



Doing Business in Paraguay

General Overview

2016



Introduction

This publication has been prepared to guide potential investors regarding the existing business environment, in order to route the most appropriate decisions when conducting operations in Paraguay.

The content of this material covers the relevant points that we believe should be kept in mind when deciding to start a business in the country. Our observations are general and a guide, so we recommend considering the specific situation before making a decision. We clarify that the contents of this publication is not a substitute of professional assessment to choose the proper treatment for each particular case. No responsibility will be accepted by the authors or publishers for any inaccuracy, omission or statement which might prove to be misleading.

Taking into account that the recognition of the law in force is closely related to factual situations experienced by a country at a certain time and, bearing in mind that the business environment is subject to significant and constant changes, you have to consider the publication date of this material.

Furthermore, we are at your disposal to answer any questions or queries you may have about investment opportunities in Paraguay, regarding each particular case.

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General Information

Paraguay

General Information

GEOGRAPHIC SITUATION

The Republic of Paraguay is a landlocked country located in the center of South America. It borders Bolivia and Brazil to the north, Brazil and Argentina to the east, Argentina to the south and, with Argentina and Bolivia to the west. Despite its Mediterranean location and a small economy, it has a privileged geographical position by the confluence of the major river system that is part of the Basin of the River Plate (Waterway of the rivers Paraguay and Paraná) and located in the intersection of international routes. This geographical position allows easy access to major ports and markets in South America.

Along with Brazil, Venezuela, Argentina and Uruguay, Paraguay integrates the largest trading block in the region, MERCOSUR, an integrated market with a potential of 200 million consumers, goods, services and factors of production in the near future.



AREA, CLIMATE AND NATURAL CONDITIONS

The country covers an area of 406,752 km² and is divided into two well-defined regions, separated by the Paraguay river.

The Eastern Region, is a land with many forests, covering about 40% of the total area and concentrates most of the people and the country's economic activity.

The Western Region, known as “The Chaco”, is a vast region, half-arid to half-wet with very low population density. A third of the territory is in the torrid zone and the other two thirds in the south temperate. The summers, are usually very hot and the winters very dry.

LANGUAGES

The official languages are Spanish and Guaraní, being therefore one of the few bilingual countries in the Americas. Most Paraguayans speak or understand both languages, Guaraní is predominant in rural areas.



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POPULATION

Paraguay's total population is 6.6 million and the population density is 16,4 inhabitants per km². The population, concentrated mainly in the eastern region of the country, is urbanized by 60%. By 2016 the population was estimated at 6.854.536 inhabitants.

According to the Population Projection, Paraguay is predominantly an urban country, with 58.9% of population concentration in urban areas and 41.1% in rural areas.

The unemployment rate affects 5.6% of the population. The unemployment rate for the population aged 15-24 years old, affects 13% of such population.

Agriculture is the main economic activity, occupying 30% of the economically active population, followed by public services, 22% and trade, 21%. The manufacturing industry employs 12% of the economically active population.



The Central Department, with an estimated population of 2.297.739 represents 33,3% of the total population. Asuncion, the capital city, has an estimated population of 525.294, that makes up 7,7% of the population and is located beside the Paraguay river. Other important cities are Encarnación, Ciudad del Este and Pedro Juan Caballero.

The religion practiced by the majority of citizens are Roman Catholic, professed by 85% of the population. However, there is freedom of conscience and worship, and there are temples of different religions.

POLITICAL SYSTEM

Paraguay was declared as a free and independent republic . According to the National Constitution adopted in 1992, is a social state of unitary right, indivisible and decentralized. The form of government adopted is the representative, participatory and pluralistic democracy.



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ECONOMIC ACTIVITY

In Paraguay exists an economic system based on free trade. A few years ago it was established a regime based on free trade, free import and export and the free movement of capital. There are no transfer price controls or any other restrictions.

At the same time, a strict program of monetary stability was introduced, with fiscal adjustments and inflation control. This was the main incentive for the private sector to get involved in the investment program of the country, which limited its influence on business activity.

Economic activity is based primarily on agriculture, livestock and trade. Industrial development is minimum and relates to the production of meat, beverages, tobacco, machinery, equipment and products derived from agriculture.

In terms of growth projections, the Paraguayan economy ranks among the best prospects for 2016. The projections of the International Monetary Fund and the Central Bank of Paraguay indicate that the country's growth would be around 4% for 2016. Therefore, it is worth noting that despite having a favorable outlook, the IMF projections as the BCP were adjusted downward.

Paraguay has solid macroeconomic fundamentals, which include a moderate debt and a disciplined monetary policy. These provide relatively advantageous conditions for managing economic policy to adverse scenarios. They have favored indebtedness at low cost, well below many other countries in the region.

Overall, projections about the prospects for the country are good. However, it is necessary to consider that there are vulnerabilities that could negatively affect this optimism. Two of them are the falling prices of raw materials and weak recovery in some countries, factors that could affect the country's exports to different markets.

MACROECONOMIC FACTS

Numbers in Paraguay	
Accumulated inflation 2015	3,1%
Accumulated inflation 2014	4,2%
Accumulated inflation 2013	3,7%
Accumulated inflation 2012	4%
Accumulated inflation 2011	4,9%
GDP 2015	USD 29.855 millions
GDP per capita 2015	USD 4.263
International Reserves (Dic.2015)	USD 6.179 millions
External Public Debt (Nov.2015)	USD 3.901 millions
Internal Public Debt (Nov.2015)	USD 1.464 millions
Loans to the private sector	USD 69.010 millions
Private sector deposits	USD 72.120 millions
Banking Profitability (ROE) (Nov.2015)	28,2%
Liquidity of the Banking System (Nov.2015)	40,09%
Banking Non performing loans (Nov.2015)	2,74%
Fiscal Deficit as of Dec. 31, 2015	3,4%
Imports Registered (Nov.2015)	USD 9.485 millions
Exports Registered (Nov.2015)	USD 10.549 millions
Total Population (Estimates for 2016)	6,6 millions
Economically Active Population (EAP)	3,412 millions
Unemployment	6,3% of EAP

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INTERNATIONAL AGREEMENTS

Paraguay currently maintains diplomatic relations with almost every country in the world and has established important cooperation and trade agreements, of which the most important from the economic point of view, is the Asuncion Treaty, by which it was created the Common Market of the Southern Cone (Mercosur), signed in 1991 between Argentina, Brazil, Paraguay and Uruguay. Venezuela subsequently joined as a member. MERCOSUR has several associates including Bolivia and Chile (1996), Peru (2003), Colombia (2004) and Ecuador (2004).

The Treaty of Asuncion, MERCOSUR founding treaty, implies, among other things, the free trade of goods, services and production between countries, through the elimination of customs laws and restrictions on the movement of goods and any other equivalent measures, the establishment of a common external price and the adoption of a common trade policy in relation to other countries, coordination of macroeconomic policies between states, and, the commitment of every country to harmonize their legislation in order to strengthen the integration process.



INVESTMENT PROMOTION

Paraguay is one of the few countries in the world that includes the investment promotion of domestic or foreign source within its legal framework. **The foreign investor is legally guaranteed the same rights and obligations as national investor, without any other limitations than those established by the law.**

In addition to the Investment Promotion Law, described in Chapter 6 of this publication, the country has a number of natural and economic conditions which makes it attractive for investments:

- Social, political and economical stability;
- Large areas of natural forests, grass and fertile lands;
- Hydroelectric power: abundant, clean, renewable and cheap;
- A lot of workforce with low labor costs;
- Lower fiscal costs to other neighboring countries;
- Free repatriation of capital and profits;
- Easy access to international markets through the Parana and Paraguay river, and a road system with international bridges.



Types of Companies in Paraguay

Types of Companies

The main legal forms that a company can have in Paraguay, are the follow:

- Corporation;
- Limited Liability Company;
- Branches;
- Partnership Company;
- Limited Partnership Company;
- Company Limited by Shares;
- Personal Service Companies;
- Individual Limited Liability Business;



Types of Companies: Corporation



Corporations are commercial companies in which **the capital contributed by the partners is represented by shares**; partners are liable towards third parties only until the concurrence of their respective contributions. This is so, because the corporation only responds for social obligations with its assets.



The company must be constituted by public deed. In the constituent act must be identified the name, address, duration, object, the amount of subscribed and paid-in capital, the number and nominal value of the shares, the method of administration and control, the rules under which they will share the profits and losses and other clauses related to corporate transactions.

It is constituted by shares and the liability of shareholders is independent of the Company.

- It has no limitation on the number of partners, or limitation on the amount of capital.
- It is represented by a Board, whose members may not be shareholders.
- It is obliged to keep accounting and societal books.
- The main body of the society is the Shareholders meeting, which may be ordinary and extraordinary. Such meetings must be published.
- The audit of the Administration and Management of the Company is in charge of one or more trustees nominated by the shareholders.
- The cost involved in maintaining the formalities required by law (constitution publishing, shareholders meetings, signature of corporate books, among others).

Types of Companies: Limited Liability Company



Two or more persons (individuals or legal entities) may establish a partnership in the form of a Limited Liability Company, through a social contract that should extend by Public Deed. A Limited Liability Company may not engage in banking, insurance, or savings and loans business.



This type of society is characterized by the fact that liability is limited to the amount of contributions, by having a small number of members (not more than 25), by the division of capital in quotas, by the difficulty on transmitting the membership quotas, for not having a minimum capital limit and, for its simplicity of setting up and operation.

Among its obligations we can refer the following: obligation to integrate their contribution, obligation to participate in social discussions and to stay in the company, unless justified reasons.

- The capital is divided into equal installments worth Gs. 1000 (local currency) or its multiple.
- It does not require the performance of ordinary or extraordinary shareholders meetings. It does not require to keep societal books.
- The partners will not be more than 25 members and only liable for the value of their contributions, unless fraud is found.
- Quotas can be transferred to other members or to third parties, for the latter's, approval is required.
- It is governed by the bylaws which must be registered in the Public Registry of Commerce.
- It cannot be constituted as a banking, insurance, savings or loan company; or any other transaction that by law require another form of representation.
- Quotas cannot be represented by negotiable titles.

Types of Companies: Branches



Companies constituted abroad, for the habitual exercise of acts within its corporate purpose, shall comply with the laws in force in Paraguay.

However, as to their existence and capacity they shall be governed by the laws of the country at home.

They can operate in Paraguay constituting a branch, agency, or representation. For such purposes, they shall:

- Establish a representation with residence in the country.
- Evidence that the company is incorporated under the laws of their country.
- Justify the agreement or decision to create the branch or representation, the capital that is assigned to your case and the appointment of its representatives.
- It does not require the performance of ordinary or extraordinary assembly meetings. It does not require to keep societal books.

Types of Companies: Other associations

Partnership Company

- Two or more partners who are subsidiary, jointly and unlimitedly liable for social obligations.

Limited Partnership Company

- In this type of company there are general partners who respond jointly and unlimitedly for social obligations, and limited partners are liable for the same to the limit of their contributions.

Company Limited by Shares

- It has collective and limited partners, being the contributions of the latter represented by shares.

Simple Partnership

- It is a simple association of individuals. This partnership does not have legal status under regulations of the Civil Code and is not aimed at the exercise of a commercial activity, just to render personal services.

Individual Limited Liability Business

- It can be constituted by any natural person able to engage in commerce, assigning a certain capital.
- Property forming capital constitute a separate or independent heritage of other property belonging to the person. Its responsibility is limited to the amount tied to the company.

Legal and Mandatory Registers common to all types of business

All companies must take the following legal records:

1. Register of Shareholders;(*)
2. Book of deposited shares and attendance record of General Shareholders Meetings;(*)
3. Minutes Book of General Meetings of Shareholders; (*)
4. Minutes Book of Board Meetings; (*)
5. Journal entries book;
6. General ledger;
7. Inventory Book;
8. VAT purchases book;
9. VAT sales book.

(*) only for share based companies

Government oversight is carried out by governmental agencies such as the Department of Registration and Control of Societies and the Sub Secretary of Taxation, both under the sphere of Treasury.

Taxes In Paraguay

The national taxes are the most important source of tax revenues of the country. The municipal or regional taxes are not very significant.

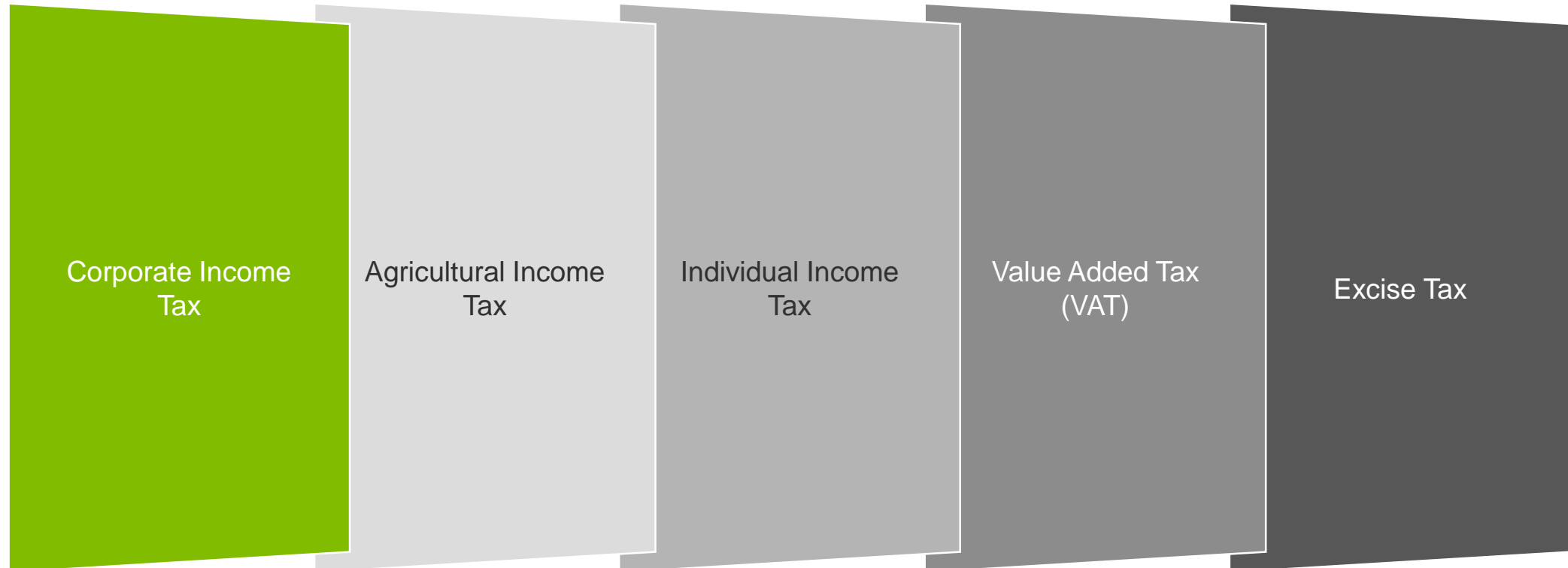
The criterion used for income tax, adopted by our tax system is the territorial or the source. This indicates that taxes levied all income from goods or rights coming from the country. However, the yields from capital invested abroad and exchange differences thereof, are considered of Paraguayan sources because the beneficiary is located in Paraguay.

The inflation adjustment is not allowed, but taxpayers are forced to revalue their fixed assets each year using the rates set by the Government, at least for tax purposes.

According to the territorial principle, **the legislation does not allow credits for taxes paid abroad.** Paraguay has signed several treaties and agreements with other countries in order to avoid double taxation, especially with regard to aerial, fluvial and land transport.

This type of agreement has been signed with Uruguay, Chile, Belgium, Germany and Argentina.

Main Taxes



There is also a special tax for small taxpayers that levied income from commercial and industrial activities or non-personal services. Taxpayers are individual and national companies, who have earned income in the previous calendar year, lower than Gs. 500.000.000, approximately USD. 115.000. The rate of this tax is 10%.

Corporate Income Tax

This tax levy income from Paraguayan sources derived from commercial, manufacturing and service activities, other than personal services. The agricultural and cattle raising activities are out of the scope of this tax.

Taxpayers

- Corporations, partnerships, associations and other private businesses; including individual businesses
- Government-owned enterprises, independent agencies, decentralized businesses, and mixed capital corporations;
- Cooperatives, with the scope provided by Law 438/94;
- Corporations constituted overseas and their branches or agencies and even their businesses operating in this country must pay this tax to the extent that carried activities that are levied in the country. The foreign corporation's headquarters shall pay for the income obtained independently.



Taxable Income

The law provides that this tax levy the following income:

- a) Income derived from the sale- purchase of properties when the activity is carried out as a permanent business, except when the sale- purchase is made by corporations;
- b) Income generated by assets, excluding those from farming and others which specific rules applicable for certain sectors, analyzed in subsequent chapters;
- c) Income earned by individuals and societies, as well as corporations established overseas, or branches, agencies, or business establishments in this country. Income derived from farming activities is excluded;
- d) Income earned by the following activities: extractive industries such as mining and forestry, as well as activities in the farming sector to which the law gives special treatment such as flower farming, forestry, beekeeping, poultry farming and others;
- e) Income earned by consignees of merchandise;
- f) Dividends and earnings obtained as shareholders or partners of entities operating within this tax and tax income from farming;
- g) Income from all kinds of industrial, commercial and service activities, as well as insurance and reinsurance, financial services, transportation, hotels and similar agents, travel, lease of good and services, advertising and any other lucrative activity.

Corporate Income Tax

This tax levy income from Paraguayan sources derived from commercial, manufacturing and service activities, other than personal services. The agricultural and cattle raising activities are out of the scope of this tax.

Taxable Base	Exemptions	
<p>Gross income is the difference between total income from commercial, industrial or service operations and their cost.</p> <p>The taxable income is the net income. This is calculated by deducting from gross income all expenses incurred to obtain the income and to maintain the source of income, provided that they are real expenditures and are duly documented.</p> <p>When the expenditure does not constitute a levied income for the beneficiary, the expenses shall be at market price.</p>	<p>Exempted Organizations</p> <ol style="list-style-type: none"> 1. Recognized religious entities, by income from the exercise of worship, religious services and donations that are intended for such purposes. 2. Charities, social welfare organizations and similar entities, including legally recognized political parties and recognized educational institutions, provided that they are non-profit organizations and do not distribute surplus to their membership. 	<p>Exempt Income</p> <ol style="list-style-type: none"> 1. Dividends and earnings obtain by taxpayers domiciled in the country, when the activities are levied by this tax and also by the tax of income from farming, provided that the total of dividends and earnings do not exceed 30% (thirty percent) of the gross income taxed in the fiscal period. 2. Contributions made to health insurance publics institutions, including income from profits and interest on deposits in authorized financial institutions by the law N° 861/96, and also from the Bonds or Debentures traded on the capital market. Those incomes obtained by institutions that are organized as a business are excluded from this exemption. 3. Interest and capital gains on securities representing government or municipal debt. 4. International freight operations for goods export.
<p>Tax Losses</p>		
<p>This tax does not contemplate the possibility of offsetting tax losses with profits on future years.</p>		

Corporate Income Tax

This tax levy income from Paraguayan sources derived from commercial, manufacturing and service activities, other than personal services. The agricultural and cattle raising activities are out of the scope of this tax.

International income

When a beneficiary of Paraguayan income is not domiciled in this country, shall be taxable (separately from taxes applicable to its branch or agency) according to the following rules. Net income from Paraguayan sources will be deemed as follows:

- a) 10% (ten percent) on insurance or reinsurance premiums that cover risks in the country, concerning to objects or individuals located or resident in the country at the time of conclusion of the contract.
- b) 10% (ten percent) on sales of travel tickets, radio message services, telephone calls and other similar services provided to or from Paraguay.
- c) 15% (fifteen percent) on gross income earned by international news agencies, from services provided to individuals that use those services in the country.
- d) 40% (forty percent) on rentals on motion picture films or television programs or those of any other projection media.
- e) 10% (ten percent) on Freight on international shipments.
- f) 15% (fifteen percent) on gross income earned by leasing of shipping containers.
- g) 20% (twenty percent) on the gross amount paid, credited or remitted to financial entity or bank with a recognized work in the financial market, or International Lending Agencies, located abroad, in concept of interests, commissions of loans or other similar credit transactions.
- h) 50% (fifty percent) on income earned from other sources.
- i) 100% (a hundred percent) on income earned by any business and amounts paid, credited or remitted arising from branches, agencies, or businesses situated in this country.



The fiscal period shall coincide with the calendar year. However, if accounting is taken according to generally accepted accounting principles and law, the Tax Administration may allow the fiscal year to coincide with the economic season.

Corporate Income Tax

This tax levy income from Paraguayan sources derived from commercial, manufacturing and service activities, other than personal services. The agricultural and cattle raising activities are out of the scope of this tax.

Payment method / Advance payments and current rates

- a) The tax is paid by submission of the corporate income tax return, annually. For this purpose the Tax Administration provides the taxpayer with special forms.
- b) Obligatory Advance payments.

The Tax Administration is entitled to establish advance payments of the annual tax. These advance payments shall not exceed the amount of tax paid in the previous year. In fact advances must be paid in four bimonthly installments, the first one, on May, the second on July, the third on September and the fourth in November of each year. Each advance payment it is equal to 25% of the tax determined in the previous year.

c) Current rates

- The general tax rate is 10% (ten percent).
- Distributed earnings are subject to an additional tax of 5% (five percent).
- The head offices, partners or shareholders domiciled abroad must pay tax on the profits or dividends from their branches, agencies or businesses situated in Paraguay, at the rate of 15% (fifteen percent) of the net amounts paid or remitted.
- Income of individuals or entities not domiciled in Paraguay, are taxed at the rate of 30% (thirty percent) of the net income.

Branches, agencies and businesses of corporations incorporated abroad

The net income of branches, agencies and establishments of foreign companies is determined on a separate accounting basis.

These entities must determine their taxes as well as commercial societies.

In the absence of an exhaustive accounting that reflects the net profit, the Tax Administration could estimate them unilaterally.

Branches, agencies or establishments of outsiders can deduct interest of loans or other investment made by the head office or other foreign branches or agencies, as well as \ by royalties and technical assistance paid to them , provided that those income be taxed for the foreign beneficiary.



Agricultural Income Tax

This tax levy income from the farming activities carried out within national territory.

Legal conceptualization of agricultural and farming activities

The concept of farm or agricultural activities provided by the law is the business conducted for the purpose of obtaining primary products, either vegetable or animal, by the utilization of land, such as:

- Breeding or fattening of cattle, sheep and horses.
- Wool, leather, bristles and embryos production.
- Grains, fruit and vegetable production.
- Dairy production.

Income from the sale of assets related to agricultural and farming activities are also considered levied by this tax.

Taxpayers

Individuals, associations, corporations and other private entities of any nature, public companies, independent agencies, decentralized entities, and mixed companies, and entities or individuals domiciled abroad and its branches, agencies or establishments in the country could be taxpayers of this tax.



Income not included

Income from activities or business of handling, processing or treating farm products carried out by the same producer in order to conserve the goods. Activities Included in the income tax from commercial, industrial or service activities and tax from Personal Services are not included under Agricultural Income Tax.

Income tax return

The fiscal year for this tax, unlike other taxes, goes from July to June of the following year.

The presentation of the income tax return is mandatory for all taxpayers designated. This obligation must be fulfilled independently in the fiscal year declared by the taxpayer whether or not obtained taxable income for the tax.

Agricultural Income Tax

This tax levy income from the farming activities carried out within national territory.

Gross income and taxable income

Gross income is the total income from the sale of products and the provision of services performed during the fiscal year, less the cost thereof, as well as deductions for returns, rebates and discounts; provided that they are properly documented.

For the purposes of this article, costs are considered deductible, provided that the goods or services have been taxed by any of the income tax or have been acquired from individuals who are not required to register with the National Register of taxpayer, which in both cases have to be properly documented and should not have been deducted in prior years for the determination of this tax.

The taxpayer shall prepare and maintain - by computer or working papers systems - accurate determination of such costs, deductibles or not, and the way they were calculated the same.

Gross income constitutes:

- a) The difference resulting from comparing the market value of the assets awarded or given as payment to partners, shareholders or third parties, with the deductible cost of such goods.
- b) Net profit caused by the collection of insurance and compensation in case of accidents suffered in the assets of the holding.
- c) Lease income or transfer of use of the assets affected agricultural activity asset.
- d) Exchange rate differences generated by farming operations.
- e) The interest earned on loans granted for income taxed by this tax.
- f) Any increase unjustified wealth produced in the exercise.



Agricultural Income Tax

This tax levy income from the farming activities carried out within national territory.



Net Income and Tax Rate

To set the net income, all expenses associated with the rotation of the activity shall be deducted from gross income, from expenses that relate to obtaining taxable income and the maintenance of its source (provided they are real and are properly documented) including the depreciation of property assets. The regulations establish the conditions and requirements for the deductibility of expenses, which can not establish more burdensome and more beneficial criteria for deductibility than those provided for taxpayers Income Tax on Commercial, Industrial and Service Activities.

Tax losses can be offset with net income of future years to a maximum of 5 years from the end of the year in which the loss occurred. The loss carryforwards may not deduct an amount exceeding 20% of net income for the year.

In the case of income of transfer rural properties directly affected the agricultural activity, presumably that net income is 30% (thirty percent) of the sale value or the difference between the purchase price of good and the cost or revalued value of the property value, whichever is lower.

The general tax rate is 10% (ten percent) on net income determined.

The parent companies, partners or shareholders domiciled abroad will be charged the amount of the profits or dividends accredited by branches, agencies or establishments in the country at a tax rate of 15% (fifteen percent) on net amounts credited paid or remitted, of them which happen first.

Individual Income Tax

This tax applies to Paraguayan source income arising from activities generated by personal services.

Income includes

- Any income arising from professional activities or personal services of any kind, either as an employee or independent.
- Fifty percent (50%) of dividends, profits and surpluses obtained as shareholders or partners of entities carrying out activities covered by Income Tax from Commercial, Industrial or Service Activities and the income tax arising from farming.
- Capital gains arising from the occasional sale of property transfer of rights, sale of securities and shares, which are not taxed by the Income Tax from Commercial, Industrial or Service Activities, Income tax from farming and Income tax of Small Taxpayer.
- Interest, fees or returns of capital.
- Any other Paraguayan source income, provided that the total thereof exceeds thirty (30) times the minimum salary, during the fiscal year.

Income not included

- Income from dividends and profits obtained by foreign shareholders or partners of entities incorporated abroad.
- Income from securities obtained from the assets of individual business.
- Income that comes from gambling regulated by Law.
- Legacy and inheritance.
- The allocation of goods as a result of marital dissolution.



Personal Services

Personal services, whether as employee or as freelance, include the following:

- The practice of professions.
- The practice of any art or sport.
- The practice of any trade and personal services of any nature.
- The activities of Customs Brokers.
- The activities of the commission merchants or of those that perform brokerage and intermediation in general.
- Any work performed as an employee.
- Government employees, whether hired or from the permanent staff.
- Syndics, notaries, liquidators, trustees, auctioneers.
- Other services provided by individuals and services companies whenever they earn income not subject to the income tax from commercial, Industrial or Service activities, the Tax on Income from farming and the Income Tax of Small Taxpayers.

Payment method

The method of allocation of income and expenses, will be to what was actually received and paid respectively, in the fiscal year.

Individual Income Tax

This tax applies to Paraguayan source income arising from activities generated by personal services.

Taxpayers		Expenses that this tax admits as deductible
Individuals	Simple Partnership	<ul style="list-style-type: none">• Legal contributions to social security institutions created or permitted by law.• The donations are deductible up to 20% of net taxable income.• Personal and family expenses and investments made in the country and abroad.• Expenses incurred with spousal income.• Deposits made by the concepts and institutions listed below: Savings deposits in Banking or Financial Institutions, Cooperatives, Investments in shares, private pension funds with at least 500 active affiliates.• Capitalization of surplus conducted by Cooperatives.• Personal or family investments, and expenses made by the taxpayer for: support, education, health, clothing, housing and recreation.
<p>Individuals are included in this tax if during any fiscal year the total taxable income exceeds approximately Gs. 132 million, equivalent to approximately USD. 24.000 (72 minimum wages) for fiscal year 2016. Once this happens, the individuals become taxpayers and must enroll within thirty (30) working days. The tax should be calculated on full income, investments and expenditures made from the day after the date on which the individuals become taxpayers.</p> <p>Beginning on the next year after the taxpayers reached the taxable range; they must make the determination and payment of tax on total income, investments and expenses counting from January 1 of each year.</p> <p>Employment status of the taxpayer is irrelevant for the purposes of the application of this tax.</p>	<p>All simple partnership that provide professional services or assistance are taxpayers of this tax, except those companies that develop commercial or farm activities that are taxed by other income taxes.</p> <p>These personal service companies must register and pay taxes in all cases regardless of the amount of their income.</p>	
		The source criterion
		<p>Income must have its origin in national territory (Paraguayan source), which implies that if the profits come from any activity developed abroad (foreign source) will not be covered by this tax.</p>

Individual Income Tax

This tax applies to Paraguayan source income arising from activities generated by personal services.

Nondeductible Expenses

- The tax itself.
- Penalties for tax and social security infringements.
- Expenses related to non-taxable or exempt operations.
- Unjustified expenses.
- Expenses, costs or investments that are not properly documented or do not comply the legal requirements.
- Expenses and investments unnecessary to generate the taxable income.
- Those expenses indirectly related to untaxed income.

Exempt Income

- The pensions that the government pays to veterans from the Chaco War and their inheritors.
- The remuneration paid to diplomatic, consular and representative agents of foreign governments, provided that in the other country there is a reciprocal treatment for Paraguayans.
- The indemnities received by death or by total or partial disability, sickness, maternity, accident or dismissal.
- The income from pensions that come from contributions to social insurances created or allowed by law.
- The interest, fees or income from investments, deposits and placements of capital in banks and financial institutions in the country, regulated by the Law 861/96 or Credit and Savings Cooperatives.
- Income from debt securities and transactions in the Stock Market.
- Exchange differences arising from foreign currency deposits made in entities legally authorized to provide financial intermediation services in the country.
- Dividends and profits paid to shareholders or partners domiciled abroad.
- Income from capital assets gained from an Individual business.



Individual Income Tax

This tax applies to Paraguayan source income arising from activities generated by personal services.

Nontaxable range

The tax came into force on August 1, 2012 and the law provides that all individuals with annual revenues greater than the amounts listed below are taxpayers:

- First fiscal period (Year 2012): one hundred twenty (120) minimum salaries in the year.
- Second fiscal period (Year 2013): one hundred eight (108) minimum salaries in the year.
- Third fiscal period (Year 2014): ninety six (96) minimum salaries in the year.
- Fourth fiscal period (Year 2015): eighty four (84) minimum salaries in the year.
- Fifth fiscal period (Year 2016): seventy two (72) minimum salaries in the year.
- Sixth fiscal period (Year 2017): sixty (60) minimum salaries in the year.
- Seventh fiscal period (Year 2018): forty eight (48) minimum salaries in the year.
- Eighth fiscal period (Year 2019): Thirty six (36) minimum salaries in the year.

Annual Tax Return

Taxpayers subject to this tax must file an annual income tax return, in the same it shall be determined the net taxable income, stating the amount of the gross income and the deductible expenses thereof, in order to determine the amount of the payable tax.

When the taxpayer's income does not exceed the taxed range for two consecutive years, the obligation to submit the tax returns is suspended.

Tax rate

The overall rate of 10% on net taxable income is applied when the total income exceeds nine times the minimum salary and when the total income is equal to or less than such amount the rate of 8% is applied.

Withholdings tax that must be made

Taxpayers, who pay taxable income to someone domiciled abroad, must act as a withholding tax agent.

The withholding is calculated at the rate of 20% on 50% of the gross taxable income, so the effective rate is of 10% on the gross amount remitted.

Value Added Tax (VAT)

This tax levies the consumption capacity of the people. It is therefore a general sales tax.



Taxpayers

Taxpayers are all individuals and entities engaged in commercial and service activities.

Activities subject to the tax

The Value Added Tax (VAT) levies the following acts:

- Sale of goods;
- Services, excluding those provided as employees;
- Import of goods.

For sales, the configuration of the taxable event occurs with the delivery of goods or issuance of invoice, whatever happened first. For services, the obligation takes shape with any of the following events, whichever occurs first: a) Issue of the invoice; b) The collection of the price for the service provided; c) The overdue of the payment date; d) With the conclusion of the service; In the case of imports, the tax becomes payable at the time of entry of the goods into Customs.

Tax Base

- In onerous transactions the tax base is the net accrued price for the goods or services.
- In financing the tax base is the amount of interest accrued monthly.
- In leases of property, the tax base is the price amount accrued monthly. In transfers of property, the law presumes that the minimum aggregate value is 30% (thirty percent) of the sales price of the property transferred.

Value Added Tax (VAT)

This tax levies the consumption capacity of the people. It is therefore a general sales tax.

Tax Rates

- a) 5% (five percent) for contracts of cession of goods and transfer of immovable property.
- b) 5% (five percent) on the sale of the following goods: rice, noodles, mate, edible oils, milk, eggs, raw meats, flour, iodized salt, agricultural, fruit, horticultural products in their natural state and also live animals.
- c) 10% on interest, fees and on surcharges of loans and financing.
- d) 5% (five percent) for sale of pharmaceutical products.
- e) 10% (ten percent) for all other cases.

Liquidation of the tax and payment

Taxpayers must file a tax return monthly. The tax shall be liquidated on the sum representing the difference between fiscal debits and fiscal credits.

Fiscal Debit is the adding of taxes accrued (invoiced as opposed to collected) by the taxable transactions in each month. Fiscal Credit is the adding of taxes included in purchases of goods and services on the local market on imports within the month.

VAT credit refund scheme

The Tax Administration will refund the tax credit corresponding to goods or services that are affected directly or indirectly to the export operations of goods.

In export operations of natural agricultural and its derivatives, which have been subjected to basic, primary or incipient industrialization, the return of the tax credit will be 50% of the credits affected to such operations.

VAT exemptions

Are exempt from VAT:

- The sale of foreign currency and public and private securities; as well as the interest charged on such securities.
- Heritage and cession of credits.
- Books, magazines and newspapers.
- Goods of artistic or popular value.
- The sale of goods or services provided by non-profit organizations recognized as public benefit entities by the respective government bodies.

Excise Tax

Excise tax is a specific tax on sales, as it is limited to transactions with selected goods that are distributed in groups.

Taxpayers

Manufacturers are taxpayers of this tax for any sales that take place in the country. Importers are also taxpayers for the goods introduced into the country.

Taxpayers may be: Individual businesses, partnerships, associations, corporations and other private and government businesses, branches, agencies or businesses operating in this country owned by corporations constituted abroad.

Activities subject to this tax are the import of goods and to their initial sale in the case of domestic production.

Taxable Base

- In the case of domestic production of goods the taxable base shall be the factory price excluding VAT and this tax itself.
- In the case of imports the taxable base shall be the value for Customs plus Customs duties and fees for services.
- In the case of petroleum - based fuels the taxable base shall be the sales price to the public.

Tax Rates

Taxable goods	Maximum Rates
All kinds of cigarettes	20%
Mineral water, juice and all kinds of soft drinks	5%
Beers in general	9%
Alcoholic beverages in general.	11%
Champagne and equivalents	13%
Alcohol	11%
Oil byproducts	50%
Perfumes, pearls, precious and semiprecious stones, precious metals, horns, ivory and other animal carving materials, watches, weapons, ammunition, parts and accessories.	5%
Air conditioners, washing machines, scanners, photocopiers, electrical equipment, recorders, mobile cell phones, toys and others.	1%

Taxable Facts

In the domestic production of goods the taxable event is shaped with the first delivery of the goods and its corresponding receipt.

For imported goods, the taxable event is shaped at the time of the opening registry of goods at Customs.

Liquidation and payment of the tax

The tax shall be liquidated on a monthly basis except in the case of fuels which shall be liquidated weekly, from Sundays through Saturdays.

For imported goods, the liquidation and payment is made prior to removal of goods from Customs, before the order of issuance and clearance of goods.

Labor Legislation In Paraguay

Labor Legislation in Paraguay

WORKING DAY

If work is at daytime, the maximum working hours is 8 per day or 48hs per week. At night time, it must not exceed 7hs per day or 42hs per week. And in mixed work days, its maximum duration is 7,5 hours or 45 hours per week.

Overtime under any circumstance cannot exceed 3 hours per day.

VACATIONS

After a year of continuous service under the same employer, workers can enjoy vacations. The duration of those vacations depends on the seniority of the worker according to the following scale:

- Up to 5 years: 12 working days
- More than 5 and up to 10 years: 18 working days
- More than 10 years: 30 working days

**Working days are straight.*

SOCIAL SECURITY CONTRIBUTIONS

Social Security contributions (IPS) are constituted by the employer (16,5%) and the employee (9%).

ADDITIONAL ANNUAL REMUNERATION

The additional annual remuneration set by law is the equivalent to a twelfth of all remuneration earned in the calendar year by the worker in any concept (salary, overtimes, fees, etc.) and it must be paid before December 31 of each year, or when the employment relationship is terminated.

EMPLOYMENT CONTRACT

Whenever there is an individual rendering services and an entity receiving such a service under dependency, the law will always consider that relation as a labor relation. The subordination may be technical, legal, economic, social or hierarchy.



The legal minimum wage is Gs.1.824.055 approximately USD 330.

THE HOUSEHOLD ALLOWANCE

From the moment that a worker communicates to the employer that he has a son/daughter, he acquires the right to receive an allowance equivalent to 5% of the minimum salary for each child (up to 18 years); provided that he is responsible for their upbringing, education and custody.

This grant is automatically terminated when the salary of the employee exceeds 200% of the legal minimum salary and also if the conditions provided by law for that purpose are ended.

Labor Legislation in Paraguay

Labor Unions

The law recognizes the right of workers to organize labor unions without previous authorization. The purposes of these unions are the study, defense, promotion and protection of the professional interests and improve their organizations in the social, economic, cultural and moral aspects. Every worker has the right to join or leave the labor unions according to his will.

Foreign Employees

There are no restrictions for foreigners to exercise any work, provided they have obtained all necessary documents under the Immigration Law (temporary or permanent residence and identity card). These documents can usually be obtained in 90 days.

Employment termination

Termination of the contract without liability of the parties

The termination for mutual consent is one of the causes through which the employment contract can be terminated without liability of any party. For the validity of this form of termination of the employment contract, the rescission agreement must be formalized in the presence of a public notary or a representative of the Labor Authority or two witnesses to the act.

Also, neither party of the employment contract has the right to claim any indemnity when the contract terminates for the expiration of the term or for the completion of the work, in contracts with a specific period or in contracts for a particular work. It should be noted here that not all kind of work can be contemplated in contracts with a specific period, that is because not all job has those characteristics, and that is why the law protects workers that have a job with permanent or continuous characteristic, foreseen a presumption in this regard.

Equally, the law has foreseen the non-responsibility for the parties when the termination of the contract occurs during the trial time of the employee.

Even the dismissal of an employee by the employer for the causes foreseen in the Labor Law does not generate the liability to indemnify or forewarning for the employer.

Termination of contract with responsibility for one part

In this category, there are all kind of contract terminations originated on the decision of one of the parties.

The unfair dismissal requires employers to give notice to the employee with some time in advance. The advance time for the notice depends on every case of the seniority of the worker. If the advance notice is omitted, compensation must be paid to the employee for an amount equal to his salary during the term of the same.

In addition to the advance notice, the employer must pay to the dismissed employee a compensation equivalent to fifteen daily salaries for each year of service or fraction over than six months.

The resignation of the worker, according to the terms specified in the law, generates for the employee the obligation to submit an advance notice.

The worker unjustified resignation that causes damage to his employer, generates an indemnity in favor of the employer equal to the half of the amount foreseen by the law for unjustified dismissal.

Benefits for Investors

Benefits for Investors



Fiscal Incentives for National and Foreign Capital Investment foreseen by the Paraguayan legislation



Free Trade Zones Regime



Maquila Regime

Fiscal Incentives for National and Foreign Capital Investment foreseen by the Paraguayan legislation

The Law No. 60/90 was adopted in order to promote and increase capital investments (domestic and / or foreign), by granting fiscal benefits to those who make investments according to economic and social policies of the Government.

BENEFICIARIES

All persons (physical or Juridical) that make investments under any of the following ways can be beneficiaries: a) Cash, financing, credit suppliers and other financial instruments; b) Capital goods, raw materials and inputs for local industry for the manufacture of capital goods; c) Trademarks, drawings, industrial models and processes and other forms of technology transfer subject to license; d) Specialized services for technical assistance; e) Leasing of capital goods.

BENEFITS GRANTED

- a) Full exemption of municipal and national taxes related to the constitution, inscription and registration of companies and businesses;
- b) Full exemption of customs duties and others of equivalent effects, including the internal taxes of specific application, on importing of capital goods, raw materials and supplies destined to local industry that are foreseen in the investment project;
- c) Exemption of any type of guarantees or special deposits for the import of capital goods;
- d) Whenever the amount of the foreign financing and the activity benefited by the investment were at least USD 5.000.000 (five million dollars), will be exonerated of tax payments that levies the remittance and payments made abroad in concept of interests, commissions and capital thereof, by the according period, whenever the lenders were banks or others financial institutions of recognized trajectory in the market.
- e) Full exemption of taxes that levied on dividends and profits arising from the approved investment projects by the term of until 10 (ten) years counted from the startup of the project when the investment was at least USD 5.000.000 (five million dollars) and the tax of such dividends and profits was not fiscal credit for the investor in the country where the investment is originated.

REQUIREMENTS TO OBTAIN THE BENEFITS

The commercial entity that wants to obtain the benefits described in the law must prepare a project feasibility study and submit it to the Board of Investment.

When the investment project exceeds the equivalent in Guaraníes of USD 5.000.000 (American Dollars), the filing of the project should be developed by national technical and / or consulting firms registered in the relevant register and authorized to operate legally in the country.

PERIOD FOR APPROVAL

- 10 (ten) years when investment resources come from capital repatriation or when investments are located in preferred areas of development or
- 7 (seven) years when the investments come from incorporate capital goods of domestic origin.



Free Trade Zones Regime

The free trade zone is a properly delimited area out of Customs Territory in which Commercial, Industrial and Service activities are permitted and those activities are free of customs duties and fiscal taxes.

ACTIVITIES THAT CAN BE PERFORMED ON FREE TRADE ZONES

Commercial: admission of goods for intermediation without any transformation or modification including storage, classification, handling and mixing of goods or raw materials. / **Industrial:** manufacture of goods for export, through the transformation of raw material and / or intermediate products of domestic origin or imported, including those which are classified as assembled by their nature. / **Service:** repairs and maintenance of equipment and machinery in general.

BENEFITS

Concessionaire: They can be beneficiaries of the Law No 60/90, for capital investment both domestic and foreign origin.

Exemption of: All taxes for imported capital goods for infrastructure in the free trade Zones; Value Added Tax (VAT) for services provided to users; All taxes levied on port facilities that could provide to users.

Users:

- They can be beneficiaries of the Law No 60/90, for capital investment both domestic and foreign origin.
- Promptness for the introduction of goods procedures.
- Safer load storage, without time restrictions.
- Habilitation and management of their warehouse, equipment and machinery.
- Possibility of introducing any type of goods unless those expressly prohibited by the Law No. 523/95.
- Temporary suspension of customs duties and internal taxes during the storage of the goods in the free trade zones.

Exemption of:

- All taxes for imported capital assets for infrastructure in the free trade Zones.
- Value Added Tax (VAT) for services provided to other users.
- All taxes levied on port facilities that could provide to users.
- Tax exemption for payment of: Fees, interest and any other remuneration for services, technical assistance, technology transfer, loans and financing, rental equipment and any other service provided from third countries.

Free Trade Zones Authorized in Paraguay

The international free trade zone Trans Trade S.A.: was adjudicated to commercial, industrial and service activities by the Executive Branch Decree No 17003/02. It is located at Km 10.5 of Route 7, of Ciudad del Este. It initially had 30 (thirty) hectares, and currently has more than 400 hectares and 24.000 m² of buildings, which are mainly warehouses and offices.

Free Trade Zone Global of Paraguay S.A.: was adjudicated to commercial and service activities by the Executive Branch Decree No. 17003/02. It is located at Km 10 of Route 7, Ciudad del Este.



Maquila Regime

Through this regime, investors can introduce goods, products or services into the country in order to be assembled, repaired, or processed for subsequent export, once the added value or the "Paraguayan element" is incorporated.

REQUIREMENTS

There are no restrictions on the types of products or services that may be included in the maquiladora industry. The National policy of the maquiladora activity in Paraguay is regulated and controlled by the National Council of the Maquiladora Export Industry (CNIME in Spanish).

Both individuals and corporations, domestic or foreign, can be beneficiaries of the profits granted by the law of maquila, as long as they are domiciled in the country.

INCORPORATION

Foreign companies can benefit from maquila programs adopting any of the types of companies exposed under Title III of this publication.

There are no restrictions or limitations on the participation of national or foreign capital in the maquiladoras companies.

Except for land management programs or environmental dispositions, the maquiladoras establishments can be located anywhere in the country.

For the purposes of carrying out the maquiladora activity, companies must develop a "Maquiladora Program" and submit it to CNIME for approval.

MAQUILA PROGRAM TYPES

- *Maquila for Goods Production*
- *Maquila for Services*
- *Maquila for Intangible Services*
- *Sub Maquila*

FORMS OF MAQUILA OPERATION

- *Pure Maquila*
- *Maquila from idle capacity*
- *Sub Contract*
- *Twin Plants*
- *Shelter Program*



Maquila Regime

TAX ISSUES

Maquiladoras are structured as Production Cost Centers. This is a legal figure to which the following tax treatment is applied:



01 Unique Tribute

It consists of a Unique Tax regime of one percent (1%) on the value added in national territory or on the amount of the invoice issued by order of the head office, the major.

02 Tax Exemptions

With the exception of the Unique Tribute and the tax treatment established by law for certain sales in the domestic market, the Maquila Contract and the development of the activities thereof, are exempt from all other national, and municipal taxes

03 Value Added Tax

As a result of the above, the maquiladora exports are exempt from this tax. As for the recovery of the tax credit amount of VAT for accumulated purchases of goods and services in national territory to be applied to Maquila operations, are eligible for the recovery scheme.

04 Sales in the domestic market

The maquiladora industry that desires to sell goods in the domestic market can do it up to 10% (ten percent) of the volume exported in the last year.



Financial System and Capital Markets

The **financial system** of the country is regulated by the Central Bank of Paraguay (BCP in Spanish). This government agency is in charge of the supervision of all the financial entities and also the management of the monetary policy.

Banks and other financial entities operate freely in the market without restrictions related to the interest rates and to the use of its funds. Nowadays, deposits and loans are made both in local and foreign currency.

In Paraguay the monetary authorities does not intervene in the Exchange Market and **that's why here we have a fluctuating exchange system**. The quotation of foreign currencies is the result of the free movement of supply and demand. Under this basic law of supply and demand are made the movement of capitals and the financial payments.

There are no limitations for incoming or outgoing of foreign currency, or concerning about the amounts involved. International transfers are free.

Nevertheless, in the framework of the norms that regulate the prevention of the money laundering, all those transfers over USD 10.000 should be justified, as well as the unusual operations

There is no obligation to register financial operations with other countries under local authorities.

The capital market of the country is very small, considering that the majority of the companies that operate in the country are familiar or foreign. Companies listed in the stock market have increased as a result of the implementation of new legal instruments.

The supervision of the capital markets is in charge of the National Securities Commission (CNV in Spanish).



Export and Import

Export and Import



Requirements for import or export

To act as importer companies, must register in Customs (DNA in Spanish); and to act as exporters they must register in the “Ventanilla Única Del Exportador” (Unique office for exporters).

Administrative Requirements

All imports or exports must go through customs control.

Taxes

All customs duties and port fees must be paid in Custom offices in local currency. Custom duties must be paid based on the value determined by the “Customs Valuation Service”.

Other taxes are paid in local currency at Custom offices, with transport documentation and consular bill.

Accounting, Reports and Audit

Accounting, Reports and Audit: Considerations

Requirements related to accounting and management

The fiscal year of Companies can conclude any month chosen by the shareholders. However, for tax purposes, the financial practice should correspond to the calendar year that ends on December 31, except for certain specific activities. The Tax administration must allow any alteration.

All taxpayers should support complete accountings records. The law requires the mandatory use of this registers: “Daily record book, General Ledger and Inventory record Book”.

Accounting records can be done manually or electronically. If the taxpayer chooses to conduct its accounting records through electronic means, must be prepared to show to the tax authority the features and the security system of the software that he is going to use for this purpose.

Accounting Policies and Audit Standards

The accounting policies accepted and used in the country, are the “Financial Reporting Standards” (“Normas de Información Financiera” in Spanish) issued by the “Paraguayan Accounting Board” (“Consejo de Contadores Públicos del Paraguay” in Spanish) similar to “International Financial Reporting Standards” (IFRS).

Besides, the Central Bank of Paraguay (BCP in Spanish) and the “National Securities Commission” (CNV in Spanish), have issued their own standards that are mandatory for the companies under their control.

Mandatory Audits

Only companies that are covered by the Central Bank of Paraguay (BCP), National Securities Commission (CNV), the Superintendence of Insurance (SIS) and the National Institute of Cooperatives (INCOOP) are required to nominate independent auditors.

Additionally, companies that have total loans of more than USD 1.000.000 or their debt with the financial system exceed USD 3.000.000, must be audited according to requirements of the BCP.

The tax authority requires taxpayers who total invoicing exceed yearly Gs. 6.000.000.000 (approximately USD 1,090 millions), an annual tax audit

Auditing standards applicable in the country are those issued by the Board of Public Accountants of Paraguay, the international auditing standards and additional rules issued by the Central Bank of Paraguay (BCP) and the National Securities Commission (CNV).

All companies have the freedom to nominate auditors, as long as they are duly registered.



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Our experience, shared values
and team work are our
key elements to make
an impact that matters.





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