



DOING BUSINESS IN PARAGUAY

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Revised version by **MERSAN Abogados**.

Strategic Geographic Location: PARAGUAY IS LOCATED IN THE HEART OF THE AMERICAS, BETWEEN BOLIVIA, BRAZIL AND ARGENTINA .

The COUNTRY'S PRIVELEGED GEOGRAPHICAL LOCATION, DESPITE BEING landlocked, and despite the relatively small size of its economy, is at the confluence of an important river system and the crossroads of two oceans, putting it in easy reach of THE major ports and markets of South America.

Two important regional development projects GIVE PARAGUAY A PRIVELEGED position in Latin America:

- Hidrovía or Waterway Project includes the deepening of the Paraguayan River bed, improvement of some of its stretches as well as the construction of ports and improvements to its navigability, making transport easier and safer for the export of products from the central part of Brazil and Paraguay through the Rio de la Plata estuary.
- The Atlantic - Pacific Ocean corridor; the government has initiated projects to improve the roads throughout the country, with special interest in the western area. The projects are intended to increase the volume of trade that crosses the country coming from the Atlantic and going to the Pacific, thereby making Paraguay an important point within this project.

Appropriate weather for varied productive activities: The weather is subtropical. In the Capital, the average temperatures oscillate between 63 °F in July and 80°F in January. Rainfall registers an average of 1,200 mm in the Capital, around 815 mm in the Western Region or Chaco and 1,522 mm in the Eastern Region.

Favourable zones for the production of organic products: Due to the concentration of many industries in clearly defined areas and the existence of vast areas not yet exploited, Paraguay enjoys the comparative advantage of having large zones favourable for the production of products which can easily be certified as organics.

Our products, ANOTHER business opportunity: We are proud to have received international recognition for some of our local products, such as Yerba Mate (*Ilex Paraguayensis*), Ka'a He'e (Stevia), traditional fabrics such as Ao po'i and Encaje Ju, currently used for clothing, as well as high quality wood and leather products. The recognition reflects the excellent quality of the materials as well as that of the labor.

Democratic and Representative Government: We have a Democratic and Representative form of Government divided into three powers. The Executive, headed by the President, is assisted by twelve ministers. The Legislature is divided into two chambers: the Deputies and the Senate. The Judiciary consists of the Supreme Court of Justice, with nine members, the Accounts Tribunal and various lesser tribunals.

On August 15th, 2003 was elected President of the Republic of Paraguay, Nicanor Duarte Frutos, proposing major changes, especially on economic and political matters. Also, this new government has created a major reform program intended to reduce poverty, raise economic growth and most of all, to improved governance

Global Business: Together with Argentina, Brazil and Uruguay, Paraguay forms the major commercial block in the region, MERCOSUR, an integrated market of more than 200 million consumers. MERCOSUR's short-term goal is to achieve the free movement of goods, services, and production inputs. Venezuela has recently been incorporated as member of Mercosur. However all applicable exemptions and benefits will be implemented with the member's countries gradually.

Informaciones Generales General Information <small>(Algunas Cifras son Estimadas/Certain Figures are Estimates)</small>	
2003	
Nombre Oficial / Official Name	República del Paraguay / Republic of Paraguay
Capital	Asunción
Nacionalidad / Nationality	Paraguaya / Paraguayan
Día Nacional / National Holiday	15 de mayo / 15th of may
Idiomas Oficiales / Official Languages	Español y Guaraní / Spanish and Guaraní
Fuso Horario / Time	GMT -4
Moneda / Currency	Guaraní
Tipo de Cambio / Exchange Rate (fin de periodo / end of period)	6.127
Superficie en kilómetros cuadrados / Surface in squared kilometers	406.752
Población / Population (en habitantes / inhabitants)	5.299.255
Crecimiento Poblacional / Population Growth	2.2
Densidad Poblacional / Population Density (2002 Figures)	12.7
PIB / GDP (en millones de USD corrientes / in actual million USD)	5.570
PIB / GDP per Cápita (en USD corrientes / in actual USD)	1.051
Tasa de Desempleo (abierto y oculto)	13.6%

Fuente / Source: Dirección General de Estadísticas, Encuestas y Censos / General Bureau of Statistics, Surveys and Census.

OPTIMISTIC ECONOMIC OUTLOOK

The Paraguayan economy can be characterized as small and open, heavily dependent on international trade and commerce. It is modelled on the production and export of only a few primary agricultural products, as well as on commerce associated with the import and re-export of consumer products, much of which occurs in the informal economic sector. The economic situation improved in 2003, as a result of good harvests and improvement in the regional economies, in combination with the stabilization of the domestic political environment. Nevertheless, the non-agricultural sector of the economy remained stagnant due fundamentally to an ongoing drop in private investment.

Economic Growth

In the period 1998-2002 the economy grew by 0.5%, with an average yearly rate of 0.09%. In 2003 the economy started to recover, registering an economic growth of 2.6%.

Main country's resources such as: soil, water known as "acuífero guaraní", electricity with more than 8000 MW Production capacity, with the two Hydroelectric Power plants; one shared with Brazil named Itaipu and the other one with Argentina, named Yacyreta. There is also another hydroelectric plant smaller than the other two named Acaray

Investments and Savings from Private Sector

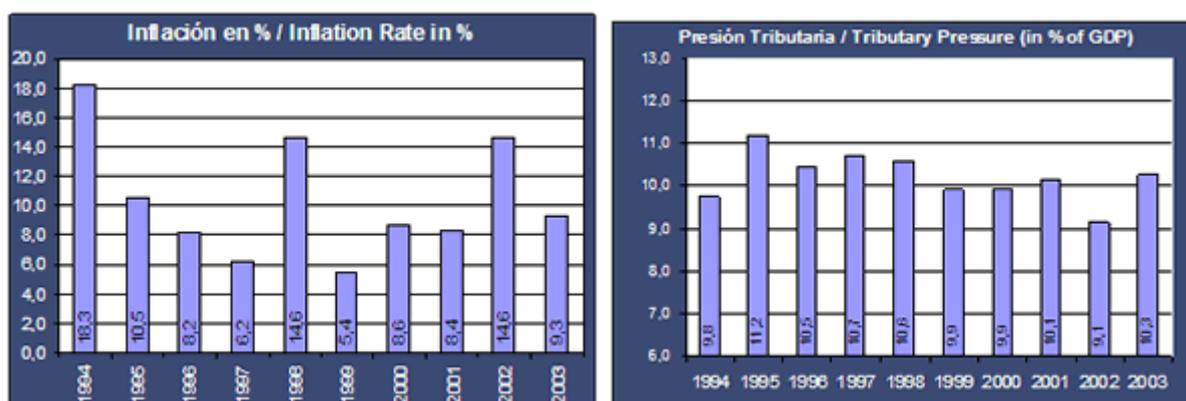
The internal formation of Fixed Capital was around 16.7% of the GDP in the period 1998-2002. During this period, the private sector generated 75% of investment.

Controlled Inflation

Inflation in the period 1998-2002 was 10.3% on average. In 2003 the inflation was controlled, coming in at 9.3%, after registering an increase of 14.6% in 2002.

Low Tax Pressure

In comparison to other countries in the region Paraguay has the lowest tax rate. In the period 1998 - 2002 the tax rate was 9.9% on average. In the year 2003 there was a slight increase, rising to 10.3% after registering 9.1% in the year 2002.



Exchange Regime and Exchange Rate

The Central Bank influences the exchange market, buying or selling foreign currency as needed to avoid sudden fluctuations in the value of the local currency. In the period 1998-2002 the Guarani depreciated by an average of 25%, while in 2003 it appreciated to the U.S. currency by around 15%.

A Regionally Integrated, Open Economy

Exports in 2003 reached a record of USD 1,241.5 million, 30.6% more than in the previous year, while imports grew to USD 1,862 million, 23.3% more than in the previous year. The commercial deficit reached USD 620.5 million in 2003, 10.9% more than the previous year. This deficit represented 11.1% of the GDP, in comparison with 13.9% on average for the period 1998-2002.

Net International Reserves

By the end of 2003, the level of net international reserves was USD 982 million, 22.8% more than the average for the period 1998-2002.

Disciplined Public Finance

In 2003 the government managed to increase gross income by 7.5% in real terms, through an increase in tax income of 15.2%, after discounting for inflation. On the other hand, total expenditures decreased 6.8% due to the fall in Capital Expenditures. These two factors jointly produced a fiscal deficit of 0.6% of GDP, relatively low when comparing it to the average of 2.6% of fiscal deficit for the period 1998-2002.

Low levels of External Debt

The level of indebtedness of Paraguay has increased considerably in recent years, going from 27.2% of GDP in 1999 to 44.6% of GDP in 2003. Despite this, when comparing it to the indebtedness of other countries in the region, it can be considered as low. Prospects are that the external debt will go down in the medium term, reaching levels of 30% of GDP in the next five years.

Strengthened Banking Sector

At the end of 1999 there were twenty-two banks in the system. By the end of 2003 there were only fourteen in operation, reflecting a shake out in the financial sector during the period. Of the remaining total, six were subsidiaries, five mainly foreign, two mainly local and one national.

Financial System and Capital Markets, an excellent opportunity for expansion.

The Paraguayan stock market has little current impact on the economy, which means that there are excellent opportunities for its expansion. In the same vein, the financial system

also presents great opportunities for growth through innovative products.

Asunción, the cheapest city in the world

According to an international survey measuring cost of living carried out by the WORLD CLASS firm MERCER Human Resources Consulting, Paraguay's capital city of Asuncion is the cheapest city among 144 other cities who participated in the survey, with a score of ONLY 42,7. Similarly, business costs in Paraguay are low, thanks to its having the biggest hydroelectric power plant in the world (Itaipú) and low rent costs, compared to other capital cities of the region.

STRUCTURAL REFORMS, ACCOMPLISHMENTS AND COMMITMENTS.

THE GOVERNMENT THAT ASSUMED OFFICE IN AUGUST 2003 signed a Stand-By Agreement with the International Monetary Fund, with duration of 15 months and special drawing rights of around USD 73 million.

IT HAS ACHIEVED important goals outlined in that Stand-By Agreement, including obtaining congressional approval for a number of economic laws and application of existing laws. Among the laws approved, are the restructuring of the internal debt, fiscal reform and reform of the public sector retirement system. In addition, the Government has put into force a new procedure requiring that all public bids and contracts be published over the Internet, a practice designed to make public bids a completely transparent procedure.

The Stand-by agreement establishes quantitative goals and structural conditions for its accomplishment. Among the quantitative goals are monetary goals establishing levels for Net International Reserves. Included in the fiscal goals are established minimums for fiscal growth and maximum amounts for salaries; there are also requirements to pay the public debt, establishing maximum amounts allowable for overdue repayment of principal on the external debt and on payments of the debt owed to government suppliers.

The conditions for structural reforms include approval of a law to restructure and unify public credit institutions; approval of a project for administrative reorganization and fiscal reform; approval of a new customs code; the development of a plan to reform the civil service; initiating the implementation of a reorganization of the Central Bank; and the presentation of a plan for opening public enterprises to private capital.

For more information please visit following website <http://www.imf.org> or click to open this attachment: [IMF -Paraguay - Memorandum on Economic & Financial Policies -2006](#)

AN ECONOMY ORIENTED TOWARD THE SERVICES AND FARMING SECTORS

Agriculture and agro-industry have a comparative advantage over other sectors of the economy, accounting for 30.7% of the country's production in the year 2003. The agricultural sector is characterized by a split between the traditional and labor-intensive

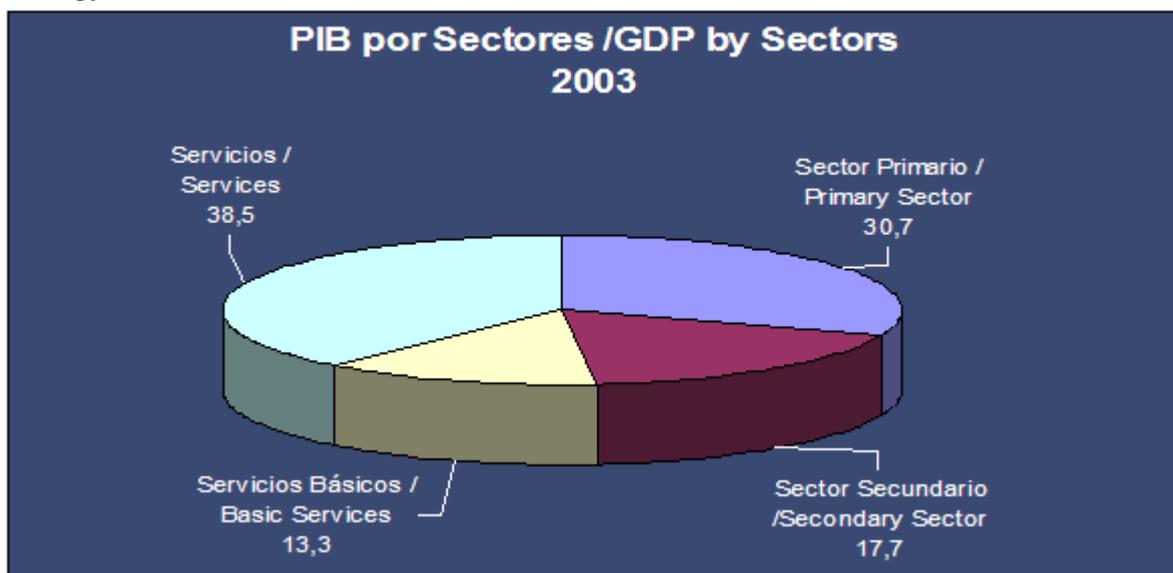
sector of cotton cultivation, and the modern sector REPRESENTED BY soybeans production. The soybean crop MADE UP 35,1% of the gross value of all agricultural production in 2002. Paraguay is ranked 6th worldwide in soybean production and 4th by volume of soybean exports.

The main products of the agricultural sector by order of importance are: soybeans, manioc, wheat, sugar cane, and cotton. In 2002 these products accounted for 35.2%, 18.9%, 8%, 5.4%, 3.8% and 2.5%, respectively.

Industry represented in 2003 13.5% of GDP, concentrated primarily in the processing of local raw materials. The food sector is the most important single category accounting for approximately 42.9% of gross production in the industrial sector, followed by wood (12.3%); alcoholic and non-alcoholic beverages (10.8%); handicrafts, paper (6.4%); leather and shoes (5.9%), stamping and printing (4.6%), textiles and clothing manufacturing (3.2%), and non metallic mineral products (3.1%); among the most important sectors.

The services sector made up 51.7% of the gross domestic product in 2003, reflecting this area's growing importance. During the last decade the sub-sector of basic services comprised of electricity, water, transport and communications was the most dynamic, growing at an average yearly rate of 7.4%.

This sectorial structure reveals the existence of business opportunity in all the economic sectors, from elaboration of primary products, through agro-industry and industries to technology sectors.

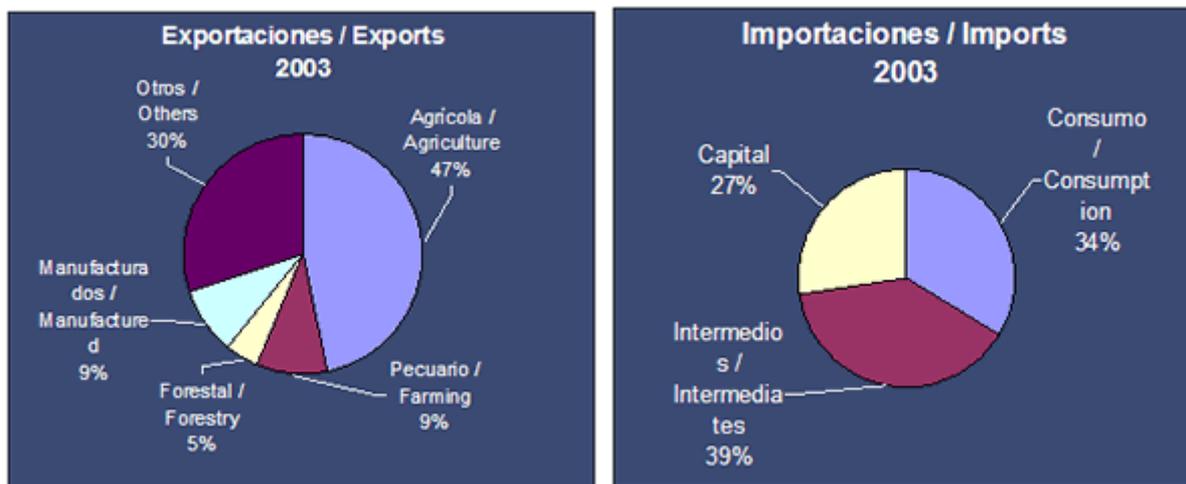


FOREIGN TRADE

The Paraguayan economy has been historically open, with its external trade (imports + exports) representing 55.7% of the GDP in 2003, and 40.3% on average during the period 1998-2002. Before MERCOSUR, Paraguay had customs duties set at 10% and 0% levels. With the advent of the MERCOSUR accord in 1995, customs duties for the countries out of the block have been increasing, and they are now at the 14% level on average.

Trade within the block has become more important with the bringing into force of the Treaty; 39.6% of exports were destined for other MERCOSUR countries in 1993, while in 2003, it was 69.4%. On the import side, 38.6% originated in countries within the block in 1993, compared to 57.3% in 2003. Within the MERCOSUR group, in 2003 Brazil was the destination of 32.5% of exports and was the origin of 34.2% of imports. Argentina was the source of 21.6% of its imports and 5.7% of exports during the same year.

Exports: When classifying exports by type of goods, first place goes to soybeans with an export value of USD 517 million, 41.6% of the total; in second place is Soybean Oil with USD 83.4 millions, 6.7% of the total; in third place meat products with 4.84% of the total, reaching USD 60.2 millions; in fourth place with 4.77% of total we have wood at USD 59.2 million; in the fifth place is cotton with 4.7% of total, amounting to USD 58.1 million; finally, in sixth place we have leather, which counted for 4.4% of total exports and totalled USD 54.7 million.



- 1) Made by PwC using Central Bank data.
- 2) Made by PwC using Central Bank data

Imports: Classifying imports by type of goods we have in first place Intermediates Goods, with 39% of the total, or USD 726 million; in second place, with 33.6% of total, are consumer goods, amounting to USD 625.5 million; finally, in third place, with 27.4% of the total, are Capital Goods, valued at USD 510.6 million.

INVESTMENT CLIMATE ORIENTED TO PRIVATE SECTOR

The State is slowly limiting its participation in entrepreneurial activities, giving private initiative a more important role in investment and economic growth. Currently under study is the possibility of opening some publicly owned enterprises to private capital, among them the telephone, electric and water supply companies.

For more information please click on the following file: [U.S.Department of State -Paraguay Investment Climate Statement -2005](#)

INVESTMENT INCENTIVES

The Investment Promotion Law 60/90 treats foreign investment as equal to domestic investment and there are several agreements signed to ensure protection of foreign investment.

Investment projects require an evaluation by the Investment Council. After this evaluation it needs to be approved by a resolution signed by the Ministry of Industry and Commerce

and the Ministry of Finance.

There are no limitations or restrictions to foreign investment. They are treated as nationals to all purposes, and capital and profit can be freely remitted abroad subject to the withholding taxes imposed in accordance to the nature of the remittance.

WE GUARANTEE FOREIGN INVESTMENTS

Paraguay has signed Investment Guarantee Agreements with the following countries: Argentina, Austria, Belgium, Bolivia, Brazil, Chile, China, Costa Rica, Cuba, Czech Republic, Ecuador, El Salvador, Spain, United States of America, France, Germany, Great Britain, Hungary, Italy, Korea, Netherlands, Peru, Portugal, Romania, South Africa, Switzerland, Uruguay and Venezuela.

MAQUILADORA SYSTEM

Paraguay's Maquiladora System opens the way for foreign businesses to establish themselves in the country or to subcontract another company already present, for the purpose of processing or finishing goods and services for re-export, with the consequent value added. At the same time, the regimen allows the company to import raw materials, machinery and necessary inputs under a system of temporary admission in which payment of duty is suspended. It also provides for contracting local workers and services, and the re-export of the product to the regional and international markets. Although the objective of the maquiladora system is to export the entire production, it is possible to sell a small portion of it locally without losing the tax advantages mentioned above.

The maquiladora operations are exempt from all taxes or other charges relating to the production process, including the Value Added Tax (VAT). A small tax of one percent is charged on the value added to the product within Paraguay.

The Maquila Law requires a manufacturing contract between a non-resident person or company with a Paraguayan counterpart. One of the requirements needed is to present an investment proposal to the Maquila Council for its approval which should be signed by the Ministry of Industry and Commerce and the Ministry of Finance

For additional information please visit the following website: <http://www.maquila.gov.py>

EXPORT INCENTIVES

Exports are exonerated from paying VAT, since the government recognizes a fiscal credit for the preceding production stages. There is also a Temporary Admission Imports Regime, which allows for the exemption of import duties and VAT on imported inputs and goods to be used in the production of exports.

INFORMATION FOR STARTING A COMPANY

Foreign Companies wishing to establish business activity on a regular basis in Paraguay can set up branches or other kinds of representation. For this purpose, the main types of Corporations allowed by legislation are:

Limited Partnerships (S.R.L.): These are corporations with the company's capital divided into shares of equal value, with restricted negotiability, which cannot be represented by bonds. Limited partnerships must be formed by two or more persons or statutory

partners, up to a maximum of 25 shareholders. The shareholders must assume responsibility for all social obligations up to the amount of its shares. Shareholders have one vote for each share at shareholder meetings.

If a Limited Partnership "S.R.L." has more than five partners or members, transfer of shares to third parties must be approved by partners that represent $\frac{3}{4}$ of the capital. If the SRL has less than five partners, vote must be unanimous

There is no floor for capital allowance requirements, and capital can consist of currency, in kind or in fixed assets. At the moment of forming the corporation the capital must be subscribed in full and a minimum of 50% of the currency capital must be integrated. The balance should be integrated within 2 years.

Limited Partnerships may use any name, including one or more partner's names, followed by words: "Sociedad de Responsabilidad Limitada" or "S.R.L."

For a Limited Partnership or Sociedad de Responsabilidad Limitada to start operating, its corporate contract has to be recorded at the Public Registry.

The administration and representation of the company should be run by one or more managers "gerentes", who could be partners or not.

One of the most important duties managers have is not to act on their own initiative in any business transaction that is not included within the purpose of the company,

Every partner has the right to take part in decisions of the company.

The S.R.L should create annually a reserve fund up to 20% of the company's capital taking out or withholding five percent of net profits.

Unless stipulated to the contrary, a Limited partnership would not be dissolved by death, interdiction or bankruptcy of a partner.

Stock Incorporated Companies (S.A.): There are two types of S.A., those with open capital, regulated by Law 1284/98, authorized to offer shares to the public, and those with closed capital, regulated by the Civil Code, not authorized to offer shares to the public.

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

The incorporation of a Sociedad Anónima "S.A." takes approximately 40 to 60 days

A minimum of two partners is required, with no maximum number of partners. The shareholders must underwrite the total amount of shares subscribed in order to initiate operation. The shareholders can receive dividends based on net profits.

The capital stock must be completely subscribed.

The S.A. to be recorded at the Public Records needs an authorization from the courts. This authorization should 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 policies

The S.A. by-laws should include the following:

- 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 abroad
- Nature of the business of the corporation
- Specified duration of the corporation
- Amount of subscribed and paid in capital
- Nominal value of 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 in shareholder's meetings, provisions regulating exercise of shareholder's right to vote, and the procedure for decisions taken at such meetings
- Basis on which the corporation is to be liquidated.

The S.A. should be constituted by a public deed attested by a licensed notary public. Corporations acquire separate legal status from that of its shareholders upon registration at the "Registry of Judicial Persons and Associations" and the "Public Registry of Commerce" If the Corporate Contract is not registered it will not make the contract void, but it may not be opposed to third parties Shareholders, directors, or any other person authorized to realize acts, operations in the corporation made prior to registration in the Public Registry are jointly and severally liable for it

One or more directors appointed at the annual shareholders assembly will be responsible for the corporate administration. These administrative directors can or cannot be shareholders and the numbers of them will be decided by the general meeting if it was not specified in the by-laws.

The terms of directors shall be determined in bylaws of the company.

The management of corporation should be supervised by one or more trustees (Syndics -Controllers)

Appointed by the ordinary shareholders meeting. They need to be domiciled in Paraguay. By-laws shall determine duration of their terms, which may not exceed three fiscal years and they can be re-elected.

Some duties of the Trustees are:

- Supervise administration and management of corporation, and participate without vote in the Shareholders and Board of Directors meetings.
- Examine corporation books and papers, once every three months
- Call ordinary and extraordinary shareholders meetings when they consider necessary when the Board of Directors fails to do so.

Administrators are not liable for obligations of the company except in case of mismanagement, etc. in such instances administrators are jointly and severally liable before the corporation and third parties for their acts, but directors who opposed, vote against or were not present when unlawful acts were approved, are exonerated.

Shareholders meetings may be ordinary or extraordinary. Ordinary meetings must be called at least once a year by directors or trustees. Extraordinary meetings may be called by the Board of Directors at any time or by trustees or at request of shareholders representing at least 50 per cent of corporate capital when it is considered necessary.

Corporation ownership is represented by nominal or bearer shares.

Directors are required to prepare each year an inventory, a detailed statement of account, etc. such documents must be approved by the annual ordinary shareholder meeting.

The S.A. must establish a legal reserve fund of not less than five percent of the annual net profit and up to twenty percent of the subscribed capital.

Branches of Foreign Companies: Foreign companies can establish business activities on a regular basis in Paraguay, through the opening of a branch office.

The foreign company must assign an amount of the company's capital to its branch. There is no floor to doing so. The Head Company has unlimited responsibility concerning the operations of the Branch. There is no requirement for reserve funds.

The Head company must confer full authority to the administrator of the Branch, who must reside in Paraguay.

The following documents must be prepared by the Head company, to register a branch office in the country. Such documents must be certified by a notary public, and legalized by the nearest Paraguayan Consulate:

- The articles of incorporation and by-laws of the company
- A certification that the company validly exists and is registered in the country of origin
- A board of Directors resolution which: resolves to establish a branch office in the Republic of Paraguay, assigns capital to the branch office, adequate for its purposes, not less than US\$ 10.000, establishes the domicile of the branch office in the Republic of Paraguay, designates the person who will be managing the branch office and grants the Power of Attorneys for the purpose of performing the registration of the branch office.
- The Power of Attorney granted to branch office managers and attorneys.

Once the documents are received in Paraguay, after they have been translated in Spanish by a Certified translator they must be recorded through a Notary Public and Registered at the Public Registries. The process should take approximately 45 days.

NEW FISCAL REGIME

Congress recently passed a law that modifies the current fiscal regime. It will go into effect in stages as determined by the Executive through Decrees, over the latter part 2004 and early 2005. The new structure modifies some existing taxes and creates others. Please click of the following attached file for more information: [PriceWaterhouseCoopers Report - Highlights of Paraguay-2005](#)

Income Tax

The new legislation includes: Income Tax on Industrial and Commercial Activities and Services (IRACIS), Income Tax for Farming Activities (IRAA), Income Tax for Small Taxpayers (IRPC) and Income Tax for Services of a Personal Nature (IRSCP).

The Income Tax of Industrial and Commercial Activities and Services (IRACIS) levies a tax on industrial and commercial activities, as well as services that are not of a personal nature and whose source is Paraguayan. The general tax rate is 20% for the first year and 10% thereafter. An additional 5% is applied when profits are distributed. In the case of branches, the head company must pay the tax applying a tax rate of 15% over the net amounts accredited, paid or sent. Distribution of excess reserves will also be taxed.

The Income Tax For Farming Activities (IRAA) taxes the income from farming and agriculture activities, which is determined in direct relationship between the size of the

land and its exploitation. The tax rate is 10% for usable agricultural land (SAU, initials in Spanish) that exceeds 741.3 acres in the Eastern Region and 3,706.5 acres in the Western Region. There is a tax rate of 2.5% for the lands that do not exceed the previous limits and for those lands that are not exploited in a rational and efficient manner; and a tax rate of 0% for the land owners of no more than 49.42 acres of SAU in the Eastern Region and 247.1 acres of SAU in the Western Region. Large landholdings pay the tax based on calculated real income, while owners of medium-sized holdings can choose to pay taxes on the actual or estimated income.

The Income Tax of Small Taxpayers (IRPC) places a tax on the activities of individually owned companies whose annual income does not exceed G. 100 millions, about USD 16,667, and the owners of woods with areas that do not exceed 30 hectares and who exploit it for the sale of lumber and firewood. Those who pay this tax will also pay the VAT.

The Income Tax for Services of a Personal Nature (IRSCP) places a tax on income of Paraguayan origin that is generated by carrying out activities that result in personal income. Physical persons and civil societies must pay the tax if income exceeds 10 minimum monthly salaries, a limit which will diminish over five years until reaching three minimum monthly salaries. The tax rate is 10% on income that exceeds 10 minimum monthly salaries (USD 1,620), 8% on income that does not exceed that amount and a tax rate of 20% on 50% of the income earned by foreign people coming from carrying out taxed activities within national territory. In this last case the withholding agent shall be the one who pays, credits or transfers the funds. This tax will go into force on January 1, 2006.

Value Added Tax (VAT)

VAT is applied to all transactions that involve selling or importing goods as well as for personal services. The general tax rate is 10%, 5% for contracts for the use of goods and the sale of land, interest earnings, commissions and for pharmaceutical products; and up to 5% for selling some products included in the basic basket of consumer goods.

Selective Consumption Tax (ISC)

The new tax regime also requires the payment of selective consumption taxes, which are applied to imports and initial sales, in the case of national products. The tax rates vary, depending on the type of goods, from one percent to 50%. The main types of products affected by this tax are fuel, alcoholic beverages, tobacco, and certain luxury goods.

Tax on Acts and Documents (IAYD)

This applies a tax on foreign currency, drafts, direct deposits, payment orders, letters of credit and in general all the operations that imply funds' transfer within and outside the country when the beneficiary is different from the issuer. The rate will be 1.5% when the transfer is local and 2% when the transfer is abroad. Quedará derogada a los 3 años de vigencia de la ley

Other Aspects

In addition, the law creates a Special Municipal License for cars, which places a 2% tax on automobiles valued at more than USD 30,000.

WORKING ENVIRONMENT

The law N° 213/93 (Labor Code) regulates the relationship between employers and

dependent workers which concern subordinated and remunerated services. According to this Code, Labor is all conscious and voluntary human activity, accomplished in a dependent and remunerated manner for the production of goods and services.

It is always presumed the existence of a labor contract / agreement between the person providing the specific work and the employer.

The labor law gives benefits and rights to the workers, which cannot be subject of any limitation or restriction, in such case it shall be void and will no obligate to the contracting parties.

Some of the subjects regulated by the Labor Code are:

Work Shift: the law places limits upon the work shift. Work shift could be:

- Daytime shift
- Nigh time shift
- Mixed shift

Overtime work is allowed in special circumstances and it should be subject of extraordinary pay

Salaries:

Salaries shall be stipulated freely with a common agreement but in no case should be under the minimum wage established according to the terms of the law.

Salaries may be paid.

- Per unit of time
- Per unit of work
- As commissions on sales or collections

Work capability is achieved at the age of 18. Minors below 18 years of age but over 12 years shall require an authorization of their parents or guardians.

Minors being 12 years old but less than 15 years may only work in certain kind of works such as family's enterprises, etc.

The law prohibits any kind of discrimination on the basis of age, sex, religion, and politics.

IMMIGRATION LAW

The Law 978/96 regulates Immigration and residence of foreign nationals

A foreigner shall become an immigrant or apply for residence demonstrating: economic standing with personal resources, or under the employment of another person, or company, and evidence good morals and capacity for work. Also foreigners may reside in Paraguay providing all the requirements established by law.

Foreigners have the same rights and obligations as nationals, with certain limitations established by the National Constitution. Only citizens have the obligation to perform military service, the right to vote and to hold judicial and political office.

DISTRIBUTORS, DEALERS AND AGENTS

The Law N° 194/93 governs relationship between foreign companies and local representatives, agents and distributors. Parties may regulate their rights by Civil Code,

but waiver of right recognized by Law N° 194/93 is not allowed.

If there is any conflict between the parties, they shall submit to the territorial jurisdiction of the courts of Paraguay.

The information contained in this document is given to have just a certain general overview on How to Do Business in Paraguay, providing references on some of the laws or regulations applicable to that effect but there are not all of them, we suggest therefore to seek a professional advise before starting any business in Paraguay.

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