve account for capitalization. Value of reinvestments in excess of net income for fiscal year period may be employed in future years.

Companies reinvesting as indicated above, pay income tax at rate of 10% and are exempt from tax on remittances, earnings or dividends to beneficiaries not domiciled in Paraguay.

Branches

Branches or agencies of companies incorporated overseas shall keep accounts separated from those of their head office. Payments of interest, royalties and for technical assistance made by branches or agencies to their head office are deductible items for payers but taxable for payees.

Tax Rates

General tax rate is of 30%. Sums paid or credited to head offices by branches, agencies, or businesses located in Paraguay are subject to a 5% tax. Income of individuals not domiciled in country, earned independently from that paid or credited on activities conducted by branches, agencies or businesses are subject to both tax rates above, limited to 5% in case of earnings or dividends.

Changes Expected for 2005

- *CORPORATE INCOME TAX: Rate will be reduced from 30 to 20%. Additional withholding tax rate on profits remittance abroad will be raised from 5 to 15%.*

Changes Expected for 2006

- *CORPORATE INCOME TAX: Rate will be finally reduced to 10%. An Additional tax of 5% on profits to be distributed will be introduced. The withholding tax on remittance of profits abroad will remain 15%.*

B. Selective Tax on Consumption

Applies to imports of goods and to their first sale in case of domestic products. Importers and manufacturers of taxable domestic products shall be liable for tax. For imports, taxable base is Customs value plus Customs duties and fees for services. For domestically manufactured goods taxable base is ex-factory price excluding VAT and this tax.

Tax rate

Tobacco, 7-8%; alcohol, 10%; beverages, 8%.

Changes Expected for 2005

- *SELECTIVE TAX ON CONSUMPTION: Some rates will be raised (i) cigarettes and tobaccos from 7-8% to 12%, (ii) beverages range from 5% to 12%. Some goods (perfumes, make-up, jewelry, air conditioning systems, electric home equipment, watches, musical instruments, guns, toys, data/music/video recording equipment) will be taxed with rates ranging from 1% to 5%.*

C. Tax on Farm Income

Farming is defined as business conducted for the purpose of obtaining primary products, either vegetable or animal, by utilization of land, excluding the business of handling, processing or treating farm products unless it is carried out by the same producer.

Taxpayers

- Individuals;
- Partnerships, whether incorporated or otherwise;
- Associations, corporations, and other private entities;
- Government enterprises, self governing agencies, decentralized entities; individuals or corporations conducting taxable businesses, including corporations incorporated overseas and their branches and agencies.

Gross Income from Farming

Income is determined on basis of presumptive income estimated at 12% of fiscal valuation or all real estate held by taxpayer under any title. Gross income is determined independently of whether or not exploitation actually takes place. National Catastral Service determines annually the fiscal value of land, excluding improvements and buildings, on the basis of average prices prevailing on market during the last twelve months.

Determination of Net Income

The following are deductible from gross income:

- Expenses needed to produce and maintain income, up to 40% of gross income;
- Value of any areas occupied by natural or planted forests and by permanent ponds;
- Value of 20 hectares in case of properties under 100 hectares in area.

Tax Rate is 25% on net income as determined above.

Changes Expected for 2005

- *TAX ON FARM INCOME: For properties of more than 300 hectares in the eastern region and 1500 hectares in the occidental region, the tax rate will be 10%, applicable on the net income (expenses directly linked to the exploitation deducted). For smaller properties, a 2,5% rate will be applied on the presumptive income calculated on presumptive yields established by the same law for each agriculture and cattle product.*

D. Small Businesses Tax

Applies to commercial, manufacturing and service businesses other than personal services, conducted by individuals using their personal labor and capital to pursue economic gain. Tax base is determined on basis of presumptions calculated on economic indicators according to taxpayer categories, allowing for factors such as salaries and wages paid, expenditures on utilities, rents, merchandise, raw materials and inputs purchased. Imputed profit margin is established for each business or trade. Tax rate can vary between 1% and 4%. Currently it is set at 4%.

Changes Expected for 2005

- *SMALL BUSINESS TAX: Rate will be raised from 4% to 10%. Applicable on the smaller of the following values: (i) Net Income, (ii) Presumptive Income (30% of gross income).*

E. Customs Duty and Tax

Common external custom duty is 20%. Other taxes are established on the base of each products custom tariff number.

F. Employment Tax

Incidence of contribution on salary is 16.5% to employer and 9% to worker. In no case will contributions be calculated over amounts smaller than minimum legal wage.

G. Gasoline and special Fuels Taxes

Applies to the first sale of petroleum products (gasoline, diesel fuel, aviation fuel). Taxable base is customs value plus customs duties and fees for services. Tax rate is 50% of the Selective Tax Consumption over all types of fuels. Fuel oil is exempt.

H. Local Government Taxes

Municipal taxes and fees are paid to each city for a wide range of services and activities. Main taxes are Commercial Licenses, Real Estate Tax, Constructions and Properties Tax.

I. Property Taxes

Real Estate Tax

Applies to real estate property located in national territory, and taxpayers are owners or users thereof. When ownership is shared tax is paid by any one of owners.

Tax Base

Fiscal valuation of real estate as set by National Survey Service. Property values shall be increased until they match prices set by market following consumer price index, but increases shall not exceed 15% per annum. In case of rural properties any improvements or buildings shall not be computed in tax base.

Tax Rate is 1% of fiscal value per year, reduced by 50% in case of rural properties less than five hectares in areas utilized for small scale farming.

J. Tax on Acts and Documents

Applies to acts involving financial intermediation.

Tax rate

- 2% per annum: loans of money or in kind and credits extended, as well as extensions thereof, granted by banks and financial institutions;
- 1.74% flat: bills exchange, drafts, inter city bank checks, payment orders, letters of credit and in general any transaction involving assignment of funds within country;
- 1% flat: bills of exchange, drafts, payment orders, and letters of credit and in general any transaction involving assignment of funds or currencies to overseas payees.

Banks and financial institutions and notaries public act as withholding agents for taxes on acts and contracts in which they take part.

K. Value Added Tax

Is applicable to the transfer of ownership of goods from one person or company to another; rendering of personal services and goods import. Excluded are personal services performed under employment.

Taxpayers

- Individuals providing personal;
- Individual businesses engaged in commercial, manufacturing or services businesses;
- Partnerships and private entities in general;
- Independent government entities, government enterprises and decentralized agencies engaged in businesses;
- Importers of goods.

Origin of Tax Liability

For sales of goods, tax obligation arises upon delivery, issue of invoice or equivalent act, whichever first. For public services, on due date of invoice. For services, upon issuance of invoice or collection of full or partial payment for service, upon expiration of term for payment or upon termination of service. For items of personal consumption, at moment of purchase. For imports, at time register of entry of goods into Customs is opened.

Territoriality

All sales of goods and services in Paraguay are taxable. Territoriality in case of technical assistance is applicable when used or has profited in country; in case of assignment of national territory. In case of insurance and rights or lease of goods, used within reinsurance when they cover risks within country or when the goods or persons covered are situated in or residents of country.

Tax Base

In transactions, for consideration, tax base is invoiced net price for goods or services. To establish net price and determining the price of goods used or consumed privately, same income tax rules apply, in addition to any special provisions. In case of imports, base is Customs value plus Customs duties in addition to other taxes applicable to delivery of goods (Customs and dock fees) and internal revenue, taxes, but excluding value added tax.

Exemptions

- Sale of Goods: Farm products in their natural state; foreign currencies, government or private bonds, securities including shares of stock; real estate; lottery tickets, betting slips; petroleum based fuels; goods received through inheritance; assignment of credits.
- Services: Interest on government or private bonds; leases of real estate; financial business, including loans granted by overseas banks, except: Commissions earned by brokering purchase and sale of securities and as agents serving as payers of dividends, amortization and interest; and commissions earned on issue and renewal of credit cards, sums earned by carrying out mandates and commissions unrelated with financial businesses; management of securities portfolios, debt collections, technical and administrative assistance, leasing movable goods; loans to and deposits in financial institutions authorized by Central Bank of Paraguay, and in cooperatives, Crédito Agrícola de Habilidadación, Home Savings and Loan system, National Development Bank, and Fondo Ganadero.
- Imports: Crude petroleum; travelers baggage; diplomatic service imports; goods to be applied directly to productive cycle in manufacturing or farming in projects benefited by incentives offered under Law 60/90, except when such goods can be produced locally. Goods imported to render services are not exempted even if benefited by Law 60/90.

Payment of Tax

Fiscal debit is the sum of taxes accrued (invoiced as opposed to collected) by taxable transactions in each month. Fiscal credit is the sum of taxes included in purchases of goods and services on local market during month, or on imports. Tax shall be appraised on the sum representing difference between fiscal debits and fiscal credits. Deduction of any fiscal credit is conditional on such credit arising from goods or services devoted directly or indirectly to transactions subject to taxation. Taxpayers rendering personal services may not deduct any fiscal credits arising from purchase of motor vehicles. When fiscal credit exceeds fiscal debits surplus may be carried over to future liquidations.

Tax rate is 10%.

Changes Expected for 2005

- VAT: This tax will be generalized to imports and sales of almost any good and service. Exoneration will be reduced to: (i) sales of non processed agriculture, fishing and hunting products, (ii) sales of foreign currency and securities, (iii) goods received through legal succession. General rate will remain 10%, but it will be reduced to 5% for certain activities as basic foods sales, financial interests and fees, pharmaceutical products, assignment of the use of goods and real state sales.

L. Personal Income Tax

This new tax will be introduced for the first time in 2006. Rate will be 10%, applicable to personal income from almost any source with exception of: *retirement payments and benefits, accidents compensation, incapacity or death, interests and yields for deposits and investments on local financial institutions (including cooperatives)*. The rate will be applicable on the net personal income (gross income minus deductible expenses). Only 50% of dividends distributed by companies subject to Corporate Income Tax will be considered gross income.

M. Treaties and Agreements

Paraguay has Tax Exemption and Double Taxation treaties with the following countries:

- Chile- Law 230/93, dated June 25, 1993
- Uruguay - dates May 14, 1991
- China- dated April 28, 1994
- Belgium- dated July 3, 1986
- Argentina- Law 1105/97, dated August 14, 1997

9. Immigration Law

The Constitution

The Paraguayan Constitution proclaims that all the inhabitants of the Republic have the right to develop their personal inclinations, trade and business, without limitation, except those derived from the rights of others and public policy.

Nationals and foreigners are equal before the law, without discrimination. Foreigners may enter Paraguay as residents with the formalities and requirements established in the law and enjoy the same rights and obligations of Paraguayans, with the limitations established in the Constitution and the law.

Immigration

Immigration and residence of foreign nationals is governed by Law N° 978/96.

A foreigner can become an immigrant or apply for residence provided he can demonstrate economic standing with personal resources, or under the employment of another person, enterprise or company, and evidence good morals and capacity for work.

All applications must have the following documents:

- Passport from the country of origin, with photograph;
- Birth certificate;
- Marriage Certificate;
- A certificate of an administrative, judicial authority or employer evidencing occupation, degree, or diplomas;
- A certificate of Medical Doctor or institutions evidencing good health;
- A certificate from Police or Judicial authorities of the country of residence evidencing good conduct and lack of criminal records over the past 5 years.

All the documents must be certified by the Paraguayan Consulate and translated into Spanish. Immigrants investing in agricultural, cattle raising and industry are considered privileged.

Immigrants are given a Certificate of Residence while in Paraguay and a return entry permit if it is necessary for them to leave the country.

Residence

Foreigners may reside in Paraguay, provided they process the formalities with the requirements established by law (indicated above). Foreigners enjoy the same rights and have the same obligations as nationals, with the limitations and exceptions established by the Constitution and laws. Only citizens have the obligation to perform military service, the right to vote and to hold judicial and political office.

There are no restrictions concerning ownership of property by foreigners, because property is guaranteed and regulated by law. Foreigners may engage in commerce or industries without limitations. Foreigners may practice any liberal profession in Paraguay. Those who study at a Paraguayan university are on equal terms with nationals. Foreigners holding a degree from a foreign university should have their degree revalidated by the National University in accordance with international agreements.

Naturalization

Foreigners may become naturalized citizens, entitled to all rights granted to natural born Paraguayans three years after obtaining their Certificate of Residence. The procedure requires intervention of the Supreme Court, and subsequently the applicant can request issuance of a Paraguayan passport. Paraguayan passports are valid for two years and must be renewed personally in the country.

Procedure

The naturalization or residence procedure requires personal presence of the applicant in Asuncion, for a period of 7 to 15 days with the documentation mentioned below. It is convenient that the applicant also have bank references issued by first class banks and certified copies of degrees, if any. Once resident status is granted, the Police Department issues an identity card (Cédula de Identidad).

- Passport of the Country of Origin
- Translation of the Passport
- Certificate of Establishment
- Book of Vial Conscription
- Evidence of Work, occupation or Industry
- Records from the Country of Origin issued by corresponding Authority
- Criminal Record in Paraguay
- Certificate of Good Conduct from the Paraguayan Police Department
- Certificate of Life and Residence from the Police Headquarters
- Sanitary Certificate from LACIMET
- Photographs (front and profile)

- Identity Card
- Stamps

10. Distributors, Dealers and Agents

Law No. 194/93 governs relationship between foreign companies and firms (collectively, "Principal") and local representatives, agents and distributors (collectively, "Dealer") in Paraguay.

Definitions

Representation is authority granted by contract to Dealer to negotiate and carry out commercial transactions for promotion, sale or distribution of products or services provided by Principal. Agency is contractual relationship whereby Principal grants Dealer authority to act as intermediary in negotiations or contracts with clients for the promotion, sale or distribution of products and services, contemplating payment of commission. Distributorship is contractual relationship between Principal and Dealer for purchase or consignment of products, with objective of reselling same.

Application of Paraguayan Law

Parties may freely regulate their rights by contracts governed by Civil Code, but waiver of rights recognized by Law 194/93 is not allowed.

Termination Without Cause

Principal may cancel, revoke, amend or refuse to renew Representation, Agency or Distributorship, without statement of cause, but with obligation in such case to pay Dealer a minimum compensation pursuant to following criteria: a) duration of relationship; b) average gross benefits derived from relationship during last three years of activity.

Termination With Cause

Representation, Agency or Distributor relationship may be cancelled, revoked, amended or not renewed for just cause, without obligation to pay compensation for following reasons: a) non compliance of contract clauses; b) fraud or breach of trust on part of Dealer. c) Inability or negligence of Dealer in sale of products or services. d) Continued reduction of sales or distribution of products or services for reasons attributable to Dealer; except if caused by quotas or restrictions on imports and sales, fortuitous events or force majeure. e) Any act attributable to Dealer that affects or prejudices marketing, sale, or distribution of products or services; f) conflict of interest due to the representation, agency or distribution of products or services that may be in competition with the products or services contemplated by relationship.

Prior to termination, Principal shall require Dealer cure the cause invoked within a term of 120 days. Non compliance by Dealer allows Principal to exercise its rights immediately. Curing period not required if termination is related to fraud or breach.

Stated causes shall be proved before Paraguayan courts or by arbitration if thus agreed; otherwise, cancellation, revocation, amendment or refusal to renew shall be deemed to be unjustified.

Purchase of Inventory

At termination, Dealer, regardless of compensation that may correspond, has option to sell to Principal, its inventory at market price.

Jurisdiction

Parties shall submit to the territorial jurisdiction of the courts of Paraguay. They may compromise in all patrimonial matters or submit to arbitration before or after suit is filed, provided that no judgment shall have been issued.

Evidence of Relationship

From date of enactment of Law, the documents and contracts shall be recorded in Public Registry of Commerce. Dealer who invokes relationship by virtue of acts occurred or documents granted prior to enactment of Law, may use all types of evidence established in laws, and particularly any of following: a) Letters of authorization from Principal to act as Dealer for promotion, sale or distribution of products and services. b) Purchase invoices evidencing those commercial operations have been carried out on basis of authorization, at least during two years prior to enactment of Law. c) Payment of commissions to Dealer by Principal for commercial operations carried out for at least two years prior to enactment of Law. d) Advertising by Dealer incurred at his own account and expense indicating representation, agency or distributorship of goods and services in knowledge of but without opposition of Principal. e) Payment or credit of commissions or compensation to Dealer by Principal for operations not carried out in their territory.

11. Appendix

Some Useful Internet Resources

- PARAGUAYAN GOVERNMENT WEB
www.paraguaygobierno.gov.py
- PROPARAGUAY
www.proparaguay.gov.py
- CENTRAL BANK OF PARAGUAY
www.bcp.gov.py
- MINISTRY OF INDUSTRY AND COMMERCE
www.mic.gov.py
- EXECUTIVE SECRETARY OF MAQUILA
www.maquila.gov.py
- GENERAL DIRECTION OF STATISTICS
www.dgeec.gov.py
- MERCOSUR
www.mercosur.org.uy
- CHAMBER OF COMMERCE
www.ccparguay.com.py