

GUIDE TO LEGAL ASPECTS OF DOING BUSINESS IN PARAGUAY 2023

This is a general guide to certain applicable laws for doing business in Paraguay. The information contained in this publication is given by way of general reference only, it 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.
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Firm Overview

PERONI SOSA TELLECHEA BURT & NARVAJA (PSTBN) is one of the largest and most prestigious law firms in Paraguay. Founded in 1968, the firm's reputation stems from its commitment to serving the needs of clients in diversified areas of specialization. Over the last five decades PSTBN has been an active participant in legal innovation in Paraguay, advising the Government on development strategies, working closely with Congress in drafting and enacting new legislation, and has taken an active role in supporting University education.

PSTBN offers a broad range of legal services for clients involved in international and local transactions in Paraguay. Firm specialization includes mergers and acquisitions, foreign investment, start-ups, maritime and aviation, telecommunications, banking and international finance, insurance and reinsurance law, mineral and oil exploration projects, labor relations, general civil litigation, taxation, counselling before local government agencies and legislative bodies, maquila projects, franchising and licensing agreements, and intellectual property and antitrust matters.

Representation in the courts and administrative agencies of the Government is an important activity of PSTBN, as plaintiffs or defendants in landmark cases. The Intellectual Property department, supported by the latest technology, covers every aspect of trademark, copyright and patent practice, and commercial use within Paraguay by foreign and local companies.

PSTBN is the exclusive member firm in Paraguay for Lex Mundi, the world's leading network of independent law firms with in-depth experience in 100+ countries worldwide. As part of the Lex Mundi global network, we can provide our clients with preferred access to more than 21,000 lawyers around the world, all from a single point of contact. PSTBN is also an exclusive member of INSURALEX, a worldwide network of insurance and reinsurance lawyers, which highlights the firm's experience and knowledge of the local and international market.

PSTBN specializes in foreign investments, and has published an important reference book titled *Paraguay, Laws and Economy, Commercial and Investment Law* (Paraguay).

Chambers Latin American Awards has recognized PSTBN as "Paraguayan Law Firm of the Year" in three different occasions. Several researchers and comparative guides have awarded PSTBN as well:

- Legal 500's Top Tier Firm in Corporate/M&A;
- Legal 500's Recommended Firm in all other Practice Areas;
- Latin Lawyer 250's Leading Business Law Firm;
- Latin Lawyer 250's Recommended Firm;
- IFLR1000's Recommended Firm.
- International Tax Review (ITR) Recommended Firm.

Paraguay at a glance

A. Languages

Spanish and Guaraní are official languages.

B. Currency and Exchange Rate

The official currency is the Guaraní (Gs.) and it is quoted every day by banks and exchange houses against US Dollars, Euros, Brazilian Reales, Argentinean Pesos, and many other major currencies of the world, without restrictions.

Guaraní (PYG; symbol Gs. or G.) notes are in denominations of Gs. 100,000, 50,000, 20,000, 10,000, 5,000 and 2,000.

Paraguay, since 1989, maintains a free monetary exchange policy. The purchase and sale of foreign currencies is not subject to any controls or regulations, except for transfers over U\$S 10,000 which are subject to a sworn declaration stating the origin and destination of the transfer. Transactions over U\$S 10,000 or even less are subject to money laundering controls and documentation stating the origin of said amount may be asked for. US Dollars and other foreign currencies are widely accepted throughout the country.

Updated exchange rate indicators may be seen at the Paraguayan Central Bank web page: www.bcp.gov.py

C. Geography, climate, and time zone

With an extension of 406.752 square kilometres, Paraguay occupies the central plain of South America. It has one of the world's largest freshwater reserves, known as "Acuífero Guaraní". The country's fertile soil is one of the major resources for agriculture and cattle farming.

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

Paraguay is located at the confluence of an important river system and bi-oceanic corridors. This situation favours the logistics potential to link many of the main production/consumption centres of South America, providing an easy access to the major ports and markets in the region.

The average summer temperature is between 25°C and 35°C while the average winter temperatures are between 10°C and 20°C.

Paraguay is in the GMT –04:00 time zone (winter) and GMT –03:00 time zone (summer). 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.

Banking hours are from 8:45 a.m. to 2:45 p.m.

D. Official Holidays

January 1	-	New Year's Day
March 1	-	Heroes Day
May 1	-	Labour Day
May 15	-	Independence Day
April 6	-	Maundy Thursday
April 7	-	Good Friday
June 12	-	Signing of Peace Treaty of the Chaco War
August 15	-	Foundation of Asunción
September 29-	-	<i>Boqueron War</i>
December 8	-	Virgin of <i>Caacupe</i>
December 25 -	-	Christmas Day

E. Population and Culture

Paraguay has approximately 7,4 million inhabitants of whom about 525,000 live in Asunción, the capital of the country.

The population is young and homogeneous. About 70% is less than 30 years old.

According to the latest census: Roman Catholic 85%, Protestant 11%, other or unspecified 2%, none 2%. There is freedom of religion.

F. Important cities and infrastructure

Asunción is the capital city of Paraguay, and it is the economic, political and cultural centre of the country. It is the most convenient place to reach most of the other Business Centres of the country such as 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 Dam, the Yguazú Waterfalls, and many other attractions for business and tourism. Encarnación is in the southern tip of Paraguay, presently a main agricultural center with soybean, corn, and rice predominantly, has several ports on the Parana River. It is also the site of the old Jesuit Missions. Other important cities are Santa Rita, Filadelfia (at the centre of the Occidental Region, Chaco), Concepción, as well as Salto del Guairá and Pedro Juan Caballero on the border with Brazil, amongst others.

Paraguay has the privilege of having the cheapest electric power in the Region and at the same time having an impressive electricity production capacity. The Itaipu Hydroelectric (bi-national hydroelectric with Brazil) is one of the world's largest hydroelectric power dams, with capacity of

14,000 MW hour. Paraguay is also part of the bi-national venture with Argentina producing 4,500 MW hour mostly sold to the Argentine market.

G. Communication System and public utilities companies

Paraguay has a legal entity that controls the telecommunications services called *Comisión Nacional de Telecomunicaciones (CONATEL)*.

Four main companies offer the mobile phone service in Paraguay. The coverage of mobile services is 85,5% of the population. Different companies provide Internet service with the Dial-Up, Wireless, ADSL, technologies.

Public utilities companies: *Electric Power (ANDE), Water Supply (ESSAP) and Phone service (COPACO)*.

H. Diplomatic Relations

Paraguay is member of the United Nations and several of its specialized agencies. It is also member to the Organization of American States (OAS), the Latin American Integration Association (ALADI), the Rio Group, INTERPOL, and MERCOSUR (the Southern Cone Common Market). Paraguay is closely aligned with its MERCOSUR partners on many political, economic, and social issues.

I. Government

Present Constitution was enacted in 1992. It establishes a Presidential Government System, with three independent branches: Executive, Legislative and Judicial.

Executive Branch

The President heads the Executive branch, is the chief of staff and commander of the armed forces and is elected by popular vote to serve a five-year term. No re-election is allowed. President and Vice president are elected together by popular vote.

The current President in office is Mr. Santiago Peña, of the Colorado Party, who took office on August 15, 2023.

Judicial Branch

The Supreme Court of Justice that is composed of nine members heads the Judiciary system. Lower courts include Court of Appeals, Courts of First Instance and Justice of the Peace Courts. The courts are divided depending on the matter, such as civil and commercial, criminal, and labour courts. The legal system is unified within the country, as Paraguay is a non-federal country. In general terms it would be safe to say that a court case can last anywhere between 1 to 5 years.

Paraguayan legislation allows the practice of Arbitration as an alternative dispute resolution method. Foreign judicial decisions and arbitral awards may be enforced in Paraguay pursuant to Law 1879/02 and the New York Convention for Recognition and Enforcement of Foreign Arbitral Awards, which Paraguay ratified in 1996.

Depending on the type of activity, foreign investors may choose to be or not to be subject to the country's jurisdiction, but in some cases the Paraguayan jurisdiction is of mandatory application.

Legislative Branch

The bicameral Congress is made up of the Chamber of Senators (*Cámara de Senadores*) with 45 members and the Chamber of Deputies (*Cámara de Diputados*) with 80 members; the legislators are elected by popular proportional vote to serve a five-year term.

Investment incentives

A. Basic Principles

The Paraguayan Constitution proclaims that all people have the right of choosing the economic activity that they wish, under an equal opportunity regime, provided that the activity is legal.

Paraguay actively promotes foreign investment in the industrial and service sector. Foreign Investment Law 117/91 grants foreigners the same guarantees, rights and obligations enjoyed by any Paraguayan investor. Law 60/90 and Law 5542/15 grant tax incentives for investments in areas of preferential development as determined by the Executive. Law 1064/97 allows a local company, subsidiary, or branch to sign a contract with a foreign entity to produce goods and/or provide services for export only.

Paraguay is a party to International Agreements and Treaties for the promotion and protection of investment. The most important are:

Multilateral Investment Guarantee Agency (MIGA)

The Multilateral Investment Guarantee Agency Agreement (MIGA), created under the umbrella of the World Bank, insures investors against political risks such as expropriation, currency inconvertibility and damages caused by revolution, war or civil strikes. In 2015, the Paraguayan Central Bank announced that MIGA would start an initiative to support a public tender in Paraguay through a public private partnership¹.

Overseas Private Investment Corporation (OPIC)

The Overseas Private Investment Corporation (OPIC) is a United States Government agency that provides tools for investors to participate in Paraguayan markets through financing, political risk insurance, advocacy and by partnering with private equity investment fund managers. OPIC has been active in Paraguay since 1992 -when both countries signed an investment guaranty agreement- and has since financed telecommunications, forestry, and various renewable energy projects in Paraguay, even collaborated with local banks to support loans². The US Agency has lifted restrictions regarding investments in Paraguay in recognition of its progress.

Paraguay has also signed agreements and bilateral treaties with several countries such as Austria, Belgium, Bolivia, Chile, Costa Rica, Cuba, Czech Republic, Denmark, El Salvador, France, Germany, Hungary, Italy, Korea, Netherlands, Peru, Portugal, Romania, South Africa, Spain, Switzerland, Taiwan, United States, United Kingdom and Venezuela, regarding reciprocal protection for investments.

¹ <http://www.ultimahora.com/bm-ofrecera-garantias-las-inversiones-paraguay-n950081.html>

² <https://www.opic.gov/blog/photos/featured-photo-guaranties-for-small-business-lending-in-paraguay>

B. Paraguayan Investment Laws

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 or the Maquila or Free Trade Zone Laws, investors need no governmental approval to invest. Besides the Border Security Law, explained ahead, there are no restricted areas, no discrimination, and no limitations.

B1. Law 60/90 for the Promotion of Investments

The provisions of Law 60/90 stimulate investment and reinvestment of capital directed towards various objectives, mainly the creation of jobs, production increase of goods and services, modern technology incorporation and export increase.

Law 60/90 has significantly widened the scope benefits of incentives granted by former laws and simplified the application procedure for obtaining such benefits. The Investment Council analyses the investment project and if approved, grants irrevocable tax incentives by a Bi-Ministerial resolution of the Ministries of Industry and Commerce and of Finance. Investment projects are usually approved within a term of 45 days after filing the project.

Investments made using (i) money, suppliers' credit, or financing; (ii) capital goods such as transportation or industrial equipment, office electrical and electronic machinery, equipment; (iii) trademarks and other forms of technology transfer; and (iv) leasing of capital goods (especially applicable to river shipping and air transportation) are applicable under this legislation, and may allow total exemption from the following:

- All taxes when incorporating corporations and companies;
- All taxes and charges applicable to foreign exchange transactions arising out of capital contributions or operations contemplated in investment project;
- Customs duties and similar taxes on imports of capital goods;
- All taxes and other levies on remittance of interests and fees related to foreign loans³;
- All taxes applicable to dividends and profits generated by investment project⁴;

In leasing of capital goods, they are admitted into the country for the term of the lease agreement, with suspension of import duties and VAT, and upon its expiration, if not extended, the goods may either be re-exported or nationalized. Payments made abroad under lease agreements are subject to withholding taxes (6% Corporate Income Tax and 10% VAT).

Requirements included registry at the Paraguayan Central Bank of foreign capital entering the country under the provisions of Law 60/90.

³ During entire term of loan, provided that (i) loans are at least US\$5 million, (ii) lenders are well known financial institutions.

⁴ For maximum term of ten years, provided that (i) investment be superior to US\$5 million, (ii) taxes paid in Paraguay cannot be considered tax credit in the country origin of the investment.

B2. Law 5542/2015 on Guarantee for Investments

This law guarantees investments and promotes employment and economic and social development. Its purpose is to protect capital investment in the creation of industries or other productive activities settled in the national territory, when they contribute to the creation of employment and the economic and social development of the country, mainly, through the incorporation of added value to Paraguayan raw material or imported raw material.

The beneficiaries of this law are individuals and legal entities, whether national or foreign.

The benefits of this law are:

- Remittance of capital abroad (After 2 years from the start-up of the company).
- Remittance of liquid profits (subject to any term).
- Invariability of the Income Tax rate levied on the activity carried out (up to 10 years).
- Invariability of the Income Tax rate levied on the activity carried out (up to 15 years), in the case of investments between US\$ 50,000,000 and less than US\$ 100,000,000.
- Invariability of the Income Tax rate levied on the activity carried out (up to 20 years) in the case of investments equal to or greater than US\$ 100,000,000.
- Special export regime; they may maintain a percentage of foreign currency abroad, when they are necessary to pay the legally authorized obligations; or to comply with the remittance of the net profits that the investments originate.
- Tax invariability for the purchase of existing companies subject to the present regime or the transfer of part of their shares, the benefits will be maintained with the new companies for the remaining term of the project developed by the initial company.
- Additional benefits for industries with high social content and their shareholders:
 - ✓ Exoneration of the additional 5% income tax rate for the distribution of profits.
 - ✓ Reduction of the tax rate applied to the remission of profits abroad, by 1% for each 100 direct employees generated, up to a maximum of 50% of the total value of the rate applicable to such operation.

Investments made under the regime provided for in this law may not be subject to any form of appropriation or confiscation. Likewise, they are protected by the legal principles of non-retroactivity of the law, freedom of concurrence and the guarantee of respect for private property.

There are several application modalities to access the regime of Law 5542/2015; it may even be accessed in combination with the benefits of Law 60/90 in certain cases.

B3. Law 523/95, which authorizes and establishes Free-Trade Zone Regime

Free-trade zones are delimited geographical areas in which the applicable customs regime is different from that of the rest of a country's territory (customs territory). Generally, free zones enjoy certain tax benefits, such as the non-payment of import taxes.

The main objectives of Paraguay's free-trade zones are to develop business centers, prevent smuggling and piracy, and increase export competitiveness. All types of commercial, industrial and service activities can be developed in these zones, in accordance with the guidelines of Law 523/95.

The free-trade zone is operated and managed by a concessionaire, whose concession is granted by means of a contract signed with the Executive Branch for a 30-year period, which may be extended according to the provisions of the legislation in force at the time of the extension. In turn, this concessionaire enters into contracts with the end users (the Free-Trade Zone User) who will be the individuals or legal entities that will carry out the different operations within the zone.

The Free Trade Zone User is the individual or legal entity that carries out any of these activities in the Free Trade Zone:

- Commercial: are those in which the Users are dedicated to the internment of goods destined for intermediation without them undergoing any type of transformation or modification, including the deposit, selection, classification, handling, manipulation, mixing of goods or raw materials;
- Industrial: are those in which the Users are engaged in the manufacture of goods for export abroad, through the process of transformation of raw materials and/or semi-finished products of domestic or imported origin; and,
- Services: are those in which the Users are engaged in the repair and maintenance of equipment and machinery, or other services provided they are intended for the international market, namely: logistics, transportation, technical assistance, repair and maintenance of ships, aircraft, machinery and vessels, testing and calibration in laboratories, inspection and certification in general, telecommunications services, data processing, civil constructions, tourism agencies, among others⁵.

The companies or industries that are beneficiaries of the regime will pay a single tax called "Free-Trade Zone Tax", whose rate will be 0.5% (half a percent) being its taxable base the total value of its gross income from sales to third countries.

The activities previously detailed (commercial, industrial and services) that are carried out in Free-Trade Zones and the results obtained by the Users will be exempt from all national, departmental or municipal taxes, with the exception of the tax regime of 0.5% previously detailed.

B4. Maquila

The Maquila Regime is regulated by Law 1064/97 -inspired in the Mexican Maquiladora System- by which a local company/subsidiary/branch ("Maquiladora") signs a contract with a foreign entity ("Matriz") to produce goods and/or provide services for export only, operating "for account and risk of" the foreign entity, who can supply all the raw materials and other inputs to the Maquiladora from any local or foreign supplier.

Any person/company, national or foreign, with domicile in Paraguay may be licensed for a Maquila export program; such companies may be incorporated under any form: corporations, limited liability companies, foreign branches, or individual limited liability enterprises, without any ownership restrictions, having total or partial foreign, national, or joint venture participation. There are no restrictions as minimum capital or minimum/maximum production.

⁵ Decree 4611/2020.

The Maquiladora must file an application for a Maquila Program to the Maquila Council with details of the estimated operation. Once the program is approved, it can be modified as necessary, and it grants the following benefits:

- Suspension of all the applicable taxes and duties on raw materials and other inputs required for the performance of the Maquila Program can enter Paraguayan territory;
- Fiscal exemptions on taxes including but not limited to income tax, value added tax, customs duties, port and airport taxes and duties and any type of tax, rate or charge applied to loans financing Maquiladora operations.
- No taxes applicable on production, except a 1% tax on the value added in Paraguayan territory.
- Cost excluded when the Head Office of the Maquiladora for the value added in Paraguay only, subject to 1% tax.
- Either the Maquiladora or the Head Office may issue export invoices.
- Maquiladoras can perform production by themselves or can subcontract other local companies, and tax benefits might extend to subcontractors under certain conditions.

Requirements include a guarantee (insurance policy, warrant or bank guaranty) for National Custom, for a value equal to the suspended taxes.

There are no restrictions to use capital goods incorporated under other regimes, like the Law 60/90 regime.

C. Exceptions: Border Security Law

The Border Security Law 2532/05 is a legal regulation that creates a “security area” of 50 kilometres wide, adjacent to land and rivers that form the border of Paraguay with its neighbours.

Upon this law becoming effective, within this 50 kilometres stripe, it is forbidden to any foreign natural or juridical person, to acquire, jointly own or usufruct rural real estate.

The only exception to this was granted by the Executive Branch through a Decree, which allows the through a waiver, based on grounds of “public interest”.

D. Investment Dispute Settlement

Paraguay is party to several international conventions and treaties intended to recognize and enforce awards, thus protecting foreign investment, such as:

- New York Convention for Recognition and Enforcement of Foreign Arbitral Awards (ratified under Law 948/96);
- Washington Convention on the Settlement of Investment Disputes between States and National of other States (ratified under Law 944/82);

- Inter-American Convention on International Commercial Arbitration (ratified under Law 611/76);
- Inter-American Convention on the Extraterritorial Validity of Foreign Judgements and Arbitral Awards.

Law 1879/02 also establishes that foreign arbitral awards shall be recognized and enforced in the country.

Other elements of protection for investors in matter of investment disputes we adopted in 1982, when Paraguay ratified an agreement to form part of the International Center for the Settlement of Investment Disputes (ICSID), an international agency created by the World Bank in 1965 for that objective.

Limited Liability Companies

A. Incorporation

Two or more persons may establish a partnership in the form of a Limited Liability Company (*Sociedad de Responsabilidad Limitada* or SRL). They may use any name, including the one of a partner, preceded or followed by the words "Sociedad de Responsabilidad Limitada" or "SRL".

The incorporation contract is a public deed (*escritura pública*) drawn up by a Notary Public and recorded in the Public Registry, procedure which takes approximately 45 to 60 days.

The costs include the legal fee of the notary public that amounts to 0.75% of the corporate capital, publication expenses, and lawyers' fees for drafting of all necessary documents, among others.

Under Law 6446/19 that "Creates the Administrative Registry of People and Legal Structures and the Administrative Registry of Ultimate Beneficiaries Owners ('UBO')" of Paraguay, new legal entities have 45 (forty-five) business days after their recordation of the company's bylaws in the Public Registry to communicate the UBO. More information about this registry will be detailed below in the subtitle "C".

The Registration of the UBO is overseen by the Ministry of Treasury (*Ministerio de Hacienda*) through the General Directorate of Persons and Legal Entities and Ultimate Beneficiaries (*Dirección General de Personas y Estructuras Jurídicas y de Beneficiarios Finales*).

Until the integrated system of administrative registration and control of UBO is organized and fully operative, the *Abogacía del Tesoro*, which is also dependent of the Ministry of Treasury, will continue to institutionally support its functions and responsibilities. Currently, the *Abogacía del Tesoro's* website is used to file the UBO register, and certifications are also issued also by the *Abogacía del Tesoro*.

Legal Entities that are in non-compliance with Law 6446/19 may incur in monetary and or administrative sanctions (monetary fines, prohibition to open bank accounts, block of the Single Taxpayer Registry (RUC) by the Tax Authority (SET) under the Ministry of Treasury, etc.).

B. Capital

The capital is represented in nominal quotas of at least Guaraníes 1,000 or multiples thereof, and may be represented in cash, goods, or fixed assets. There are no minimum capital requirements, but it must be adequate for the type of business the SRL will engage in.

At least 50% of the capital must be subscribed and paid in at incorporation. The SRL capital must be deposited with the *Banco Nacional de Fomento* during the incorporation process. The money is reimbursed in local currency.

Transfer of quotas among partners is unrestricted and five percent of net profits must be set aside annually to create a reserve fund of not less than 20% of SRL's capital.

C. Administration

Partners may be represented by proxies. Administration and representation of an SRL is delegated to one or more managers, who may be partners or not, and who have the same rights and duties as the directors of corporations. 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 the 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 contract does not determine how partners will reach decisions, the rules for general meetings of corporations (*sociedades por acciones*) 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.

To be appointed as Manager, foreigners must obtain for Paraguayan residence. The residence requirements are indicated in a chapter below.

Regarding Ultimate Beneficiaries Owners ("UBO"), the UBO refers to the natural person or persons who, directly or indirectly, have a substantive participation or final control over the legal entity, or benefit from them. The UBO must fall within one of the definitions below within a hierarchical nature or in a "cascade basis". Therefore, the UBO is considered the first of the following options:

- a) A natural person who has substantive shareholding, equal to or greater than 10% (ten percent) with respect to the total capital share of the legal entity.
- b) A natural person who has control of more than 25% (twenty-five percent) of the voting rights in the legal entity.
- c) Managers, administrators, or those who frequently use or benefit from the assets that are owned by the person or legal structure or, in whose name or benefit a transaction of the legal entity is carried out.
- d) A natural person who is not being contemplated in the previous paragraphs, who has the right to designate or dismiss part of the administrative, management or supervision bodies; or,
- e) A natural person who possesses the condition of control of that legal entity by virtue of its statutes, regulations, or other instruments.

After having made the communications referred to in subtitle "A", it is important to notice that all legal entities must update and file the UBO communication on annual basis before June 30 of each year, even if no modification has been done.

Failure to periodically update the UBO information will have the same consequences detailed in the subtitle "A".

D. Restrictions

A Limited Liability Company may not engage in banking, insurance, or savings and loans business.

Lack of registration of the SRL contract does not make it void and, even though the partners are not compelled to register it as a commercial entity, failure to do so creates joint and unlimited responsibility of all partners towards third parties for all acts, transactions, and operations in the corporate name prior to registration.

Export and import companies must meet certain requisites imposed by the Central Bank of Paraguay.

If an SRL has more than five members, partners that represent 3/4 of capital must approve transfer of quotas to third parties. If it has less than five partners, vote must be unanimous.

E. Dissolution

An SRL is not dissolved by death, interdiction, or bankruptcy of a partner, neither by dismissal of manager(s), or partners appointed in the contract, unless stipulated to the contrary. Bankruptcy of SRL does not imply the bankruptcy of the partners.

Corporations

A. Incorporation

At least two persons or more may establish become shareholders of a Corporation (*Sociedad por Acciones*, f.k.a. *Sociedad Anónima* or SA). They may use any name, but it must include the words "Sociedad Anónima" or "SA".

The Bylaws of incorporation are contained in a public deed (*escritura pública*) drawn up by a Notary Public and, if authorized by the pertinent entity, recorded in the Public Registry, procedure which takes approximately 45 to 60 days.

Corporation Bylaws, according to provisions of the Paraguayan Civil Code, must include several data, including but not limited to full information on shareholders and number of shares subscribed and paid up by each one; nature of the business; duration of the corporation; amount of subscribed and paid in capital, and others.

The costs include the legal fee of the notary public that amounts to 0.75% of the corporate capital, publication expenses and lawyers' fees for drafting of all necessary documents, among others.

Under Law 6446/19 that "Creates the Administrative Registry of People and Legal Structures and the Administrative Registry of Ultimate Beneficiaries Owners ('UBO')" of Paraguay, new legal entities have 45 (forty-five) business days after their recordation of the company's bylaws in the Public Registry to communicate the UBO. More information about this registry will be detailed below in the subtitle "C".

The Registration of the UBO is overseen by the Ministry of Treasury (*Ministerio de Hacienda*) through the General Directorate of Persons and Legal Entities and Ultimate Beneficiaries (*Dirección General de Personas y Estructuras Jurídicas y de Beneficiarios Finales*).

Until the integrated system of administrative registration and control of UBO is organized and fully operative, the *Abogacía del Tesoro*, which is also dependent of the Ministry of Treasury, will continue to institutionally support its functions and responsibilities. Currently, the *Abogacía del Tesoro's* website is used to file the UBO register, and certifications are also issued also by the *Abogacía del Tesoro*.

Legal Entities that are in non-compliance with Law 6446/19 may incur in monetary and or administrative sanctions (monetary fines, prohibition to open bank accounts, block of the Single Taxpayer Registry (RUC) by the Tax Authority (SET) under the Ministry of Treasury, etc.).

It is important to note that corporations acquire separate legal status from that of its shareholders upon registration at the Public Registry. 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 the corporate name prior to registration of the

corporation are jointly and severally liable for these.

B. Capital

The capital is represented in nominal shares⁶, and may be represented in cash, goods, or fixed assets. There is no minimum capital requirement, but it must be adequate for the type of business the SA will engage in.

100% of the capital must be subscribed at incorporation. Share certificates must be numbered and signed by one or more directors, and contain several data established in the Paraguayan Civil code. 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 shareholders meeting, and such purchase must be made with liquid earnings provided shares have been paid-in full.

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

C. Administration

Shareholders may be represented by proxies. Directors, Trustees, Managers, or other employees of the corporation may not be proxies. One or more directors elected by the shareholders' ordinary meeting or designated in the incorporation documents exercise management and administration of the corporation. Their number is decided by the general meeting if not specified in the bylaws.

Directors can be shareholders or not. They may be re-elected, 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. Administrators are not liable for obligations of the company except in case of non-performance of their duties, mismanagement, and 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.

⁶ As per Law 5.895/2017

Various subjects concerning administration of the Corporation are discussed in both ordinary and extraordinary shareholders meetings, according to provisions established in the applicable legislation. To participate in meetings, shareholders must before the meeting deposit their share certificates.

To be appointed as Director, foreigners must obtain for Paraguayan residence. The residence requirements are indicated in a chapter below.

Regarding Ultimate Beneficiaries Owners (“UBO”), the UBO refers to the natural person or persons who, directly or indirectly, have a substantive participation or final control over the legal entity, or benefit from them. The UBO must fall within one of the definitions below within a hierarchical nature or in a “cascade basis”. Therefore, the UBO is considered the first of the following options:

- a) A natural person who has substantive shareholding, equal to or greater than 10% (ten percent) with respect to the total capital share of the legal entity.
- b) A natural person who has control of more than 25% (twenty-five percent) of the voting rights in the legal entity.
- c) Managers, administrators, or those who frequently use or benefit from the assets that are owned by the person or legal structure or, in whose name or benefit a transaction of the legal entity is carried out.
- d) A natural person who is not being contemplated in the previous paragraphs, who has the right to designate or dismiss part of the administrative, management or supervision bodies; or,
- e) A natural person who possesses the condition of control of that legal entity by virtue of its statutes, regulations, or other instruments.

After having made the communications referred to in subtitle "A", it is important to notice that all legal entities must update and file the UBO communication on annual basis before June 30 of each year, even if no modification has been done.

Failure to periodically update the UBO information will have the same consequences detailed in the subtitle "A".

D. Supervision

To supervise management of the 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 re-elected.

Trustees shall be remunerated, and their powers and duties are established in the Civil Code.

E. Dissolution

A SA shall be extinguished by maturity of the period for which it was formed, or by fulfilling the condition to which its existence was subject; in both cases, even if negotiations are not concluded; by the realization of the business purpose; by the physical or juridical impossibility of attaining such purpose, as well as by the complete loss of the capital, of a portion thereof which impedes attainment of it, or by bankruptcy; by unanimous resolution of the shareholders; if it was formed by two persons, by the death of one of them; and by the other causes provided in the Bylaws.

Simplified Share Company

The Simplified Share Company (“EAS”) is a new legal entity and corporation oriented to entrepreneurs and independent professionals of medium and small companies that has a reduced cost in its incorporation and express processing.

Unlike Limited Liability Companies and Corporations, EAS can be constituted by only one person (although it can also be more than one, natural or entity), having the following characteristics:

- It is processed entirely online.
- It does not require a minimum capital to be formed.
- It establishes the separation, physical person of the legal person, so that the personal patrimony of the partner (or the partners) remains protected.
- Allows companies to remain and grow, generating more jobs.
- The members of the EAS are liable up to the limit of their committed contributions.
- Taxed as a legal entity, according to the sector of activity and income.
- They must issue only nominal shares.
- No need to publish its creation in a mass media.
- The incorporation may be done by contract or unilateral act by means of a public or private instrument with certification of signatures.
- It will acquire legal personality (different from that of its members) from the moment of its registration with the Ministry of Finance.
- It is not required to be registered in the Public Registry of Commerce in order to be able to operate.
- Its registration must be processed in the Unified System for the Opening and Closing of Companies (SUACE), by means of a single form for registration and a model of corporate bylaws.

With respect to the capital stock, there is no minimum capital required for the incorporation of a company. The capital increase, either of an S.R.L. or of an S.A., requires the agreement of the partners/shareholders, being necessary a modification of the bylaws of the company, and registration of the same in the Public Registries.

Branches/Representative Offices

Companies incorporated in foreign countries, which will conduct regular business in Paraguay, may establish a branch office or a representative office in the country. These are subject, like Paraguayan companies, to the provisions of the Paraguayan Civil Code regarding publication of corporate documents and registration at the Public Registry.

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 and acts which company is capable in its own country. Any limitations to such capacity are null and void. Representatives are subject to the same responsibilities set forth in the Civil Code for administrators in general.

To register a branch office, several documents must be prepared by the company, certified by a notary public, and legalized by a Paraguayan Consulate or apostilled⁷, including the Bylaws of the company, a Board of Directors resolution which resolves to establish a branch office in the Republic of Paraguay, powers of attorney granted to branch office managers and attorneys, among others.

Under Law 6446/19 that “Creates the Administrative Registry of People and Legal Structures and the Administrative Registry of Ultimate Beneficiaries Owners (‘UBO’)” of Paraguay, branch offices have 45 (forty-five) business days after their recordation of the company’s bylaws in the Public Registry to communicate the UBO.

The UBO refers to the natural person or persons who, directly or indirectly, have a substantive participation or final control over the legal entity, or benefit from them. The UBO must fall within one of the definitions below within a hierarchical nature or in a “cascade basis”. Therefore, the UBO is considered the first of the following options:

- a) A natural person who has substantive shareholding, equal to or greater than 10% (ten percent) with respect to the total capital share of the legal entity.
- b) A natural person who has control of more than 25% (twenty-five percent) of the voting rights in the legal entity.
- c) Managers, administrators, or those who frequently use or benefit from the assets that are owned by the person or legal structure or, in whose name or benefit a transaction of the legal entity is carried out.
- d) A natural person who is not being contemplated in the previous paragraphs, who has the right to designate or dismiss part of the administrative, management or supervision bodies;
or,

⁷ For more information on signatory countries and documents that may be apostilled go to: <https://www.mre.gov.py/index.php/tramites/la-apostilla>

- e) A natural person who possesses the condition of control of that legal entity by virtue of its statutes, regulations, or other instruments.

The Registration of the UBO is overseen by the Ministry of Treasury (*Ministerio de Hacienda*) through the General Directorate of Persons and Legal Entities and Ultimate Beneficiaries (*Dirección General de Personas y Estructuras Jurídicas y de Beneficiarios Finales*).

Until the integrated system of administrative registration and control of UBO is organized and fully operative, the *Abogacía del Tesoro*, which is also dependent of the Ministry of Treasury, will continue to institutionally support its functions and responsibilities. Currently, the *Abogacía del Tesoro's* website is used to file the UBO register, and certifications are also issued also by the *Abogacía del Tesoro*.

After having made said communications, it is important to notice that all legal entities must update and file the UBO communication on annual basis before June 30 of each year, even if no modification has been done.

Failure to periodically update the UBO information may cause monetary and or administrative sanctions (monetary fines, prohibition to open bank accounts, block of the Single Taxpayer Registry (RUC) by the Tax Authority (SET) under the Ministry of Treasury, etc.).

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.

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, as branches of foreign companies, they do not hold annual shareholder's meetings, therefore control is less severe.

The incorporation of a Branch takes approximately 45 to 60 days.

To be appointed as Branch Managers, foreigners must obtain Paraguayan residence. The residence requirements are indicated in a chapter below.

Distributors, Dealers and Agents

Law 194/93 governs the relationship between foreign companies and local representatives, agents, and distributors.

A. Definitions

Representation is the 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.

B. Application of Paraguayan Law

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

C. Termination without Cause

Principal may cancel, revoke, amend or refuse to renew the 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.

D. 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) noncompliance 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 to cure the cause invoked within a term of 120 days. Noncompliance 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.

E. Purchase of Inventory

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

F. Jurisdiction

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

G. Evidence of Relationship

From the date of enactment of the Law, the documents and contracts shall be recorded in the Public Registry of Commerce. Dealer who invokes relationship by virtue of acts occurred or documents granted prior to the enactment of the 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 that have been carried out based on authorization, at least during two years prior to the enactment of Law. c) Payment of commissions to Dealer by Principal for commercial operations carried out for at least two years prior to the 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.

Environmental Regulations

Law 294/96 and Law 1561/01 and their regulations govern environmental issues in Paraguay and are regulated by the Ministry of Environment and Sustainable Development (“MADES”), as an independent regulatory institution, along with the support of the National System of the Environment (*Sistema Nacional del Medio Ambiente*), which is integrated by representatives of private and different public sectors.

According to the Environmental Law, any natural or juridical person that performs industrial or agricultural activities must file at MADES an Environmental Impact Assessment to obtain an Environmental License. Said permits are required for any kind of activity that may affect the environment in any way, because they ensure that all environmental implications are taken.

Paraguay also has in force the “Zero Deforestation Law”, promulgated in 2004 and in force until 2018⁸, which promotes the conservation, preservation, and management of native forests in the eastern region of Paraguay. The Law prohibits transforming and converting surfaces covered up with forest for activities such as agriculture, livestock activities or for the so-called “landless campesinos”.

In Paraguay, violation of legal environmental regulations may imply civil, administrative, and criminal sanctions. MADES may apply sanctions that range from warnings and fines to suspensions or revocation of licenses and permits, temporary or permanent suspension of activities and even retention or seizure of goods.

Law 716/96 also establishes sanctions for crimes against the environment, which include but are not limited to imprisonment from 5 to 10 years for the introduction of toxic waste to Paraguayan territory.

- Imprisonment from 3 to 8 years and a fine of 500 to 2.000 minimum daily wage for: (i) deforestation or burning of forests affecting the ecosystem; (ii) transformation of forests that have been declared as “Reserve Areas”; (iii) illegal commercialization of wooden logs; (iv) the alteration or modification of the natural course of water systems.
- Imprisonment from 1 to 5 years and a fine of 500 to 1.500 minimum daily wage for the adulteration of the Environmental Impact Assessment (*Evaluación de Impacto Ambiental* or for its acronym in Spanish “EIA”).

Directors, Managers, and other legal representatives are responsible for the environmental crimes that are carried out by legal entities.

MADES may also request from the corresponding authority the application of preventive measures in order to impede illegal activities that violate Environmental Regulations.

⁸ <http://www.diputados.gov.py/plenaria/140409-SO/pdf140409so/03.pdf>

Labour Legislation

Employer/Employee Relations

The terms of the Labour Code (Law 213/93) govern the relationship between employers and dependent workers, which relate to subordinated and remunerated services rendered, and affect all intellectual or manual workers and those with whom the employer may have entered a labour contract.

The Code defines labour as all conscious and voluntary human activity, rendered in a dependent and remunerated manner, to produce goods or services.

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

The existence of a labour 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 that 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 Labour Code does not govern (1) directors, managers and other officials of a firm because of the status of representative of the firm, the importance of their remuneration, the nature of the work performed and their technical capacity enjoy notorious freedom in their work, and in general all persons who perform 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 the protection of diplomatic privileges.

Work capacity is achieved at 18 years of age.

Law 1680/01, "Child and Adolescent Code" governs protection of work of minors as: (a) self-employed, (b) employed with others (c) domestic workers.

Minimum Wage

Salaries shall be stipulated freely but they cannot be under the minimum wage established by law. The legal minimum monthly wage is G. 2,680,373 per month (approx. US\$ 367), G. 103,091 per day. Wages are paid by time units (month, fortnight, or day), by work units (piecework, assignment, or jobbing), additionally by sales commissions or collections or percentage of future profits.

Law 5764/16 provides the automatic annual increase of the minimum wage based on the Consumer Price Index (IPC for its acronym in Spanish) published annually by the Central Bank of Paraguay.

Annual Bonus

The law establishes an additional annual remuneration equal to one-twelfth of all salaries paid for the calendar year, to be paid before December 31 - Christmas.

Working Hours

Law imposes time limitations on working hours:

- (a) Daytime work: eight hours per day or 48 hours per week. Daytime is from 6 a.m. to 8 p.m.
- (b) Night-time work: seven hours per day or 42 hours per week. Night shift is from 8 p.m. to 6 a.m.
- (c) Mixed working time: 7½ hours per day or 45 hours per week. Includes parts of night and day times.

Working hours must be distributed in two sessions at least, with a half-time break of at least 30 minutes. Break time is not included as working hours.

Overtime is allowed under special circumstances, but they cannot exceed three hours per day, three days per week, or 57 hours per week, unless expressly agreed to by the employee, and must be paid extra. Not allowed for employees under 18.

Vacations

Workers have right to a paid vacations period after each year of continuous work for the same employer.

Holidays will depend on the seniority of the worker:

- 1 year to 5 years = 12 working days
- 5 to 10 years = 18 working days
- 10 years or more = 30 working days

Leave Days

Paraguayan law grants different kinds of leave days for each case. During this period, the contract is suspended, which means that employees do not lose seniority or any other right. The employee can request family or medical leave in the following cases:

- Family Leaves
 - a. Marriage: three (3) leave days to get married.
 - b. Childbirth: The male workers are entitled to a paid fourteen (14) leave calendar days of paternity in case of childbirth. Women have the right to a paid maternity leave of eighteen (18) weeks after the date of childbirth, plus thirty (30) more days per child in case of multiple birth. In case of adoption or legal foster family, women are entitled to a leave depending of the child's age up to the same time as childbirth.
 - c. Deaths: Three (3) leave days for the death of a direct relative (spouse, child, parents, grandparents, brothers, and sisters)

- Medical Leaves

The case must go through the National Social Security System (*Instituto de Previsión Social* or IPS for its acronym in Spanish) for the employee to receive a medical certificate and a subsidiary amount during leave days.

- a. Professional sickness or working accident: An employee is entitled to a medical leave for any illness or accident incurred during working hours plus one (1) hour prior and after those (in itinere).
- b. No professional illness or accidents: An employee is entitled to a medical leave for any illness or accident incurred beside the previous scenario being different only in the amount paid off by IPS.
- c. The female employee has two (2) paid annual leave days for PAP smears and mammograms.
- d. The male employee has two (2) paid annual leave days to undergo prostate and colon cancer prevention screening.

Discrimination

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

Labour Conflicts

The Labour Code recognizes the right to strike and right of employers to lockout. Waiver of these measures may be provided for in collective labour 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 labour contract or its compliance, or eventually to demand an amendment upon its termination.

To call a strike a General Meeting of workers is required, in order to designate the members of the Strike Committee, when there isn't a Union to represent them. The Meeting must comply with the following requirements:

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

Layoff and Compensation

The law provides for rules applicable in the case of layoff, based on seniority and salary received by the affected worker. Compensation is fixed based on the average salary received at the time 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 the same has been omitted. The amount is equal to the worker's salary corresponding to the notice period. Notice periods are:

- from the end of the trial period up to one year of service, 30 days;
- from one to five years seniority, 45 days;
- from five to ten years seniority, 60 days; and,
- 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 labour 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 Labour Jurisdiction. Should the cause of layoff not be proved, the worker shall be restored to his employment or by the worker's choice, the labour 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 or IPS is an independent Government entity that directs and administers the social security system, which covers liabilities for 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 labour contract, either oral or in writing, whatever their age or remuneration, shall be included in the social security system and obliged to make their contribution. This includes (1) paid workers; (2) apprentices; (3) personnel of government enterprises; and (4) teachers of elementary, secondary, professional, and languages schools and university professors of public and private institutions.

Registration with IPS is mandatory. Non-compliance is subject to fine. Also, the employer who fails to register or notify the hiring of a worker or fails to pay the corresponding contribution shall be responsible to IPS in case of injury, or death derived from a work accident.

Employer's Responsibility

IPS shall assume the cost of injuries, disability, and indemnity in case of death.

The employer's contribution to IPS is 16.5% of all salaries and wages paid during each month, and shall retain the workers' contributions, which amount to 9%.

Contract Termination

In the case of terminating an employee for a justified cause not proved in a legal proceeding, the employer shall pay all salaries, compensation and fines levied upon during the suspension of the contract, or terminate the labour contract, in which case he is entitled to the indemnification for unfair dismissal.

If the worker has achieved labour stability (10 years or more seniority), he cannot be subject to dismissal except by reason of just cause approved by decision of a Judge in Labour Jurisdiction. Neither party to a labour contract may terminate the contract without prior notice.

The prior notice must be given according to the following rules, depending on seniority: (a) Up to one year, 30 days'; (b) up to five years, 45 days'; (c) Over ten years, 90 days.

Labour 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, defence, 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 Labour Administrative Authority.

Taxation

Administration and application of Tax Law corresponds to Tax Office (*Subsecretaría de Estado de Tributación*), from the Ministry of Finance (*Ministerio de Hacienda*).

The Tax is regulated by Law 6380/19, which establishes three income taxes (IRE - IRP - INR), a tax on dividends and profits (IDU), and two consumption taxes (VAT – ISC).

A company is normally a taxpayer of the Corporate Income Tax (IRE) and of the Value Added Tax (VAT). Occasionally, a company also pays the Withholding Tax on Dividends and Profits (IDU). Below we briefly explain each of these taxes.

The Corporate Income Tax (IRE)

- **Taxable income:** All income from sources derived or earned that come from all kinds of primary, secondary, and tertiary economic activities, including farming, commercial, manufacturing, and other services, excluding those taxed by personal income tax (IRP). This tax includes the income generated by the assets, rights, and obligations of the taxpayer.
- **Taxpayers:** corporations (*Sociedad por Acciones*, f.k.a. *Sociedad Anónima* or SA), simple partnerships, Limited Liability Company (*Sociedad de Responsabilidad Limitada* or SRL), as well as other types of companies or entities of any nature, with or without legal status, including consortium for public works, government-owned enterprises and corporations, branch offices, etc. Likewise, this tax affects natural persons who own individual businesses, which are a productive unit of the natural person conformed in an organized and habitual way, jointly using capital and personal labour to develop economic activities taxed by the IRE.
- **Tax payment and calculation:** Under the general regime, taxable income is deducted from costs and expenses deductibles allowed by law and is settled annually. Advanced payments are done during the year based on the tax determined in the previous year.
- **Rate:** 10% (ten percent).
- **Simplified Regimes:** There are simplified regimes for natural persons owners of sole proprietorships who in the previous year have received an income equal to or less than G. 2,000,000,000 (SIMPLE IRE), or equal to or less than G. 80,000,000 (IRE RESIMPLE).
- **Additional:** There are rules of "valuation of operations" in case of operating with foreign related companies or national related companies that are exempt from tax. It is presumed that companies incorporated in countries with low or no taxation are related companies.

The Withholding Tax on Dividends and Profits (IDU)

- **Taxable income:** It is the tax that is levied on dividends, profits or income made available or paid to the owner, consortium, partner or shareholder by the sole proprietorships, corporations (*Sociedad Anónima* or SA), Limited Liability Company (*Sociedad de Responsabilidad Limitada* or SRL), limited partnerships, among others.
- **Taxpayers:** Any natural or legal person and other entities, resident in the country or not, who receive dividends, profits or returns as owners, consortia partners or shareholders of the generating entities.

- **Rate:** 8% for taxpayers with residence in the country; and 15% for non-resident taxpayers.
- **Tax payment and calculation:** The company that pays the dividends and profits must retain the tax on shareholders, partners and/or obligated subjects. Afterwards, the company must issue the withholding receipt and pay the tax to the tax office.

Personal Income Tax (IRP)

- **Taxpayers:** National or foreign natural persons, residents in the national territory. Undivided successions, parents, guardians or curators for the income obtained by those who are under their parental authority, guardianship or cure; and people of Paraguayan nationality under certain circumstances determined by law.
- **Taxable income:** All income from Paraguayan sources derived from personal services or generating personal income (excluding those that have already paid IDU). From the 2019 tax reform, this tax became a dual tax, being calculated separately and independently: the capital income tax, on the one hand, and the personal income tax on the other:

1) Capital income

- They are those incomes in money or in kind, that come directly or indirectly from the equity, goods or rights, whose ownership corresponds to the taxpayer, excluding those that have already paid IDU.
- The rate is 8% (eight percent).
- In sales or disposals of real estate, movable property, shares or capital quotas, assignment of rights and similar, there is a possibility of applying 30% (thirty percent) of the sale value. In real estate leases, at the taxpayer's option, the rent may be determined applying 50% (fifty percent) of the rental price (effective rate of 2.4% and 4% respectively).

2) Income from personal services (work income)

- They are those of Paraguayan source that come from personal work, professional or not, provided by a resident in a dependency relationship or not, consisting of all types of consideration, remuneration or income, whatever their denomination or nature.
- Rates: 8% up to G. 50,000,000, 9% from G. 50,000,000 to G. 150,000,000, and 10% for net income equal or greater than G. 150,000,001.

Non-resident Income Tax (INR)

- **Taxable income:** It taxes the income obtained by non-residents (natural or legal persons), from activities carried out, property located or from rights economically used within the country.
- **Tax payment:** The tax is withheld by the local person when they pay amounts to a non-resident person, for a service that is considered to be of Paraguayan source according to the law.
- **Rate:** 15% (fifteen percent).
- **Net income:** The tax rate is 15%, but the effective rate may be lower since the tax base in several cases is less than 100%. These percentages range from 30% to 100% depending on the case.

Value-Added Taxes (VAT)

- **Taxable consumption:** It is applicable to transfer of ownership of goods from one person or company to another; rendering of personal services and importation of goods. Excluded are personal services performed under Labor Code.
- **Taxpayers:** Individuals who provide personal services that are not performed under Labor Code. The individuals also pay IVA for the lease of real estate, and for the operation of a sole proprietorship. Other taxpayers include private entities, companies, associations, branches, INR taxpayers, among others.
- **Rates:** The general rate is 10%. For the following special cases, a reduced rate of 5% applies:
 - a) Lease of real estate destined exclusively for housing, including the use and usufruct of such assets;
 - b) Sale of real property;
 - c) Sale and import of essential food products;
 - d) Disposal and importation of certain agricultural, horticultural and fruit products;
 - e) Sale and import of live cattle, fish and poultry, as long as they have not undergone any type of alteration or transformation, except those necessary for their conservation;
 - f) Disposal and import of products that are registered as medicines for human use.
- **Tax payment and calculation:** It is settled monthly and is calculated as “debit VAT” minus “credit VAT”. The tax debit is the sum of the taxes accrued by taxable transactions in each month. The tax credit is the sum of the taxes included in the purchases of goods and services in the local market, the imports paid, and the withholdings supported in the month. The deduction of any tax credit is conditional on said credit arising from goods or services dedicated directly or indirectly to taxable transactions. When the tax credit exceeds the tax debits, the surplus can be transferred to future calculations.

Selective Consumption Tax (ISC)

- **Taxable consumption:** the ISC taxes the importation of certain products such as tobacco, cigarettes, alcoholic beverages, high calorie products, fuels, and others; and, the first sale for free or onerous title of the aforementioned goods when they are of national production. Also, producers who modify the alcohol content in beverages by a distillation, fermentation or similar process, considering them as a new product.
- **Rate:** The rates vary from 0% and can reach up to 24%, depending on the product and the Executive Branch. The highest rates are applied to cigarettes and tobacco products.

Other taxes

- **Real estate tax:** this tax applies to real estate property located in national territory. The rate is 0.5% or 1% depending on the location of the property. The tax base is the tax assessment of real estate as established by the National Survey Service (to date, it is below the market value). The taxpayer pays the real estate tax to their Municipality.
- **Commercial patents:** It is also a municipal tax. The taxpayer pays for carrying out commercial activities within a municipality. The tax is calculated based on a fixed amount and a variable rate, and it depends on the value of the company's assets. For example, in Asunción (the

capital city) the fixed amount is G. 2,300 to G. 3,333,700, and the variable tax rate can go from 0.00% to 0.85% on assets.

- Other Municipal taxes of lesser relevance or amount include construction and property tax, taxes on vehicles, among others.

Residence, immigration and visas

Foreigners may reside in Paraguay, provided they comply with the requirements established by Law 6984/22 that governs immigration and residence of foreign nationals. They enjoy the same rights and have the same obligations as nationals, with the limitations and exceptions established by the Paraguayan Constitution and laws.

Foreigners holding a degree from a foreign university should have their degree revalidated by the National University in accordance with international agreements.

Residence is the authorization granted by the National Direction of Migration (*Dirección Nacional de Migraciones*) to a foreigner to settle in the country as resident. Persons admitted as immigrants may be admitted in one of the following categories: 1) Spontaneous or Occasional Residence, 2) Temporary Residence or 3) Permanent Residence.

Temporary Residence

The recently enacted Law 6984/2022, in its Art. 46 establishes the concept of "Temporary Residence" which states: "It is the authorization granted by the National Direction of Migration for a determined term to foreigners who enter the country with the intention of settling down to develop a lawful activity under the conditions established by the present law and its regulations".

Temporary residency will be granted for a term of two (2) years, extendable for the same period and will be a prerequisite for the granting of Permanent Residence.

Those who are in the process of obtaining the Temporary Residence, will have the status of Precarious Resident while the Temporary Residence is being processed before the National Direction of Migrations.

The National Direction of Migration may deny the Residence to those who have been prosecuted or convicted for punishable acts of fraudulent nature committed in the country.

Once the process for obtaining the Temporary Resident Card has been completed, the National Direction of Migration will issue the applicant a Residence Card, which shall be valid until the residence is granted. Upon expiration of the two-year term, the interested party may apply for permanent residence and the identity card, which must be renewed every ten years (term of validity). The National Direction of Migration will determine the requirements for the renewal of the Permanent Resident card.

In case a foreigner is appointed Director of a Paraguayan company, he/she should obtain temporary residence in Paraguay⁹.

⁹ Although there is still no clear and uniform criteria in this regard, foreigners who fulfil the function of Directors in a company must apply to the Temporary Residence in the Republic of Paraguay. The Immigrations Department considers that it is a migration requirement, since –even if the director does not perceive any remuneration as such, thus not being a lucrative activity– the Director has a subsidiary responsibility for his acts as such, especially for possible eventual negligence that may constitute criminal offenses, as well as tax,

Requirements for obtaining Temporary Residence and Paraguayan Identity Card for foreign citizens are:

A. Documents that must be obtained in the country of origin:

1. Passport or identity card of the country of origin (Simple copy).
2. Consular visa and its verification by the Ministry of Foreign Affairs, in the cases that are required (not applicable for Mercosur citizens).
3. Proof of entry to the country (Simple copy).
4. Birth Certificate (Original copy or copy authenticated by Notary Public of the country of origin).
5. Certificate of Civil Status: Marriage Certificate in case of being married; Divorce Decree in case of being divorced or Death Certificate of the deceased spouse, in case of being widowed (Original copy or copy authenticated by Notary Public of the country of origin).
6. Current Police Record Certificate from the country of origin or country of residence for the last three (3) years, from fourteen (14) years of age (Original copy).

Note: All documents from the country of origin must be valid and duly legalized or apostilled¹⁰. Foreign language documents must be translated into Spanish by a Sworn Translator registered in the Republic of Paraguay. This is not necessary for documents issued in Brazil in the Portuguese language.

B. Documents that must be obtained in Paraguay:

1. Certificate of police record issued by the National Police, Interpol Department (The applicant's presence is required and it is a mandatory requirement from the age of 14).
2. Certificate of antecedents for foreigners, issued by the Department of Informatics issued by the National Police (Mandatory requirement from the age of 14).
3. Affidavit of commitment to comply and respect the National Constitution, the laws and other normative dispositions that govern in the national territory.
4. Affidavit of his profession, activity, or trade that he will develop in the country and of the domicile fixed in the national territory.

environmental, labour obligations, among others. The Ministry of Industry and Commerce and the Ministry of Finance also request residency of foreign Directors.

¹⁰ For more information on signatory countries and documents that may be apostilled go to <https://www.mre.gov.py/index.php/tramites/la-apostilla>

Note: The estimated time for obtaining the national documents is three (3) days. The documents to be obtained in Paraguay will be handled by our lawyers, except for the Interpol Certificate, the Power of Attorney and the Affidavits to be granted by the applicant, in which case they will be accompanied by a professional of our Firm.

Visas for residence permit and/or extension of stay procedures

The National Direction of Migration requires the presentation of a visa for foreign citizens seeking to apply for residence permits or extensions of stay.

This measure applies to citizens of countries that do not have visa waiver agreements with Paraguay.¹¹

The visa for these procedures must be obtained from the Ministry of Foreign Affairs of Paraguay and must be attached to the other documentation required by the National Direction of Migration.

Presentation of the Application for the Temporary Residence Card

Once the documents for obtaining the Temporary Residence Card have been submitted, the file is presented before the National Direction of Migration, for which the applicant's presence is mandatory.

The National Direction of Migration will grant the foreigner who has requested to be admitted as a temporary resident, a Precarious Residence Card until the procedure for obtaining the temporary residence is completed. It will be granted only once and will be valid for ninety (90) calendar days, which is the term of the procedure to obtain the Temporary Residence Card.

The Precarious Residence Card will enable its holders, during its period of validity, to stay, leave and re-enter the national territory, work and study and will be revoked once the Temporary Residence Card has been obtained.

Paraguayan Civil Identity Card

Once the Temporary Residence has been obtained, the Paraguayan Civil Identity Card may be applied for at the Department of Identifications of the National Police, for which the interested party must be present at the time of application for a minimum period of two days.

The term to obtain the Paraguayan Civil Identity Card is of 30 working days counted from the presentation of the application.

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

¹¹ To see the list of countries that require visas for residency or extension of stay, please visit <https://migraciones.gov.py/index.php/tramites/informacion-sobre-visas>

Supreme Court of Justice, and subsequently the applicant can request issuance of a Paraguayan passport. Paraguayan passports are valid for five years.

Visas

Visitors coming from MERCOSUR countries, Chile and Bolivia only need their national identity card or valid passport. Citizens from other countries need valid passport with or without visa depending on the country of origin. For more information, please contact the Foreign Affairs Ministry at visas@mre.gov.py or +595 21 414 8771.

Transit passengers continuing their journey by the same or first connecting aircraft within six hours provided holding onward or return documentation and not leaving the airport.

Land Investment

Paraguay has an extraordinary demand of land for soya cultivation and cattle farming. Presently a large entry of foreign funds and multinational corporations to acquire large land extensions has been experienced in Paraguay.

Ownership of real property is only conveyed by public deed (*Escritura Pública*) drawn by a Notary and recorded in the Public Registry of Property. There is an ongoing reform of the land filing system based on real estate survey aerial mapping, to prevent duplicate filings.

Under the Paraguayan Civil Code seller guarantees eviction by reasons of title and money paid can be recovered. The Civil Code also establishes a 30-year limitation for claims on land related to title and possession, so it is common practice that before acquiring a property the Notary Public will do a 30-year revision of past ownership.

Paraguay has a free system of land ownership except for a restriction placed on land within 50 kilometres of the Brazilian, Argentinean, and Bolivian borders. The Border Security Law 2532/05 is a legal regulation that creates a “security area” of 50 kilometres wide, adjacent to the terrestrial and rivers that form the border of the country with its neighbours. Upon this law becoming affective, within this 50 kilometres stripe, it is forbidden to any natural or juridical person, born or originating from neighbouring countries (Argentina, Bolivia and Brazil) whether they be individuals or legal entities composed in their majority of foreign citizens of the mentioned countries, to acquire, jointly own or to usufruct rural real estate, with an exception of a waiver granted by the Executive Branch through a Decree, based on grounds of “public interest” defining same as activities which generate employment for Paraguayan labour, inside the border security area.

Any act performed in violation of the Border Security Law, may be declared void, and any judge, public notary and/or public official involved in such act, will be liable of sanctions and penalties. Acts declared void are liable to a fine equivalent to double the value of the transaction annulled.

Mergers & Acquisitions and Antitrust Law

In Paraguay there is a merger control regime, which implies that certain business transactions must be notified to the National Competition Commission (*Comisión Nacional de la Competencia* “CONACOM”), the Authority for the Application of Law 4956/2013 on Defense of Competition, for their evaluation and authorization.

For the purposes of Law 4956/2013, a concentration transaction takes place:

- a) by merger of two or more previously independent legal entities;
- b) when one legal person takes control over the other, by taking a stake in the capital or purchasing elements of its assets; or,
- c) with the creation of a joint venture.

Concentration operations must be notified to CONACOM within ten (10) days of their execution, provided that at least one of the following two circumstances concur:

- a) As a consequence of the transaction, a market share equal to or greater than 45% of the national or regional market for a given product or service is acquired, or;
- b) When the overall gross turnover in Paraguay of all the parties involved in the transaction exceeds 100,000 (one hundred thousand) monthly minimum wages in the last accounting period - approximately thirty-five million US dollars (US\$. 35,000,000) -

The obligation to notify the transaction falls on both parties in the case of a merger, or on the party acquiring control over all or part of the acquired party.

CONACOM has a maximum term of ninety (90) working days to evaluate the notified operation, and:

- a) Authorize the operation;
- b) Make the authorization subject to compliance with certain conditions; or
- c) Deny the authorization, if the transaction represents a significant obstacle to effective competition, by creating or reinforcing a dominant position.

The following are offenses related to the merger control regime: (i) failure to notify a transaction that should have been notified, (ii) providing fraudulent information, and (iii) failure to comply with the conditions established for the authorization of a transaction.

These offenses may be sanctioned with:

- a) Declaration of nullity of the operation.
- b) Fines of up to 150% of the profits obtained with the infringing practice or up to 20% of the gross turnover in the last twelve (12) months.
- c) Fines to directors and managers of the infringing legal entities.

Compliance

In recent years, Paraguay has made remarkable strides in its commitment to combat money laundering, displaying a substantial and proactive effort to join the global fight against this problem.

The Paraguayan government has worked closely with international organizations and other countries to share information, experiences and best practices in the fight against corruption and money laundering. This international cooperation has been fundamental in strengthening the country's capacity to prevent these transnational crimes.

In addition, Paraguay's financial sector has also been subject to stricter regulatory and supervisory measures to prevent money laundering. Robust controls on financial transactions have been implemented, fostering increased cooperation between banks and authorities to effectively identify and report any suspicious activities.

In Paraguay, the main regulation for Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) is Law 1015/1997 and its amendment, Law 3783/09. This law applies to all sectors and defines the Obligated Subjects (SO) as each individual and/or legal entity subject to the obligations established in the national AML/CFT laws.

Law 3783/09, which amends Law 1015/97, establishes that the Obligated Subjects are:

- Banks;
- Finance companies;
- Insurance companies;
- Exchange houses;
- Stock exchanges companies and agencies;
- Investment companies;
- Mandate companies;
- Mutual investment and retirement fund managers;
- Cooperatives;
- Real estate companies;
- Those that operate games of chance;
- Non-profit organizations (NPOs);
- Pawnshops;
- Government entities;
- Non-financial activities and professions;
- Individual(s) or legal entity(ies) habitually engaged in financial intermediation;
- Trade in jewelry, precious stones and metals;
- Objects of art and antiques, philatelic or numismatic investment;
- Those who carry out acts of commerce in general, which involve transfers of money or stock, whether formal or informal, in accordance with the provisions of this law; and,
- Individuals or legal entities that develop activities associated with virtual assets.

The Secretariat for the Prevention of Money Laundering (SEPRELAD) is the government entity in charge of regulating the operations of the above mentioned entities, in order to reduce the risk of ML/FT exposure. For such purposes, SEPRELAD has issued a specific resolution for each Obligated Subject.