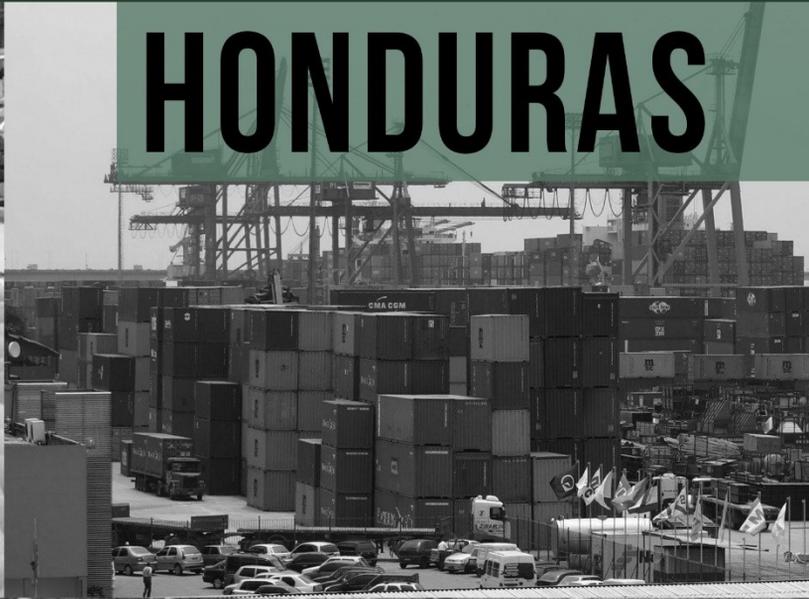


**HONDURAS**





- **Honduras** is the second largest country in the Central American region. The country is bordered to the west by Guatemala, to the southwest by El Salvador, to the southeast by Nicaragua, to the south by the Pacific Ocean at the Gulf of Fonseca, and to the north by the Gulf of Honduras, a large inlet of the Caribbean Sea. With a population of 8.6 million and a total area of 112,492 km<sup>2</sup>. It has a total GDP estimated in USD 40,983 billion.

## Business Presence

- All laws in Honduras are constitutionally based and the Code of Commerce is the main regulation for Honduran corporate and commercial law. The law stipulates that in order to participate in the business sector, you have either to be constituted as a merchant that owns and carries out a business, or form a corporation. There are five types of corporations recognized in Honduras:
  - ✓ General Partnership
  - ✓ Limited Partnership: Is similar to collective society, except for the fact that there are two types of shareholders. Comanditado partners are jointly and severable liable. The comanditario partners are only considered as investors.
  - ✓ Limited Share Partnership
  - ✓ Limited Liability Company: Is the smallest capital entity under Honduran law. It requires a minimum of two persons or entities and a maximum of 25 shareholders.
  - ✓ S.A. (Corporation): It requires a minimum of two shareholders or entities with a founding capital approximately of USD 1,100.00 Due to the minimum of shareholders and the founding capital it is the most used form of corporation in Honduras.
- Additionally, a new law was enforced in June 2014, which allows for the incorporation of any of the described corporations with only one partner (Corporation Sole).



## 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 2015 averaged 3.6%
- Initially, Honduras economy was primarily agricultural-based, depending on traditional exports such as bananas and coffee. However, in the past years Honduras economy has diversified in other areas such as tourism, apparel manufacture and shrimp farming.
- Trade relations with U.S. have been of extreme importance to Honduran economy. Even today, half of Honduras' exports sent to the U.S. and over a third part of the country imports comes from the U.S. However, trade with European countries and the rest of Latin grows every day.



# Steps that must be followed in the incorporation of a Honduran corporation:

- Choose the Commercial Name of the Company and perform search at the Registry of Commerce to confirm availability.
- Prepare the articles of incorporation which include the name, purpose, name of shareholders, etc.
- File the incorporation at the Commerce Registry for recordation, as well as in the Chamber of Commerce of its domicile.
- Obtain its fiscal identification.
- Obtain operation permit.
- The Corporation may start operating after such identification is granted.



# Taxation

## Tax on corporate income

- Corporate tax rate for a resident company is 25% of the company's period net income plus at the rate of 5% on the next taxable income, which exceeds HNL 1 million. Honduras resident companies are taxed on their worldwide income. Non-resident companies are subject to income tax only on income derived from Honduran sources.
- Additionally, there are some companies that operate under a special tax regime that exempts from sales tax, income tax, custom duties and several municipal taxes. The special regimens are:
  - ✓ Free Trade Zones.
  - ✓ Industrial Parks.
  - ✓ Export Processing Zones.
  - ✓ Companies that are under the Tourism Incentive Law.
  - ✓ Tourism Free Zones.
  - ✓ Law promoting the generation of electric energy with renewable sources.
  - ✓ Law for Promotion and Protection of Investments.



## Corporate residence

- Any resident or non-resident legal entity engaged in an activity or business that generates profits sourced in Honduras is treated as a corporate taxpayer. Taxable entities also include merchant vessels operating under Honduran registry or flag, as well as foreign merchant vessels navigating in Honduran territorial waters or deriving Honduran-source income.
- Any company incorporated in Honduras is generally deemed to be resident for tax purposes. In addition, any person or company resident in Honduras is subject to tax on both local and foreign income.
- 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.



## Net Assets Tax

- The tax is levied at a rate of 1% on the total value of net worth (determined as the average worth on 31 December of the year), and must be remitted to the tax authorities together with the income tax return.
- This tax is payable annually, together with income tax.
- The following are exempt from the net worth tax: Legal entities with total net worth of no more than HNL 3 million; legal entities exempt under the income tax law; and business entrepreneurs operating in free zones; industrial parks, tourism free zones and export processing zones.





## Capital gain tax

- Capital gains or losses are defined as the positive or negative result of transactions in respect of goods or assets not representing a taxpayer's ordinary and habitual business, such as immovable property, shares, fixed assets and other similar assets.
- Capital gains and losses derived in the same tax year are computed together, and the result, if positive, is subject to tax at the rate of 10%. However, if the result is a capital loss, it may not be deducted from the gross income obtained from the taxpayer's ordinary income.
- Capital losses derived from the sale of securities by qualified individuals or legal entities, habitually, engaged in such activities, may be deducted from the taxpayer's gross income.
- Capital gains derived from the transfer of movable or immovable property are equal to the transfer value, less the adjusted cost of the property. The adjusted cost includes the acquisition value plus the value of improvements, less depreciation allowances. The immovable property will not be registered by the Property Institute if the 10% tax on capital gains has not been remitted to the tax authorities.

## 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

- The general tax rate is 15%.
- An 18% tax rate is assessed on first and business class airline tickets.
- The import of and sale of alcoholic beverages, cigarettes and other tobacco products are subject to 15% sales tax.

## Municipal Tax

- Industry, commerce and service tax, which is based on sales volume per year.
- Personal municipality tax (individual tax).
- Public service tax, paid for services such as waste management.
- Real Estate Tax, which is taxed on asset and assets gain.
- Sign tax, referred to taxation on public advertising.



# National Security Regulation

- A National Security Regulation was issued by the Secretary of Finance to determine the application of norms that establishes taxes that would be used for security manners. Taxes were established as it follows:
  - ✓ Special tax levied on the financial system for bank accounts transactions and renewal of credit cards membership.
  - ✓ Special contribution on cell phone companies taxed with a 1% rate on monthly gross income (air time).
  - ✓ Special contribution to the mining sector taxed with a 2% rate on the FOB value for exports.
  - ✓ Special contribution on food and beverage companies taxed with 0.5% on their monthly gross income.
  - ✓ Special contribution on casinos and slot machine companies taxed with a 1% on their monthly gross income.
  - ✓ Special contribution on the cooperative sector taxed with a 3.6% rate on their net annual surplus.

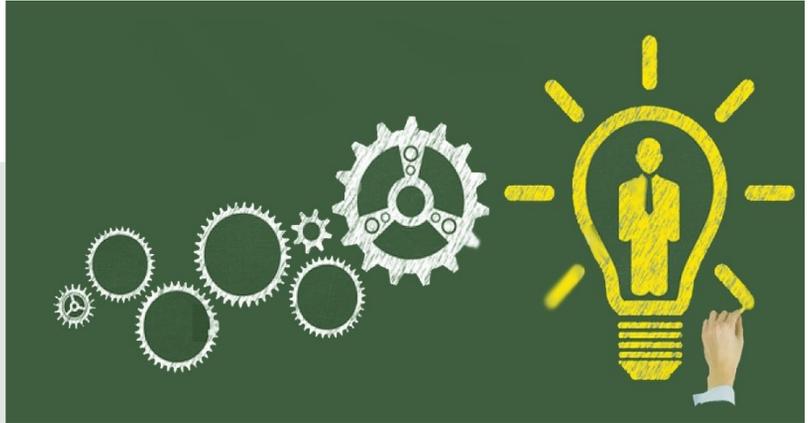
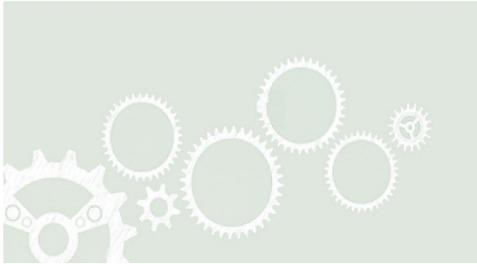


# Foreign Investments Restrictions and Conditions

- Some of the restrictions that are included on foreign investments are:
  - ✓ Disposal of toxics, dangerous garbage not produced in the country.
  - ✓ Those activities disturbing public health and the country's environment.



# Industrial Property



- In Honduras Industrial Property is regulated by the Ley de Propiedad Industrial, which regulates everything related to inventions, patents, industrial designs, trademarks, industrial secrets, and its object is to:
  - ✓ Set up the basis, so that there shall exist a permanent system of perfecting of these processes and products within the industrial and commercial activities of the country.
  - ✓ Promote the inventiveness of industrial application, best techniques, and broadcasting technological knowledge within the productive sectors.
  - ✓ Propitiate and impel the improvement of the quality of goods and services in industry in relation to the interest of the consumers.
  - ✓ Favor creativity for the design and presentation of new and useful products.
  - ✓ Protection of the Industrial Property through the regulation of patents, utility models, industrial designs, trademarks and commercial signs, name of origin and industrial secrets.
  - ✓ Prevent acts that attempts Industrial Property or shall create unfair competition related to it; and establish the penalties related to them.



## Labor Law

- The Honduran Labor Code is applied to all corporations regardless if they are sited in a Free Zone or an Industrial Park. Contract may be verbal or written. The Labor Code authorizes the verbal contract in cases of:
  - ✓ Domestic service.
  - ✓ Incidental or temporary work not exceeding 60 days.
  - ✓ A given work which value does not exceed 200.00 Lempiras (almost USD 10.00), and, if it has been stated time for delivery, provided it is not more than 60 days.
  - ✓ A farming or ranching, unless in the case of industrial or commercial enterprises from agriculture or livestock.
- It is important to mention that the written agreement is a guarantee for the employee, and its omission is imputable to the employer. The labor contract and all subsequent legal obligations are assumed at the beginning of the work relationship, even though the contract was verbal. Labor contracts may include a trial term for the first 60 days, term within which any of the parties may terminate the relationship without cause. Once these 60 days have passed, the labor contract is considered undetermined, unless the parties have agreed a specific term in the cases permitted by law.

The Labor Code provides the following types of work:

- ✓ Working indefinitely.
- ✓ For a limited time.
- ✓ For work or services.



### Vacations

- Vacations according to Honduran Labor Code are:
  - ✓ 10 consecutive work days for the 1st year of work.
  - ✓ 12 consecutive work days for the 2nd year at work.
  - ✓ 15 consecutive work days for the 3rd year at work.
  - ✓ 20 consecutive work days for the 4th and following years at work.

### Work Shifts

- The following shifts are established in the Honduran Labor Code:
  - ✓ Day Shift: from 5:00 a.m. to 7:00 p.m.
  - ✓ Night Shift: from 7:00 p.m. to 5:00 a.m.
  - ✓ Mixed Shift: This would be part day shift and part night shift. If more than 3 hours would be part of a night shift, the whole shift is considered a night shift.



We at García & Bodán, are ready to help you in all of the process detailed before, with experienced lawyers in investments matters, to solve all of your legal inquiries.

For further information related to investment matters or any of the topics included on this document, please contact the following lawyers:



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