Doing Business

A guide for Honduras

2018

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Preface

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After two consecutive years of economic contraction, this year's growth in the Central America and Dominican Republic region will exceed the average of other regions in Latin America.

The gross domestic product (GDP) of the countries in this region has registered positive changes during this year. Among the factors favouring a better economic environment for the region we can mention the measured recovery in global economy and better growth expectations for the United States, largest trading partner of the region. We should also mention the slight increase in the global trade volume, a higher level of prices of commodities, and an increase in the income from remittances.

This Doing Business seeks to provide a broad understanding of the key aspects to invest in the Central America and Dominican Republic region. In this guidebook we intend to answer the main questions each foreign company and investor has as they enter our markets for the first time, as well as keep informed those companies who already have a presence here and would like to be updated on relevant topics.

Leveraging on our vast experience in the establishment of companies in the region, our Tax & Legal team has developed this complete guide which reflects the changes in regards to taxes, legal forms and accounting and business practices. Additionally, it offers a brief description of each country in the Interamericas region.

As a guide, however, this publication serves mainly as a starting point. Should you need more information, our advisors will be ready to help you individually.

On behalf of PwC Interamericas, I hope you find this information be useful and I wish you the very best in your future investments.

Foreword

Doing Business 2018 is the fourth edition of a series of yearly guidelines offering information about culture, climate for investment, as well as tax systems for Central America and the Dominican Republic. This document is made up by a series of indicators on business regulations for tax, legal and regulatory compliance, based on laws applicable in each country.

The Central American and Dominican Republic region is ideal for investing and starting up businesses due to its fertile ground for investment. Most of its economies are going through a period of stable growth, which makes them an ideal place to start new business. Each country has appropriate legal regulations and incentives to protect and encourage investors, which the authorities aim to highlight all around the world. Regarding their geographical location, this is a privileged region since it is located close to some of the most important ports and cities of the world, which facilitates global commerce. This territory is full of investment opportunities.

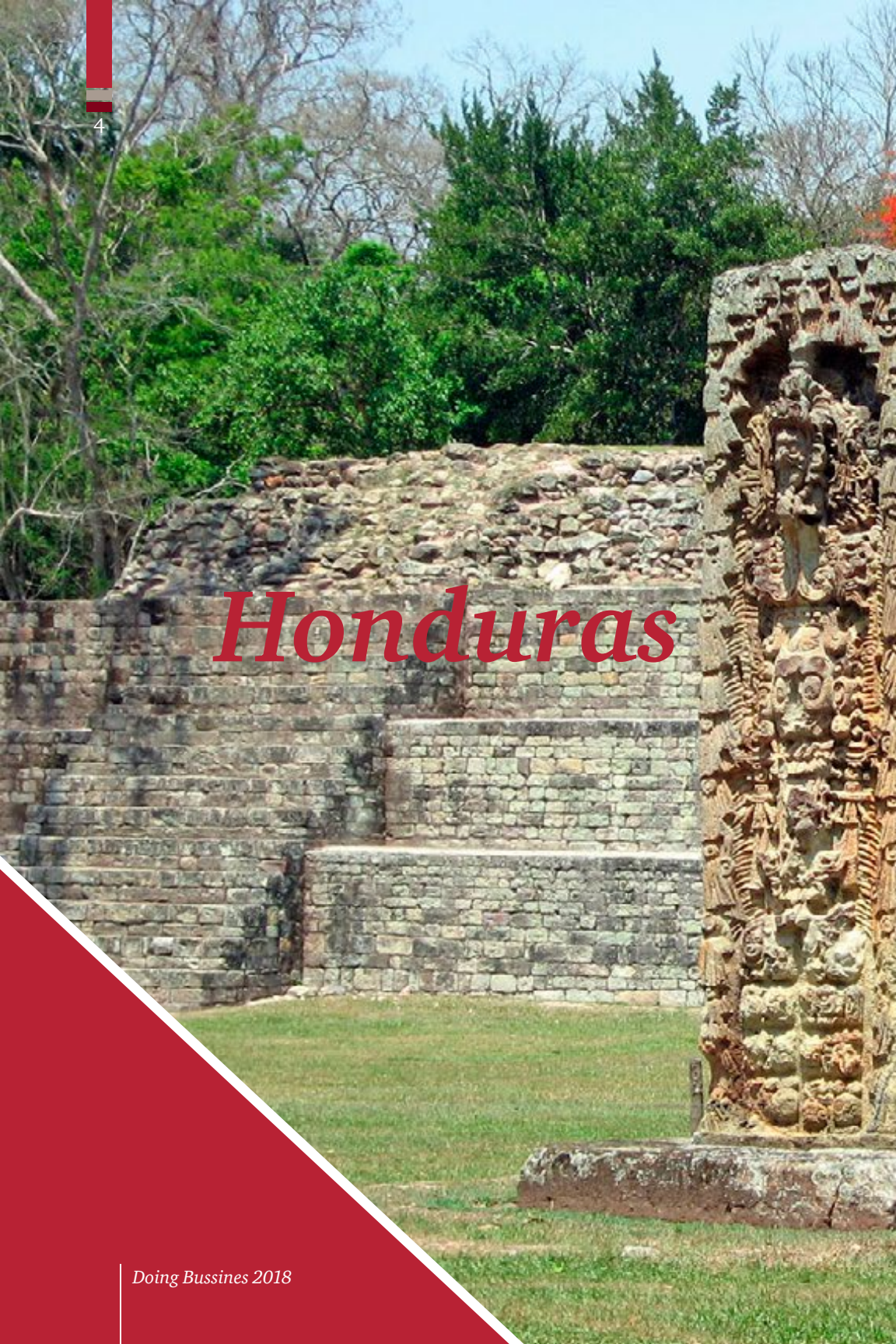
Our objective is to provide essential basic information about aspects which may help the investors establish and manage a business in this region, be it an independent entity, a branch of a multinational company, or a subsidiary of an existing multinational company. It also covers essential basic information for those who are considering relocating permanently to live or work in any of the countries in Central America or in the Dominican Republic.

PwC offers personalized services to our clients, which places us as leader in the market, and makes us the trusted advisor in most of the negotiations that take place in the region and in the world.

This is a general guideline and was not created as a comprehensive advice document. Due to the speed of change and the complexity of some of the related topics, we recommend that this guideline be used along with the appropriate professional advice of our team, which specializes in tax, legal and legal topics, and who will provide the help you need after carefully considering your circumstances and objectives.

Edgar Mendoza

Partner and Regional TLS Leader



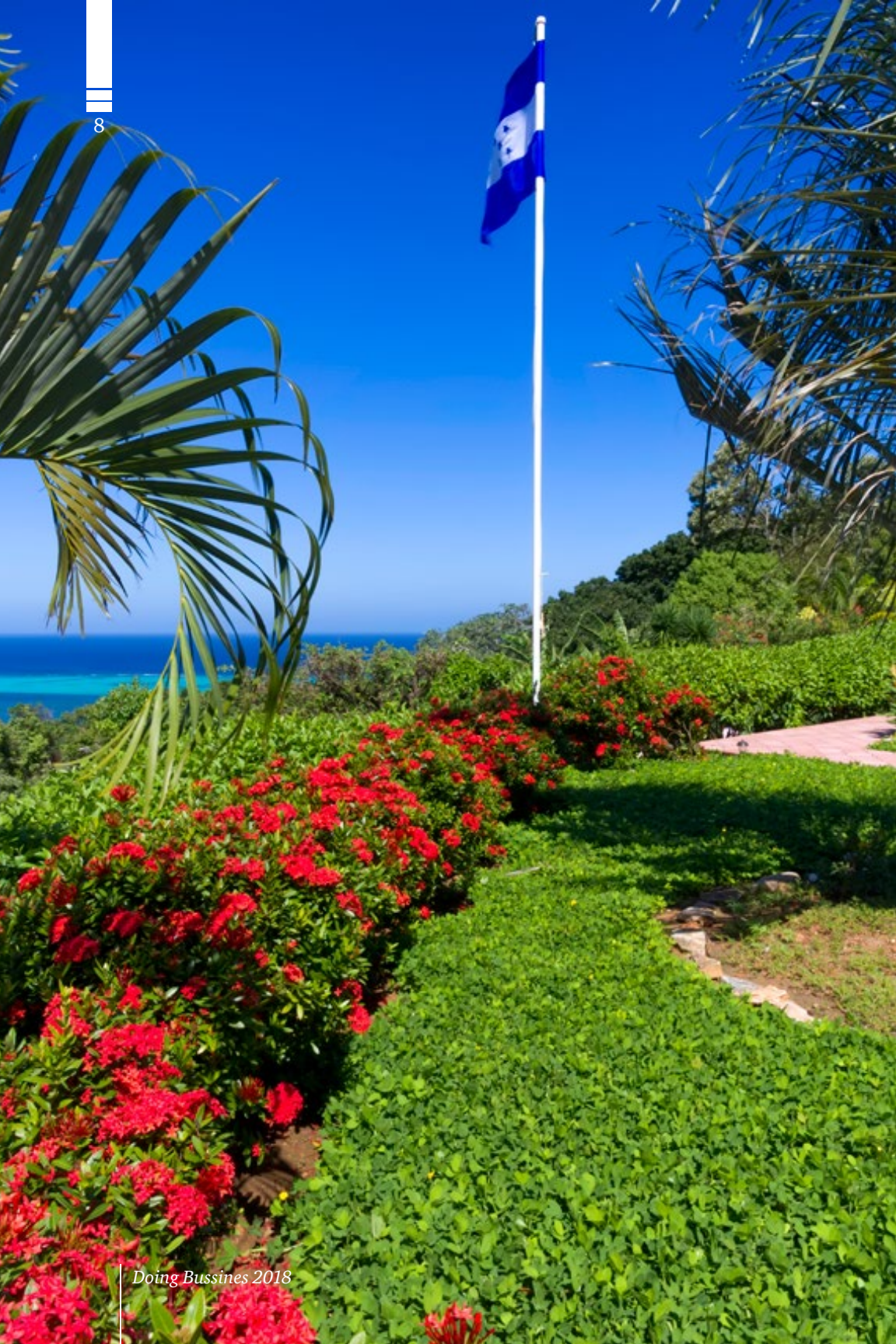
Honduras

Once part of Spain's vast empire in the New World, Honduras became an independent nation in 1821. After two and a half decades of mostly military rule, a freely elected civilian government came to power in 1982. During the 1980s, Honduras proved a haven for anti-Sandinista forces known as "contras" fighting the Marxist Nicaraguan Government and was an ally of Salvadoran government forces fighting leftist guerrillas. In 2009 the Honduran Democratic model experienced a threat; however the Honduran people demonstrated their patriotism, defending their preference for a free and democratic Republic.

Honduras

Chapter content

The Economy, cont.



Overview of the country

Climate

The climate in Honduras varies from tropical in the lowlands to temperate in the mountains. The mean annual temperature in the interior is about 21.1° C (70°F). The low-lying coastal regions, however, are warmer, and the humidity is oppressive; the mean annual temperature there averages 30° C (86°F). The dry season lasts from November to May; the average annual rainfall ranges from 1,016 mm (40 inches) in some mountain valleys to 2,540 mm (100 inches) along the northern coast.

Population, form of government, language, currency, others

Area	112,492 km²
Population	8,721,000 million (2016)
Population per km²	77.52 hab. /km²
Population growth	1.7% (approx. 2016)
Urban population	54% (2016)
Political system	Republican Democrat
Form of government	Presidential
Language	Spanish
Currency	Lempira (HNL)
Administrative Division	18 departments
Religion	Roman Catholic
Capital Ciy	Tegucigalpa M.D.C.

Source: report "Honduras en Cifras 2014-2016", issued by BCH.

Education

The Honduran education system follows the European model of centralized control through the Ministry of Public Education, and consists of the following levels:

- Initial level (for children up to 5 years old).
- Basic level – Elementary (starts after initial level is finished and lasts 9 years).
- Middle level – High School (starts after basic level is finished and lasts 3 years).
- Superior level (starts after the middle level is finished and last 4-5 years).

Basic and middle levels are officially free. All years of the basic level are mandatory. At the superior level (i.e. college) the National Autonomous University of Honduras (Universidad Autónoma de Honduras), the country's national public university, is the leading institution.

There are private schools and colleges as well in the country's main cities. In the northern region there are approximately 310 private bilingual schools. Nationwide there are 12 private universities.

Political and legal system

Legal framework

The political and legal structure of Honduras comprises three main branches – Legislative, Executive and Judicial – organized as follows:

Political and legal framework			
	Executive	*Legislative*	*Judicial*
Exercised by the:	President	Unicameral Congress	• Supreme Court of Justice (*) • Courts of appeal • District courts • Small claims courts *(*) The highest of all judicial bodies*
Composed of:	The President and the Presidential appointees	Chamber of deputies 128 deputies (1 deputy elected for every 64,000 inhabitants).	The Supreme Court of Justice is composed of 15 justices The number of Courts of Appeal, District Courts and Small Claims Courts, and the number of judges sitting on them are determined by law.
Elected or appointed by:	The President is elected by direct vote every 4 years, and the Presidential Appointees are designated by the President	The deputies are elected by direct vote every 4 years.	The judges are appointed by the National Congress.

Main political parties

- National Party (Partido Nacional de Honduras: PNH).
- Liberal Party (Partido Liberal de Honduras: PLH).
- Social Democrats (Partido Innovación y Unidad-Social Demócrata: PINU-SD).
- Social Christians (Partido Demócrata-Cristiano de Honduras: DC).
- Democratic Unification (Partido Unificación Democrática: UD).
- Anti-Corruption Party (Partido Anti Corrupción: PAC).
- Patriotic Alliance (Alianza Patriótica AP)

- Broad Front Political Electoral in Resistance (Frente Amplio Político Electoral en Resistencia FAPER)
- Go Solidarity Movement (Vá Movimiento Solidario VAMOS)
- Freedom and Refoundation Party (LIBRE)

The last presidential and congressional elections were held on 24 November 2013 and the representative of the National Party, Juan Orlando Hernández, was elected president.

The economy

The economy in Honduras has continued to grow slowly but the distribution of wealth remains very polarized with average wages remaining low. Economic growth in the last year has averaged 3.2%. Honduras is banking on expanded trade under the US-Central America Free Trade Agreement (CAFTA) and on debt relief under the Heavily Indebted Poor Countries (HIPC) initiative.

Honduras is the fastest growing remittance destination in the region with inflows representing over a quarter of GDP, equivalent to nearly three-quarters of exports. The economy relies heavily on a narrow range of exports, notably bananas and coffee, making it vulnerable to natural disasters and shifts in commodity prices. However, investments in the maquila industry and non-traditional export sectors are diversifying the economy. There has been an increased in foreign investments due to the establishment of Call Center companies in Honduras. Growth remains dependent on the economy of the U.S., its largest trading partner, and on a reduction in the high crime rate as a means of attracting and maintaining investment.

	2012	2013	2014	2015	2016
GDP (US$ m)					
Nominal GDP (US$ m)	18,379(*)	18,550(*)	19,757(*)	20,844(*)	18,550(*)
Real GDP growth (%)	(3.5)	2.6	3.1	3.6	3.6
Prices and financial indicators	8,645.7	10,952.6	9,325.6	9,292.4	9,021.7
Exchange rate Ps: US$ (end-period)					
Current account (US$ m)	19.54	20.50	21.51	22.37	23.50
Goods: exports fob					
Goods: imports fob	3,287.7	3,405.3	3,638.0	3,834.8	4,009.2
Family Remittances in Balance	8,645.7	10,952.6	9,325.6	9,292.4	9,021.7
Transfer (US$ m)	14,791	14,825	12,729.7	12,891	12,350
Current account Deficit in the Balance of Payments	2,891.8	3,120.5	3,353.2	3,649.8	3,847.3
Current-account balance	(1,586.90)	(1,6525.0)	(1503.2)	(1744.4)	(1764.0)

Sources: Central Bank of Honduras (*) Approximate figure

Inflation

Inflation in 2016, as measured by changes in the Consumer Price Index (CPI), reached an average of 3.31%, according to the Honduran Central Bank. This level is mainly due to increase in the price of fuel and food products in Central America.

Doing Business in Honduras

Government attitude toward foreign investment

Government policies have been friendly towards foreign private investment. The government is emphasizing the promotion of tourism and has implemented laws in order to attract foreign investment to the sector. The Law of the Bay Islands Free Zone and the Law for the Promotion and Protection of Investments were passed recently, with highly favorable incentive packages. Law for Promotion of Electricity Generation with Renewable Resources and its fiscal incentives were recently amended as well.

Foreign investment is generally accorded the same rights as domestic investment. Government authorization is required for foreign investment in sectors such as basic health services, telecommunications, air transport, fishing and hunting, exploration for and exploitation of minerals, forestry, and private education. However, the government has made significant improvements in streamlining procedures and eliminating a series of administrative obstacles involved in the process of establishing a company through the adoption of new legislation.

Free trade agreement and other agreements

CAFTA is a regional trade agreement signed by the U.S. and five Central American countries: Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica. The Dominican Republic (in the Caribbean) has also joined the agreement. The comprehensive agreement maintains the general principle of duty-free, quota-free access for farm commodities and addresses other trade measures in both the region and the U. S.

The agreement should help foster economic growth, improve living standards, and create higher paying jobs in the U.S. and CAFTA countries by reducing and eliminating regional barriers to trade and investment. The agreement creates improved market opportunities for U.S. commodities and other goods and services.

CAFTA is expected to expand a US$2.4 billion two-way trade relationship in, textiles, farm, food, and fishery products, among other sectors. CAFTA will provide U.S. agro-exporters the same or better access to CAFTA consumers as its competitors, providing promising new opportunities to a regional market where U.S. exports currently total nearly US$1 billion.

Tariffs: Under the agreement, over half of U.S. farm goods presently exported to the four CAFTA countries were protected by duty-free treatment immediately upon implementation. Tariffs on other products were to be phased out over the course of 5, 10, 12, or 15 years (18 years in the case of rice and chicken parts, and 20 years in the case of dairy products). In most cases, eliminating these tariffs will create preferences (or equal footing) for U.S. exporters over third country suppliers, helping to expand the U.S. market share.

Certain sensitive products will be subject to tools and mechanisms provided for by CAFTA, including tariff-rate quotas, long-term tariff phase-outs, nonlinear tariff reductions, and the application of import safeguards.

It has been forecast that with the EU-CA association agreement, Central American exports will increase in US$ 2.6 billion to the European Union.

Exports

FOB exports of general merchandise amounted to US$3,762.8 million (US $ 3,824.5 million the previous year), as a result of the decline in the value of coffee exports, lower international prices, low in the export of products such as paper and cardboard, textiles, iron and its manufactures and fillet of tilapia and lobster, among others; the foregoing was partially offset by foreign sales of palm oil, farmed shrimp, vegetables and soaps and detergents.

Exports of goods for processing (maquila), mostly to the US, totaled US $ 3,949.9 million (US $ 4,234.2 million in 2015), a behavior influenced by lower exports of textiles, which reached US $ 3,250.2 million (US $ 3,496.0 million the previous year); and the decrease in shipments abroad of electrical parts and transportation equipment (harnesses), caused by the deceleration in the demand of the automotive industry in the US market.

The main export destination of general goods was United States reaching an amount of US$ 1.455.9 million, including: bananas, coffee, gold, vegetables, melons and watermelons. Exports to Europe amounted to US$ 980.6 million (US $ 944.6 million in 2015), especially coffee, palm oil, shrimp, melons and watermelons. Meanwhile, the flow to Central America was US$ 895.6 million (US $ 881.6 million the previous year), with products such as soaps, palm oil, plastics and their manufactures and iron and their manufactures being the most outstanding. Sales to the rest of the world totaled US$ 525.2 million (US $ 694.9 million last year), to Mexico (US $ 112.5 million), Korea (US $ 44.7 million), Panama (US $ 38.7 million), Taiwan), Colombia (US $ 16.7 million) and Ecuador (US $ 16.1 million). The US was the largest recipient of maquilas (for processing) with US $ 2,988.8 million, with textiles and automotive equipment being the most prominent. Towards Central America, US $ 597.9 million were exported, mainly shipments of cut and stained fabric pieces; for the rest of Latin America were exported US $ 138.5 million, thermal transfer labels, cloth cut and clothing; exports to Europe reached US $ 59.7 million in t-shirts and garments; and the rest of the world countries were US $ 165.0 million.

Imports

Honduras depends heavily on imports of machinery and transportation equipment, industrial raw materials, chemicals, fuels and food. The country's main trading partners are the US, Guatemala, Mexico and Colombia. In 2016, CIF imports of general merchandise amounted to US$ 8,898.2 million at the close of 2016 (US$ 9,424.3 million observed the previous year), primarily due to the fall observed in purchases of fuels, raw materials and intermediate products; and capital goods, particularly for industrial activity.

Imported consumer goods amounted to US$ 3,116.6 million (US $ 2,953.4 million in 2015), associated with the purchasing power of economic agents, low levels of inflation and income from family remittances; Thus, non-durable consumer goods reached US$ 1,777.9 million and

semi-durable goods US$ 1,338.7 million. Imports of raw materials and intermediate products were US$ 2,667.0 million (US $ 3,049.3 million in 2015), basically due to lower imports of raw materials for industrial use (specifically those destined to the development of projects for the generation of electric energy with solar source.

Other free trade agreements currently in effect

- Free Trade Agreement with United States of Mexico and the Republics of Honduras, El Salvador and Guatemala.
- Free Trade Agreement between Central America and the Dominican Republic.
- Free Trade Agreement between Central America and Chile.
- Free Trade Agreement between Honduras, El Salvador and Taiwan.
- Free Trade Agreement between Central America and Panamá.
- Free Trade Agreement CE3 (Honduras, El Salvador and Guatemala) and Colombia.
- Free Trade Agreement with Peru and Canada.
- Free Trade Agreement with the European Union.

For industrial and commercial real estate investments most foreign investment is in San Pedro Sula, considered the industrial capital of Honduras. There, large industrial companies receive special benefits (duty free, tax free, etc.).

The Government is also promoting public/private alliances and passing legislation to this end, and has created the Office for the Promotion of Public/Private Alliances (COALIANZA) which has already awarded several projects.

With the same objective of promoting foreign investment, local Government made some amendments to Law for Promotion of Electricity Generation with Renewable Resources through decree 138-2013 dated July 1st, 2013 and published on August 1st, 2013 in the Official newspaper “La Gaceta”.

Direct Access to Key Markets

a. A complementary Agreement with Ecuador.

b. An Association Agreement with the European Union.

c. Observer member of the Pacific Alliance.

d. Honduras applied for official inclusion in the Trans-Pacific Partnership.

e. Negotiations for a free trade agreement with Korea.

f. Through DR-CAFTA, with: the United States, Costa Rica, El Salvador, Nicaragua, Guatemala and the Dominican Republic.

Forms of foreign investment

Congress has enacted a new law for the promotion and protection of foreign investment. Under this law, foreign investment is defined as "any transfer of capital that comes from abroad to Honduras, intended for the production of goods and/or services or for the generation of any kind of legal profit."

Destination of foreign investment

Direct Foreign Investment has been focused on telecommunications, the manufacturing industry, maquila, services and recently, production of energy with renewable resources.

Restrictions on foreign investment

There are only a few constraints, common in most countries:

- Disposal of toxic, dangerous and radioactive garbage not produced in the country.
- Activities affecting public health and the country's environmental equilibrium.
- Production of materials and equipment directly linked to national defense and security, except with the express authorization of the Chief Executive.

Establishing business in Honduras

Business structures

- General partnership (sociedad en nombre colectivo).
- Ordinary limited partnership (sociedad en comandita simple).
- Joint-stock company (sociedad en comandita por acciones).
- Limited liability Company (sociedad de responsabilidad limitada -S.DE R.L.-).
- Stock company (sociedad anónima -S.A.-).
- Cooperative company (sociedad cooperativa.-).

Foreign investors may establish their businesses through any of the legal forms contemplated by domestic legislation. Local companies with foreign capital can access domestic credit with the same rights and under the same conditions as local companies with domestic capital.

The Limited Liability Company and the Stock Company are the models most frequently used by both locals and foreigners, other than the branch.

Formation procedure

- Register the company at the Public Commercial Registry Office.
- Issue shares in accordance with the shareholders' investment.
- Submit before the Chamber of Commerce.
  - The Articles of Incorporation.
  - The list of shareholders and a copy of their ID's or Passports.

  - Minutes of the First General Shareholder's Meeting.
- Obtain the Taxpayer´s Identification Number from the Tax Authority.
- Obtain the operating permit at the City Hall.

Closing procedure

Liquidation or dissolution of a company in Honduras is governed by the Code of Commerce.

Branch and/or permanent establishment

After a legal reform issued on 15 July 2011 by Decree 51-2011, a company established abroad can incorporate a branch in Honduras once its existence in the country of origin is certified before the Public Registry of Commerce. This can be accomplished by filing the following documentation:

- Apostilled copy of the certificate of registration in the country of origin.
- Shareholder's Agreement appointing a permanent Honduras resident to be the company's legal representative.
- Incorporation statues, if any.

Once all the documentation is filed as required, the Public Registry of Commerce should proceed to the incorporation of a branch issuing a resolution within a week.

The branch's business is directed by the person appointed by the parent company who must be a Honduras resident, to which powers of attorney are granted and registered in the Public Registry. Such power may be revoked only by the parent company or by the holder of an overriding power of attorney in Honduras.

The scope of the representative's power of attorney may vary according to the parent company's policy but should be sufficiently extensive to allow for adequate representation in Honduras. It is advisable to permit delegation of certain powers, such as the signing of checks.

There is no regulation requiring filing of the parent company's financial statements in Honduras.

Banking system

Central Bank

The banking system is controlled by the Honduras Central Bank (Banco Central de Honduras). International banks operate through branches or special purpose offices. The Central Bank is responsible for supervision (through the Superintendent of Banks) of the member banks and enforcement of the respective banking laws.

Generally the central bank is responsible for setting interest rates as guidance for the private banking system and enforcing exchange controls and similar regulations.

Commercial banks

The banking system in Honduras is well developed, composed of a number of private institutions that are regulated by the Central Bank and by the superintendence of banks.

List of banks

Central bank

- Banco Central de Honduras.

Commercial banks

- Banco Atlántida
- Banco de los Trabajadores
- Banco de Occidente
- Banco del País
- Banco Hondureño del Café
- BanRural
- Citibank de Honduras
- Ficensa
- FICOHSA
- Promérica

Foreign banks

- BAC Honduras
- Da Vivienda
- LAFISE

Labor and social security

Labor supply

Employment statistics, according to the last National Survey of Workforce:

Economically active population and unemployment			
Year	Total	Employed	Unemployed
2010	3,387.717.1	3,253,980.3	133,736.8
2011	3,369,918.7	3,226,135.3	143,783.4
2012	3,364,687.8	3,243,876.7	120,811.1
2013	3,628,740.8	3,487,008.8	141,732
2014	3,655,099.0	3,460,900	194,200
2015	3,935,335.4	3,647,600	287,735
2016	3,944,800	3,653,800	291,000

Source: Instituto Nacional de Estadística (INE) June 2016

Labor law requirements

Labor relations between an employer and employee in Honduras are regulated by the Honduran Labor Code, which applies to all companies operating in Honduran territory. Consequently, companies operating under special laws like the Export Processing Zones, Free Zones or RIT are also regulated by this Code.

Please find below a summary of the most important requirements of the Labor Code.

Wages and salaries

Minimum wage is the lowest salary that can be agreed upon in an employment contract. Minimum wages are established by the government every year.

Christmas bonus

The employer is obliged to pay the worker in the month of December a Christmas bonus consisting of one ordinary monthly salary earned by the worker in the calendar year.

14th Month bonus

The employer is obliged to pay the worker in the month of June a bonus consisting of one ordinary monthly salary earned by the worker in the calendar year.

Fringe benefits

The employer has the option to provide some fringe benefits to its employees and executives; in general, this type of benefits will be taxable for the employee with some exceptions.

Hours worked

Maximum Labor hours are 8 hours daily, and should not exceed 44 hours a week. There are other special shift arrangements allowed by the labor law.

Vacations time

Vacations are determined as follows:

- After 1 year of continued service, 10 consecutive working days.
- After 2 years of continued service, 12 consecutive working days.
- After 3 years of continued service, 15 consecutive working days.
- After 4 or more years of continued service, 20 consecutive working days.

Notice of termination of employment

In case of termination of employment, employers must provide a notice of dismissal one month in advance when the employee has served between one and two years; two months when he or she has served more than two years.

Severance payment

The severance payment is generally payable in case of unjustified dismissal, at one month's salary per year of uninterrupted service up to 25 years. The law specifies the causes of "just" dismissal.

Technical education contribution

A payroll-based contribution is imposed on employers toward the financing of a program for the technical instruction and training of workers. The contribution for employers is 1% of total monthly payroll; employees do not contribute.

Foreign personnel

There is a restriction on foreign personnel in Honduran companies, as the Constitution stipulates that at least 90% of the employees have to be Hondurans. The wages received by Hondurans must amount to at least 85% of the total payroll (Section137 Constitution of Honduras).There are some exceptions to the rule in specific cases.

Social security

The Honduran Institute of Social Security is the government agency responsible for controlling and monitoring the social benefits that assist the Honduran employee: Disability, Old Age and Death (IVM) and Sickness and Maternity (EM).

Under the new legislation Framework Law of the Social Security System, employees pay 2.5% of their gross monthly salary and employers 5.0% for sickness and maternity (EM). In addition, employees pay 2.5% of their monthly salary and employers contribute 3.5% for Disability, Old Age and Death (IVM).The new provisions provide that for the calculation of these percentages must be considered the first HNL 7,717.50 monthly wages of each employee.

The payments are made by the company monthly and must be withheld from the employees' salary weekly, bi-monthly or monthly depending on the way employees are paid.

The National Training Institute (INFOP) and Social Housing Fund (RAP)

The National Training Institute (INFOP) and Social Housing Fund (RAP) are also public institutions in charge of training programs for employees and housing finance. Employees pay 1.5 % of gross salary to RAP, which must be deducted from the monthly salary. The employer's contribution is 1.5% of each employee's gross salary. The contribution to the INFOP represents 1% of the total company's payroll and is paid only by the company. Nonetheless, the Framework Law of the Social Security System states that all the new employer contributions and new individual contributions that may occur in the Private Contributions Regime (RAP) must be voluntary.

Accounting and audit requirements and practices

Accounting

Honduras approved a new law for auditing and accounting principles establishing that, the general applicable principles must comply with the International Principles for Financial Information and International Auditing Principles. The Law of the Accounting and Audit Rules (Decree Number 189-2004) creates the regulatory framework for the adoption and implementation of these international principles (IFRS or IAS), in order to obtain adequate preparation, presentation, review and certification of accounting and financial information that

will guarantee the transparency and comparability, thereby generating the necessary national and international confidence in this information. These rules have taken effect since January 2012. All of the above is aimed at Honduras' adoption and proper application of the International Financial Reporting Standards (IFRS) and International Auditing Standards (IAS).

A summary of the accounting principles that may affect the drafting of financial statements in Honduras is as follows:

- The financial statements should be prepared based on the Honduran Accounting Norms.
- The amounts and notes in the financial statements should be expressed in the local currency (Lempira). However, for financial situations and operations results, companies may have alternative registers adjusted to another currency.
- The financial statements should be presented annually and in a similar form as the previous period.

Statuary audit requirements

Only financial institutions are required to prepare audited consolidated financial statements that must be published. In addition, they are required to publish their annual financial statements and submit to the regulators a semi-annual financial statement accompanied by a review.

Audited financial statements are normally required for companies and partnerships, banks, insurance companies and retirement funds (AFPs).

Books and records

Accounting records should be kept in Spanish and Lempiras. By specific requirement of the Honduran Accounting Law, they should include three bound books of account, a General Ledger, a Daily Ledger and an inventory and balance ledger. These books must be stamped annually and records kept for at least five years. In practice, records are kept in a variety of ways, both computerized and in hard copy. These methods meet the Honduran Accounting law formal requirements.

Accounting profession

Licenses to practice as a Certified Public Accountant (Contador Público Autorizado - CPA) are issued by the Public Accountants Board. Candidates must have obtained a degree in accounting, auditing or finance from a Honduran university.

Auditing standards

The International Auditing Standards issued by the International Auditing and Assurance Standards Board are followed in Honduras.

Tax system

The Honduran Constitution states that the National Congress is the only body empowered to levy taxes. Such taxes will be collected and administered by the Honduran Government through the tax authority (known as Servicio de Admnistración de Rentas-SAR, before Dirección Ejecutiva de Ingresos-DEI), which was approved by the Executive Power under Executive Decree number PCM-084-2015, published in the Official Newspaper The Gazette, on February 27 2016.

Tax on corporate income

The corporate tax rate for a resident company is 25% of the company's period net income.

In addition, the temporary solidarity contribution tax rate has decreased from the 6% for 2012 to a 5% for 2013 and will continue to be the same rate for year 2014 hereinafter according the Law for Public Finances published on 30 December 2013 and valid since 01 January 2014. This is levied on all companies with taxable income in excess of HNL one million. In 2007, the law established this tax as deductible for income tax purposes; however, beginning in 2008, this tax became a surcharge and non-deductible for income tax purposes.

According to the publication of the new Honduras Tax Code (Decree 170-2016) in La Gaceta on 28 December 2016, Honduras is governed by the principle of territorial income, which is why companies resident in Honduras are taxed for their territorial income. For their part, non-resident companies are subject to income tax only on income derived from Honduran sources.

Corporate residence

The place of incorporation is regarded by Honduran authorities as the corporate residence. Non-resident companies are those incorporated/registered outside of Honduras. However, income taxes on corporations are levied on local income regardless of the place of incorporation. In addition, any person or company resident in Honduras is subject to tax on both local and foreign income.

Net assets tax

The net assets tax applies to the total value of assets in the balance sheet less reserves for accounts payable and any accumulated depreciation allowed under the income tax law and other deductions allowed by law. It is a 1% tax of the net asset value of the company. The law also allows a special deduction of HNL 3,000,000. The net assets tax is in lieu of the corporate income tax when the corporate income tax is less than the amount due for net asset tax. Resident companies during their preoperative period and companies operating in Free Zones, among others, are exempt from the net assets tax.

Non-resident companies do not apply for the Net Assets Tax.

Capital gain tax

A 10% tax is applied on capital gains, regardless of the person's residence status. This fee is reduced to a 4% for the person or company that benefits from a Special Tax Regime of Touristic Free Trade Zone.

In the case the sale of goods or property rights and values is performed by a non-resident, the acquirer must proceed to withhold 2% of the value of the transfer of property on account of the capital gain tax in order to pay it the tax authorities within the following ten days of the transaction.

Additionally, the recently approved Law for Public Finances establishes that a 10% fee is to be withheld on all State payments arising from the sale of goods, damages and rights.

Tax on branch income

Branch income is subject to income tax at the rates applicable for corporate income. Before May 12, 2010 there was no withholding tax on dividends distributed in the country or abroad.

Currently, there is a 10% withholding tax rate on dividends.

Sales tax

Sales tax is charged on all sale and purchase transactions of goods and services made in Honduran territory. The general tax rate was 12% and it applied to most goods and services, with the exception of machinery and equipment, basic grain, pharmaceutical products, raw material for the production of non-taxable goods, petroleum products, school supplies and insecticides, among other products. However, from time to time, the Honduras Government performs a review process of the sales tax exempted products and services. The last review process resulted from a Law approved by the National Congress on 30 December 2013 and enforced on 01 January 2014. This new law determined a special contribution of 3% on net sales of goods and services made on local market by individuals or corporations which increased the general tax rate from 12% to 15% and modified some of the sales tax exempted products and services. This law also amends the 15% tax rate applicable to some PCS, cellular, internet broadband, cable TV and energy services, depending on the amount of consumption billed to the supplier broadening such rate to all users of telecommunication services, including mobile phone, TV subscription and internet access services except fixed phone service.

The import and sale of beer, other alcoholic beverages, cigarettes and other tobacco products are subject to 15% sales tax.

There is an 18% tax rate levied on first and business class airline tickets.

Municipal taxes

Companies doing business in Honduras are also subject to the rules and regulations of the respective municipality. Tax obligations are regulated by the "Plan de Arbitrios". These include:

- Industry, commerce and service tax – Based on sales volume per year.
- Personal municipality tax – (individual tax).
- Public service tax – Tax paid for services such as waste management.
- Real estate – Tax on asset and asset gains.
- Sign tax – Taxation on public advertising.

National Security Regulation

National Security Regulation was issued by the Secretary of Finance on 25 January 2012 to determine the application of the norms established within the National Security Law.

Taxation was established as follows:

- Special tax levied on the financial system for bank accounts transactions and renewal of credit cards memberships;

- Special contribution on cell phone companies taxed with a 1% rate on monthly gross income (i.e. air time);
- Special contribution on the mining sector taxed with a 2% rate on the FOB value for exports;
- Special contribution on food and beverage companies taxed with a 0.5% rate on their monthly gross income;
- Special contribution on casinos y slot machine companies taxed with a 1% rate on their monthly gross income; and,
- Special contribution on the cooperative sector taxed with a 3.6% rate on their net annual surplus.

The following table summarizes other significant taxes

Type of taxes	Rate (%)
Customs duties	1 to 20
Payroll taxes or contributions, paid by employers	Social security 8.5% with a ceiling cap of HNL 7,717.50 INFOP 1% RAP/FOSOVI 1.5%
INFOP 1%	
Real estate tax; imposed on companies and individuals owning real estate	L.1.5 to L.5 per every thousand
Calculated on the cadastral value of the real estate (refer to Municipality Tax Plan)	Various
Up to HNL 500,000	0.0003
From HNL 500,001 to HNL 10,000,000	0.0004
From HNL 10,000,001 to HNL 20,000,000	0.0003
From HNL 20,000,001 to HNL 30,000,000	0.0002
Over HNL 30,000,000	0.00015

Corporate deduction

Allowed deductions

The net taxable income of an enterprise is determined by deducting all the ordinary and necessary expenses incurred in the creation of income, including amortization and depreciation; municipal taxes; donations made in favor of the State, the Central District, the Municipalities, and legally recognized educational institutions, charities and sporting facilities; mandatory employer-employee contributions to the social security system; and "reasonable" charges for royalties and management services.

In general, all expenses incurred in the generation of taxable income are considered deductible for income tax purposes. However, there are some "non-deductible" expenses, even if incurred in the generation of income, for example: a) interest paid to owners or shareholders; b) capital losses.

Inventories are generally valued using the first-in, first-out (FIFO), last-in, first-out (LIFO) and weighted-average cost method. However after the adoption of the International Financial Reporting Standards on2012, the only two methods accepted will be the FIFO and weighted-average cost method.

Provisions for contingent liabilities, such as severance pay, are not deductible for tax purposes; actual payments for those liabilities are considered to be deductible expenses.

Depreciation and depletion

Depreciation may be computed using the straight-line method. Companies may obtain authorization from the tax authorities to use a different depreciation method. However, after a company selects a depreciation method, it must apply the method consistently thereafter. The following are the applicable straight-line method rates for some common assets.

Class	Rate (%)
Buildings	2.5% a 10%
Plant and machinery	10%
Vehicles	10% a 33%
Furniture and office equipment	10%
Tools	25%

Companies engaged in agriculture, manufacturing, mining and tourism may carry forward losses from three years if the tax authority so authorizes. Losses may not be carried back. Some restrictions apply.

With the exception of the solidarity tax, net asset taxes, income tax and sales tax, taxes and contributions paid to district or municipalities are deductible expenses when determining taxable income.

Income source	%
Income from Movable Property and Real Estate.	25
Royalties from mining operations and other natural resources.	25
Salaries, commissions, or any other remuneration for rendering services within national territory or abroad.	25
Income or obtained profits by foreign companies through subsidiaries, affiliates, agencies.	10
Income, profits, dividends or any other profit sharing, of individuals or companies.	10
Royalties.	25
Interest on commercial operations, bonds, credit instrument and other type of obligations.	10
Income from operations of airplanes, ships and vehicles	10
Income from operations of telecommunication companies	10
Insurance and bonds premium	10
Income obtained from public shows	25
Films and video tapes for cinema, TV, video clubs and cable TV	25
Any other income not mentioned previously	10

Capital losses are not deductible to determine the net taxable income. Capital losses can only be netted against capital gains. Capital gains are subject to a tax rate of 10%.

Net operating losses

The carry forward of losses of individuals or legal entities engaged with agricultural, agro-industrial, manufacturing, mining and tourism activities, can be used to offset profits up to the third period following the period in which the losses were generated, with a maximum amortization of 50% in each period.

Group taxation

No provisions exist for group taxation.

Withholding tax (WHT)

The WHT on income obtained from Honduran source by non-residents were reformed on 04 December 2012 by Decree 182-2012 and some tax rates were increased from a 10% to a 25%. The percentages are detailed as follows:

Tax incentives

Companies operating under a special tax regimen are exempted from income tax, sales tax, customs duties and some municipal taxes. These special tax regimens are:

- Free Trade Zones.
- Temporary Import Regime ("Regimen de Importación Temporal" (RIT)).
- Companies under the Tourism Incentive Law.
- Companies established in Bay Islands and under the Law of the Free Tourism Zone of the Bay Islands.

("Ley de la Zona Libre Turística de las Islas de la Bahia").

- Law promoting the generation of electric energy with renewable resources. ("Ley de Promoción de la Generación de Energía Eléctrica con Recursos Renovables"). There are tax exemptions for projects generating 50MW and over.
- Law for the Promotion and Protection of Investments ("Ley para la Promoción y Protección de Inversiones"). There are some income tax rate reduction benefits for companies with investment projects which are eligible under this law.

Other incentives

Maquila Industries

Special benefits exist for industries that import semi-manufactured materials for assembly in Honduras and export finished products. Benefits consist of duty-free imports of raw materials for subsequent exports as manufactured products. Machinery for these industries may also be imported duty-free.

Corporate tax compliance

The tax authority is known as "Servicio de Admnistración de Rentas-SAR" (before Dirección Ejecutiva de Ingresos-DEI) in Honduras. It is responsible for the administration of the tax and customs system. Taxpayers may request approval from the SAR regarding direct or indirect taxes (e.g. accelerated depreciation method on new assets acquired by corporations with monetary activities requiring constant technological update, higher installed production capacity and productive re-conversion processes, in order to maintain and strengthen their competitive advantage).

The statutory tax year runs from 1 January through 31 December. However, taxpayers may apply to use a special tax year requesting an authorization from SAR. Companies must file and pay income tax annually. Mandatory advance installments are payable each quarter, based on the income tax paid in the preceding tax year.

Returns

The corporate Annual Tax Return must be filed and paid by April 30th each year. In cases of special tax years previously notified to SAR, Annual Tax Return must be filed and paid within the following 3 months of close of fiscal year. Tax returns are based on self-assessment and can be filed on electronic forms or paper forms supplied by the Tax Authority.

Payment of tax

The balance of any tax due must be paid no later than the due date for filing the return. Corporations domiciled in the country are obliged to make quarterly advance installment payments of tax related to the period in progress, which can be used as credit in the final tax return.

Individual taxation summary

Since 01 January 2017, Honduras follows a territorial concept for the determination of taxable income. Honduran residents are subject to Income Tax when deemed from Honduran sources.

Non-residents are subject to Income Tax when deemed from Honduran sources. For tax purposes, an individual will be considered a resident in Honduras if he/she spends more than 90 days in the country during one fiscal year, continuously or not.

Resident individuals are taxed at progressive rates ranging from 0% to 25%. Currently, non-resident individuals are taxed at a flat rate that varies from 10% to 25% depending on the type of service rendered.

Individual deduction

Current deductions / credits

The personal deduction allowed:

- Yearly exemption of HNL.40, 000.
- Donations to legally recognized state institutions, municipalities' welfare, educational and sport institutions.

Taxes and royalties

All royalties paid to non-residents are subject to 25% withholding income tax.

Taxes on dividends

Honduran resident individuals and non-resident individuals or companies are subject to 10% withholding tax on cash dividends. The income from dividends is considered "other income" and thus non-taxable under the general income tax rates.

The Law for Public Finances approved on 30 December 2013 enacted on 01 January 2014, considers Honduran resident individuals and companies are to be subject to this tax as well.

Individual tax compliance

Returns

Spouses are required to file separate income tax returns covering their respective income. Individuals are required to file a personal tax return only when income is from sources different from the salaries, wages and bonuses (where the employer withholds tax) is received, or when these are not enrolled in local payroll.

Tax payment

Employers are required to withhold income tax on salaries, wages and bonuses. Christmas bonus and 14th month of salary are exempt when they do not exceed ten minimum salaries. Social Security contributions, severance and termination payments are not subject to income tax, according to the Honduras Labor Code.

Current tax rates

Individuals pay tax on all annual income over HNL 152,557.15 Honduran Lempiras. The following scale is currently in effect:

Progressive Income Tax Scale (acronym in Spanish - ISR)		
From	**Up to**	**Rate %**
L. 0.01	L. 152,557.15	Exempt
L. 152,557.16	L. 232,622.61	15%
L. 232,622.62	L.540,982.82	20%
L. 540,982.83	Onward	25%

Transfer pricing

Tax legislation in Honduras has enacted in Honduras Transfer Pricing Law since 01 January 2014 by Decree 232-2011 establishing the obligation to comply with transfer pricing rules for all transactions by individuals or legal entities resident in Honduras with related individuals or legal entities non-domiciled in Honduras or within a special regime. Additionally, Rulings of the before mentioned Law as published by La Gaceta on 18 of September 2015 in Agreement 027-2015, determined that transactions among Honduran resident related parties are also subject to Transfer Pricing legislation.

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