

PARAGUAY



MERITAS[®]
LAW FIRMS WORLDWIDE

DOING BUSINESS IN LATIN AMERICA AND THE CARIBBEAN





MERITAS[®]
LAW FIRMS WORLDWIDE

DOING BUSINESS IN LATIN AMERICA AND THE CARIBBEAN

PREPARED BY MERITAS LAWYERS
IN LATIN AMERICA AND THE CARIBBEAN



Published by Meritas, Inc. • 800 Hennepin Avenue, Suite 600
Minneapolis, Minnesota 55403 USA

+1.612.339.8680 | +1.612.337.5783 FAX | WWW.MERITAS.ORG

© Copyright 2012, Meritas, Inc. All rights reserved.

DOING BUSINESS IN LATIN AMERICA AND THE CARIBBEAN

This publication has been prepared by the lawyers of Meritas firms to provide an overview to foreign investors and business people who have an interest in conducting business in Latin America and the Caribbean. The material in this publication is intended to provide general information only and not legal advice. This information should not be acted upon without prior consultation with legal advisors familiar with the specifics of your particular matter.

Meritas firms offer clients the ability to access high quality legal service throughout Latin America and worldwide. With 6,900 experienced lawyers in 177 full-service law firms serving 236 markets, Meritas gives your company access to local counsel around the world.

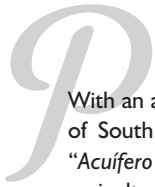
Meritas firms

- Offer high quality, worldwide legal services through a closely integrated group of full-service law firms
- Are subject to rigorous selection criteria and continuous monitoring for quality of service through regular assessments and recertifications.
- Provide global reach and access to local knowledge at market rates
- Offer coordinated service across jurisdictions
- Can be found on www.meritas.org which enables direct access to firms through a searchable database of attorney skills and experience plus links to contacts at each Meritas firm

The following currency notations are used in this book.

ARS	Argentinean Peso	DOP	Dominican Republic Peso
BSD	Bahamian Dollar	GTQ	Guatemalan Quetzal
BRR	Brazilian Cruzeiro Real	HNL	Honduran Lempira
KYD	Cayman Dollar	MXN	Mexican New Peso
COP	Colombian Peso	NIO	Nicaraguan Córdoba
CRC	Costa Rican Colón	PYG	Paraguayan Guarani
USD	United States Dollar	UYU	Uruguayan Peso

Please be aware that the information on legal, tax and other matters contained in this booklet is merely descriptive and therefore not exhaustive. As a result of changes in legislation and regulations as well as new interpretations of those currently existing, the situations as described in this publication are subject to change. Meritas cannot, and does not, guarantee the accuracy or the completeness of information given, nor the application and execution of laws as stated.



With an area of 406,752 square kilometers, Paraguay occupies the central plain of South America. It has the world's largest fresh water reserve known as "Acuífero Guaraní." The country's fertile soil is one of the major resources for agriculture and cattle raising.

Paraguay is located at the confluence of an important river system and two oceans, providing easy access to the major ports and markets in the region.

Paraguay has approximately 6.5 million inhabitants of whom about 600,000 live in Asunción, the capital of the country. Its population is young and homogeneous. About 70 % of the population is less than 30 years of age.

The present constitution was enacted in 1992. It establishes a presidential government system, with three independent branches: executive, legislative and judicial.

Spanish and Guaraní are official languages. Guaraní is an Indian language also used by the ancient Jesuit priests, spoken by 90% of the population.

The legal system is unified within the country as Paraguay is a nonfederal country.

FOREIGN INVESTMENT

The Paraguayan constitution proclaims that all people have the right to choose 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. Paraguay has a Foreign Investment Law 117/91 which grants foreigners the same guarantees, rights and obligations enjoyed by Paraguayan investors. Another important investment law is Law 60/90 which grants tax incentives for investments in areas that the country wishes to develop.

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, which will be explained further, there are no restricted areas, no discrimination and no limitations.

MAIN RIGHTS

Law 60/90 for the Promotion of Investments

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

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

Types of Investments under Law 60/90

Investments may be made using any of the following:

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

Fiscal Incentives

Fiscal incentives granted under Law 60/90 are the following:

- Total exemption from all taxes applicable to formation, recording and registration of corporations and companies;
- Total exemption from all taxes and charges applicable to foreign exchange transactions arising out of capital contributions or operations contemplated in investment project;
- Total exemption from customs duties and similar taxes, including specific Internal Revenue levies on imports of capital goods;
- Total exemption from all taxes and other levies on remittance of interests and fees related to foreign loans, during the entire term of loan, provided that loans are at least USD5 million and lenders are well-known financial institutions;
- Total exemption from all taxes applicable to dividends and profits generated by investment project for a maximum term of 10 years, provided that the investment is more than USD5 million and taxes paid in Paraguay cannot be considered tax credit in country origin of investment;

- The incorporation of capital goods through leasing allows the introduction of such goods into the country under the rules of temporary admission for the term of the lease agreement, with suspension of import duties and VAT. Payments made abroad under lease contracts are subject to withholding taxes (6% corporate income tax and 10% VAT).

Tax Incentives Granted by Maquila

The Maquila Regime is regulated by Law 1064/97, inspired by the Mexican Maquiladora System. Under this regime, a local company/subsidiary/branch (*maquiladora*) signs a contract with a foreign entity (*matriz*) to produce goods and/or provide services for export only. The *maquiladora* operates “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. Investment Law 117/91 provides equal guarantees and standing for national and foreign investments. There are no restrictions on minimum capital or production quotas.

Raw materials and other inputs required for the performance of the Maquila Program can enter Paraguayan territory with suspension of all the applicable taxes and duties; a guarantee for a value equal to the suspended taxes is required by customs authorities (insurance policies, warrants, or bank guarantees are accepted).

Production under this regime is subject to a 1% tax on the value added in Paraguayan territory, with no other applicable taxes.

Fiscal exemptions extend to following taxes: Income tax; value added tax; customs duties; customs valuation tax; consular duties; port and airport taxes and duties; any type of tax, rate or charge that pertains to guarantees issued to companies using the *Maquiladora* System; any type of tax, rate or charge applied to loans financing *Maquiladora* operations; any taxes that might be placed on remittances of funds related to *Maquiladora* System.

Maquiladoras can perform production themselves or can subcontract with other local companies. Tax benefits might be extended to subcontractors under certain conditions, in such cases subcontractors will be called *SubMaquiladoras*.

Paraguay is also party to international agreements and treaties for the promotion and protection of investment. The most important are: Multilateral

Investment Guarantee Agency (MIGA); Overseas Private Investment Corporation (OPIC); and International Center for the Settlement of Investment Disputes (ICSID). Paraguay has also signed agreements with several countries regarding reciprocal protection for investments.

RESIDENCY REQUIREMENTS

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

Precarious Residency

This is a special residency permit in Paraguay. It's given to foreign people who, due to work issues, must stay in the country for short periods of time, less than the period allowed by a temporary residency and more than the period established for tourists (90 days).

Validity: Six months, renewable for another period.

Documents required:

- Simple copy of identification document (passport or any other);
- Four ID photographs in color 2.5 x 2.5 inches;
- Proof of legal entrance to the country (visa or sealed passport), issued by the immigration authorities at the control posts (airports and border);
- Authenticated copies of passport vital data pages.

Permanent Residency

A foreigner can become an immigrant or apply for residence subjected to demonstration of economic standing with personal resources, or under employment by another person, enterprise or company, and evidence of good morals and capacity for work.

All applications must have the following documents:

- Passport from the country of origin, with photograph;
- Birth certificate;
- Marriage certificate (if married) or a divorce decree or a death certificate (if a widower/widow) in order to justify marital status;
- A certificate from a medical doctor or institution evidencing good health;
- Criminal history record from the applicant's country of origin no older than three months when presented in Paraguay (issued by the FBI for American citizens);
- Economic solvency statement, that may be proven with a deposit in a bank in Paraguay in the amount of at least USD5,000 in a

savings or current account in the name of the applicant or its equivalent in local currency or any other currency at the date of the proceedings.

All these documents must be original, current and legalized at the Paraguayan consulate in the country of origin and translated into Spanish. Immigrants investing in agricultural, cattle raising and industry are considered privileged.

After having all the documents above mentioned and obtaining documents required by the government, applicant must present in person all the documents to the immigration office.

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

Residence

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

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

Once resident status is granted, the police department issues an identity card (*Cédula de Identidad*).

ENVIRONMENTAL REGULATIONS

Environmental issues are governed in Paraguay by Law 294/96 and Law 1561/01. The Secretary of Environment (*Secretaría del Medio Ambiente*, SEAM), was created as an independent regulatory institution by Law 1561/00. This law also originated the National System of the Environment (*Sistema Nacional del Medio Ambiente*) which is integrated by representatives of different public sectors (administrative, municipal, etc.) and private sector. The National System of the Environment has the role of supporting the SEAM in its politics, agenda, plans, etc.

According to the Environmental Law, any natural or juridical person that performs industrial or agricultural activities must file at the SEAM an Environmental Impact Assessment (EIA) to obtain an Environmental License. Said permits are required for any kind of activity that may affect the environment in any way.

This EIA must ensure that all environmental implications are taken into account before performing the desired activity.

Paraguay also has in force the Zero Deforestation Law, promulgated as Law 2524/04 in December 2004. This law promotes the conservation, preservation and management of native forests in the Eastern Region of Paraguay (*Región Oriental*) by prohibiting activities such as transforming and converting surfaces covered with forest for activities such as agriculture, livestock, etc. This prohibition is in force until 13 December 2013. This law prohibits the issuance of permits, licenses, authorizations and/or any other legal document authorizing the transformation or conversion of native forest areas to areas for agriculture, livestock activities or for the so called “landless *campesinos*.”

In Paraguay, the violation of legal environmental dispositions may imply civil, administrative and criminal sanctions. The directors, managers and other legal representatives are responsible for the environmental crimes that are carried out in the case of juridical persons.

COMPETITION AND ANTIMONOPOLY REGULATIONS

There is no competition and antimonopoly regulation in place yet. However, there is a bill in Congress.

BUSINESS ENTITIES

CORPORATIONS

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

General Characteristics

Corporate Name

The corporate name must include the denomination “S.A.” (*Sociedad Anónima*).

Organization

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

- There must be a minimum of two shareholders who may be represented by proxy;

- Capital stock must be completely subscribed; and,
- Authorization from the courts must be recorded at Public Records. Authorization will be granted if the corporate organization and bylaws comply with the provisions of the Civil Code and its purpose is not contrary to public policy.

Corporate Bylaws

The following must be included in the bylaws:

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

Formalities Required to Establish a Corporation

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

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

The legal fee of the notary public amounts to 0.75% of the corporate capital, plus publication expenses.

Management and Administration

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

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

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

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

Supervision

To supervise management of 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 bylaws, and domiciled in Paraguay. Bylaws shall determine duration of their terms, which may not exceed three fiscal years and they may be reelected.

Trustees have the following powers and duties:

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

Responsibility of Administrators

Administrators are not liable for obligations of the company except in case of nonperformance of their duties, mismanagement and personal breach of law or corporate bylaws. 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.

Minimum Capital Stock

The law does not establish a minimum capital stock.

General Shareholders' Meeting

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

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

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

Extraordinary shareholders' meetings may be called by the board of directors at any time or by trustees when deemed necessary or convenient or at request of shareholders representing at least 5% of the corporate capital, unless the bylaws set other limits, to resolve any of the following:

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

Notice of meetings, including full agenda and any special requirements set forth in the bylaws for participation, shall be published for five days, at least 10 days before meeting. Should the meeting not take place, a second meeting must be called within 30 days. Decisions on matters not listed in the agenda are null and void.

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

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

Extraordinary meetings on first call require the presence of shareholders representing 60% of shares with voting rights; on the second call, quorum is 30%. Bylaws may establish higher percentages.

BRANCHES

Companies incorporated in foreign countries which will conduct regular business in Paraguay may establish a branch 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 of Commerce (*Registro Público de Comercio*) and the Registry of Legal Entities and Associations (*Registro de Personas Jurídicas y Asociaciones*).

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

Representatives of foreign companies are authorized to engage in all transactions and acts of which the 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, the following documents must be prepared by the company, certified by a notary public, and legalized by a Paraguayan consulate:

- The Articles of Incorporation and bylaws of the company;
- 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 USD 10,000; establishes the domicile of the branch office in Asunción, Paraguay; designates the person or persons who will manage the branch office and grants powers of attorney as required by Paraguayan law; grants powers of attorney to attorneys for the purpose of performing the registration of the branch office.
- The powers of attorney granted to branch office managers and attorneys.

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

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

TAXATION

Administration and application of Tax Law 125/91 and its amendments by Law 2421/2004 corresponds to Undersecretary of Taxes (*Sub-Secretaria de Estado de Tributación*), from the Secretary of Finance (*Ministerio de Hacienda*).

INCOME TAX

Taxable Income

This includes all income from Paraguayan sources derived or earned from commercial, manufacturing or service activities other than personal services: sale-purchase of real estate when activity is carried out as permanent business; use of assets, and other income shown on commercial balance sheets; commercial partnerships, as well as foreign corporations or their branches, agencies or business establishments in Paraguay; extractive industries such as mining and forestry, and certain farming activities (flower growing, forestry, bee keeping, poultry farming and others); consignment of merchandise; supply of certain services listed in law, which are subject to amendment and regulations. Excluded is income from farming which is governed by specific rules applicable to sector, income from small taxpayers (those whose annual income is less than approx. USD20,000 per year) and income subject to personal income tax.

Taxpayers

These include individual businesses, partnerships, associations, corporations and other private businesses; government-owned enterprises, decentralized government corporations, and mixed capital corporations; branches, agencies or businesses owned by foreign corporations. Corporations incorporated overseas shall pay tax on income paid or accredited to them. Also included are individuals applying capital resources and personal labor jointly, for purpose of obtaining economic gain, except those involving strictly personal services or those engaged in farming, and corporate corporations, when performing the same activities as other commercial/industrial companies.

Paraguayan Sources

These include business carried out, income obtained from goods located in or from entitlements used for gainful purposes in Paraguay; interest on securities and movable properties; technical assistance provided within the country when utilized or applied in it; assignment of goods or rights when used even partially during agreed period, such as use of trademark or patent; international freight on goods carried to bordering countries (Argentina, Brazil, Bolivia) or Uruguay which is considered 50% from Paraguayan sources, other freight is considered to be 30% from Paraguayan sources; interests, fees and capital gains obtained abroad, provided that the investor or beneficiary is established in Paraguay.

Gross Income

This is defined as the difference between total earnings and cost thereof. In sales, it is the difference resulting from deducting from gross sales any returned goods, gratuities and price discounts as applied in local business usage or custom. In the sale of fixed assets, it is the difference between the sale price and the cost or revalued cost of assets, minus amortizations or depreciations allowed by law. It also includes proceeds from the sale of movable property or real estate received in payment, proceeds from payments to partners or shareholders; any exchange rate differences resulting from transactions in foreign currencies; net benefits resulting from collection of insurance or indemnities; proceeds from any transfer of enterprise or business firms; interest on loans or investments (advances paid to partners or employees are excluded as well as deposits placed in financial entities); any increase in net worth occurring during the fiscal year other than that arising from revaluation of fixed assets, capital contributions or from exempt or nontaxable businesses.

Net Income

This is calculated by deducting from gross income all expenses incurred to obtain such income and to maintain source of income, provided they are real expenditures, duly documented, and at market price, as follows: Taxes and social benefits excluding business income tax; operating expenses of business; personnel compensation provided that they (i) contribute to social security, and/or (ii) are taxpayers of personal income tax, organization or incorporation expenses; interest and rentals or sums paid for assignment of assets and rights; losses suffered through casualties not covered by insurance; reserves or write-offs for bad debts; losses incurred as a result of criminal acts; depreciation; amortization of incorporeal rights such as trademarks and patents; expenses and payments incurred overseas associated to taxable income from export and import operations; travel expenses, per diem, and other similar payments in cash or kind; gifts to state, municipalities and religious entities or to entities dedicated to social welfare or education, recognized by Tax Administration;

professional fees and other compensation for personal services not subject to taxation; expenses and contributions paid to staff for health care, education, cultural development or training. Losses incurred in any fiscal year may be set off.

Nondeductible Expenses

These include interest on loans or advances from owners of businesses, partners or shareholders if they are not taxpayers of personal income tax; if interest rates are higher than average for Paraguayan banking system, this restriction is not applicable to owners/shareholders of banks and other financial institutions regulated by 861/96. Penalties for tax offenses are not deductible, nor are earnings in any fiscal period retained in business as capital increases or reserve accounts, excluding those retained by financial institutions in order to comply with minimum capital level according to regulations, and 50% of earnings applied to legal reserve by same institutions. Also included: Amortization of payments for goodwill; personal expenses of owners, partners or shareholders, and moneys drawn on account of future earnings; direct expenses involved in earning nontaxable income; and losses incurred in the previous fiscal year. Indirect expenses are proportionally deductible.

Beneficiaries Not Domiciled in Paraguay

Beneficiaries of Paraguayan-sourced income domiciled abroad are subject to withholding tax, separately from their local branch or agency. The law establishes imputed profit margin to which rate is applied. Imputed profit margin varies as follows:

- 10%: Insurance or reinsurance premiums; sales of travel tickets, international freight, radio message services, telephone calls, Internet services and other similar services sent overseas from Paraguay; freight on international shipments (export freight is exempted).
- 15%: Gross income earned by international news agencies; gross income earned by leasing of shipping containers.
- 40%: Rentals on motion picture films or television programs or those of any other projection medium.
- 50%: Income earned from any other source not indicated before.
- 100%: Gross income paid or credited abroad, arising from branches, agencies or subsidiaries located in the country. Taxpayers may in such cases choose to pay taxes according to general rules governing tax by keeping adequate books of account for verification of expenses and income.

Presumptive Income

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

Tax Exempted Income

Local companies that, due to their status as shareholders, receive dividends or distributions from other local companies are taxed at a rate of 10% on that income, provided the amount of that income does not exceed 30% of annual gross income of taxpayer's parent company. Once said income exceeds 30% of the parent company's annual gross income, all profits obtained from other local companies would be taxed.

Please note that only the 10% general tax rate could be exempted. The 5% additional tax on profits distribution and the 15% withholding tax on profits credited or submitted abroad (with exception of entities granted with 60/90 Law Investment Promotion Law) would still apply. In addition, contributions to government and other social security funds, provided they are created or approved by Law (health, retirement or pension funds) would also be required. Financial revenues obtained by such funds; interests and/or profits obtained from sales of bonds through stock market; and export freight are tax exempt.

Revaluation of Fixed Assets

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

Value of Inventories

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

Reinvestment Exemption

This exemption was replaced in fiscal year 2005 with a reduction on general tax (from 30% to 10%), but distribution of profits is taxed from fiscal year 2006

with an additional 5% rate. A 15% withholding tax is also applicable when owners/quotaholders/shareholders are nonresident entities.

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

Tax Rates

The current rate is 10%. Distribution of net profits to owners, shareholders or partners is subject to 5% additional tax. Sums paid or credited to head offices, partners or shareholders by branches, agencies or businesses located in Paraguay are subject to 15% tax. Income of individuals and/or entities not domiciled in the country, earned independently from that paid or credited on activities conducted by branches, agencies or businesses are subject to the sum of tax rates above as follows: $10\% + 5\% + 15\% = 30\%$.

TAX ON FARM INCOME

Farming is defined as business conducted for the purpose of obtaining primary products, either vegetable or animal, by utilization of land, excluding (i) business of handling, processing or treating farm products unless carried out by same producer; (ii) activities subject to other income taxes are as business income tax, personal income tax and small income tax.

Taxpayers

These are defined as individuals; partnerships, whether incorporated or otherwise; associations, corporations and other private entities; government enterprises, self-governing agencies, decentralized entities; individuals or corporations conducting taxable businesses, including corporations incorporated overseas and their branches and agencies who own or lease rural land.

Usable land (SAU) is considered for application of this tax,

SAU = total surface of real estates

minus:

- areas occupied by natural or planted forests, permanent ponds, lakes, everglades;
- other nonusable areas (as rocky and salty areas);
- protected areas under environmental legislation; and
- roads and highways.

For surfaces with SAU in excess of 300 hectares in Eastern Region and 1,500 hectares in Western Region, annual gross income equals total income rendered.

In order to determine net income, all expenses and investments related to tax activities are considered deductible, provided that they are duly documented according to law. For cattle raising, 8% per annum of female cattle in stock is considered deductible, and a maximum of 3% of mortality is admitted as a deductible expense, unless proven before authorities. There are other deductible expenses according to specific activities and subject to previous approval by the Secretary of Agriculture and Livestock. If net income is negative, losses could be compensated in a maximum of five successive fiscal years.

The tax rate is 10% on net income for surfaces with SAU less than 300 hectares in Eastern Region and 1,500 hectares in Western Region. Annual taxable income is determined based on presumptive income, according to specific zoning as follows:

- Zone 1, with productivity coefficient (COPNA) from 0.555 to 1.000, equivalent to 1,500 kilograms of soybean per hectare area per year;
- Zone 2, COPNAs from 0.31 to 0.54, equivalent to 600 kilograms of cotton fiber per hectare per year;
- Zone 3, COPNAs from 0.20 to 0.30, equivalent to 50 kilograms of live weight gain (for cattle) per year.

A productivity coefficient is applied to average (annual) prices for each product to determine annual taxable income. Tax rate is 2.5% applicable to taxed income. VAT paid on purchase of inputs required by exploitation is considered tax credit.

Surfaces less than 20 hectares in Eastern Region and 100 hectares in Western Region are tax exempt.

SMALL BUSINESSES TAX

This tax applies to commercial, manufacturing and service businesses other than personal services, conducted by individuals using their personal labor and capital to pursue economic gain, provided their total income in the previous year did not exceed PYG100 million (equivalent to approx. USD20,000), adjustable by price index. Individuals performing import/export activities are excluded.

Tax base will be the lesser amount between 30% of annual gross income (presumptive) and gross income less documented expenses.

VALUE ADDED TAX

This applies to transfer of ownership of goods from one person or company to another, and rendering of personal services and importation of goods. Excluded are personal services performed under employment.

Taxpayers

These are individuals providing personal services when their gross income in the previous year exceeded the average of one minimum monthly wage (approx. USD400/month); cooperatives; individual businesses engaged in commercial, manufacturing or services businesses; partnerships and private entities in general; independent government entities, government enterprises and decentralized agencies engaged in businesses; importers of goods; and nonprofit organizations (NGO) when performing commercial/industrial/services activities, subject to Business Income Tax.

Origin of Tax Liability

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

Territoriality

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

Tax Base

In transactions for consideration tax base is billed net price for goods or services. To establish net price and in determining price of goods used or consumed privately, the same rules apply as income tax, in addition to any special provisions. In the case of imports, base is customs value plus customs duties in addition to other taxes applicable to delivery of goods (customs and dock fees) and internal revenue taxes, but excluding value added tax. For loans, the tax base is interest, commissions and other charges accrued monthly. For real estate leases, the monthly accrued lease payment constitutes the base. For transfer of real estate, it is 30% of the transfer price. For transfer of stock (quotas and/or shares), the excess of transfer value over book value creates the tax base.

Exemptions

Sale of Goods. Farm products in their natural state; foreign currencies, government or private bonds, securities; petroleum-based fuels; goods received through inheritance; assignment of credits, capital goods manufactured locally provided they are applied to industrial/agriculture projects granted with benefits

of the 60/90 Investment Promotion law. (See Foreign Trade and Commerce, under Foreign Investment.)

Services. Interest on government or private bonds; services rendered by personnel of embassies, consulates and multilateral agencies accredited before government; fee of charge, services rendered by NGOs, political parties and other nonprofit organizations, deposits in financial institutions authorized by Central Bank of Paraguay, and in cooperatives, home savings and loan system, and public financial institutions.

Imports. Travelers baggage; diplomatic service imports; capital goods to be applied directly to productive cycle in manufacturing or farming in projects benefitted by incentives offered under Law 60/90. Goods imported to render services are not exempted even if benefitted by Law 60/90.

Payment of Tax

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

Tax Rates

- 5% for assignment of rights of use of goods;
- 5% for transfer of real estate;
- Maximum of 5% for sales of basic alimentary goods;
- 5% on interests, commissions and charges for loans;
- 5% for sales of pharmaceutical products;
- 10% for rest (general tax rate is 10%).

TAX ON BUSINESS INCOME

The tax rate is 10% applicable on tax base.

Employment Taxes

Incidence of contribution on salary is 16.5% to employer and 9% to worker. The minimum base over which day laborers and workmen doing piecework must contribute, is the amount corresponding to 18 days wages. In no case will contributions be calculated over amounts smaller than the minimum legal wage.

PERSONAL INCOME TAX

Taxable Income

This includes all income from Paraguayan sources derived from personal services or generating personal income: practice of professional activities, performances of personal services; 50% of income obtained as partners and/or shareholders of entities which are taxpayers of tax on business income; capital gains earned occasionally through transfer of real estate, stock (quotas, shares) when not subject to tax on business income (presumptive profit margin is 30%); interest and commissions; any other income not subject to tax on business income and small business tax.

Exempted Income

Exempted are retirement pensions granted for extraordinary services; pensions for old age, employee death benefits, compensation for accident injuries, indemnification for maternity, indemnification for unjustified firing of employee; interests and commissions from deposits on investments in financial institutions or cooperatives, revenues from debt instruments issued by public companies regulated by Stock Exchange Commission.

The personal income tax became effective 1 August 2012. Individuals who will not be subject to personal income tax are as follows:

- 1st year: individuals with annual gross income (AGI) of less than 120 minimum monthly wages (MMW);
- 2nd year: those with AGI of less than 108 MMW;
- 3rd year: individuals with AGI of less than 96 MMW;
- 4th year: individuals with AGI of less than 84 MMW;
- 5th year: individuals with AGI of less than 72 MMW;
- 6th year: individuals with AGI of less than 60 MMW;
- 7th year: individuals with AGI of less than 48 MMW; and
- 8th year and after: individuals with AGI of less than 36 MMW.

Taxpayers

Individuals, noncommercial partnerships or professional firms (law firms, accounting firms, etc.).

Deductible Expenses

These include compulsory contributions (eg., social security contributions); donations (limited by regulations yet to be issued); expenses made abroad when related to taxed income, local expenses related to taxed income when they are duly documented; personal and family documented expenses including education, housing, health, clothing, recreation and alimentary expenses; up to a maximum of 15% of gross annual income for (i) deposits in financial

institutions, cooperatives, (ii) investments on shares of public corporations, (iii) contributions to private retirement funds. Deductions are limited to amount of gross income (losses are not admitted).

Tax Rate

10% is the general tax rate on personal income.

INTELLECTUAL (INDUSTRIAL) PROPERTY

COPYRIGHTS

(Related Rights Law No. 1.328/98)

Protection of copyrights covers works of talent, of creative character, within literary or artistic area, whatever its form, expression, merit or goal, nationality or address of author or holder of relevant rights, or place of publication of work.

Patrimonial rights is the exclusive right to perform, authorize or forbid reproduction of work by any form or procedure; public communication of work by any means; public distribution of issues of work; introduction of copies of work into the country; translation, adaptation, arrangement or other transformation of work.

Public Domain

Expiration of terms set forth in law implies expiration of patrimonial rights and determines passage of work to public domain.

Computer programs shall be protected in the same terms as literary works. Protection shall extend to all forms of expression as well as operating programs and applications, either as source codes or object codes. The protection established by present law extends to any successive versions of the program as well as to programs derived therefrom.

The producer of a computer program is the natural or legal person who assumes initiative and responsibility for the work. It is presumed that authors of computer programs have assigned to the producer, in unlimited and exclusive manner, patrimonial rights recognized by present law.

Aforesaid lawful use, shall not extend to utilization by various persons, through installation of networks, workstations or similar procedure, unless by express consent of holder of rights.

Architectural Works

Acquisition of architectural plan or project implies the right to execute work planned, but the consent of author is required to use same in construction of another work. Use of architectural plan in building constructed by a third party

failing to remunerate creative work of author shall grant the latter the right to collect indemnity.

Works of Plastic Arts

Contract of sale of material contained in work of art grants acquirer the right to publicly exhibit work, for lucrative or onerous title.

News Articles

Except as otherwise agreed, authorization for use of newspaper, magazines or other means of social communication, granted by author not having a dependency relationship with news enterprise, shall grant editor or owner of publication the right to use it only once.

An editorial contract is one in which the author or his rights holders, assign to an editor the right to reproduce and distribute the author's work at their own expense and risk.

Contract for Edition of Musical Works

Author assigns to editor the exclusive right of edition and empowers him to record and reproduce the work, create audiovisual adaptations, translations and further editions and any other form of utilization of the work set forth in the contract.

Theater Shows and Musical Performance

Author, his rights holders or relevant managing institution, may assign or license to natural or legal person the right to represent or perform literary, dramatic, musical, musical show, pantomimic, choreographic or any other performance publicly, for economic compensation.

Phonographic Inclusion Contract

Pursuant to phonographic inclusion contract, owner of musical work, or his representative, authorizes producer of phonograms, on basis of remuneration, to record or fix work in order to reproduce same on phonograph record, magnetic tape, digital support or any other like device or mechanism, with object of reproduction and sale of copies.

Radio Broadcast Contract

Author, his representative or rights holder authorizes radio broadcasting enterprise to transmit his work. Provisions of present chapter also apply to transmission by wire, cable, optic fiber or other like procedure.

Performing or executing artists enjoy the moral right to recognition of their names in their performances and to oppose all deformations, mutilation or any other transgression on their performance, which may prejudice their prestige or reputation.

Producers of phonograms have exclusive right to execute, authorize and forbid the following:

- Direct or indirect reproduction;
- Public distribution, including export, lease, public loan and any other transfer of possession for profit of copies;
- Import of copies when not authorized for territory of destination;
- Digital communication by optic fiber, wave, satellite or any other form created or to be created, when such communication shall be equivalent to act of distribution, by allowing user to perform digital selection of work or production;
- Inclusion of their phonograms in audiovisual shows; and
- Modification of their phonograms by technical means.

Protection is for 50 years.

Radio broadcast organizations have the exclusive right to execute, authorize and forbid retransmission of their broadcast by any means or procedure, now known or to become known; recording in any form, sound or audiovisual, of their broadcasts, including that of any single image made public in broadcast or transmission; and reproduction of their performances.

Other Intellectual Rights

Present law recognizes the right of exploitation over recording of motion images, with or without sound, which shall not be creations subject to be qualified as audiovisual works.

Collective Management

Institutions incorporated or to defend patrimonial rights recognized by present law, require authorization from the government and are subject to its control.

Legal Actions and Proceedings: Administrative Protection

Holders of any rights recognized by present law may request cessation of unlawful activity of infringement, and demand indemnification for material and moral damages caused by infringement.

Customs has the obligation to seize all copies constituting violation of copyrights and suspend free circulation of goods, whenever same may be intended for import into Republic.

Copyright holders may exercise all rights referring to civil actions and proceedings provided by law against whoever possesses, uses, designs, manufactures, imports, exports or distributes, either for sale, lease, loan or like of any device, computer programs or against whoever makes and offers to

perform service, objective or effect of which, shall be allowing or facilitating escape of coding technology.

Criminal Penalties

Penalties shall be applied to whoever, being authorized to publish work, does so criminally in any of ways stated by law.

Customs Control

Holder of right having reasons to presume that preparations are being made to import or export products that infringe this right may request customs authority to suspend import or export at time of clearance. Conditions and guarantees applicable to precautionary measures are applicable to that request and order that such authority may issue.

PATENTS

(Law 1630/2001, amended by Law 2593/2005)

Accreditation of Ownership

Ownership of invention is granted with industrial property titles issued by Industrial Property Department as invention patent or utility model patent.

Matter Subject to Patent

New inventions of products and procedures implying inventive activity and having industrial application are eligible for patent protection.

Matters Excluded as Inventions

The following shall not be considered inventions:

- Simple discoveries, scientific theories and mathematic methods;
- Purely esthetic creations;
- Economic, business, advertising or publicity schemes, plans, principles or methods, and those referring to purely mental or intellectual activities or playing matters;
- Computer programs considered separately;
- Diagnostic, therapeutic, surgical methods for treatment of persons or animals; and,
- Various forms of reproducing information.

Matters Excluded From Patent Protection

The following matters are excluded from patent protection: (1) inventions that, if applied commercially, would threaten public order, morality or health; human, animal or plant life or environment; and, (2) plants and animals, except microorganisms, and purely biological procedures for production of plants or animals which are not nonbiologic or nonmicrobiologic procedures.

Patent Rights

The right to obtain a patent belongs to the inventor or its rights holders; that right may be assigned by acts *inter vivos* or by succession. If two or more persons have made the invention jointly, right to obtain patent shall belong in common to all. If several persons produce the same invention independently of each other, patent shall be granted to the person or his rights holder who first presents patent application or invokes first date priority for invention.

Inventions Made in Execution of Contract

When the invention has been made during fulfillment or execution of work or service contract, or of labor contract, person contracting for work or service shall have right to obtain patent, or employer, as may correspond, unless otherwise set forth in contract.

Inventions Made By Non-Inventor Employee

If an employee who is not obliged by labor contract to perform inventive activity makes an invention in a field of activity of his employer, or through use of data or means to which he may have access by reason of employment, he shall be obligated to communicate this fact to employer in writing.

Duration of Patent

Invention patent shall have unextendable duration of 20 years from date of presentation of application in country.

Publication

Patent will be published for five consecutive days in two newspapers 18 months after presentation of application. Patent-granting resolution shall be published for five consecutive days in two newspapers.

Conventional License Patents

Patent holder or applicant may grant license for exploitation of invention. Invention exploitation license shall have legal effect upon third parties as from its registration in Industrial Property Department.

Basic License Conditions

In absence of contrary stipulations, the following rules apply to exploitation licenses of invention:

- License shall extend to all exploitation acts of license, during full validity of patent, in all national territory and in regard to any application of invention;
- License holder may neither assign license nor grant sublicenses;

- License shall not be exclusive, grantor retaining right to grant other licenses for exploitation of patent in country, as well as to exploit patent in country on his own; and,
- When patent has been granted as exclusive, licensor may not, on his own, exploit license in country.

Nullity of Patent

Patent shall be null and void if:

- Object of patent fails to constitute invention;
- Patent has been granted for matter that fails to satisfy patentability requirements;
- Patent fails to make known invention in sufficient and complete manner for it to be understood and for person trained in relevant technical matter to execute same;
- Patent granted comprises more extensive divulgence than that contained in original application; and
- Patent is granted infringing proceedings previously stated for its granting.

COMPULSORY LICENSES OR OTHER USES DUE TO LACK OF EXPLOITATION

Any interested party may apply to Industrial Property Department for compulsory license after three years from concession of patent or four years after presentation of application, and where grant of compulsory license would advance public interest or prevent anticompetitive practices. Compulsory license must not be granted with exclusive rights and it cannot be assigned or sublicensed by license holder. Precautionary measures can only be granted by judge when requested by the patent owner who must prove infringement of his right.

PRECAUTIONARY MEASURES

One who requests precautionary measures must prove his legal standing to act and existence of infringed right through presentation of industrial property titles issued as invention patent or utility model patent and must give proof that allows presumption that infringement has been committed. Judge may require caution or enough guarantee to grant measure. Judge must always give intervention to affected party before granting precautionary measure, unless delay in granting measure causes nonrepairable damage and there is risk that proof of infringement may be destroyed.

UTILITY MODEL INTRODUCED IN NEW PATENT LAW

Definition of Utility Model

It is defined as an invention comprised by form, configuration or disposition of elements of device, tool, instrument, mechanism or other object, or of part thereof, that allows better or different operation, use or fabrication of object comprising same, or that offers any use or technical effect that it did not have before. Utility model shall be protected by granting of patents.

Pharmaceutical Products

To obtain a patent for pharmaceutical products, the opinion of the Health Department over product or procedure shall be required.

Precautionary Measures

Besides requirements for precautionary measures mentioned above, if patents are for pharmaceutical products, the following conditions must be fulfilled:

- a) Reasonable probability that patent shall be declared valid if it were to be objected by defendant;
- b) Reasonable probability that patent shall be infringed;
- c) Damage that can be caused to requestor if precautionary measure is not granted shall be greater than damage that causes granting of measure;
- d) Expert shall grant his expert opinion over points (a) and (b) in 15 days at most; and
- e) Health Department shall grant its opinion over point (c) in maximum of five days.

Validity

Pursuant to Art. 65 of Transitory Provisions of Agreement on Aspects of Intellectual Property Rights Related to Commerce (ADPIC), Patent Law 1630/2001 amended by Law 2047/2002 for pharmaceutical products became effective on 1 January 2005.

Filing of Applications

Applications for pharmaceutical products invention patents, when they fulfill the requirement of being a new product, process or proceeding pursuant to state of art and possess inventive level for their use in industry, shall be transacted according to requirements and provisions of Patent Law 1630/2001. Duration of patents so granted shall arise from application of terms established pursuant to duration of patent.

TRADEMARKS AND TRADENAMES

(Law No. 1294/98 and Regulating Decree No. 22,365/98)

Classification

By Decree No. 16.939/2002 Paraguay adopts 8th Edition of Nice Agreement by which classes are expanded to 45.

Use of Trademark

Obligation of trademark use (Art. 27) which reads: "Use of the trademark is mandatory." Otherwise, at request of interested parties, registration of trademark shall be canceled:

- When use of trademark shall not have occurred within five years immediately following registration;
- When use of trademark shall have been interrupted for more than five consecutive years;
- When its use, within term stated in two previous items shall have occurred with substantial alteration of its original distinctive character as shown on relevant registration certificate.

However, it is clear that the Department of Industrial Property shall not demand use of trademark in order to authorize renewal of registration already granted.

Registration of trademark shall be canceled only upon request of interested party and only pursuant to judgment of competent judge, passed with authority of *res judicata*.

In practice, only if a third party interested in a trademark which is not in use applies for the same trademark and opposition is brought by the holder of the trademark, may that third party claim lack of use, in which case the matter automatically ceases to be an administrative case and records are passed on to Court in Term which shall render a definitive judgment on the case.

Furthermore, interested party may resort directly to civil and commercial jurisdiction in order to bring suit for cancellation for lack of use.

Trademark holder bears the burden to prove use. Ordinarily, plaintiff bears burden of proof. Any means of proof is admitted, as long as products or services distinguished by trademark shall have been used in commerce or are available in market under such denomination. Even publicity of introduction of products or services is admissible as proof of use, as long as such use shall occur within four months following start of advertising campaign.

Use of trademark shall be made as it appears in registration certificate, that is, with same label. However, if use differs in slight details or secondary elements, that different use shall not constitute reason for cancellation of registration.

Finally, if trademark is registered for all products included in class, which are generally diverse, use in one of such products shall be sufficient to prevent cancellation of registration, or to bring relevant opposition.

Grace Period to Apply for Renewal

Art. 19 of Trademarks Law establishes validity of trademark for term of 10 years, which may be extended indefinitely for periods of like duration, as long as extension is applied for within last year prior to its expiration. Term of validity shall be computed from date of expiration of previous registration.

However, in order to adapt trademark legislation to that of countries of Mercosur and to Paris Convention ratified by Law 300/94, final provision was introduced in Art. 19 of Law 1294/98 which reads: "Application for extension may be applied for within a grace period of six months following the date of expiration, requiring, in that case, payment of an established surcharge besides the corresponding extension fee." Thereby in practice, this extends the term of validity of registration to 10 years and six months.

LABOR LAW

The terms of the Labor Code (Law No. 213/93) govern the relationship between employers and dependent workers which concern subordinated and remunerated services rendered, and affect all intellectual or manual workers and those with whom the employer may have entered a labor contract. The Code defines labor as all conscious and voluntary human activity, rendered in a dependent and remunerated manner, for the production of goods or services. An Employer is any natural or juridical person who utilizes the services of one or more workers by virtue of a labor contract. A Worker is any person executing work or rendering other services by virtue of a labor contract.

HIRING OF EMPLOYEES; LABOR CONTRACTS

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

The Labor Code does not govern:

- Directors, managers and other officials of the firm who because of the status of representative of the firm, the importance of their remuneration, the nature of the work performed and 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;

- Services rendered sporadically;
- Public officials and employees of the Central Administration of the State;
- Personnel enjoying expatriation or the protection of diplomatic privileges.

Work capability is achieved at 18 years of age.

BENEFITS AND LABOR RIGHTS

Vacations

Workers have a right to paid vacations after each year of continuous work.

The vacations will depend on the seniority of the worker:

- 1 year to 5 years relationship = 12 days
- 5 to 10 years relationship = 18 days
- More than 10 years relationship = 30 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
- Marriage
- Three leave days to get married
- Childbirth
- Family members are entitled to three leave days of maternity in case of childbirth
- Deaths
- Three 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 (IPS – *Instituto de Previsión Social*) in order for the employee to receive a medical certificate and a subsidiary amount during leave days.

- **Maternity Leave.** In the case of pregnancy, the working woman shall have the right to a maternity leave six weeks before and six weeks after the estimated date of childbirth.
- **Sickness.** An employee is entitled to a medical leave for any illness incurred, but IPS establishes that it won't provide subsidiary payment for more than 30 days per year.

Minimum Wage

Salaries shall be stipulated freely but they cannot be under the minimum wage established pursuant to the terms of the law. As of 1 April 2011, the legal minimum wage is PYG 1,658,232 per month (approx. USD400). It may be paid by time units (month, fortnight, day or hour), by work units (either piecework, assignment or jobbing), by sales commissions or collections, or percentage of future profits.

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

Annual Bonus

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

TAXES AFFECTING SALARIES

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

The employer shall contribute, on his own account, to the Social Security Institute 14% of all salaries and wages paid during each month, and shall retain the workers' contributions, which amount to 9%. An additional contribution of 2.5%, at the employer's account, shall be added (for the Ministry of Health, SENEPA and SNPP) bringing the total contributions to 16.5% from the employer and 9% from the worker.

TERMINATION OF EMPLOYEES; SEVERANCE BENEFITS

In the case of terminating an employee for a justified cause (stipulated by the Labor Code) but that cannot be duly judicially proved, the worker can choose to be restored to his former employment, in which case the employer shall pay all salaries, compensation and fines levied during the suspension of the contract, or terminate the labor contract, in which case he is entitled to the indemnification for unfair dismissal.

If the worker has achieved labor stability (10 years or more seniority), he shall not be subject to dismissal except by reason of just cause approved by decision of a judge in labor matters.

Neither party to a labor contract may terminate the contract without prior notice. The prior notice must be given according to the following rules, depending on seniority:

- Up to one year, 30 days
- Up to five years, 45 days
- Over ten years, 90 days

An employee may terminate without just cause the labor relationship by serving a written notice to the employer in accordance to worker's seniority.

Employees failing to provide sufficient notification will be liable for a payment of indemnification which consists in the half of the amount of wages that would have been paid during the remainder of the notification period.

Employers who fail to provide sufficient notification will be liable for the payment of an indemnification which consists in the amount of the worker's salary corresponding to the notice period that should have been given.

An unfair dismissal (without justified cause) which occurs before the expiry of the contract either with or without prior notice will give the employee the right to receive compensation for seniority which is: 15 days' wages per year of service or fraction of six months taking as a basis for the calculation an average remuneration regularly received during the last six months or a shorter period of the currency of the labor contract.

TRADE

All importers and exporters must register as such and keep certain books of account. Most importations are subject to a system of import duties and charges both specific and *ad valorem*, unless expressly exempted therefrom. Special tariff concessions are granted to some products originated in member countries of Mercosur and Latin American Integration Association. Import duties and charges are subject to constant revisions, and importations may at times be temporarily prohibited.

Exports are duty free but also are subject to a system of charges for services rendered, both specific and *ad valorem*, unless exempt therefrom, pursuant to specific incentives and rebate programs.

DISTRIBUTION PROTECTIONS

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

Definitions

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

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

Termination without Cause

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

Termination with Cause

Representation, agency or distributor relationship may be cancelled, revoked, amended or not renewed for just cause, without obligation to pay compensation for the following reasons:

- Noncompliance of contract clauses;
- Fraud or breach of trust on part of dealer;
- Inability or negligence of dealer in sale of products or services;
- 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*;
- Any act attributable to dealer that affects or prejudices marketing, sale or distribution of products or services;
- 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 is 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.

ARGENTINA

Negri, Busso & Fariña

Godoy Cruz 3236
Buenos Aires CI425FQV

Federico Busso
federico_busso@negri.com.ar
Tel: +54 11 5556 8000
www.negri.com.ar

THE BAHAMAS

Chancellors Chambers

Samana Hill, 14 Village Rd N
Nassau N-4589

Merrit Storr
mstorr@ccsbahamas.com
Tel: +1 242 394 1823
www.ccsbahamas.com

BOLIVIA

Mostajo Sociedad Civil

Edificio Hilda, 12th Flr
Av. 6 de Agosto
La Paz

Denise Mostajo
denise@mostajo.com
Tel: +591 2 244 3856
www.mostajo.com

Mostajo Sociedad Civil

Av. Cristobal de Mendoza No. 246
segundo anillo ed. La Casona
2nd Floor, #204

Santa Cruz
Sergio Mostajo
lawfirm@mostajo.com
Tel: +591 778 31499
www.mostajo.com

BRAZIL

Felsberg e Associados

Avenida Paulista 1294, 2nd Floor
São Paulo, SP 01310-915

Thomas Felsberg
thomasfelsberg@felsberg.com.br
Tel: +55 11 3141 9100
www.felsberg.com.br

Felsberg e Associados

Av. Almirante Barroso
52 - 22nd Flr - Grupo 2202
Rio de Janeiro 20031-000

David Meiler
davidmeiler@felsberg.com.br
Tel: +55 21 2156 7500
www.felsberg.com.br

Felsberg e Associados

SCN, Quadra 05-Bloco A-Sala 1217
Torre Norte
Brasilia 70715-900

Nayara Cunha
nayaracunha@felsberg.com.br
Tel: +55 61 3033 3390
www.felsberg.com.br

CAYMAN ISLANDS

Campbells

Willow House, Cricket Square
PO Box 884
Grand Cayman KY1-1103

Shaun McCann
smccann@campbells.com.ky
Tel: +1 345 949 2648
www.campbells.com.ky

CHILE

Philippi, Yrarrazaval, Pulido & Brunner LTDA.

El Golf 40, Piso 20
Comuna de Las Condes
Santiago 7550107

Alberto Pulido Astoreca
apulidoa@philippi.cl
Tel: +56 2 2364 3700
www.philippi.cl

COLOMBIA

Posse, Herrera & Ruiz S.A.

Carrera 7 No. 71-52
Torre A Piso 5
Bogotá

José Alejandro Torres
josealejandro.torres@phrlegal.com
Tel: +571 325 73 00
www.phrlegal.com

COSTA RICA

BLP Abogados

Via Lindora Business Center, 4th
Flr Radial Santa Ana-San
Antonio de Belén, Km 3
San José

Rafael Manzanares
rmanzanares@blpabogados.com
Tel: +506 2205 3939
www.blpabogados.com

DOMINICAN REPUBLIC

Russin, Vecchi & Heredia Bonetti

Edificio Monte Mirador, 3rd Floor
Calle El Recodo #2
Ensanche Bella Vista
Santo Domingo DN

Georges Santoni Recio
gsantoni@rvhb.com
Tel: +1 809 535 9511 Ext. 272
www.rvhb.com

ECUADOR

Romero Arteta Ponce Abogados

Av 12 de Octubre No 26-97 y A.
Lincoln
Edificio Torre 1492, 8th Floor
Quito

Diego Romero
dromero@law.com.ec
Tel: +593 2 2986 666
www.ecuadorianlawyer.com

EL SALVADOR

Espino Nieto & Asociados

83 Avenida Norte No. 138
Colonia Escalon
San Salvador

Luis M. Espino
luism@espinolaw.com
Tel: +503 2263 7522
www.espinolaw.com

GUATEMALA

Marroquín, Pérez & Asociados, Sociedad Civil

3a. Avenida, 12-38, Zona 10
Edificio Paseo Plaza Business
Center, Of. 1002
Guatemala City 01010

María M. Marroquín
mpemueller@mra-legal.com
Tel: +502 2321 1212
www.mra-legal.com

HONDURAS

Casco-Fortín, Cruz & Asociados

Bldv. San Juan Bosco, contiguo a
Citi Bank (principal)
Edificio Torre Alianza, Suites 701-702
Tegucigalpa

Vanessa Velasquez
vanessav@cascolaw.com
Tel: +504 2271 0073
www.cascolaw.com

MEXICO

Cuesta Campos y Asociados, s.c.

Bismark 192 Planta Baja
Col. Vallarta Norte
Guadalajara, Jalisco 44690
Fernando J. Cuesta
fcuesta@cuestacampos.com
Tel: +52 33 3630 0580
www.cuестacampos.com

Cuesta Campos y Asociados, s.c.

Montes Urales #723, Int 402, 4th Flr
Lomas de Chapultepec
Mexico City, D.F. 11000
Hugo G. Cuesta Leaña
hcuesta@cuestacampos.com
Tel: +52 55 5540 1737
www.cuестacampos.com

NICARAGUA

Núñez, Rizo, Zambrana

Abogados

Edificio CAR, 3rd Floor, Suite M-7
Managua
Ernesto Rizo Pallais
erizo@nrzlaw.com
Tel: +505 2270 7353
www.nrzlaw.com

PANAMA

Alemán, Cordero, Galindo & Lee

PO Box 0819-09132
2nd Flr, MMG Tower, E 53rd Street
Panama City
Jaime Alemán
jaleman@alcogal.com
Tel: +1 507 269 2620
www.alcogal.com

PARAGUAY

Peroni Sosa Tellechea Burt & Narvaja

Eulogio Estigarribia 4846
Esquina Monseñor Bogarin
Asunción, 1892
Francisco Peroni Clifton
pstbn@pstbn.com.py
Tel: +595 21 663536
www.pstbn.com.py

PERU

García Sayán Abogados

Avenida Reducto 1310 Miraflores
Lima 18
Luis Gastañeta
lgastaneta@garciasayan.com.pe
Tel: +51 1 615 0202
www.garciasayan.com.pe

PUERTO RICO

Fiddler González & Rodríguez, P.S.C.

254 Muñoz Rivera Avenue, 6th Flr
PO Box 363507
San Juan 00918
José A. Acosta Grubb
jacosta@fgrlaw.com
Tel: +1 787 753 3113
www.fgrlaw.com

TURKS & CAICOS ISLANDS

Miller Simons O'Sullivan

PO Box 260, Butterfield Square
Providenciales
Neil Coles
NRC@msslaw.tc
Tel: +1 649 946 4650
www.msslaw.tc

URUGUAY

Posadas, Posadas & Vecino

Juncal 1305 - 21st Flr
Montevideo

Juan Carlos Oreggia Carrau
joreggia@ppv.com.uy
Tel: +598 2 916 2202
www.ppv.com.uy



800 Hennepin Avenue, Suite 600
Minneapolis, Minnesota 55403 USA
+1.612.339.8680 www.meritas.org

Prepared by Meritas Law Firms

Meritas is an established alliance of 170 full-service law firms serving over 235 markets – all rigorously qualified, independent and collaborative. Connect with a Meritas law firm and benefit from local insight, local rates and world-class client service.

www.meritas.org enables direct access to Meritas law firms through a searchable database of lawyer skills and experience.

