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PERSONAL INCOME TAX
FINALLY IN FORCE IN
PARAGUAY

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Paraguay's Personal Income Tax (PIT)¹ entered into force on January 1, 2010. On December 31, 2009, Decree 3738/09² was issued by the President of the Republic thereby enacting Ley 2421/2004 "De Reordenamiento Administrativo y de Adecuación Fiscal" (law introducing the PIT). (For prior coverage, see [Flash International Executive Alert 2009-131](#), July 17, 2009.) As we reported in several previous issues of this newsletter, the in-force date of the new PIT had experienced several delays.

The Decree applies to:

- Income from a Paraguayan source and activities that generate personal earnings.
- Services rendered under a dependency agreement or, otherwise, the exercise of professions and occupations.
- Fifty (50) percent of the dividends, utilities (profits, can also be benefits), and surplus (benefits obtained by a co-operative), distributed or credited, obtained as shareholders or partners of organizations and cooperatives actively taxed under the corporate income tax rules (*Impuesto a la Renta de las Actividades Comerciales, Industriales y de Servicios*, refers to Corporate Income Tax), IRAA (*Impuesto a las Rentas Agropecuarias*, refers to Agribusinesses Income Tax).
- Capital gains arising from the occasional sale of buildings, cession of rights, sale of titles, shares, and "quotas" of capital.
- Interest, commissions or yields of capital not taxed by corporate income tax (commercial, industrial, agricultural, livestock/cattle raising, small income under the amount of PYG 100,000,000.00 (approx. USD 20,900)).

The Decree provides as follows:

- **Taxpayers:** Individuals and Service Industries (*Sociedades Simples* - refers to a partnership of professionals who render personal services, e.g., law and audit firms) will be subject to the PIT.
- **Rates:** The first year of application of the tax (2010), a rate of 10 percent applies if earnings surpass 10 times the monthly minimum wage; from the second year of application, a differential rate of 8 percent applies if earnings do not surpass 10 times the monthly minimum wage.

- Rank of incidence:** People who obtain earnings that surpass 10 times the monthly minimum wage are subject to PIT. The decree applies to individuals that earn 10 times the minimum monthly wage or the equivalent of 120 times the yearly minimum wages, during 2010. This range will diminish in regard to a minimum wage per year, until arriving at three times the monthly minimum wage. Please see the following chart:

| Year | Rank of incidence (monthly minimum wages) | Year | Rank of incidence (monthly minimum wages) |
|------|--|------|--|
| 2010 | + 120 MMW Tax rate 10% | 2014 | + 72 MMW Tax rate 8% |
| 2011 | + 108 MMW Tax rate 8% | 2015 | + 60 MMW Tax rate 8% |
| 2012 | + 96 MMW Tax rate 8% | 2016 | + 48 MMW Tax rate 8% |
| 2013 | + 84 MMW Tax rate 8% | 2017 | + 36 MMW Tax rate 8% |

Note: The tax rate of 10 percent remains the same for individuals who earn more than 120 monthly minimum wages in every year since 2011 and so on.

- Deductible Items:** Deductible items must be totally documented to be deductible. The following items are allowed:
 - Contributions to the state social security system (100-percent deductible);
 - Gifts to the state and private entities dedicated to social welfare (deduction not exceeding 20 percent of taxpayer's net taxable income);
 - Expenses and payments occurring overseas:
 - when necessary for purposes of producing taxable income (100-percent deductible),
 - when not necessary to produce taxable income, taxable activity connected expenses have to be determined to make a pro rata deduction;
 - Expenses directly related to and necessary for producing taxable income;
 - individuals' expenses and investments, related to health, education, housing, clothing, food, entertainment, etc.,
 - for individuals not obliged to contribute to the Social Security system, the deduction is limited to 15 percent of gross income for:

- ❖ deposits of savings in banks or financial organizations in Paraguay,
- ❖ deposits in saving cooperatives and credit institutions in Paraguay,
- ❖ investments in registered stocks in “stock” companies in Paraguay,
- ❖ private funds for retirement in Paraguay;
- Service Industries (*Sociedades Simples*):
 - Every expense and investment necessary to produce taxable income.
- **Liquidation:** It is an annual tax, which is presented and paid by means of tax returns.
- **Exemptions:** Below we highlight a few:
 - Beneficiaries of indemnifications caused by death, incapacity, disease, maternity, accident, or dismissal.
 - Annuities from retirement and pension funds in Paraguay.
 - Interest, commissions, or yields from investments, deposits of capital in banks, financial entities, and cooperative organizations for savings and credit (Paraguayan entities).
 - Income generated by differences in exchange rates of deposits in national or foreign entities. This item refers to the relationship between foreign and local currencies (e.g., USD or EUR to PYG), when income comes from foreign currency (i.e., stocks/securities, bonds quoted in USD for example) sometimes there are earnings but other times, losses.
 - Equity valuation.

Footnotes:

1 Known in Paraguay as: Impuesto a la Renta del Servicio de Carácter Personal (or IRP).

2 For the announcement (in Spanish) of the issuance of decreto N° 3738/09 por el cual se reglamenta el Impuesto a la Renta del Servicio de Carácter Personal, creado por Ley N° 2421 del 05 de julio de 2004 «De Reordenamiento Administrativo y Adecuación Fiscal » see:

<http://www.set.gov.py/pset/hgxpp001?6,18,273,O,S,0,PAG;CONC;359;2;D;3141;1;PAG;MNU;E;139;1;MNU;>

For more information, see (in Spanish):

<http://www.presidencia.gov.py/v1/wp-content/uploads/2009/12/decreto3738.pdf>.

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