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### **Paraguay – New Personal Income Tax Rules Finally Take Effect**

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## **Flash International Executive Alert**

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Following several years of controversy and lack of implementation, Paraguay's personal income tax (PIT) finally took effect starting in August 2012<sup>1</sup> after Congress enacted, on July 23, 2012, Law 4673/2012 and a related executive decree and Finance ministry general resolution were issued.<sup>2</sup> The imposition of the personal income tax will have important implications for assignees to/from Paraguay who are subject to tax in Paraguay and for the costs related to international assignment programs with assignees in Paraguay.

Law 4673/2012 has been in force as of August 2, 2012.

### **Law 4673/2012 and its Regulations**

#### ***Income That Is Subject to the Tax***

The scope of the PIT applies in respect of Paraguayan source income as follows:

- 100 percent of remuneration derived from professional services and other personal services rendered under a labor relationship or by independent contractors;
- 50 percent of income derived from dividends, profits, and share price surplus, as specified, that are distributed (or credited) to shareholders or partners of organizations that are CIT taxpayers (CIT refers to *Impuesto a la Renta de las Actividades Comerciales, Industriales y de Servicios* and *Impuesto a las Rentas Agropecuarias*);
- 100 percent of income derived from certain capital gains arising on the "occasional" disposal of real estate in Paraguay and shares of Paraguayan companies (the income from such "occasional" disposals (considered "non-regular") is subject to tax by the PIT – this will apply, for example, up to two sales effected within one fiscal year, while "regular" disposals are more than two sales within one fiscal year and they will be subject to tax under CIT rules);
- 100 percent of interest, commissions, or yields of capital not taxed under the CIT or by the Small Taxpayer's Income Tax (CIT for taxpayers earning under the amount of PYG 100,000,000.00 (or approx. USD 22,470.00));
- Other Paraguayan source income where such income exceeds 30 times the minimum monthly wages within one fiscal year.

#### ***Exemptions***

Taxpayers are exempt on the following:

- Sums received from indemnifications tied to death, incapacity, disease, maternity, accident, or dismissal.
- Sums from retirement and pension fund annuities in Paraguay.

- Interest, commissions, and yields from investments and deposits of capital in banks, financial entities, and cooperative organizations constituted under the laws of Paraguay.
- Foreign exchange gains/losses related to holdings in domestic or foreign entities (e.g., tied to fluctuations in USD/PYG or EUR/PYG exchange rates).
- Income arising from the valuation of assets, provided that the income is not from capital gains as a consequence of the asset's disposal;
- Remuneration paid to Paraguayan diplomatic and consular personnel abroad (provided that in the countries where they perform their services, there is reciprocal treatment);
- State pensions that are granted to veterans from the Chaco War and their heirs.

#### **Who Is Subject to the Tax?**

- Individuals;
- *Service Industry Partnerships (Sociedades Simples)*: refers to a partnership or professionals who render personal services (e.g., law and audit firms).

#### **Rates**

- A tax rate of 10 percent applies when taxable income exceeds 10 times the minimum monthly wage.
- A differential tax rate of 8 percent when taxable income is under 10 times the minimum monthly wage. (This rate will be in force from January 1, 2013.)

See below for tax scales for 2012 through 2019.

#### **Tax Scales: 2012 to 2019**

In general, the fiscal year is the calendar year (January 1 to December 31) except for this first year of the law's application in 2012, which, at the time of the law's in-force date, applied for only five months (from August 2 to December 31).

- For Individuals – The PIT applies to individuals earning the equivalent of 120 times the minimum monthly wage (MMW) during 2012; this monthly wage amount will decrease every year until 2019 as shown in the table below.

Year	Taxable Income and Rate	Tax Due per Month (PYG)	Tax Due per Year (PYG)
2012	(monthly minimum wages (MMW))		
	+ 120 MMW	16,582,310	198,987,720
	Tax rate 10%		
2013	+ 108 MMW	14,924,079	179,088,948
	Tax rate 8%		

2014	+ 96 MMW	13,265,848	159,190,176
	Tax rate 8%		
2015	+ 84 MMW	11,607,617	139,291,404
	Tax rate 8%		
2016	+ 72 MMW	9,949,386	119,392,632
	Tax rate 8%		
2017	+ 60 MMW	8,291,155	99,493,860
	Tax rate 8%		
2018	+ 48 MMW	6,632,924	79,595,088
	Tax rate 8%		
2019	+ 36 MMW	4,974,693	59,696,316
	Tax rate 8%		

*\* amounts are based on the minimum salary in 2012 that may change depending on the variation of the minimum wage*

- For Service Industry Partnerships (*Sociedades Simples*) – These are subject to tax regardless of income level with effect from August 2, 2012, or from the fiscal year in which they are legally formed.

### ***Deductible Items***

*Sociedades Simples* are allowed to deduct:

- expenses connected to activities that generate taxable income;
- expenses incurred outside of Paraguay provided they are connected to activities that generate income taxable by the PIT;
- contributions to the social security system.

Individuals are allowed, under certain conditions, to deduct 100 percent of their:

- personal expenses;
- family (spouse, minor children) expenses (education, food, health care, housing, entertainment);
- expenses and investments of relatives who are under the care of the taxpayer (grandfather/grandmother, father/mother, parents-in law, brothers, etc.) – this refers to dependents of the taxpayer and all their personal and related expenses and investments, as specified;
- personal and family investments;
- the higher-educational expenses (e.g., university / tertiary) of ‘adult children’;

- up to 15 percent of gross income where the individual is not a contributing member of a social security system mandated by law and he or she is saving/investing a portion of that income for a minimum period of three years in:
  - savings deposits in banks or financial organizations in Paraguay, as specified;
  - deposits in saving cooperatives and credit institutions in Paraguay, as specified;
  - investments in registered stocks in “stock-issuing” companies in Paraguay, as specified;
  - privately-run retirement funds in Paraguay.

***Tax Settlement and Assessment:***

- PIT is an annual tax – January 1 to December 31 – except for the first year of enforcement, as we noted earlier, when, due to the in-force date of the law, the fiscal year is from August 2 to December 31.
- The PIT will be declared and paid by means of tax returns during the month of March (further information is available at: [www.set.gov.py](http://www.set.gov.py)).
- Deadlines for filing are established by the Paraguayan Tax Office – the filing/reporting calendar and assorted deadlines for all taxes are established by law and apply depending on the taxpayer's identification number.

***Withholdings for Nonresidents***

Individuals who are nonresident and provide personal services within the Paraguayan territory will be subject to the PIT. The tax owed is to be withheld by the payer domiciled in Paraguay.

Under the PIT rules, a 20-percent tax rate will be applied to the 50-percent presumptive tax base (ER = 10 percent).

**Example**

John Smith is a nonresident individual performing services in Paraguay and his income earned in 2012 totals PYG 20,000,000. He will be taxed under the PIT rules as follows:

John's income = PYG 20,000,000

50% presumptive tax base of PYG 20,000,000 = PYG 10,000,000

20% tax rate on PYG 10,000,000 = PYG 2,000,000

Total tax amount for John to pay = PYG 2,000,000

*Footnotes:*

1 For prior coverage, see [Flash International Executive Alert 2010-193](#), December 3, 2010.

2 The Paraguayan Congress enacted Law 4673/2012 that amends and extends provisions of the Law 2421/2004 on Personal Income Tax (known as *Impuesto a la Renta del Servicio de Carácter Personal*). On July 30, 2012, the executive branch issued Decree 9371 and on August 10, 2012, the Ministry of Finance issued a General Resolution 80, both clarifying the scope and application of the tax. Resolución General N° 80 “Por la cual se Aclaran y Precisan los Alcances Establecidos en el Decreto N° 9371/2012 “Por el cual Se Reglamenta el Impuesto a la Renta del Servicio de Carácter Personal, Creado por Ley N° 2421 del 5 de Julio de 2004, “De Reordenamiento Administrativo y de Adecuación Fiscal.” Law 4673/2012 was regulated by the Decree 9371/2012 signed by the President of the Republic, and by the General Resolution 80/2012 issued by the Paraguayan Tax Office.

Law 4673/2012 was published in Paraguay’s Official Gazette (*Registro oficial de la República del Paraguay*) and in local large-circulation newspapers on August 1, 2012; Decree 9371/2012 was published in local large-circulation newspapers on August 1, 2012; and General Resolution 80/12 was published August 13, 2012 in local large-circulation newspapers.

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PYG 1 = USD 0.00022

PYG 1 = EUR 0.000173

PYG 1 = ARS 0.00108

PYG 1 = BRL 0.00047

The information contained in this newsletter was submitted by BCA – Benítez Cudas & Asociados, a correspondent firm of KPMG International in Paraguay. The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser.

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