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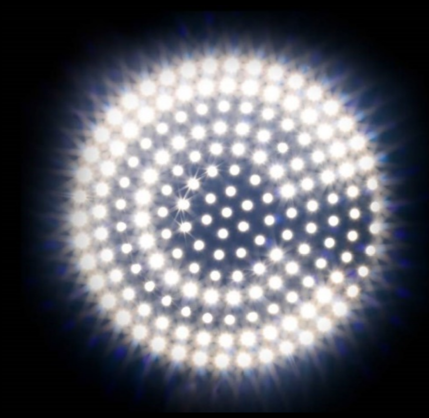
International Tax
Nicaragua Highlights 2017



Investment basics:

Currency – Nicaraguan Cordoba (NIO)

Foreign exchange control – There are foreign exchange controls, and the Nicaraguan Central Bank issues foreign exchange rates on a monthly basis. There are no restrictions on the import or export of capital. Repatriation payments may be made in any currency. In principle, residents may hold bank accounts in any authorized currency, and nonresidents may do so in special cases.

Accounting principles/financial statements – IFRS/IAS. Financial statements must be prepared annually.

Principal business entities – These are the public and private limited liability company, partnership, sole proprietorship and branch of a foreign corporation.

Corporate taxation:

Residence – A company is resident in Nicaragua if it is incorporated or domiciled in the country, or has its place of effective management in Nicaragua. Nicaragua has introduced the concept of a permanent establishment (PE), under which a PE may be treated as a resident for tax purposes. A PE for these purposes includes a head office of management or administration and a branch office, representative office, factory or workshop, as well as a mine, an oil or gas well, a quarry or any other place where natural resources are extracted.

Basis – Nicaragua operates a territorial tax system under which residents and nonresidents are taxed only on Nicaraguan-source income. Branches are taxed in the same manner as subsidiaries.

Taxable income – Taxable income is defined as gross income, less costs and expenses allowed by Nicaraguan legislation.

Taxable income includes (i) labor income; (ii) income from economic activities; and (iii) capital income and capital gains (or losses). Certain income is exempt.

Taxation of dividends – Dividends from economic activities are not included in taxable income; however, if considered capital income, gross dividends are taxed at a rate of 10%.

Capital gains – A 10% capital gains tax applies to gains derived by both residents and nonresidents.

Losses – Losses may be carried forward for three years. The carryback of losses is not permitted.

Rate – The standard corporate rate is 30%. Small and medium-sized enterprises are subject to a tax of 1% on income in excess of NIO 40 million.

Surtax – No

Alternative minimum tax – An alternative minimum tax is imposed annually at a rate of 1% on a taxpayer's gross income.

Foreign tax credit – No

Participation exemption – No

Holding company regime – No

Incentives – Reduced tax rates are available to companies operating in the tourism and energy sectors.

Withholding tax:

Dividends – Dividends paid to a nonresident are subject to a 15% withholding tax. The rate increases to 17% if the payment is made to a resident of a tax haven jurisdiction.

Interest – Interest paid to a nonresident or a nonfinancial institution is subject to a 15% withholding tax. The rate increases to 17% if the payment is made to a resident of a tax haven jurisdiction.

Royalties – A 15% withholding tax applies to patent royalties paid to a nonresident. The rate increases to 17% if the payment is made to a resident of a tax haven jurisdiction.

Technical service fees – Technical service fees paid to a nonresident are subject to a 15% withholding tax. The rate increases to 17% if the payment is made to a resident of a tax haven jurisdiction.

Branch remittance tax – No

Other – A 1.5% withholding tax is levied on reinsurance premiums. Income from insurance premiums and income from maritime and air transport are subject to a 3% withholding tax. The rate in other cases generally is 15%.

Other taxes on corporations:

Capital duty – No

Payroll tax – Payroll tax must be withheld at progressive rates, ranging from 0% to 30%.

Real property tax – The municipalities levy a 1% tax on the value of real estate.

Social security – An employer is required to contribute 19% of the gross salary of each employee to social security, subject to a maximum per employee salary of NIO 82,953.88 for 2017.

Stamp duty – Stamp duty is levied on certain types of documents issued in Nicaragua or abroad that produce effects in Nicaragua. The amount varies depending on the transaction.

Transfer tax – No

Other – Mining and oil companies are subject to taxes in addition to the income tax.

Anti-avoidance rules:

Transfer pricing – Transfer pricing rules will apply as from 30 June 2017.

Thin capitalization – No

Controlled foreign companies – No

Disclosure requirements – No

Compliance for corporations:

Tax year – The tax year generally is the calendar year, although a taxpayer may request permission to adopt one of the following tax periods: April-March, October-September or January-December.

Consolidated returns – Consolidated returns are not permitted; each company must file a separate return.

Filing requirements – The tax return must be filed within three months after the company's year-end.

Penalties – Penalties apply for late filing or failure to file, or for engaging in tax avoidance/evasion.

Rulings – A taxpayer may request a binding ruling on the tax consequences of a particular transaction that affects the taxpayer.

Personal taxation:

Basis – Residents and nonresidents are taxed only on Nicaraguan-source income.

Residence – A national or a foreign individual who remains in Nicaragua for more than 180 days during the calendar year, even if not continuously, is considered a resident for tax purposes.

Filing status – A married couple living together may elect joint or separate assessment.

Taxable income – Taxable income includes income from employment, trading income and income from investments in Nicaragua that exceed NIO 100,000.

Capital gains – Capital gains are subject to a 10% tax.

Deductions and allowances – A deduction equal to 25% of education, health and professional services expenses is granted annually up to a maximum of NIO 20,000, provided supporting invoices are maintained.

Rates – The rates for a resident individual are progressive up to 30%. The rate is 15% for a nonresident individual deriving Nicaraguan-source income.

Other taxes on individuals:

Capital duty – No

Stamp duty – Stamp duty is levied on certain types of documents issued in Nicaragua or abroad that produce effects in Nicaragua. The amount varies depending on the transaction.

Capital acquisitions tax – No

Real property tax – The municipal authorities levy a real property tax on the occupation of real property.

Inheritance/estate tax – If the property is required to be registered with the Public Record of Property, an occasional withholding tax will apply at rates ranging from 1% to 4%.

Net wealth/net worth tax – No

Social security – The employee is required to contribute 6.25% of his/her gross salary to social security, subject to a maximum salary of NIO 82,953.88 for 2017.

Compliance for individuals:

Tax year – Calendar year

Filing and payment – Individuals with income in excess of NIO 100,000 annually must file an income tax return. No return is required where the taxpayer's sole source of income is employment income and the employer has withheld tax.

Penalties – Penalties apply for late filing, failure to file or for engaging in tax avoidance/evasion.

Value added tax:

Taxable transactions – VAT is levied on the sale of goods and the provision of services.

Rates – The standard rate is 15%.

Registration – All traders carrying out activities in Nicaragua must be registered for VAT purposes.

Filing and payment – The VAT return must be filed in the month following the tax period, and any VAT due must be paid at that time. Taxpayers falling within the scope of the large taxpayer regime must file a VAT return every 15 days.

Source of tax law: Law No. 562, the Tributary Code of the Republic of Nicaragua; Law No. 822, Tax Agreements Law and amendments thereto and Regulations of the Tax Agreements Law.

Tax treaties: Nicaragua does not have any tax treaties.

Tax authorities: Dirección General de Ingresos (Internal Revenue Service)

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