

Honduras
Applicable Taxes 2015



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1. COUNTRY PROFILE

Location and Capital city

The official name is Republic of Honduras, and its located in Central America, being Tegucigalpa its Capital City, which consists of two sister cities; Tegucigalpa and Comayagüela.[4]

To the North and East it borders the Caribbean Sea; to the South East with the Republic of Nicaragua; to the South with the Gulf of Fonseca and the Republic of El Salvador; and to the West with the Republic of Guatemala.

Region	Latin America and the Caribbean
Income category	Medium Low Income
Population	8.097.688
GNI per capita (US\$)	2.180

Language

The official language is Spanish.

Honduras is a multi-ethnic, multicultural and multilingual country, composed by four mayor ethnic groups: Mestizo or White (they are the majority), Indigenous (Lencas, Misquitos, Tolupanes, Chortis, Pech or Payas and Tawahkas), the Garifuna and Creoles (English speaking). The Indigenous Ethnic and the Garifunas constitute the cultural heritage of Honduras and represent around 7% of the country's population.

Weather conditions

Honduras is located in a tropical position between 15 to 16 degrees north of the Equator, having only two very well defined seasons; dry and rainy. The rainy season begins on May until November, with a brief pause on August, which starts again on September until November when the winter season begins

Ports and Airports

The main ports are the following: Puerto Cortés, Puerto Castilla, La Ceiba, Roatan and Tela, which are located on the North cost of Honduras along the Caribbean Sea; on the south and Pacific Ocean the ports of San Lorenzo and Henecan. The most important port in the Country is Puerto Cortés, and along with Puerto Castilla and San Lorenzo, they handle almost of the entire cargo of the country.

Currently Honduras has four international airports:

- Ramón Villeda Morales (SAP) in San Pedro Sula
- Aeropuerto Internacional Toncontín (TGU) in Comayagüela,
- Aeropuerto Goloson (LCE) in La Ceiba
- Aeropuerto Juan Manuel Gálvez (RTB) in [Roatán](#).

Type of government

Republican, democrat and representative, exercised by three powers: legislative, executive and judicial branch, complementary and independent and with no subordination between them.

Political Structure

Honduras is organized in 18 departments, similar to provinces or states, which are also subdivided in 298 Municipalities.

Political Parties

- National Party of Honduras
- Liberal Party of Honduras
- Innovation and Social Unity Democrat Party
- Christian Democrat Party of Honduras
- Democrat Unification Party
- Anti Corruption Party (PAC).
- Left-wing party (LIBRE)

Natural Resources

Precious woods, fish, hydroelectric energy, coffee, banana, sugar cane and nontraditional products.

Inflation rate
5.82% (as of December 2014, BCH)

Economical information

National currency and exchange rate

The legal tender currency in Honduras is the Lempira's (it's a fluctuating Exchange rate), equivalent to approximately HNL 21.7775 for USD\$ 1.00 (BCH, February 2015).

Main economical activities

Agricultural, manufacturing, retail, social, personal and community services; construction and financial services.

The government of Honduras is currently promoting and expanding its industry, diversifying the agricultural sector, improving transportation infrastructure and developing hydroelectric projects.

Industries

Sugar, textile and clothing, and furniture.

Agriculture – Products

Sugar cane, corn, banana, coffee, beans, and cattle among others.

Economical summary

Gross Internal Product (GIP) relies on: financial services (intermediation); telecommunications, retail, hotels and restaurants, additionally to tax collecting, agriculture, cattle, hunting, silviculture and fishing, manufacturing industry, construction, transport and storage (BCH, January 2015).



2. LEGAL FRAMEWORK

INCORPORATION OF A COMPANY

Any entity that has commercial operations in Honduras, shall comply with a series of requirements prior to beginning their mercantile operations, such as, inscription and registration in several public and private institutions that require them.

The current Commerce Code establishes the different types of corporations that are generally incorporated in Honduras, which are Limited Liability Company's (S. de R.L.) and an Anonymous Corporation (SA).

Limited Reasonability Corporations can only be incorporated with a minimum subscribed capital of HNL 5,000.00 and two shareholders as a minimum. As for the Anonymous Corporation, the minimum subscribed capital is HNL 25,000.00 and two shareholders minimum.

Shareholders shall appear before public notary to authorize the Company's incorporation, and such shall be registered in the Public Registry of the Commerce Chamber of its domicile.

The rates subject to the incorporation of a company are 1.5% over every thousand of the subscribed capital, stamp duty's of the Lawyer's Bar Association, and a publication on one of the most popular newspaper.

One of the requirements any company needs to comply with is to register in the Registry of the Chamber of Commerce of its jurisdiction. In compliance with Article 384 of the Commerce Code, it's mandatory for all companies to register in the Registry of the Chamber of Industry and Commerce, prior to obtaining the Operating Permit by any Municipality.

OPERATING PERMIT OR LICENSE

Is the document issued by the Municipal Authority of the company's jurisdiction, which insures they are complying with all of the Municipal regulations.

PERSON COMPLETING THE PROCEDURE: The Company's legal representative or attorney in fact.

ESTIMATE TIME OF COMPLETION: The time might vary depending on the Municipality, however it usually takes

around four (4) days in those Municipal Offices that have simplified procedures and up to thirty (30) days in those that don't (such as Tegucigalpa M.D.C.)

Costs: The operating costs for the Municipality of Tegucigalpa M.D.C. are charged according to the following:

- a) Amount declared or projected within the volume of sales declarations for the period;
- b) Economical activity

The Local Taxation Plan of every Municipality sets forth for all natural persons or legal corporations, a payment based on their declared income.

Furthermore, for each field inspection, technical opinions, proofs and authorizations, there will be a charge of HNL 200.00 (Article 70, Municipal Local Taxation Plan)

FORMALITIES TO BE COMPLETED:

The process differs according to the specific municipality in which the permit or license is requested. In Tegucigalpa and Comayagüela's particular case is the following:

The company's legal representative or its attorney in fact, must go the Central District Municipality's (Tegucigalpa M.D.C.) Information helpdesk of the Operating Permit Department located adjacent to "Clínicas Viera", and ask for all the needed requirements according to the company's commercial activity and lodge the request attaching the following:

- Copy if the company's Deed of Incorporation
- Copy if the Tax Id Registration Number (R.T.N.)
- Copy of the legal representative's ID
- Copy of a valid municipality solvent letter for the legal representative.
- Registration in the Chamber of Commerce and Industry of Tegucigalpa
- Lease for the establishment(s), with its corresponding municipal cadastral number
- Sale Declaration for the period January to December operations.
- Proof of payment of the immovable property tax of the establishment where the operations will be held.

After starting the operating license process, the company will have period of eight (8) days to complete all the field inspections, which will vary according to the company's commercial activity and can be: zoning, local police judge, environmental, transportation, land use, workshops and metro plan inspections. If the result of the inspections is favorable, they will issue the Operating License.

To understand about the process of approval of the operating license done by the Municipal Authorities inland, every company shall approach each one of them individually, given the process varies according to each.

SPECIAL PERMITS

According to the company's commercial activity, they shall request special permits and licenses such as:

1. Environmental License.
2. Trademarks and patents registration.
3. Health Department permits and licenses.
4. Bar Codes,
5. Registration in the Chamber of Industry and Commerce.
6. Exclusive distribution and Representation permits.
7. Export permits, and
8. Permit to import products of animal and plant origin.

PERSON COMPLETING THE PROCEDURE: Attorney in fact.

3. TAX SYSTEM

Tax rulings set forth two types of fiscal obligations; a) Formal fiscal obligations, and b) material fiscal obligations. The formal obligation main objective is to file the paper work that supports the tax assessment such as a tax declaration, report, etc. On the other hand, the material obligation is the actual payment of the tax returns that each tax payers must lodge.

The first tax obligation for a company is to obtain the **National Tax Registration (RTN)**. This is the mechanism used to identify, locate and classify all natural and legal persons, subject to obligations with the Tax Administration (Executive Revenue Directorate, DEI).

Requirements to obtain the National Tax Registration (RTN):

- Complete and lodge the request form.
- Copy of the Company's deed of incorporation.
- Copy of the RTN of two (2) of the shareholders
- Copy of the ID of two (2) of the shareholders
- Copy of the ID and RTN of the General Manager.

Among other formal obligations you can find the following:

- a) Submit the Income Tax Declaration.
- b) Submit the Sales Tax Declaration.
- c) Submit the Capital Gains Declaration.
- d) Start of operations notification within the first 60 days of initiating operations.
- e) Withholding tax declaration (Article 5th, 22nd and 50th).
- f) Profit and Shareholders declaration.
- g) Vendors tax declaration.
- h) Declaration of lease(s).
- i) Notification of change in commercial activity, legal representative and fiscal domicile.
- j) Ceasing operations declaration.
- k) Customs declarations (depending on the circumstances)

In the Tax Administration's (DEI) web page www.dei.gob.hn, you can find an annual **Tax Calendar**, with all the tax obligations.

APPROVAL OF ACCOUNTING BOOKS

In compliance with the Commerce Code, all companies are obliged to keep track and record of all its operations and have their accounting mercantile operations in an orderly manner, according to the double-entry system. To comply with this, all companies must keep an Inventory and Balance Ledger, Daily and General Ledger, and any other derived from special requests or laws.

The mandatory books must be hard covered, folio numbered, and dully authorized by the Municipal Authority of the company's jurisdiction. A statement indicating the folio numbers of the books and a stamp in each page will be added.

PERSON COMPLETING THE PROCEDURE:

Legal representative or attorney in fact.

4. INCOME TAX, NET ASSET TAX AND SOLIDARITY CONTRIBUTION TAX

(1) Income Tax (ISR)

ISR taxes any income from capital or labor, or a combination of both, and it's a worldwide income.

For Income Tax purposes, any kind of operational performance, earnings, profits, revenue, interests, products, benefits, participation, salary, wage, fee or any other cash or in-kind income that modifies the taxpayer's patrimony will be considered as an income.

The taxable income results by deducting the allowed deductions by law from the gross income.

This tax is to be paid in three (3) quarterly equal payments due on June 30th, September 30th and December 31st; the last payment is done along with the Income Tax declaration on April 30th of each year.

Minimum tax

According to Decree 278-2014 for the Control of Exonerations and Anti Evasion measures, article 22-A was added to the Income Tax Law stating that all natural or legal persons domiciled in Honduras shall pay 1.5% over the total gross income greater or equal to Ten Million Lempira's (L.10,000.00) over the tax period, only when the result of the application of the rates of Articles 22, a) & b) result lower than the 1.5% of the gross income declared.

If a company's income is lower than Ten Million Lempira's (L.10,000.00), they shall comply with the declaration and payment of the rates subject to Article 22, a) and b) of the Income Tax Law and those of the Net Asset Tax Law in forced by the Tax Equity Law, Decree 51-2003 (April 3rd, 2003).

(2) Net Asset Tax

This is a scheduler tax that applies to the total net asset for corporations or legal persons domiciled in Honduras.

The taxable base will be the resulting difference of the assets reflected in the taxpayer's General Balance minus the doubtful accounts provisions, the accumulated depreciations permitted by the Income Tax Law, revaluation of fixed assets, as long as such are not disposed and the values from registered investment expansions, such as projects or fixed assets in process, are not in operation.

The balance from financial obligations directly related to operational fixed assets financing will also be deductible.

The One Percent (1%) rate applies over the total net value over Three Million Lempira's (L.3,000,000.00).

(3) Solidarity Contribution Tax

Moving forward the tax period 2014 and in compliance with Chapter V regarding Legal Persons, of the Decree 278-2013,

with the exception of Special Regimes of Exportation and Tourism and regardless of the dispositions of Article 22nd of the Income Tax Law, all companies shall pay a Five Percent (5%) of Solidarity Contribution Tax that will be calculated over the surplus of the net taxable income above One Million Lempira's (L.1,000,000.00).

The Solidarity Contribution Tax represents a surcharge of the Income Tax; therefore it will not be deductible of such tax and will be subject to Anticipated Payment Regime (Regimen de Pagos a Cuenta), annual declaration and any other applicable disposition of the Income Tax Law.

5. WITHHOLDING TAXES

1% Income Tax Withholding, Executive Decree 217-2010

All taxpayers with an income above Fifteen Thousand Lempira's (L.15,000.00) will be subject to Income Tax withholdings, being obliged to withhold and pay a 1% Income Tax to all natural and legal persons that are not subject to Anticipated Income Tax Regime ("Pagos a Cuenta"), over all the sales of goods and services rendered by them.

The taxable base shall be all the gross sales minus the devolutions and services determined by the Tax Administration (DEI)

Sales Tax withholdings, Executive Decree 215-2010

All those tax payers previously categorized as Large Tax Payers shall withhold and pay the Sales Tax over any sale of goods or services provided under the following categories:

- a) Freight services of any kind.
- b) Cleaning services and fumigation.
- c) Printing and silk-printing services.
- d) Research and security services.
- e) Leasing of real estate for commercial purposes, plant and equipment.

The withholding shall be applied at the moment the invoice or equivalent document is issued, at the moment the services have been rendered or at the moment a payment or deposit is done; whichever happens first.

Article 50th withholding – Professional Fees

Taxes all incomes from professional fees, allowances, commissions, remunerations, bonuses, and payment for any technical services, paid to any natural or legal persons, resident in Honduras. The ongoing rate for this tax will be 12.5% over the concepts previously mentioned, however this

shall not apply to persons or companies subject to Anticipated Income Tax Regime ("Pagos a Cuenta").

Article 22nd withholding - Employment tax

Taxes all natural persons or employees income (payroll tax). Such withholding will apply to all persons with income above L 110,000.00, and the ongoing rate goes from 15% up to 25%.

A L.40,000.00 medical allowance is considered as deductible, without having to present proof of them.

The following progressive rate table will be used to calculate income tax to employees:

From L.	0.01	To L.	110,000.00	Exempted
L.	110,000.01	L.	200,000.00	15%
L.	200,000.01	L.	500,000.00	20%
L.	500,000.01	And more		25%

Article 5th, Non Resident withholding

Decree 182-2013 was in forced as of 2012, and taxes all income from a Honduran source for all natural persons or legal entities domiciled or not in the country, which shall pay according to the following rates:

2	Royalties from mining operations.	10%	25%
3	Wages, salaries, commissions or any other compensation from services.	10%	25%
4	Income or profit obtained by foreign companies.	10%	10%
5	Income, profits, dividends, profit sharing or reserves by any natural person.	10%	10%
6	Royalties for patent licensing, designs, procedures or formulas.	10%	25%
7	Interests over commercial operations	10%	10%
8	Income derived from aircrafts, ships or vehicles operations.	10%	10%
9	Income derived from telecommunications, software, information technology solutions, electronic and other operations related to communications.	10%	10%
10	Insurance premiums and any other income from bank guarantee or policy's	10%	10%
11	Income derived from public shows	10%	25%
12	Movies, video tapes, video clubs and cable television rights	10%	25%
13	Any other income not mentioned herein	10%	10%

N°	CONCEPT	Rate according 17-2010 reform	*Rate according to reform 182-2010
1	Income derived from movable or immovable property	10%	25%

6. Sales Tax (VAT)

The general ongoing rate for Sales Tax is Fifteen Percent (15%) over the taxable base for all importations and sale of goods and services.

Additionally to this, an Eighteen Percent (18%) tax rate shall apply only for the importation or sale of beer, distilled beverage, spirit, liquor, hard liquor and other alcoholic beverages, cigarettes and other tobacco elaborated products, as well as flight tickets in executive and first class. This tax will apply during the distribution phase, including the values of the manufacturing and consumption tax during the importation or local production phase.

The following will be considered as taxable for Sales Tax purposes:

During the sale of goods or services: the value of the good or service, whether it is a cash payment or credit; excluding direct expenses for ordinary or extraordinary financing.

The taxable base for imported goods will be their CIF value, added to the custom duties, excise duties, specific taxes and any other rates levied on importations.

For all goods for personal use or consumption, as well as self services and gifts, the taxable base will be the commercial value of the good or service. For importation purposes the payment will be done at the moment of the nationalization of the goods or settlement of the corresponding duties.

For the local producers the payment will be done over the first ten (10) calendar days of the following month in which the sales were made.



7. EMPLOYERS CONTRIBUTIONS

PRIVATE CONTRIBUTION REGIME

The Private Contribution Regime (RAP) is considered one of the best benefits of the private industry, and it was originally created to support an unattended segment toward savings and direct those savings into financing.

The employer's contribution is 1.5% over the total salaries, and another 1.5% is paid by the employees through monthly payroll withholding paid to RAP.

HONDURAN SOCIAL SECURITY OFFICE (IHSS)

All natural or legal persons with an operational permit and legally incorporated, must be registered to the IHSS. All employers are obliged to register their employees, as well as to notify when they cease to work under their service, this obligation starts when the first employee is hired.

The employer will contribute on a monthly basis the equivalent to a 7.2% and the employee a 3.5% of their salary or wage, for the social security services.

PERSON COMPLETING THE PROCESS: Legal representative or attorney in fact

VOCATIONAL TRAINING INSTITUTE (INFOP)

The purpose of this institute is to provide training and coaching for all workers in the different economic activities.

Article 23rd of the INFOP Law establishes that all companies with more than five employees will pay an equivalent of 1% of all the perceived salaries and wages of the entire payroll.

This obligation must be paid every thirty (30) days, with a 10 grace period after which a 10% surcharge will apply.

8. MUNICIPAL RATES AND TAXES

MUNICIPAL TAX ON INDUSTRY AND COMMERCE

This tax is to be paid by any natural person or trader, collectively or individually, based on its mercantile activity, industrial, mining, agricultural, public or private services, electronic communications, urban development, casinos, financial institutions, insurance and any other lucrative activities.

At the beginning of operations of any business, a projected income declaration for the first quarter of operations must be filed; this shall be the base to calculate the monthly tax to be paid over the course of the first year. This declaration will be done at the moment of requesting the operating license.

The tax will be paid according to the volume of production, income or annual sales according to the following progressive rate:

From (Lempira's)	Up to (Lempira's)	Rate per each thousand
0	500,000.00	0.30
500,001.00	10,000,000.00	0.40
10,000,001.00	20,000,000.00	0.30
20,000,001.00	30,000,000.00	0.20
30,000,001.00	And more	0.15

At the beginning of the operations the tax is based on an estimated annual income. The actual tax paid over the year will be adjusted at the end of the tax period to reflect the real annual income.

This tax and rates shall be applied in compliance with the Municipal Taxation Plan.

DECLARATION AND PAYMENT

All taxpayers subject to this tax shall present an Affidavit on the month of January stating their previous year income, for which the payment shall be done on the first ten (10) days of each month, except for January that will be paid at the most on February 10th.

PROPERTY TAX ON REAL ESTATE

The Property Tax on Real Estate is a levy on the real estate value within a Municipality regardless of the owners domicile, and it will be paid at an ongoing tariff of L.3.50 for every thousand when it's an urban property and L.2.50 when it's rural property.

PAYMENT PERIOD

The tax period starts on June 1st and can be paid on monthly basis, quarterly or annually.

LOCAL INCOME TAX

This is a levy imposed on natural persons annual income earned in the municipality, regardless they have their domicile in it or not. This levy is to be paid to the Municipality administration.

DECLARATION AND PAYMENT

The submission and payment of this tax will be done at the same moment and is calculated over the income of the previous year and shall be filed within the first three (3) months of the year.

All natural persons shall pay the Local Income Tax over their total income earned in the Municipality and according to the following progressive scale:

From Lempira's	Up to Lempira's	Rate per every thousand
1	5,000.00	1.50
5,001.00	10,000.00	2.00
10,001.00	20,000.00	2.50
20,001.00	30,000.00	3.00
30,001.00	50,000.00	3.50
50,001.00	75,000.00	3.75
75,001.00	100,000.00	4.00
100,001.00	150,000.00	5.00

150,001.00	An more	5.25
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9. OTHER PROVISIONS

Population Security Law

This is a special contribution over all financial operation, to promote the security of the population.

The ongoing tariff for this Special Contribution over the financial operations is the following:

Two Lempira's (L.2.00) over every thousand or fraction of thousand of all taxed financial operations.

The Population Security law has term of Ten (10) years from January 31st of 2012; it was reformed under Decree 275-2013.

Person's liable pay this levy

All legal persons that are account holders or owners of saving deposits such as:

- Owners of sight deposits or checking accounts.
- Loans from financial institutions with their own resources.
- Cashier's checks, certified checks, traveler checks or other similar existing financial instruments.
- Payments or wire transfer to third parties from the accounts on their name in the financial institutions.
- International wire transfers .
- Annual membership on credit cards or credit limits renewal.

General Conditions

Art. 7, Taxable base: the value of the transaction done within the financial institution

Transfer Pricing Ruling

- This ruling is valid since January 1st, 2014 having to report on April 2015.
- The ruling is intended to regulate the commercial and financial operations among related or controlled parties, in compliance with arms length conditions.
- The scope of application reaches any operation between related or controlled parties that are natural or legal person domiciled or residents, with any natural or legal person resident or non-domiciled, as well as those under special fiscal regimes.
- All taxpayers that are related parties and are subject to Income tax and that make commercial or financial operations among them are obliged to determine for fiscal purposes their income, costs and deductions, by applying prices and markups that would've been used among comparable unrelated or independent parties in the same kind of operations.

Electronic Invoicing, other Fiscal Documents and Printing Work Registry Regulations

The aim of the law is to regulate the following:

- Reregulate all the requirements of all fiscal documents that can be used accounting wise to support a Sales tax fiscal credit and an expense for income Tax purposes.

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República de Honduras

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